

7609

Minutes for May 14, 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

M

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, May 14, 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. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of  
Examinations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Young, Senior Attorney, Legal Division  
Mr. Doyle, Attorney, Legal Division  
Mr. McClintock, Supervisory Review Examiner,  
Division of Examinations  
Mr. Poundstone, Review Examiner, Division of  
Examinations

Acceptance liability of First Chicago International Banking Corporation (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated May 11, 1964, regarding the acceptance liability of First Chicago International Banking Corporation, New York, New York, in excess of limitations in section 211.9(a) of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, as revised effective September 1, 1963. This matter had been the subject of discussion with representatives of the Corporation following review of the Corporation's call report as of December 31, 1963.

5/14/64

-2-

An attached letter dated April 30, 1964, from Executive Vice President McCloud of First Chicago International, indicated that the excess condition had arisen inadvertently because of an erroneous interpretation of section 211.9 of Regulation K. Mr. McCloud's letter suggested that the "most advisable present solution of the existing situation would be to let the outstanding acceptances run to maturity," and an attached schedule showed that by September the irregularities would have been corrected. The letter also set forth four procedures that were proposed to be instituted, in whole or in part, as to future operations. Submitted with the memorandum from the Division of Examinations was a draft of reply to Mr. McCloud noting the contents of his letter and stating that the Board recognized the implications inherent in the situation as regards existing commitments for credit and the future operation of the Corporation's acceptance financing representing the international shipment of goods. The proposed reply would express the assumption that the Corporation would undertake to bring the excess acceptance transactions into conformity with Regulation K as soon as practicable.

In reply to questions by Governor Mills, Mr. Goodman said he was convinced that the current situation had arisen through inadvertence; the pertinent provisions of Regulation K were not the easiest to understand. Governor Mills then asked Mr. Goodman whether the latter felt that the procedures outlined by the Corporation would assure conformance with Regulation K in the future, to which Mr. Goodman replied that he thought they would accomplish the purpose.

5/14/64

-3-

Governor Mills noted that one of the proposed procedures contemplated an agreement with the parent First National Bank of Chicago whereby that bank would purchase some of the Edge corporation's acceptances and irrevocably obligate itself to leave the purchased acceptances in the Edge corporation's vault. In the event the Edge corporation did not pay at maturity, First National would look to the persons to whom the Edge corporation had extended acceptance credit for payment. Governor Mills commented that he was not completely at ease that this practice was something that should be encouraged. When Mr. Goodman replied that he would look at it as primarily a temporary measure to enable the Edge corporation to get out of the present predicament, Governor Mills said that, looking to the future, he hoped that such a procedure would have expert study.

Governor Shepardson inquired whether Mr. Goodman felt that the proposed procedure would be satisfactory if utilized on a continuing basis, to which Mr. Goodman replied that basically it originated because of the current situation. However, he would see no objection to it as a continuing procedure. It was a technique that had been authorized by the Board in the case of Sumitomo Bank of California, a State member bank.

Governor Mills inquired whether this was not a means by which the Edge corporation could assume liabilities beyond the limits imposed by its own capital structure, and Mr. Goodman replied that if he understood the question correctly the answer would be in the negative. In amplification of this statement, he described his understanding of the manner in which the technique would be utilized.



5/14/64

-4-

At the conclusion of the discussion the letter to First Chicago International Banking Corporation was approved, Governor Mills' reservations being noted on the point that he had mentioned. A copy of the letter is attached to these minutes as Item No. 1.

Application of City Bank and Trust Company (Items 2, 3, and 4).

There had been distributed, with a memorandum from the Legal Division dated May 12, 1964, a proposed order and a statement reflecting the Board's decision on May 6, 1964, to deny the application of City Bank and Trust Company, Jackson, Michigan, to consolidate with Calhoun State Bank, Homer, Michigan. The covering memorandum indicated that a dissenting statement by Governor Mitchell was in preparation.

After discussion the issuance of the order and statement was authorized, with the understanding that Governor Mitchell's dissenting statement would be issued in company with them. Copies of the order, statement, and dissenting statement, as issued, are attached as Items 2, 3, and 4, respectively.

Messrs. Shay, Doyle, and Poundstone then withdrew from the meeting.

Holdings of revenue bonds by Federation Bank and Trust Company

(Item No. 5). There had been distributed a memorandum from the Division of Examinations and the Legal Division dated May 12, 1964, relating that as of September 24, 1963, when Federation Bank and Trust Company, New York, New York, was examined by examiners of the Federal Reserve Bank of New York, three holdings of revenue bonds were in excess of 10 per

5/14/64

-5-

cent of the bank's capital and surplus, in contravention of section 5136, Revised Statutes. In a letter to the New York Reserve Bank, which Vice President Crosse had referred to the Board, the President of Federation had indicated that the bank was reluctant to dispose of that portion of the bonds that exceeded 10 per cent of capital and surplus, although holdings of one of the issues had been reduced to 10 per cent of capital, surplus, and undivided profits to comply with State law. President Roraback wrote that nonmember banks could hold these bonds and, while the Comptroller of the Currency had not ruled regarding them, he believed the Comptroller would consider them eligible for national bank investment without regard to the 10 per cent limitation of section 5136.

Submitted with the memorandum was a draft of suggested letter to Vice President Crosse containing comments that it was hoped would be of assistance to him in discussing this matter with President Roraback. The draft letter contained no specific requirement that the member bank dispose of the bonds in question, but it pointed out that, as set forth at page 1508 of the November 1963 Federal Reserve Bulletin, the Board had recently reaffirmed its position of long standing that State member banks could not, under the law, invest in obligations of the type described by President Roraback without regard to the 10 per cent limitation imposed by section 5136.

In discussion, Governor Mills observed that if the State member bank had sought an interpretation from the Board before purchasing the

5/14/64

-6-

bonds, the Board would have said that such bonds could not be purchased in excess of 10 per cent of the bank's capital and surplus. Governor Robertson suggested that there be added to the letter a sentence indicating that correction of the situation should be promptly obtained. Governor Balderston raised the question why it was necessary, in the letter to Vice President Crosse, to go into so much philosophical discussion.

Mr. Hexter inquired whether the Board would prefer, in the circumstances, to have the matter handled with Vice President Crosse by telephone, but members of the Board indicated that they considered it desirable to have a letter on record.

There was agreement with the suggestion that the letter be more brief and with the suggestion that it should call for the member bank to take steps to correct the existing situation. With these thoughts in mind, certain changes in the proposed letter were agreed upon, after which unanimous approval was given to a letter to Vice President Crosse in the form attached as Item No. 5.

Salaries of certain Chicago employees (Item No. 6). Unanimous approval was given to a letter to the Federal Reserve Bank of Chicago (copy attached as Item No. 6) approving the payment of salaries to the Bank's plumbers and carpenters at specified rates.

Messrs. Johnson, Hexter, Goodman, and McClintock then withdrew from the meeting.

5/14/64

-7-

Rulings by Comptroller of the Currency. Governor Robertson inquired whether the staff was preparing material for the Board's consideration with respect to the recent ruling of the Comptroller of the Currency that for purposes of lending limitations national banks would be permitted to include undivided profits as part of their "capital and surplus fund."

In reply, Mr. Hackley reported on certain telephone inquiries that had been received from the press. He asked whether the Board would want to consider issuing a public statement in somewhat the same manner that a statement had been issued several months ago concerning the Comptroller's ruling on capital notes and debentures.

It was indicated that the members of the Board would like to have such a statement drafted, and this led to the question whether, as in the case of the Board's earlier statement on capital notes and debentures, the text should be kept within the confines of a legal interpretation. The comments on this question suggested the preparation of a draft going somewhat beyond that point, and several suggestions were made.

Question also was raised whether, prior to issuance of any such statement, the Board should follow the procedure set forth in the Secretary of the Treasury's letter of March 3, 1964. Mr. Hackley indicated that this would probably not be mandatory according to a literal reading of the language of the letter. Nevertheless, he felt it would be desirable to follow the stated procedure, and this appeared also to be the view of the members of the Board.



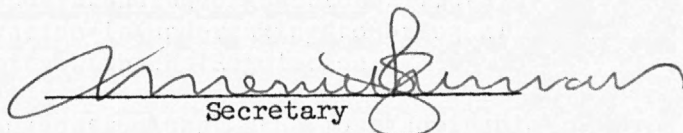
5/14/64

-8-

Mr. Fauver commented that inquiries also had been received from members of the press and others regarding the Comptroller's recent ruling that national banks were permitted to use messenger service, by armored car or otherwise, to meet the needs of their customers. It was understood that this ruling was included in the new pages of the Comptroller's Manual. It was also understood that the Federal Deposit Insurance Corporation had issued a somewhat similar ruling, but with certain conditions attached.

After discussion of the possible implications of the Comptroller's ruling in this regard, Governor Robertson suggested that the matter be briefed in memorandum form for the Board's consideration, and it was understood that this would be done.

The meeting then adjourned.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
5/14/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 14, 1964.



Mr. Bentley G. McCloud, Jr.,  
Executive Vice President,  
First Chicago International Banking Corporation,  
1290 Avenue of the Americas,  
New York, New York 10019.

Dear Mr. McCloud:

This will acknowledge your letter of April 30, 1964 regarding the acceptance liability of your Corporation in excess of limitations in Section 211.9(a) of Regulation K, as revised effective September 1, 1963. This matter has been the subject of discussions between the Board's Division of Examinations and officers of your Corporation resident in New York, as well as with Assistant General Counsel Paul of The First National Bank of Chicago.

It is understood that the excesses in aggregate acceptances executed and outstanding, as well as for account of individual customers, were occasioned by a misunderstanding of Section 211.9(a) of Regulation K and that your Corporation is undertaking to bring all acceptance transactions into conformity with the Regulation.

The Board has noted your suggestion that "the most advisable present solution of the existing situation would be to let the outstanding acceptances run to maturity" and you have submitted a schedule which "shows that in September the asserted irregularities will have been self-correcting." For future acceptance operations, you presently propose to follow one or more of four procedures as outlined in your letter of April 30.

As you suggest, the Board recognizes the implications inherent in the situation as regards your existing commitments for credit and the future operation of your acceptance financing representing the international shipment of goods. It is assumed, of course, that your Corporation will undertake to bring the excess acceptance transactions into conformity with Regulation K as soon as practicable.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

Item No. 2  
5/14/64

## UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

-----  
 In the Matter of the Application of  
 CITY BANK AND TRUST COMPANY  
 for approval of consolidation with  
 Calhoun State Bank  
 -----

ORDER DENYING APPLICATION FOR APPROVAL  
OF CONSOLIDATION 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 City Bank and Trust Company, Jackson, Michigan, a State member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and Calhoun State Bank, Homer, Michigan, under the charter and title of the former. As an incident to the consolidation, the office of Calhoun State Bank would be operated as a branch of City Bank and Trust Company. Notice of the proposed consolidation, 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 consolidation,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is denied.

Dated at Washington, D. C., this 14th day of May, 1964.

By order of the Board of Governors.

Voting for this action: Vice Chairman Balderston, and Governors Mills, Robertson, and Shepardson.

Voting against this action: Governor Mitchell.

Absent and not voting: Chairman Martin and Governor Daane.

(Signed) Merritt Sherman

---

Merritt Sherman,  
Secretary.

(SEAL)



Item No. 3  
5/14/64

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

APPLICATION OF CITY BANK AND TRUST COMPANY  
FOR APPROVAL OF CONSOLIDATION WITH  
CALHOUN STATE BANK

STATEMENT

City Bank and Trust Company, Jackson, Michigan ("City Bank"), with deposits of \$84.3 million as of December 20, 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 consolidation of that bank with the Calhoun State Bank, Homer, Michigan ("Calhoun Bank"), with deposits of \$3.2 million as of the same date. As an incident to the consolidation, the sole office of Calhoun Bank would be operated as a branch of City Bank, increasing the number of its operating offices to nine. City Bank has received approval to establish one branch that is not yet in operation.

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. - The financial history and condition, capital structure, and earnings, as well as future earnings prospects, of each of the subject banks are satisfactory. While both banks are capably managed, Calhoun Bank in the near future must take steps to assure competent management succession, but this should not affect adversely the bank's earnings prospects.

The resulting bank, which would be under the management of City Bank, would have a sound asset condition, an adequate capital structure, and favorable future earnings prospects.

There is no indication that the corporate 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 head office of City Bank is in Jackson, Michigan, located 73 miles west of Detroit, with a population, according to the 1960 census, of somewhat over 50,000. The local retail establishments serve an area having a population estimated at 200,000. The economy of Jackson consists primarily of diversified industries. City Bank operates seven branches and, as noted previously, has approval for one more branch that is not yet operating. There is no indication that the proposed consolidation would have a significant effect on the convenience and needs of the service area\* of City Bank.

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

Calhoun Bank, in Homer, Michigan, is located 21 miles southwest of Jackson and 9 miles south of Albion, the site of City Bank's largest branch. Homer has a population, according to the 1960 census, of somewhat over 1,600, although Calhoun Bank's service area has a population of about 5,000. The area has shown a steady population increase and the prospect for continued economic growth is good. The economy of the community is primarily agricultural, although there are some small industries in Homer. While consummation of the proposed consolidation would enable the resulting bank to offer a variety of banking services in the Homer area not now provided by Calhoun Bank, only little need for such expanded services was indicated by the application. Moreover, broad banking services are now available from reasonably convenient sources, including the Albion branch of City Bank. There is no indication that any significant demand for banking services in the Homer area is not now being supplied.

Competition. - Consummation of the proposed consolidation would have no significant effect on the competitive situation in the immediate Jackson area. Present competition between City Bank and National Bank of Jackson, the only banks in Jackson, is confined primarily to the city, since the out-of-town branches of National Bank of Jackson are located east or southeast of the city, while City Bank's out-of-town branches are located to the west or southwest. The acquisition by City Bank of a branch in Homer, also southwest of Jackson, would not change materially, if at all, the competitive situation in Jackson.



Since there is some overlapping of the service areas of Calhoun Bank and City Bank's branch in Albion, consummation of the consolidation would eliminate the small amount of competition that exists between the two banks.

There is already a substantial concentration of banking resources in the area served by the institutions proposing to consolidate. City Bank holds 44 per cent of the total deposits in commercial banks having offices in this area, and National Bank of Jackson holds 34.7 per cent. A branch of Michigan National Bank at Marshall, 14 miles northwest of Calhoun Bank, holds 11.2 per cent. While Calhoun Bank's 1.7 per cent of the area's total deposits is relatively small, the consolidation would raise the three-bank total from 89.9 per cent to 91.6 per cent, and would leave the remaining five competing banks with a total of but 8.4 per cent.

Under Michigan law, branching by banks having home offices in Jackson can be permitted within a radius of 25 miles. Within a radius of slightly more than 25 miles, the concentration of deposits in the three largest banks is significantly large at 64.6 per cent - City Bank, 32.4 per cent; National Bank of Jackson, 24 per cent; and Marshall branch of Michigan National, 8.2 per cent. The inclusion of Calhoun Bank's 1.2 per cent would increase this total to 65.8 per cent, leaving the remaining 19 banks with only 34.2 per cent of the deposits.

Summary and conclusion. - Consummation of the proposed consolidation would increase the already substantial concentration of



banking resources in the area served by the two participating banks, and there would be eliminated a sound, well-managed, independent bank located in a growing area. In addition, such direct and potential competition as presently exists between City Bank's Albion branch and Calhoun Bank would be eliminated. The fact that the resulting bank would provide expanded banking services in Homer, services already available from other sources, is insufficient to outweigh these considerations.

Accordingly, the Board is unable to find that the proposed consolidation would be in the public interest.

May 14, 1964.

## DISSENTING STATEMENT OF GOVERNOR MITCHELL

The artificial concept of a banking market that is used by the majority to justify protection from further "concentration" leaves me no choice but to dissent from their denial of this application.

There is very little competition between City Bank and the relatively small Calhoun Bank. The substitution of a branch of the larger bank for the sole office of the smaller institution, which is the only banking office located in its service area, would not eliminate significant competition in Homer. City Bank's business would be increased by an extension of its market area, but this is a far different matter than the elimination of competition in its present market area.

Replacement of Calhoun Bank with a branch of City Bank would not adversely affect any competing bank. Instead, it would bring into the Homer community expanded banking service, including an increased lending limit, trust services, and improved consumer and mortgage lending facilities. This would enhance the banking convenience and better fulfill the credit needs of Homer and vicinity, which is in an area having favorable economic prospects. Indeed, it may be reasonably anticipated that effectuation of the proposal also would bring to the community the benefits of more active competition, not only for the banks located just beyond the service area of Calhoun Bank, but for the Marshall branch of the large Michigan National Bank, as well.

A further factor weighing in support of the application is the management succession problem facing the Calhoun Bank and the negative impact that steps to correct this problem may well have on the bank's earnings.

It does not seem to me that the public interest is served by denying the application involving a local situation like this merely because of the existence of a high degree of banking concentration within a 25-mile radius of Jackson. The competitive situation outside of the Homer area, if it is affected at all by this transaction, should not be evaluated in terms of an artificial 25-mile radius around Jackson, but rather in relation to banking competition in an area embracing Ann Arbor, Lansing, and Battle Creek. By relying so heavily on a formalistic market definition, the majority in this case prevent a bank consolidation which I believe would be in the public interest.

Accordingly, I would approve the application.

May 14, 1964.



1772

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 5  
5/14/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 14, 1964.

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

Dear Mr. Crosse:

Your letter of March 26, 1964, refers to investments by Federation Bank and Trust Company in excess of the 10 per cent limit prescribed by section 5136 of the Revised Statutes. President Roraback states that the member bank's Directors are reluctant to reduce its holdings to the legal limit. He points out that, under New York law, a nonmember State bank would not be so limited. He also contends that a national bank would be permitted to hold securities of the issues in question in amounts in excess of 10 per cent of capital and surplus. On this basis, he argues that member State banks "are at a serious disadvantage as compared with nonmember banks in New York State on the one hand and national banks on the other". You request the Board's views on this matter.

As you know, this situation arises out of the provisions of paragraph Seventh of section 5136 of the Revised Statutes. That statute (made applicable to member State banks by section 9 of the Federal Reserve Act) prohibits member banks from investing more than 10 per cent of capital and surplus in the securities of any one obligor, but this limitation is not applicable to specified classes of "general obligations". The Board is not in a position to state whether the Comptroller of the Currency would regard the securities in question as general obligations of a political subdivision and therefore exempt from the above-mentioned 10 per cent limit. However, the Board recently reviewed this aspect of section 5136 and again concluded that revenue bonds are not exempt securities under that statute (1963 Federal Reserve Bulletin 1508). Accordingly, Federation Bank and Trust Company should be required to reduce its holdings of these securities, as soon as practicable, to the amounts that it could legally purchase.



## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Howard D. Crosse

-2-

In recent years it has been proposed that section 5136 be amended to permit national banks and member State banks to underwrite certain revenue bonds as well as general obligations. When Chairman Martin testified on such a proposal last year (see 1963 Federal Reserve Bulletin 1372 and 1634), he expressed the judgment of the Board that the limited benefits that might result from permitting commercial banks to underwrite revenue bonds would be outweighed by the disadvantages of such a departure from the principle of separation of commercial banking from the securities business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

177A

Item No. 6  
5/14/64

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 14, 1964.



CONFIDENTIAL (FR)

Mr. C. J. Scanlon, President,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois 60690.

Dear Mr. Scanlon:

As requested in your letter of April 29, 1964,  
the Board of Governors approves, effective June 1, 1964,  
payment by the Federal Reserve Bank of Chicago to the Bank's  
Plumbers and Carpenters of the following annual salaries,  
which are above the maximum of the grades in which the posi-  
tions are classified:

<u>Title</u>	<u>Annual Salaries</u>
Plumbers	\$8,985.60
Head Carpenter	9,568.00
Carpenters	8,611.20

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.