

Minutes for May 6, 1964.

To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

W

Gov. Mills

[Signature]

Gov. Robertson

CRB

Gov. Balderston

[Signature]

Gov. Shepardson

MM

Gov. Mitchell

[Signature]

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, May 6, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell 1/

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division
Mr. Collier, Chief, Special Assignment Section,
Division of Bank Operations
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations

Application of San Francisco National Bank (Items 1 and 2). At
the meeting on April 16, 1964, the Board considered an application by
San Francisco National Bank, San Francisco, California, for permission
to carry the same reserves against deposits as are required to be main-
tained by nonreserve city banks. The information submitted with the

1/ Withdrew from meeting at point indicated in minutes.

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application indicated that, on the basis of standards usually applied, the character of business of the applicant bank would justify granting the request. However, the letter from the San Francisco Reserve Bank recommending approval of the application noted, among other things, that the bank was making a practice of paying time certificates of deposit before maturity in violation of Regulation Q, Payment of Interest on Deposits. At the conclusion of discussion on April 16, it was understood that any adverse comments in the most recent examination report regarding this subject would be brought to the attention of the Board. Also, it was understood that a letter would be addressed to the Comptroller of the Currency inquiring whether favorable action by the Board on the request to maintain reduced reserves would in any way conflict with steps by the Office of the Comptroller to obtain correction of the recurrent violations of Regulation Q.

There now had been distributed under date of May 4, 1964, a memorandum from the Division of Bank Operations with further regard to this matter. It pointed out that the report of examination as of January 6, 1964, stated that the recurrent violations of Regulation Q by the national bank indicated a need for unremitting attention and care to avoid further infractions. The memorandum of May 4 went on to note that pursuant to the understanding at the Board meeting on April 16, a letter had been sent to the Comptroller of the Currency, and in reply Deputy Comptroller Watson had advised that approval of the application would in no way conflict

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with any measures taken by that Office to obtain correction of matters detailed in the January 6, 1964, report of examination.

Attached to the memorandum was a draft of letter to the Federal Reserve Bank of San Francisco that would express concurrence with the recommendation that San Francisco National Bank be permitted to maintain reduced reserves. It would also state that the Board believed that, instead of the usual procedure of forwarding the letter of advice to the bank by mail, it would be desirable for the Reserve Bank to discuss the matter with the member bank and point out that if the violations of Regulation Q were not discontinued, it would be necessary to consider whether to classify the time certificates of deposit as demand deposits and to require higher reserves against them.

After discussion, the letter to San Francisco National Bank granting its request for permission to maintain reduced reserves was approved unanimously. A copy is attached as Item No. 1. A copy of the letter sent to the Federal Reserve Bank of San Francisco is attached as Item No. 2.

Messrs. Conkling and Collier then withdrew from the meeting.

Report on competitive factors (St. Marys-Ridgway, Pennsylvania).

There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Elk County National Bank of Ridgway, Ridgway, Pennsylvania, into The St. Marys Trust Company, St. Marys, Pennsylvania. The conclusion of the report, as drafted, read as follows:

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The merger of The St. Marys Trust Company and The Elk County National Bank of Ridgway, affiliated through common ownership, would eliminate only the nominal amount of competition existing between them. The transaction might have a slight adverse effect on the remaining small bank in Ridgway.

During discussion, Governor Robertson called attention to the common ownership existing between St. Marys Trust Company and St. Marys National Bank. With Elk County National Bank included, about 67 per cent of the deposits in the County were under common control. It might appropriately be brought out, he felt, in the conclusion of the report that the proposed merger would eliminate forever any potential for competition that might exist between the two merging banks.

There followed a general discussion of the problem presented when banks under common ownership, with only nominal competition existing between them, sought to merge. Mr. Leavitt noted that in this case the affiliation through common ownership of the two merging banks was one of long standing, and that in the past the Board had sometimes drawn a certain distinction between such a situation and one where recent acquisitions of stock by individuals suggested a paving of the way for a merger.

After further discussion of facts related to the proposed merger, the report was approved unanimously for transmittal to the Corporation, its conclusion being modified to read as follows:

The merger of The St. Marys Trust Company and The Elk County National Bank of Ridgway, affiliated through common ownership of long standing, would eliminate only nominal competition existing between them at this time, but would eliminate forever the potential for competition in case the common ownership should terminate. The transaction might diminish the competitive capacity of the small bank in Ridgway.

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Application of City Bank and Trust Company. There had been distributed a memorandum from the Division of Examinations dated April 29, 1964, and supporting papers with respect to the application of City Bank and Trust Company, Jackson, Michigan, for permission to effect a consolidation with Calhoun State Bank, Homer, Michigan. The Federal Reserve Bank of Chicago recommended approval of the application; the Division of Examinations recommended denial.

In summary comment as to why the Division felt the application should be denied, the memorandum stated that the competitive factors involved in this case were so clearly adverse that substantial benefit would need to be demonstrated in order to outweigh the unfavorable aspects. It was not believed that the reasons put forth for approval of the application were of sufficient magnitude to offset the loss of a competitive small independent bank (Calhoun State Bank) through merger into an institution that already enjoyed a substantial degree of concentration with regard to deposits, branches, and geographic location of offices.

At the Board's request, Mr. Leavitt commented on the application, basing his summary on the information contained in the memorandum of April 29. In the course of his remarks, Mr. Leavitt also stated that Mr. Ned Kilmer, President of City Bank and Trust Company, had visited him to talk about the proposed merger. Mr. Kilmer mentioned that in 1958 a director of the Calhoun State Bank indicated to City Bank, to its nationally chartered competitor in Jackson, and to the Southern

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Michigan National Bank in Coldwater that it wished to merge. City Bank had made an offer, and Mr. Kilmer believed that other offers also had been made at that time, but Calhoun State Bank decided not to merge. In 1963, however, Mr. Howard H. Shear, Executive Vice President of Calhoun State Bank, indicated to the same banks that Calhoun State Bank now wished to proceed with a merger. One of the main reasons reportedly was the health of Mr. Shear and the inability of Calhoun State Bank to recruit successor management. When asked if he knew what attempts had been made to obtain management, Mr. Kilmer had told Mr. Leavitt that he did not know. Mr. Kilmer thought that probably the bank was unable or unwilling to pay the salary it should pay to attract a competent person.

At the conclusion of Mr. Leavitt's remarks, the views of the members of the Board were given.

Governor Mills said that he would accept the conclusion of the Division of Examinations and deny the application.

Governor Robertson indicated that he also favored denial.

Governor Shepardson thought there was always a question, in an area having a number of relatively small banks, whether the area was particularly well served by preserving all of such banks. In this particular case he was inclined toward the view that the banking pattern described by the Division of Examinations probably justified denying the application, but there was a problem in situations such as he had mentioned.

Governor Mitchell said that he would approve. It was his feeling that the adverse competitive effects of the proposed merger were overdrawn

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by the Division of Examinations. While he agreed with the evaluation that there were rather small benefits to be realized in terms of additional services to the community, he thought such benefits might be somewhat greater than had been suggested. Insofar as the competitive situation was concerned, he did not believe it would be substantially worsened. This transaction should not be evaluated in terms of an artificial 25-mile radius around Jackson; there was not enough said by the Division of Examinations about the competition of banks in relatively nearby cities such as Ann Arbor. Since he could find no good reason to justify denial, he would approve the application.

Governor Balderston said that he had some doubt about denying the application, for the reasons suggested by Governors Shepardson and Mitchell. On balance, however, he thought that the adverse recommendation of the Division of Examinations was one he could support.

Thereupon, the application of City Bank and Trust Company to consolidate with Calhoun State Bank was denied, Governor Mitchell dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration and that a statement regarding the dissent of Governor Mitchell would also be prepared.

Application of County Trust Company (Items 3 and 4). Pursuant to the decision at the meeting on April 29, 1964, there had been distributed drafts of an order and a statement reflecting the Board's approval of the application of County Trust Company, Tenafly, New Jersey, to merge with The First National Bank of Park Ridge, Park Ridge, New Jersey.

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The issuance of the order and statement was authorized. Copies, in the form issued, are attached hereto as Items 3 and 4.

Messrs. Hricko, Egertson, and McClintock then withdrew from the meeting.

Regulation of trading in bank stocks. There had been distributed a memorandum dated May 1, 1964, from the Legal Division with regard to a bill, S. 1642, that had passed the Senate in July 1963 and was pending in the House. The bill would amend the Securities Exchange Act of 1934 to require public disclosure (through registration and periodic reports) of information regarding corporations whose securities were actively traded "over the counter." At the present time, the Securities Exchange Act of 1934 required such disclosure only with respect to securities traded on national securities exchanges, such as the New York Stock Exchange.

The memorandum noted that the Securities and Exchange Commission now administered the disclosure provisions of the 1934 Act. Under the provisions of S. 1642, the jurisdiction of the Securities and Exchange Commission would be extended to most of the over-the-counter securities that would become subject to the Act's disclosure requirements. However, bank securities would fall within the jurisdiction of the appropriate bank supervisory agency, whether traded over the counter or on an exchange. Over-the-counter bank securities would not have to be registered with the Comptroller of the Currency, the Board of Governors, or the Federal Deposit Insurance Corporation, as the case might be, until four months after the

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end of the year in which the bill became law, but registration would be a prerequisite to exchange trading. Under certain provisions of the proposed legislation, power would be given to the Board to exempt securities of State member banks from registration requirements where this was considered "necessary or appropriate in the public interest or for the protection of investors."

It was in this connection that Mr. G. Keith Funston, President of the New York Stock Exchange, had written the Board expressing the hope that the Board would provide a temporary exemption for banks under its jurisdiction with respect to the requirement of registration as a prerequisite to trading on an exchange.

After studying the question whether the Board should accede to Mr. Funston's request, the Board's staff believed that it should consult representatives of the Securities and Exchange Commission who were familiar with the general subject of registration as a prerequisite to exchange trading. Further, since the jurisdiction of the Comptroller of the Currency and the Federal Deposit Insurance Corporation would parallel that of the Board in this area, it seemed advisable to consult those agencies also, in the hope that the three agencies would make the same determination in this matter and thereby avoid divergent treatment of national banks, member State banks, and nonmember insured banks. It was therefore recommended that the staff be authorized to confer as indicated, after which the staff would present recommendations to the Board.

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At the Board's request, Mr. Hexter commented in supplementation of the information presented in the memorandum of May 1. He also discussed what he envisaged in terms of the magnitude and complexity of the responsibilities devolving upon the Board should bill S. 1642 be enacted.

In the discussion that ensued, attention focused primarily on the difficulties that would appear to be involved in administering the provisions of S. 1642, particularly with responsibility for bank securities divided among three bank supervisory agencies. During this discussion, Governor Robertson raised the question whether the Board would have an opportunity to present testimony before the House Interstate and Foreign Commerce Committee. Mr. Cardon responded that the Committee had indicated that it would be glad to hear a Board representative, but Chairman Martin had thus far not decided to request such an appearance.

Governor Robertson then raised the question whether it might be desirable to have prepared for the Board's consideration a draft of letter to the House Committee that would point out the difficulties and disadvantages seen in the administrative provisions of S. 1642 relating to bank securities. There was general agreement with this suggestion, it being understood that further consideration of the matter would be deferred until a time when Chairman Martin could be present to express his views.

The staff was then authorized to confer with representatives of the Securities and Exchange Commission, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation for the purposes mentioned in the May 1 memorandum.

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Messrs. Hexter and Sanders then withdrew from the meeting.

Misuse of certificates of deposit (Items 5 and 6). There had been distributed under date of May 1, 1964, a memorandum from Mr. Solomon, Director, Division of Examinations, to which there was attached a draft of reply to a letter of March 27, 1964, from Chairman McMurray of the Federal Home Loan Bank Board.

The incoming letter expressed concern over reports that had been received on the extent to which savings and loan associations had become holders of bank certificates of deposit as a part of "somewhat dubious financial transactions." The letter went on to describe such transactions, noting that in one form the savings and loan association purchased the certificate of deposit and received an additional fee or return from a money broker or loan broker, as part of an arrangement whereby funds were furnished the bank to be loaned to a particular borrower. The amount of the certificates of deposit purchased could, in a variant of this situation, be only the amount required of the borrower as a supposed "compensating balance." Another form of questionable transaction seemed to involve a savings and loan association undertaking a type of inter-system "window-dressing." An intermediary obtained a substantial bank loan, the proceeds of which were placed in a savings and loan account and the passbook presented to the bank as collateral security. The savings and loan association then purchased a corresponding amount of certificates of deposit from the bank in order to show a strengthened balance sheet position. Again, there were variants to this situation.

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The letter expressed a desire to learn whether information received by the Board of Governors confirmed such reports or caused it to share the concern of the Federal Home Loan Bank Board. If so, that organization would appreciate advice as to any corrective measures the Board of Governors might be preparing to take.

The draft of reply would note that the Board and the Reserve Banks had encountered practices of the kind mentioned and had attempted to discourage them in State member banks. The reply would go on to say that to the present time it had not seemed advisable to undertake the complexities and expense of scheduling simultaneous examinations of various banks and savings and loan associations that might be involved in such arrangements. As one possible means of dealing with the problem, consideration might be given to limiting or excluding the use of certificates of deposit as assets that a savings and loan association could use to meet its liquidity requirements.

Also included with the memorandum of May 1 was a draft of letter to the Federal Reserve Banks that would forward the correspondence between the Board and the Federal Home Loan Bank Board and would invite the Banks' suggestions.

In discussion, Mr. Solomon noted that the practices referred to by the Home Loan Bank Board posed rather complex problems. He went on to describe, in response to a question by Governor Mitchell, certain examples of transactions where savings and loan associations had become

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holders of bank certificates of deposit under arrangements that seemed to present questions in regard to the soundness of banking practices and possible violation of the ceiling rate of interest payable on time deposits.

Governor Mitchell expressed the view that it might be rather difficult to identify why a particular transaction was questionable from the banking standpoint. It seemed to him that the problem related more directly to the savings and loan associations and their liquidity requirements. Therefore, he felt that the draft letter to Chairman McMurray went too far in the direction of indicating concern about such practices in the context of a banking problem.

During further discussion, Governor Robertson suggested that Chairman McMurray be informed that the Board was soliciting additional information from the Reserve Banks and that if any significant information should be obtained from the Banks it would be passed along to him. As he saw it, there were two principal questions involved in participation by member banks in transactions of the kind under discussion. The first was whether or not the limitation on the payment of interest on deposits was being evaded. The second was whether banks were making long-term loans with the short-term funds placed with them by savings and loan associations, with consequent injurious effects from a liquidity standpoint. Perhaps the proposed letter to the Federal Reserve Banks should inquire more specifically on that score.

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Mr. Hackley discussed difficulties that might be involved in proving Regulation Q violations and expressed the opinion that the problem probably related more to the question of sound banking practices.

Governor Mills agreed and went on to suggest certain changes in the proposed letter to Chairman McMurray.

Governor Balderston inquired whether it was felt that the proposed reply reflected a sufficient note of concern when matched against the incoming letter, and Governor Mitchell expressed the view that it indicated too much concern.

Governor Mitchell withdrew from the meeting at this point.

Governor Shepardson felt that the problem warranted further exploration through the Federal Reserve Banks, and Governor Robertson repeated his suggestion that the fact that this was being done be made known to Chairman McMurray.

At the conclusion of the discussion, the letter to Chairman McMurray was approved for transmittal in the form attached as Item No. 5, Governor Mitchell's reservations having been noted. A copy of the letter transmitted to the Federal Reserve Banks is attached as Item No. 6.

Messrs. Brill and Leavitt withdrew from the meeting at this point.

Nominating committees and rotation of directors. Pursuant to the understanding at the meeting on May 4, 1964, there had been distributed under date of May 5, 1964, a revised draft of letter that would be sent to the Chairmen of all Federal Reserve Banks relating to the rotation of

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service of Reserve Bank directors and the use by member banks of unofficial nominating advisory committees. The revised draft noted that the Board had for many years adhered generally to a policy of rotation in making appointments of Class C directors and that a similar practice was being followed by member banks in some Federal Reserve districts in electing Class A and Class B directors. The proposed letter would express a view that the principle of rotation should be extended in its applicability to Class A and Class B directors and would say that if this objective could be furthered by the use by member banks of unofficial nominating advisory committees, the Board saw no objection to cooperation by the Reserve Banks with such nominating committees in districts in which they had been, or might be, instituted by the member banks.

At the outset of discussion, Governor Mills indicated that he was not in favor of sending a letter. He was of the view, for reasons previously made known to the Board by memorandum, that the Board would be injecting itself gratuitously into an area that might be subject to differences of opinion.

Mr. Hackley noted that the letter in its present form did not say very much of substance, which tied into the question whether it would be desirable to send any letter. He went on to recall that in discussion on July 17, 1963, the Board seemed to be concerned primarily with the propriety of the use of nominating committees and the practices followed by the Reserve Banks in cooperating with them. The first draft

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letter prepared for the Board's consideration had been based upon the July 1963 discussion and was intended to provide guidance to the Reserve Banks in districts where nominating committees were used. At the meeting on April 28, 1964, however, the Board appeared more inclined to emphasize the question of rotation of service of directors. A revised draft letter considered at the meeting on May 4 had indicated that the Board wanted to encourage the use of nominating committees as a means of encouraging rotation of directors. However, at that meeting some indication was given that the use of such committees should not be stressed.

Governor Robertson thought the brevity of the revised draft of May 5 was appropriate. The letter hit at two points. It pointed out that the principle of rotation of service should be extended in its applicability to Class A and Class B directors, and it also put the Board on record with respect to any activities of Reserve Bank officers that might be construed as influencing the selection of candidates.

As discussion proceeded, the suggestion was made that as an alternative to sending a letter to the Chairmen, the topic of rotation of directors could be placed on the agenda for the next meeting of the Conference of Chairmen. It was noted, however, that the Conference would not meet until near the end of this year.

The prevailing sentiment appeared to favor the sending of a letter in order to reiterate the Board's encouragement of the practice of rotation of directors and in order to place on record a statement of

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the proper role of Reserve Banks in assisting nominating advisory committees in districts where such committees were utilized by the member banks. In the latter connection, it was also suggested that such a statement would be helpful as a guideline to the Board's examiners. With these objectives in mind, several suggestions were made by members of the Board and staff for changes in the draft letter currently before the Board in the interest of accuracy and clarification of intent. It was understood that a further draft of letter would be prepared in the light of these suggestions for consideration at another meeting of the Board.

Inquiry about shipment of nickels. Mr. Farrell reported receipt of a telephone call yesterday from the office of Senator Cannon of Nevada requesting information concerning quantities of nickels sent recently by the Federal Reserve Bank of San Francisco to banks in Las Vegas, Nevada. He said that such information was available to him through the Reserve Bank, and no objection was expressed to his furnishing the information to Senator Cannon's office.

Exchange of letters sent to Chairman Fascell. Mr. Hackley reported that Mr. William Moroney, General Counsel of the Federal Deposit Insurance Corporation, had furnished the Board a copy of a report sent recently to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations concerning conflicting interpretations of Federal bank supervisory agencies. The Corporation's report

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also covered the subject of increased charges for reports of examination of national banks. Mr. Moroney indicated that the Corporation understood from the Subcommittee that there was no objection on Chairman Fascell's part to an exchange between the agencies of copies of the reports rendered to him on these subjects; Mr. Moroney therefore inquired whether copies of the Board's reports could be made available to the Corporation.

No objection was indicated to furnishing the Corporation copies of the Board's letters to Chairman Fascell of February 13 and April 1, 1964.

Comptroller's rulings. There had been distributed to the members of the Board for their information a memorandum from Mr. Hackley dated May 5, 1964, regarding rulings understood to have made recently by the Comptroller of the Currency (1) that for purposes of the lending limitations of national banks, undivided profits could be treated as part of capital stock and surplus fund, (2) that national banks could provide messenger service, by means of armored car or otherwise, to meet the requirements of their customers, and (3) that national banks would be permitted to sell money orders at nonbanking outlets. These rulings had not been cleared under the procedure outlined in the Secretary of the Treasury's letter of March 3, 1964. Possibly they were actually issued by the Comptroller prior to the date of that letter, but they apparently had become a matter of public knowledge only within the past few days.

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Governor Mills expressed the view that the rulings, particularly on undivided profits and messenger service, should be given full consideration by the Board, and it was understood that this would be done.

Governor Robertson suggested that if it was clear that these and other rulings of the Comptroller were being issued without the Board being kept informed on a current basis, it would seem desirable as a matter of record to have drafted for the Board's consideration a letter to the Comptroller requesting copies of such rulings as issued. It was understood that a further check would be made by the staff and that, if the circumstances warranted, a letter along the lines suggested by Governor Robertson would be drafted.

The meeting then adjourned.

Secretary's Notes: On May 5, 1964, Governor Shepardson approved on behalf of the Board the following items:

Telegram to the Federal Reserve Bank of Chicago (attached Item No. 7) authorizing the Bank to make available to Federal Deposit Insurance Corporation Examiner Thomas E. Lindsey, who is currently serving as an agent of a Federal grand jury in the Eastern District of Michigan, the open and confidential sections of the March 16, 1964, report of examination of Warren Bank, Warren, Michigan, together with related loan slips and correspondence, subject to the same conditions and understanding as stated in the Board's letter of March 16, 1964 (approved at the Board meeting on March 12, 1964).

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 8) approving the appointment of William L. Baker as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

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Salary increases, effective May 10, 1964

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Irene M. Fender, Statistical Clerk		\$3,985	\$4,090
<u>Examinations</u>			
James R. Smith, Review Examiner		8,970	9,250
<u>Administrative Services</u>			
Wesley B. Collins, Foreman-Operator		5,138	5,408
Theodore L. Jones, Operator (Mimeograph)		4,160	4,389
Arthur F. Le Vasseur, Clerk		3,620	3,725
<u>Data Processing</u>			
Louis S. Zeller, Digital Computer Programmer		7,030	7,260

Outside activities

Phyllis Ann Carson, Stenographer, Legal Division, to work as a part-time secretary for Prince George's Community College, Suitland, Maryland.

William B. Stryker, Jr., Photographer (Offset), Division of Administrative Services, to work part time for a printing company in Arlington, Virginia.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (attached Item No. 9) approving the appointment of Donald G. Porter as assistant examiner.

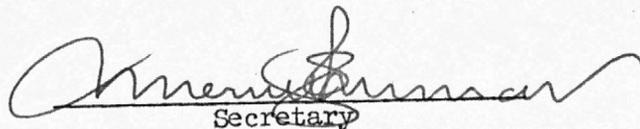
Letter to the Federal Reserve Bank of New York (attached Item No. 10) approving the appointment of Roger B. Grant as assistant examiner.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 11) approving the appointment of Richard C. Kindwall as assistant examiner.

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Memorandum from the Division of Research and Statistics recommending the appointment on a permanent basis of Stuart H. Altman, Economist in that Division, with an increase in basic annual salary from \$8,690 to \$9,980, effective May 10, 1964.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
5/6/64

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1964

Board of Directors,
San Francisco National Bank,
San Francisco, California.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the San Francisco National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
5/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1964.

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California 94120.

Dear Mr. Swan:

This refers to Mr. Galvin's letters of February 27 and March 3, 1964, recommending that the San Francisco National Bank, San Francisco, California, be permitted to maintain the same reserves against deposits as are required to be maintained by banks in non-reserve cities.

After consideration of the information submitted, the Board of Governors concurs in the recommendation of your Bank and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to the San Francisco National Bank, San Francisco, California, to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

In taking this action, the Board noted with some concern the statement in Mr. Galvin's letter that a majority of all time certificates of deposit paid to date have been paid prior to maturity, and that many of them have been paid in violation of the provisions of the Board's Regulation Q. Under these circumstances the Board believes that, instead of the usual procedure of forwarding the enclosed letter of approval to the subject bank by mail, it would be desirable for you to discuss the matter with the San Francisco National Bank and during the discussion to point out that if the violations of Regulation Q are not discontinued it will be necessary for your Bank to consider whether to classify the time certificates of deposit as demand deposits and to require the higher reserves against them.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 In the Matter of the Application of
 COUNTY TRUST COMPANY
 for approval of merger with
 The First National Bank of Park Ridge

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by County Trust Company, Tenafly, New Jersey, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The First National Bank of Park Ridge, Park Ridge, New Jersey, under the charter and title of the former. As an incident to the merger, the three offices of The First National Bank of Park Ridge would become branches of County Trust Company. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated

- (a) within seven calendar days after the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 6th day of May, 1964.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
5/6/64

APPLICATION BY COUNTY TRUST COMPANY
FOR PRIOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK OF PARK RIDGE

STATEMENT

County Trust Company, Tenafly, New Jersey ("County Trust"), with deposits of \$57.8 million as of September 30, 1963, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and The First National Bank of Park Ridge, Park Ridge, New Jersey ("First National"), with deposits of \$11.8 million as of the same date, under the charter and title of County Trust. The proposal contemplates that the three offices of First National would be operated as branches of County Trust, increasing the number of its operating offices to seven. County Trust has received approval to establish two other branches which are not yet operative.

Under the Act, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition

(including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - Both banks have satisfactory financial histories. The asset condition of each is sound, and this would be true also of the resulting bank. The capital structure of County Trust is adequate. While the capital of First National is a little below a desirable level, it is regarded as reasonably satisfactory. The resulting bank would have an adequate capital structure.

The management of each bank is satisfactory. However, consummation of the proposal would provide the resulting bank with depth and strength of management possessed by neither of the participating banks individually, and would also provide, partly through operating economies, a basis for meeting the need for improvement in the earnings of the two banks.

There is no indication that the powers of the banks are or would be inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - The service area* of County Trust lies in the northeastern corner of Bergen County, which had a population growth of 45 per cent in the decade ending in 1960. Effectuation of the proposal would increase the lending limit of County Trust, the sixth largest bank in the County, from

* The area from which a bank obtains 75 per cent or more of its deposits of individuals, partnerships, and corporations ("IPC deposits").

approximately \$387,000 to around \$500,000. Otherwise there would be no significant effect from the transaction upon banking convenience and needs in County Trust's present service area, in which there also are situated three branches of Peoples Trust Company of Bergen County and seven offices of Citizens National Bank of Englewood, respectively, the largest and third largest banks in the County.

The service area of First National includes principally Park Ridge, Montvale, and Woodcliff Lake, in each of which the bank has an office. The total population of the area, which exceeds 27,000, more than doubled over the ten years, 1950-1960. Although primarily residential, a considerable part of the area around Montvale has been zoned for light industry, and development for that purpose has begun. A substantial volume of home construction is occurring throughout the bank's service area.

First National is restricted in its ability to assist in the economic development of its service area, particularly by its lending limit of only \$62 thousand. The credit needs of real estate developers, and other business and institutional customers, involve financing in excess of the capacity of the bank. The banking needs of the area would be better served, not only by the resulting bank's loan limit of about \$500,000, but also by other services which it would offer and which are needed in an area of both residential and industrial expansion (but which are not offered at First National), such as complete fiduciary services, construction loans, personal and commercial letters of credit,

and education loans. Although a number of these services are presently available from offices of two other banks in or near the service area of First National, effectuation of the transaction would provide in the area a convenient alternative source of such services.

Competition. - The main offices of the participating banks are about 11 miles apart and their nearest branches are separated by approximately 7 miles. In the intervening area are natural barriers and the offices of other banks, including branches of the largest and third largest banks in Bergen County. Because of this, and the few direct routes connecting the service areas of the participating banks, there is only minor competition between them.

Consummation of the proposal would not change County Trust's position as the sixth largest bank in Bergen County. Competition might be intensified between County Trust and its principal competitors, the County's largest and third largest banks, noted above. It is not expected that the transaction would result in any adverse competitive effects in County Trust's present service area.

First National's principal competitors are Citizens National Bank of Englewood, the third largest bank in the County, and Pascack Valley National Bank and Trust Company, with IPC deposits in December 1963 of about \$20 million. Effectuation of the proposal would not change significantly the relationship between County Trust and Citizens National Bank of Englewood. Although there would probably result an intensification of competition in First National's service area, there is no

indication that Pascack Valley National Bank and Trust Company or any other bank in or on the periphery of the area would be affected adversely.

Because of the large number of Bergen County residents who commute to New York City, the banks in the County compete with New York City banks, particularly those with offices close by the transport station facilities used by the commuters. Savings and loan associations holding withdrawable balances in excess of \$317 million compete vigorously with banks in the County for real estate loans and savings accounts.

Summary and conclusion. - The proposal would unite the sixth largest of Bergen County's 29 commercial banks with one of the County's relatively small banks. There is no more than minor competition between the two banks. County Trust's ranking would not be affected. Some intensification of competition may result, although there is no indication that any other bank in the service area of the resulting bank would be adversely affected. Pursuant to the proposal, the residents and businesses in First National's service area would have conveniently available stronger and broader banking facilities more adequate to their expanding needs.

Accordingly, the Board finds the proposed transaction to be in the public interest.

May 6, 1964.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
5/6/64

OFFICE OF THE CHAIRMAN

May 6, 1964.

Honorable Joseph P. McMurray,
Chairman,
Federal Home Loan Bank Board,
Washington, D. C. 20552

Dear Joe:

This refers to your letter of March 27, 1964, regarding reports that savings and loan associations have become holders of bank certificates of deposit as a part of somewhat dubious financial transactions.

The Board and the Reserve Banks have encountered practices of the kind mentioned in your letter and have attempted to discourage them in State member banks. Mr. Frederic Solomon, Director of the Board's Division of Examinations, has discussed this matter informally from time to time with Mr. N. L. Armistead, Director, Office of Examinations and Supervision, of your Board. To the present time, it has not seemed advisable to undertake the complexities and expense of scheduling simultaneous examinations of various banks and savings and loan associations that might be involved in such an arrangement, although this possibility has been considered.

The Board definitely shares your concern about these developments and would hope to continue close informal cooperation with a view to taking whatever steps may be suitable to deal with the problem, including simultaneous examinations when and if they might seem appropriate.

As one possible means of dealing with the problem, you may wish to consider limiting or excluding the use of certificates of deposit as assets that a savings and loan association may use to meet its liquidity requirements. It is understood that under the law (12 USC 1425a) such assets must consist of "cash and obligations of the United States," and that use of these certificates to meet these requirements is on the assumption that the certificates qualify as "cash" rather than as investments. The abuses that have developed would seem to justify re-examination of the general question of how such certificates should be treated insofar as the liquidity requirements are concerned.

Honorable Joseph P. McMurray

-2-

There are, of course, substantial differences between the liquidity requirements of savings and loan associations and the reserve requirements of member banks of the Federal Reserve System, including the fact that a member bank may use only its currency and coin and its reserve balance at the Reserve Bank to meet the reserve requirements. However, it may be of interest to mention how amounts due from other banks are treated in connection with the reserve requirements. Section 19 of the Federal Reserve Act permits a member bank, in determining deposits subject to reserve requirements, to deduct from the amount of its gross demand deposits the amount of "balances due from other banks..." This Board's Regulation D, Sec. 204.2(b), states that balances may be thus deducted only if "subject to immediate withdrawal."

The Board is sending copies of this correspondence to the Reserve Banks and requesting any further information or views they may have on the subject. We will keep you informed of further developments.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

1640

Item No. 6
5/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 8, 1964.



Dear Sir:

For your information, there are attached copies of letters between the Federal Home Loan Bank Board and the Board of Governors regarding certain questionable practices in connection with the use of certificates of deposit.

There are also attached copies of advertisements relating to this subject.

The Board would appreciate receiving at your early convenience any information you may have regarding the prevalence of these or other such practices and any suggestions for dealing with them.

Very truly yours,

A handwritten signature in cursive script, which appears to read "Merritt Sherman", is written over a large, light-colored circular mark.

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 5, 1964.

Ross - Chicago

Re your wire May 4, your Bank is authorized to make available to Mr. Lindsey open and confidential sections of March 16, 1964 report of examination of Warren Bank, together with related loan slips and correspondence, subject to same conditions and understanding as stated in Board's letter of March 16, 1964.

(Signed) Merritt Sherman
Sherman.

Item No. 8
5/6/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 5, 1964

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of April 29, 1963,*the Board approves the appointment of William L. Baker as an Assistant Examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

It is noted that Mr. Baker is indebted to the National Bank and Trust Company of Central Pennsylvania, York, Pennsylvania. Accordingly, the Board's approval of the appointment of Mr. Baker is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

* Should have read April 29, 1964.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
5/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1964

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained
in your letter of April 30, 1964, the Board approves
the appointment of Donald G. Porter as an assistant
examiner for the Federal Reserve Bank of Boston.
Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 10
5/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1964

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Crosse:

In accordance with the request contained in your letter of May 1, 1964, the Board approves the appointment of Roger B. Grant, as an assistant examiner for the Federal Reserve Bank of New York, effective May 12, 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 11
5/6/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1964

CONFIDENTIAL (FR)

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of May 1, 1964, the Board approves the appointment of Richard C. Kindwall as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

It is noted that Mr. Kindwall's father is President of Albert City Savings Bank, a nonmember bank, located in Albert City, Iowa, Federal Reserve District No. 7, but that he will not participate in any examination of that bank.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.