

Minutes for May 25, 1964

To: Members of the Board

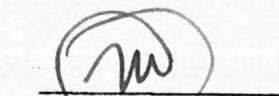
From: Office of the Secretary

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

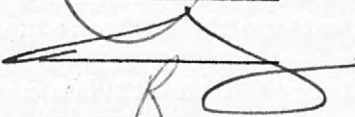
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

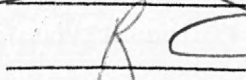
Chm. Martin



Gov. Mills



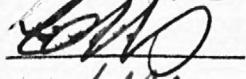
Gov. Robertson



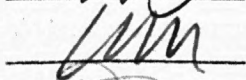
Gov. Balderston




Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Monday, May 25, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Mills  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Broida, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Noyes, Adviser to the Board  
Mr. Fauver, Assistant to the Board

Messrs. Brill, Holland, Koch, Williams, Dembitz,  
Axilrod, Eckert, Gehman, Keir, Osborne, and  
Weiner of the Division of Research and  
Statistics

Messrs. Furth, Hersey, Sammons, Katz, Wood, Gekker,  
Gemmill, Irvine, and Maroni of the Division  
of International Finance

Miss Lynn Mah, Economist, Federal Reserve Bank of  
San Francisco

Economic review. The Division of International Finance reviewed international financial developments, after which the Division of Research and Statistics summarized business and financial trends in the domestic economy.

Following discussion based on these reports, all of the staff members who had been present except Messrs. Sherman, Kenyon, Young, Noyes, Fauver, and Brill withdrew from the meeting. Miss Mah also withdrew at this point, and the following entered the room:

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Mr. Hackley, General Counsel  
 Mr. Farrell, Director, Division of Bank Operations  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Johnson, Director, Division of Personnel Administration  
 Mr. O'Connell, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Leavitt, Assistant Director, Division of Examinations  
 Mr. Young, Senior Attorney, Legal Division  
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
 Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Greenfield Banking Company, Greenfield, Indiana, approving the establishment of a branch at 1077 North State Street.	1
Letter to Old Kent Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in the 3700 block of Plainfield Avenue, N. E., Plainfield Township.	2
Letter to the Bureau of the Budget regarding a proposal that would exempt State banks from various restrictions of State law with respect to real estate loans made in participation with the Small Business Administration.	3
Letter to the Federal Reserve Bank of Minneapolis approving the payment of salaries to three officers at rates fixed by the Bank's Board of Directors.	4

In connection with Items 1 and 2, Governor Mills commented that the two branch applications had been approved by the respective State banking authorities and favorable action by the Board had been recommended by the Federal Reserve Bank of Chicago. In each case, however, he felt

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that there might have been good reason for objection. In the Greenfield case, and also in the Grand Rapids case, the proposed branch would be situated relatively close to an office recently established by a smaller banking institution, and this would almost inevitably work to the disadvantage of the smaller competitor. It was difficult to refute the decisions of the State supervisory authorities, but he questioned a little the seeming complacency of the Chicago Reserve Bank.

Mr. Leavitt indicated that the factor mentioned by Governor Mills had been taken into account by the Division of Examinations in studying the applications. He went on, however, to review considerations that had influenced the Division to accept the judgment of the State banking authorities and the Reserve Bank.

Governor Mills then said that, looking to the future, if these two cases were indicative, some rethinking on the part of the Reserve Bank and on the Board's own part might be in order. As to the current applications, the overriding factor in his judgment was the action taken by the respective State authorities. In the circumstances, he would not suggest that the applications be held over for further study.

In discussion of Item No. 3, it was stressed by the staff that the effect of the proposed State legislation would be simply to put State banks on the same footing as national banks when making real estate loans in participation with the Small Business Administration. Questioning by Governor Balderston, who initially indicated uneasiness about the proposal

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because of reports he had heard reflecting on the quality of some Small Business Administration credits, elicited comments to the effect that no undue risk appeared to be incurred by the banks involved in view of the participation by the Small Business Administration, which was usually at the 90 per cent level. In light of these comments, and in view of the element of equity seen in the proposal to put State banks on the same footing with national banks, Governor Daane suggested that the draft letter to the Budget Bureau, which indicated that the Board would have no objection to the proposal, be changed to read that the Board favored the recommendation. The approved letter reflected adoption of this suggestion.

Report on competitive factors (Allentown-Macungie, Pennsylvania).

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Macungie Bank, Macungie, Pennsylvania, into The First National Bank of Allentown, Allentown, Pennsylvania, was approved unanimously for transmittal to the Comptroller.

The conclusion read as follows:

Consummation of the proposed merger between The First National Bank of Allentown and The Macungie Bank would have an adverse effect on competition since it would eliminate the substantial amount of competition existing between the two banks, eliminate banking competition in the Macungie section of southern Lehigh County and further concentrate banking resources in the largest bank in the area.

Report on competitive factors (Salem-Pekin, Indiana). There had been distributed to the Board, under date of May 15, 1964, a draft of report to the Federal Deposit Insurance Corporation on the competitive

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factors involved in the proposed acquisition of assets and assumption of deposit liabilities of The Citizens Bank, Pekin, Indiana, by Farmers-Citizens Bank, Salem, Indiana. There had also been distributed, under date of May 22, 1964, a memorandum from the Division of Examinations relating to the question whether the acquisition of 81 per cent of the stock of the Pekin bank by three directors of the Salem bank, as "trustees" for that bank, had caused American Security Company of Bedford, Indiana, Inc., Bedford, Indiana, which owned a majority of the stock of the Salem bank, to become a bank holding company. It was suggested that the following paragraphs be added to the usual letter transmitting the report on competitive factors to the Federal Deposit Insurance Corporation:

In connection with this matter, the Federal Reserve Bank of St. Louis advised that American Security Company of Bedford, Indiana, Inc. owns approximately 55 per cent of Farmers-Citizens Bank, Salem, Indiana. The application and related papers regarding the proposed transaction indicate that on February 14, 1964, three directors of Farmers-Citizens Bank, as "trustees" for that bank, owned 81 per cent of the outstanding stock of The Citizens Bank, Pekin, Indiana.

Under section 3(a) of the Bank Holding Company Act, the Board's prior approval is necessary for a company to become a "bank holding company" as that term is defined in section 2(a) of the Act. If, by the acquisition of stock of The Citizens Bank, mentioned above, American Security Company of Bedford, Indiana, Inc. became a bank holding company, there was a failure to comply with the Act.

In the circumstances, the Board would appreciate being advised of any further information that you may develop in connection with your investigation of the proposed transaction that might assist the Board in determining whether there was, in fact, failure to comply with the Act.

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In discussion, certain suggestions were made for a rephrasing of the conclusion of the draft report on competitive factors. Unanimous approval then was given to the transmittal to the Federal Deposit Insurance Corporation of a report in which the conclusion read as follows, with the understanding that the covering letter to the Corporation would include the paragraphs cited above:

Acquisition of the stock of Citizens Bank by directors of Farmers Bank, acting as trustees for that bank, has probably eliminated whatever competition may have existed between the two banks. Moreover, potential for competition is limited by the size of Citizens Bank and its location in Pekin, a small rural town with little prospect for growth.

Messrs. Young (Adviser to the Board), Noyes, Brill, Shay, Young (Legal), Egertson, and McClintock then withdrew from the meeting.

Travel by Messrs. Young and Katz. Pursuant to requests in memoranda dated May 22, 1964, from Mr. Young, Adviser to the Board and Director, Division of International Finance, authorization was given for the following travel:

1. Travel by Mr. Young to Basle, Switzerland, for the purpose of attending the Annual Meeting of the Bank for International Settlements on June 6-8, 1964, and to Paris, France, for the purpose of attending meetings of the Economic Policy Committee of the Organization for Economic Cooperation and Development, and of the Committee's Working Party 3, on June 17-19, the total period of travel to extend from June 4 through July 4 with June 9-15 and June 21-July 4 charged to annual leave; and with reimbursement for official travel on the basis of expenses incurred, including allowance for official entertainment;

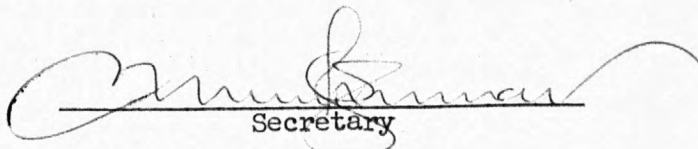
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2. Travel by Mr. Katz, Associate Adviser, Division of International Finance, to Paris, France, for the purpose of attending meetings of the Economic Policy Committee and of Working Party 3 on June 15-20, 1964, and for the purpose of attending a meeting of Working Party 3 on July 14-17, with the understanding that following the July meeting Mr. Katz would take annual leave and return to Washington about August 16, and that reimbursement for official travel would be on the basis of the per diem allowed under the Standardized Government Travel Regulations.

The meeting then adjourned.

Secretary's Note: Pursuant to the request contained in a memorandum from Murray S. Wernick, Senior Economist, Division of Research and Statistics, Governor Shepardson, on behalf of the Board, today granted permission to Mr. Wernick to serve, as an outside business activity, on the Research Advisory Committee of the W. E. Upjohn Institute for Employment Research, Washington, D. C.

  
Secretary



1869

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
5/25/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 25, 1964

Board of Directors,  
Greenfield Banking Company,  
Greenfield, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Greenfield Banking Company, Greenfield, Indiana, of a branch at 1077 North State Street, Greenfield, Indiana, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 2  
5/25/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 25, 1964

Board of Directors,  
Old Kent Bank and Trust  
Company,  
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Old Kent Bank and Trust Company, Grand Rapids, Michigan, of a branch in the 3700 block of Plainfield Avenue, N. E., Plainfield Township, Kent County, Michigan, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

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Item No. 3  
5/25/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 25, 1964.

Mr. William B. Carey,  
Executive Assistant Director,  
Executive Office of the President,  
Bureau of the Budget,  
Washington, D. C. 20503

Dear Mr. Carey:

This is in response to your request of May 11, 1964, for the Board's comments on a legislative proposal the Small Business Administration wishes to submit to the Council of State Governments for inclusion in its program of Suggested State Legislation for 1965.

The proposal would exempt State banks from various restrictions of State law with respect to loans secured by real estate when made in participation with the Small Business Administration and would enable State banks to participate in such loans with the Small Business Administration on the same basis as may national banks under section 24 of the Federal Reserve Act.

You are advised that the Board favors the Small Business Administration's proposal.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

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Item No. 4  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 25, 1964



CONFIDENTIAL (FR)

Mr. Frederick L. Deming, President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis, Minnesota 55440.

Dear Mr. Deming:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Minneapolis, for the period June 1 through December 31, 1964, at rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
John J. Gillette	Vice President	\$15,000
Howard L. Knous	Assistant Vice President	13,000
H. O. Hallin	Assistant Cashier	11,000

The rates approved are those fixed by your Board of Directors as reported in your letter of May 21, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.