

Minutes for July 9, 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

[Signature]

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, July 9, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Kakalec, Controller
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Bass, Assistant Controller
Mr. Young, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. White, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on July 6, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

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	<u>Item No.</u>
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 2771 Nostrand Avenue, Borough of Brooklyn.	1
Letter to Bourbon-Agricultural Bank & Trust Company, Paris, Kentucky, approving the establishment of a branch on Lexington Road near the southwestern corporate limits of Paris.	2
Letter to The Bank of Albion, Albion, Michigan, approving the establishment of a branch between 12754 and 12822 28 Mile Road, Sheridan Township, and stressing the need for strengthening the bank's capital structure.	3
Letter to Mason State Bank, Mason, Michigan, approving the establishment of a branch on Cedar Street.	4
Letters to Genesee Merchants Bank & Trust Co., Flint, Michigan, approving the establishment of branches (1) near the intersection of Dort Highway and Atherton Road, and (2) at 807 Welch Boulevard.	5-6
Letter to The Pleasants County Bank, St. Marys, West Virginia, regarding dividends declared and paid in 1963.	7
Letter to Lincoln National Bank, Philadelphia, Pennsylvania, granting its request for permission to maintain reduced reserves.	8
Letter to Peoples Trust & Savings Bank, Green Bay, Wisconsin, granting an extension of time to withdraw from membership in the Federal Reserve System.	9

Building program at New York. There had been circulated a memorandum from the Division of Bank Operations dated June 29, 1964, regarding the proposed building program at the Federal Reserve Bank of New York. The memorandum commented on an attached letter and studies received from the Reserve Bank in support of the Bank's longer range projected space needs. This information had been requested of the Bank

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pursuant to the understanding at the meeting on April 30, 1964, at which time the Board indicated that it would have no objection to the Bank's retention of a real estate agent to secure options on either of two sites across the street from the present Bank building looking toward the construction of an addition. However, certain questions were raised by members of the Board regarding the Reserve Bank's projected space needs, and it was suggested that additional information be secured and placed on record.

At the instance of Governor Daane there was a general discussion of the trend of personnel requirements at Reserve Banks, based on the New York projection for a rise in the number of employees from the present level of 3,700 to a level of 5,500 in 1990. At the conclusion of this discussion Governor Daane commented that there appeared to be no need to pursue this question further at present. However, if and when the New York Bank's program reached the stage of proposed actual construction of additional quarters, a further look might be taken at this aspect of the matter. Mr. Farrell observed, in this connection, that if the total employment at the Bank went only to 4,200 or 4,300, space available in the Bank and its present annex building would be inadequate. He also noted that it was estimated that the presently available space would be adequate to meet the Bank's requirements for about five years.

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Governor Balderston commented on reasons why he felt that new construction usually was preferable to the remodeling of existing quarters when expansion was necessary, and Mr. Farrell pointed out that in the case of the New York Bank expansion through alterations to the present building would present severe engineering problems. Such a possibility therefore had been discarded by the Bank.

It was noted that no action by the Board on the matter of the New York building program was called for at this particular time.

Assessment to meet estimated Board expenses. There had been distributed a memorandum from the Office of the Controller dated July 6, 1964, recommending that an assessment of .00314 of the total paid-in capital and surplus of the Federal Reserve Banks as of June 30, 1964, be levied upon the Banks to meet the estimated expenses of the Board for the second half of 1964. Such an assessment would produce \$4,720,886, and the expenses of the Board were estimated at approximately \$4,715,900.

The recommendation was approved unanimously.

Report on competitive factors (Poughkeepsie-Liberty, New York).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Community National Bank, Liberty, New York, with and into Marine Midland National Bank of Southeastern New York, Poughkeepsie, New York.

The conclusion of the draft report contained a final sentence expressing the view that the effect of the proposal on competition

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would be clearly adverse. Governor Mills suggested the deletion of this sentence, which he did not think was justified by the information contained in the body of the proposed report. He also expressed concern that certain recent Board decisions and reports on proposals for expansion of the Marine Midland system might be construed as indicating that the Board was seeking to freeze the holding company system in its present status. This, he thought, would not be a proper attitude; there might be circumstances that would justify expansion. In fact, he did not think that the proposal under consideration today was really out of line.

Governor Daane supported Governor Mills' suggestion regarding the report and went on to note that the last sentence in the conclusion might be regarded as inconsistent with a statement in the body of the report that competition in Sullivan County would be substantially intensified as a result of the proposed merger.

It was then suggested that both of the sentences in question be deleted, and this was agreed upon. Governor Robertson, in stating that he would not object to the two deletions, said he thought the effect of the proposed transaction on competition would be adverse, but that the facts did not warrant concluding that the effect would be clearly adverse.

Accordingly, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

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Community National Bank, Liberty, New York, and Marine Midland National Bank of Southeastern New York, Poughkeepsie, New York, serve different areas and there is virtually no competition between them. While the proposal would not significantly alter Marine Midland National Bank's competitive capabilities in the area in which it currently operates, it would expand the geographical coverage of the banks in the Third Banking District controlled by Marine Midland Corporation into another county and would subject the remaining small banks of the county to the substantially greater competitive capabilities of a much larger institution.

Report on competitive factors (Boise-Kendrick, Idaho). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Farmers Bank, Kendrick, Idaho, by First Security Bank of Idaho, N. A., Boise, Idaho. The conclusion indicated that the proposed transaction would eliminate little competition between the participants. It would go on to point out, however, that there existed a heavy degree of concentration of banking resources in the State of Idaho, where the two largest banks operated over half of all the banking offices and held approximately two-thirds of all deposits. Any increase in concentration of banking resources in these two banks must be considered as seriously adverse to the preservation of banking competition.

Governor Daane observed that if the concentration of banking resources in the hands of the two large banks should increase further, this did not necessarily mean that there would not be keen banking competition. In fact, competition might be even more keen than if small independent banks such as the Farmers Bank of Kendrick were preserved.

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Governor Balderston commented that this type of question came up during a meeting that he and Mr. Solomon had had yesterday with representatives of Camden (New Jersey) Trust Company regarding its application to merge with a smaller institution in Merchantville that was recently denied by the Board. It was one thing, Governor Balderston suggested, to talk about banking concentration in Idaho; it was another thing to talk about competition. A couple of large banks, operating in a situation of high concentration, might compete keenly.

Governor Mills observed, however, that analysis of antitrust literature showed beyond question that competition between giants in a situation of duopoly or oligopoly typically leads sooner or later to collusive practices, such as sharing of the market, that are contrary to the public interest. When there is a high degree of concentration, as in banking, the public is foreclosed from the option of seeking alternative sources of services or products.

Governor Balderston then said that in this particular case he had thought that perhaps the question of the number of banking options available to the public might be emphasized.

Governor Daane again inquired whether, in the prevailing circumstances, the preservation of a \$3 million bank like Farmers of Kendrick amounted realistically to the preservation of competition. He suggested that the language of the conclusion of the competitive factor report might be softened somewhat by referring to the concentration

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of banking resources, which concentration had serious implications with respect to the outlook for competition.

Governor Mills, speaking from personal knowledge of the area concerned, said that the two large banks in question had what amounted to a throttlehold on banking business in the State of Idaho. Unless there were clearly discernible reasons why exceptions should be made, the Board presumably would want to think twice before encouraging any aggravation of the present situation. He felt that the wording of the conclusion of the competitive factor report was generally appropriate.

In further discussion Governor Daane mentioned that the main purpose of his questions had been to raise a philosophical point for consideration over time. As to the case now under consideration, he would go along with a report in whatever form the other members of the Board might find most appropriate.

Governor Shepardson then suggested that the conclusion of the report be amended to read as follows:

While the proposed purchase of assets and assumption of liabilities of The Farmers Bank, Kendrick, Idaho, by First Security Bank of Idaho, N. A., Boise, Idaho, a subsidiary of First Security Corporation, Salt Lake City, Utah, a registered bank holding company, would eliminate little existing competition between participants, it would foreclose all potential competition between them.

There exists a heavy degree of concentration of banking resources in Idaho where the two largest banks operate over half of all banking offices and hold approximately two-thirds of all deposits held by banks in that State. Any increase in concentration of banking resources in these two banks must be considered as seriously adverse to the preservation of banking competition.

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There being agreement with this suggestion, the report was approved unanimously in such form for transmittal to the Comptroller.

Application of State and Savings Bank, Monticello, Indiana.

There had been distributed a memorandum from the Division of Examinations dated July 2, 1964, with regard to the application of State and Savings Bank, Monticello, Indiana, for consent to merge with The Monon Bank, Monon, Indiana. The recommendation of the Federal Reserve Bank of Chicago was favorable, but the recommendation contained in the memorandum from the Division of Examinations was unfavorable. The reasons for the unfavorable recommendation were amplified in a supplemental memorandum, also dated July 2, 1964, from Mr. McClintock, Supervisory Review Examiner.

As described in the memoranda that had been distributed, the proposed merger involved two relatively small banks located in an agricultural area in the north central part of Indiana. The applicant bank, located in Monticello, the seat of White County, was the largest bank in the County. Directors and officers of this bank, acting as individuals, had recently acquired 62 per cent of the stock of the Monon Bank, which was located in a small community about 14 miles northwest of Monticello, for the stated purpose of merging the two banks. The Monticello Bank had deposits of about \$8 million; the other bank had deposits of about \$2.7 million. Both banks were in sound condition and had adequate capital, good earnings, and satisfactory management.

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The Monon Bank was said to have only fair earnings prospects because of needed increases in salaries, but evidence indicated that such increases would not be overly burdensome. Both banks served the agricultural area between them and, were it not for the common ownership, competition would probably be regarded as moderate. The convenience and needs of the Monon area appeared to be reasonably well served at present and, since there was virtually no evidence of a significant demand for expanded services and the larger loan limit of the applicant bank, the proposed merger was regarded as offering little positive benefit in this respect.

With respect to the effect of the proposal on competition, it was recognized that there might be differences of opinion as to what constituted the relevant market area and as to the weight to be given to the percentage of deposits of the relevant market to be acquired by the applicant. The application indicated that only 4 other banks offered competition. If so, the applicant held about 33 per cent of the IPC deposits, and it would increase its share to 44 per cent if permitted to merge. The Chicago Reserve Bank, however, felt that the relevant market area was larger and would include at least three additional banks. If these were included, the applicant's present holdings of IPC deposits would be about 21 per cent, and after the merger they would be 28 per cent. In addition to the concentration of deposits of the area in the applicant bank, two directors of that bank were active

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in the management of the local building and loan association, which had more than twice the volume of loans of the applicant.

It was regarded as difficult to determine the weight that should be given to the effects of the proposal on competition, particularly in view of the size of the banks involved, the nature of the market area, and the unanimous adverse views of the other two bank supervisory agencies and the Department of Justice in their reports on competition. However, even if only moderate weight was given to the effects on competition, the banking factors were not regarded as offering sufficient offsetting benefits. There seemed to be little doubt but that the applicant would significantly improve its competitive advantage over the smaller banks in the area.

In discussing the application, Mr. Solomon noted that although relatively small banks were involved the case had difficult aspects. None of those in the Division of Examinations who had considered the case felt that it was crystal clear. If the Board should be inclined to turn down the application, it might want to consider offering an opportunity for oral presentation.

Mr. Solomon went on to discuss the question that had arisen concerning the relevant market area in light of the application and the comments of the Federal Reserve Bank of Chicago. In any event, however, he found some lack of realism in talking strongly about the degree of concentration when such small aggregates were involved as

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in this case. He also pointed out that residents of Monon presently had available a local bank and several alternative sources of banking services in nearby localities. If the merger should be consummated, the number of alternatives would of course be reduced by one. As an offset, consummation of the merger would provide a somewhat enlarged loan limit. A bank like the Monon Bank, with a loan limit of \$15,000, could hardly provide very effective service to its community; an increase in the loan limit to \$50,000 probably would add to the convenience of available services in the locality. As to the remaining banks in the area, he pointed out that they were now competing with a bank having \$8 million of deposits. After the merger they would have to compete with an \$11 million bank, but he did not see that this was going to make a great deal of difference from their standpoint. In summary, he did not find nearly as much significance in the concentration figures in a situation of this kind as in a case that involved a proposed merger of large banking institutions.

Mr. Solomon also referred to the existence of the rather large savings and loan association in Monticello. Since there were interlocking relationships between that association and the absorbing bank, one might wonder how much competition existed between them, but in a small town there were probably not too many people who could be called upon to serve a financial institution effectively. Therefore, there might be some question as to how much weight should be given to the interlocking relationships.

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Another aspect of the proposal was that about 60 per cent of the shares of the smaller bank were already owned by officers and directors of the larger bank. Reportedly, they had learned that the smaller bank was on the market and were concerned that it might fall into the hands of absentee ownership, which might not redound to the best interests of the community. It was possible, however, that the greater motivation lay in the thought that the purchasing officers and directors did not want the smaller bank to come under the ownership of parties who would afford too much competition.

It was also argued in the application that management at the smaller bank presented a problem, but Mr. Solomon did not feel that this factor added a great deal of weight to the argument for approval of the application. Management problems, he pointed out, are rather common to banks of this sort. Nearby banks probably had somewhat similar problems. It was hard to say that it was impossible for a \$3 million bank to obtain some kind of reasonably competent management.

In conclusion, Mr. Solomon repeated that even though this case might be regarded as relatively unimportant, it seemed close and posed a rather perplexing question. Some persons in the Division of Examinations were more inclined toward approval or disapproval than others; he was a little more inclined than some others toward approval. In view of the small size of the banks concerned and the fact that the banks were not in the same community, it might look rather strange, he

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thought, if the Board were to turn down the application largely on the basis of concentration. The competitive factor reports, while essentially adverse, were not strongly adverse. They did not emphasize competition between the institutions; rather they emphasized concentration.

There followed comments by Mr. Shay dealing with some of the favorable and adverse aspects of the application in light of the points that had been developed by Mr. Solomon, after which Mr. Hackley expressed himself in support of the suggestion that if the Board was disposed to consider denying the application it might want to offer the applicants an opportunity for oral argument. While this was not too important a case, it was important to the banks involved.

After some further discussion of the question of the relevant market area and of the question whether the circumstances suggested a need for oral presentation, Governor Shepardson commented on what he regarded as a rather important favorable factor. White County was reported to be basically an agricultural county engaged in cash grain farming and cattle and hog feeding. Experience showed that the credit needs of that type of agriculture tended to run into fairly sizable figures. It would not appear that a \$15,000 loan limit could take care of more than a small fraction of the loans required in that type of farming. An enlargement of credit availability would therefore appear to be of decided advantage to the Monon community. Even if the Monon

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Bank were to merge with another bank of about the same size, the lending limit of the resulting bank would hardly begin to meet the apparent needs for credit in this kind of agricultural area. Thus, Governor Shepardson felt that a rather strong case could be made for approval on the basis of community needs, even though the rather poorly prepared application might not have developed this point adequately.

Chairman Martin then presented the question whether any members of the Board felt that there was need for an oral presentation, and there were no indications to such effect.

There followed, at the instance of Governor Balderston, a discussion of the weight that should be given to the fact that the two banks had recently come under common ownership.

Governor Daane inquired, in this connection, whether it appeared that directors and officers of the Monticello Bank had gone out aggressively to purchase the stock of the Monon Bank or whether they did so because the Monon Bank was known to be on the market, and Mr. Solomon replied that apparently the latter circumstance was involved. Mr. Hackley suggested that consideration might be given to the fact that those affiliated with the Monticello Bank did not buy the stock of the Monon Bank for the purpose of eliminating substantial competition between the two institutions. The situation was somewhat different, therefore, from one in which persons associated with a bank bought up the stock of a strong competing bank.

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Chairman Martin then invited the views of the members of the Board, and Governor Mills stated that he would approve the application. As regards the purchase of stock of the Monon Bank, he noted that this was not a factor required by statute to be considered. He then presented the following statement:

In accordance with the statutory directive of the Bank Merger Act of 1960, particular attention must be paid to whether the effect of the transaction would be adverse to banking competition. However, the statute does not make the competitive factor the final criterion for a decision, but also requires consideration of other factors, including the convenience and needs of the communities to be served. In this case, the convenience and needs factor should outrank the competitive factor in deciding the application. Viewed in this precedence-of-factors rating, the application should be approved.

It is recognized that the proposed merger would produce a bank considerably larger than competing banking institutions in both trade areas described in the staff memorandum. That fact does not argue conclusively against approving the application, for various reasons. To begin with, a merged bank controlling resources of around \$11 millions is not a large institution in any sense of the word, or one out of keeping with the financial needs of a mixed agricultural and industrial area whose future growth can benefit from the advantages of a bank sizable enough to largely meet its financial requirements. It is often said that no community can thrive without commercial banking services and, by the same token, community growth depends on adequate banking services, both with respect to the size and management of a bank. Viewed in this way, the proposed merger could stimulate the growth of the communities to be served. In this connection, it is noteworthy that the competing First National Bank of Monticello, although smaller in size, is operated by capable and alert management well able to afford a competitive element in the local banking field. The smaller banks in the trade areas described largely serve the local needs of their communities and should not feel any oppressive competitive effect from the proposed merger, while at the same time they are in a position

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to offer reasonably accessible alternative banking services throughout the entire competitive area involved.

The character of the proposed merged bank's business indicates a typical country bank's division of loans, as among real estate loans, loans to farmers, instalment loans, and commercial and industrial loans. Each of these kinds of loans should be representative of borrowers requiring the services of a moderate-size bank, especially when taking into account the larger credit needs incident to expanded agricultural properties and the rising requirements of local industrial concerns. It is hard to believe that a bank controlling approximately \$11 millions of deposits would have such dominating competitive characteristics as to exert an adverse effect on the financial climate that would be contrary to the public interest. Experience has shown that where a community profits from an adequately sized commercial bank, though the particular commercial bank in question may be considerably larger than its competitors, the time will come when community growth will either redound to the competitive benefit of the smaller banks, or conceivably, the commercial banking opportunities in the community will attract investment to an entirely new competitive banking institution.

Approval of the proposed merger, in the light of the reasoning expressed, would not be perverse and contrary to the public interest, even though there would be an elimination of a competing banking unit and a sizable percentage of a trade area's financial resources would fall under the control of a single commercial bank. The over-all factor under consideration is not competition per se, but market power. The market power resulting from the proposed merger would not create a banking institution of overwhelming dominance but, instead, would strengthen the financial background of the total trade area by developing a larger financial institution endowed with sufficient resources to foster the potentials of the communities served along the lines of growth and prosperity.

All things considered, and particularly the status of the communities to be served, the application should be approved.

Governor Robertson stated that he would approve the application despite some adverse factors. One of these adverse factors was the degree

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of concentration of deposits in the hands of the resulting bank. If a similar percentage of concentration of deposits existed in a case where larger institutions were involved, it would in his opinion argue rather strongly against approval of the application. Another adverse factor was that the controlling stock of the Monon Bank had already been purchased by persons affiliated with the Monticello Bank. However, this was a case where the acquisition of stock was not for the purpose of aggressive expansion. It was for the purpose of picking up a bank that was on the market and was going to be sold to somebody. Those affiliated with the Monticello Bank apparently felt that they could take advantage of the situation and also provide better banking services. The presentation contained in the application was admittedly poor, but as Governor Robertson saw it this was a situation where the public needs and convenience could be better met if the proposed merger were consummated. There was enough evidence of prospective added convenience to the public, especially in view of the size of the community concerned, to warrant approval.

Governor Shepardson stated that he would approve for the reasons that he had expressed earlier.

Governor Daane said that despite the adverse factors he felt that on balance the merger would be in the public interest. Therefore, he would approve.

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Governor Balderston said that the argument presented by Governor Shepardson had been convincing to him. He noted also that the loan-deposit ratio of the Monon Bank was only 35 per cent. In his opinion the favorable considerations found in the banking factors outweighed the adverse elements of the competitive factor. Therefore, he would approve the application.

Chairman Martin stated that he also would approve.

Accordingly, the application was approved unanimously, with the understanding that an order and statement reflecting this decision would be drafted for the Board's consideration.

Messrs. Egertson and White then withdrew from the meeting.

Report on S. 2937 (Item No. 10). There had been distributed a memorandum from the Legal Division dated July 7, 1964, concerning a request from Chairman Robertson of the Senate Banking and Currency Committee for a report by the Board on S. 2937, a bill to authorize checks to be drawn in favor of certain organizations for the credit of a person's account, under certain conditions. The purpose of the bill, which had been introduced by Chairman Robertson at the request of the Department of the Air Force, was to permit Government agencies to draw checks in favor of banking organizations for the credit of a person's account. The disbursing officer of a Government agency would be able to draw a single check in favor of a bank for the total amount of compensation due to employees of the agency who had designated such bank

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as their depository. The disbursing officer would transmit the check to the bank and identify the amount to be credited to each employee's account. Such a system had been used by the Air Force for some years, but it was questioned by the U. S. Comptroller General, who sanctioned continuation of the practice only on condition that authorizing legislation be requested.

The memorandum concluded that the bill would not apply to the Board. It was noted that the Board had authority under section 10 of the Federal Reserve Act to draw checks in the manner generally authorized by the bill.

A draft of proposed reply to Chairman Robertson, which was submitted with the memorandum, would refer to the Board's authority under section 10 of the Act. It would go on to state that the Board would have no objection to the bill, the purpose of which appeared to be to promote economy and efficiency in administration of the affairs of Government agencies.

Mr. Cardon suggested changes in the reply to eliminate reference to the Board's authority under the law and to include reference to the possible effect of the bill in reducing check-handling costs of the Federal Reserve Banks.

Some question was raised by members of the Board as to whether the saving in check-handling costs at the Reserve Banks as a result of adoption by Government agencies of the procedures authorized by the bill

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would be likely to be particularly significant. At the conclusion of the discussion, however, unanimous approval was given to a letter to Chairman Robertson in the form attached as Item No. 10.

Secretary's Note: A similar letter was sent on July 10, 1964, to Chairman Dawson of the House Committee on Government Operations in reply to his request for a report on the companion bill H. R. 11911.

Messrs. Kakalec, Bass, and Young then withdrew from the meeting.

Later during the meeting Governor Daane noted that the Board had not specifically discussed the question raised in a memorandum from the Board's Controller dated July 6, 1964, attached to the Legal Division's memorandum, concerning whether the Air Force procedure should be considered for use by the Board. The Controller had expressed the view that from the Board's standpoint there would not be a sufficient advantage to warrant a change in the present procedure of issuing checks to individual employees. Governor Daane expressed the view, however, that a procedure for depositing funds payable to employees at banks designated by them might be of considerable advantage to such employees.

Bonus for coin deposited in savings account (Item No. 11). A memorandum from the Legal Division dated July 6, 1964, which had been distributed, related that the Federal Reserve Bank of Philadelphia had been informed that a national bank in Cape May, New Jersey, was advertising that, due to the coin shortage, it would credit a depositor's savings account with \$1.00 for each 98 cents in coin deposited from

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June 8 through June 19, 1964. This credit would be in addition to the 3-1/2 per cent interest paid by the bank on savings deposits. The advertisement had been protested by another national bank.

The Legal Division felt that, absent the coin shortage factor, it would be difficult to escape the conclusion that the bonus should be regarded as compensation for the use of funds constituting a deposit, and therefore a payment of interest. However, the answer was not free from doubt. The coin shortage could be considered the primary purpose of the offer, and the attraction of deposits as incidental.

Attached to the memorandum were drafts of alternative paragraphs that might be included in a reply to the Philadelphia Reserve Bank. The alternative paragraphs took opposite positions on whether the payment of the bonus represented the payment of interest on deposits.

Subject to a modification of language suggested by Governor Robertson, the alternative expressing the view that the payment of the bonus did not constitute a payment of interest was favored by the Board. Accordingly, unanimous approval was given to a letter to the Federal Reserve Bank of Philadelphia in the form attached as Item No. 11. It was felt by the Board that the issuance of a public interpretation based on the conclusion expressed in the letter would not be warranted, and similarly that copies of the letter to the Philadelphia Reserve Bank need not be sent to the other Reserve Banks.

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Request for competitive factor reports. Mr. Solomon reported that when representatives of Camden Trust Company, Camden, New Jersey, met with him and Governor Balderston yesterday to discuss the Board's denial by order dated June 26, 1964, of the bank's application to merge with Merchantville National Bank and Trust Company, Merchantville, New Jersey, inquiry was made as to whether the trust company could be furnished copies of the competitive factor reports received by the Board concerning the application. A request also was made to see a copy of the Board's report to the Comptroller of the Currency on the competitive factors involved in the application of First Camden National Bank and Trust Company, Camden, New Jersey, to merge with Cherry Hill National Bank, Cherry Hill Township, New Jersey, which application was approved by the Comptroller.

Compliance with the bank's requests was authorized, subject to any appropriate clearance with the other Government agencies concerned.

The meeting then adjourned.

Secretary's Notes: On July 7, 1964, Governor Shepardson approved on behalf of the Board the recommendation contained in a memorandum from Mr. Daniels, Assistant Director of the Division of Bank Operations, dated July 6, 1964, that Daniel E. Lucas of that Division be designated as principal witness in connection with the mutilation of facsimile signature plates used by officers of the Federal Reserve Banks in signing checks drawn by the Banks as fiscal agents of the United States and that Dorothy Werner continue to serve as alternate witness.

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On July 8, 1964, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 12) approving the appointment of eight employees as assistant examiners.

Memoranda recommending the following actions relating to the Board's staff:

Appointment

William E. Pegram as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,305, effective the date of entrance upon duty.

Transfers

The following persons from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division indicated, with no change in their respective salaries at the rate of \$3,880 per annum, effective July 8, 1964:

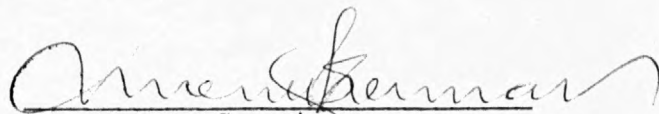
Jacqueline L. Gilmore	Legal Division
Joyce A. Matile	Legal Division
Bernice Bell	Division of Examinations
Millicent R. Hudnall	Division of Examinations

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

Letter to the Federal Reserve Bank of Dallas (attached Item No. 13) approving the designation of four employees as special assistant examiners.

Memoranda recommending the transfer of the following persons from the position of Clerk-Stenographer in the Division of Personnel Administration to the positions indicated, with no change in their respective salaries at the rate of \$3,880 per annum, effective July 9, 1964:

Constance J. Comella, Stenographer,
Division of Examinations
Colleen Lindsay, Clerk-Stenographer,
Division of Bank Operations


Secretary

Item No. 1
7/9/64BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964



Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Chase Manhattan Bank, New York, New York, of a branch at 2771 Nostrand Avenue, Borough of Brooklyn, Kings County, New York, 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

Item No. 2

7/9/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964

Board of Directors,
Bourbon-Agricultural Bank &
Trust Company,
Paris, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bourbon-Agricultural Bank & Trust Company, Paris, Kentucky, of a branch on Lexington Road near the southwestern corporate limits of Paris, Kentucky, 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

Item No. 3
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964

Board of Directors,
The Bank of Albion,
Albion, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Bank of Albion, Albion, Michigan, of a branch between 12754 and 12822 28 Mile Road, Sheridan Township, Calhoun County, Michigan, provided the branch is established within six months from the date of this letter.

Mr. Leland Ross, Vice President, Federal Reserve Bank of Chicago, has forwarded to the Board of Governors a copy of a letter dated June 8, 1964, from Mr. Charles N. Lentz, President, The Bank of Albion, in response to Mr. Ross's letter of May 27, 1964, regarding your bank's need for additional capital. While the capital structure of your bank is not satisfactory, this branch is being approved in view of the convenience to be provided for customers and Mr. Lentz's statement that consideration will be given to adopting appropriate measures to augment the capital funds of the bank if capital ratios do not improve between now and December 31, 1964, or between now and after six months of branch operation. The Board wishes to stress the need for strengthening capital structure of the bank as rapidly as possible.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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. 4
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964

Board of Directors,
Mason State Bank,
Mason, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Mason State Bank, Mason, Michigan, of an in-town branch on the west side of Cedar Street, about one block north of Curtis Street, 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 25, D. C.

2402

Item No. 5
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964.

Board of Directors,
Genesee Merchants Bank & Trust Co.,
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Genesee Merchants Bank & Trust Co., Flint, Michigan, of a branch near the intersection of Dort Highway and Atherton Road in Flint, 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 prescribe 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. 6
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964



Board of Directors,
Genesee Merchants Bank & Trust Co.
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Genesee Merchants Bank & Trust Co., Flint, Michigan, of a branch at 807 Welch Boulevard in Flint, 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 25, D. C.

2404

Item No. 7
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964.

Board of Directors,
The Pleasants County Bank,
St. Marys, West Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System has received a copy of a letter from Mr. W. A. Patton, Executive Vice President of The Pleasants County Bank regarding two dividends totaling \$6,000 which were declared and paid in 1963. The declarations of such dividends were in contravention of the provisions of paragraph 6, Section 9, of the Federal Reserve Act and section 5199(b), United States Revised Statutes, as you were previously informed by the Federal Reserve Bank of Richmond.

The statutes contemplate that prior approval by the Board will be obtained before the declaration of dividends which would exceed the limitations of section 5199(b), but prior approval cannot be given for dividends which have already been declared and paid. After consideration of the facts, however, the Board does not object to the dividends declared and paid in 1963.

It is noted that net retained earnings for 1962 and 1963 resulted in a minus figure of \$16,000 (plus \$8,000 in 1962 and minus \$24,000 in 1963). Therefore, net profits for 1964 must exceed \$16,000 before any cash dividend may be paid without the prior approval of the Board of Governors.

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. 8

7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 9, 1964.

Board of Directors,
Lincoln National Bank,
Philadelphia, Pennsylvania.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Lincoln National Bank to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

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.

2406

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

Item No. 9
7/9/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964.

Board of Directors,
Peoples Trust & Savings Bank,
Green Bay, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 28, 1964, the time within which Peoples Trust & Savings Bank, Green Bay, Wisconsin, may withdraw from membership in the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
7/9/64

OFFICE OF THE CHAIRMAN

July 10, 1964.

The Honorable A. Willis Robertson, Chairman,
Senate Banking and Currency Committee,
U. S. Senate,
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your request of June 24, 1964, for a report on the bill, S. 2937, "To authorize checks to be drawn in favor of certain organizations for the credit of a person's account, under certain conditions." It is understood that the bill was introduced at the request of the Department of the Air Force and that its purpose is to permit Government agencies to draw a single check in favor of banking organizations for the credit of the accounts of persons who regularly receive Government checks.

The Board recommends favorable consideration of the bill. It gives promise of promoting economy and efficiency of operations, at least in the case of the larger Government departments and agencies. In addition, to the extent that they elect to utilize this authority, it will reduce the number of checks presented to the Federal Reserve Banks for collection, thereby possibly cutting operating costs of the Reserve Banks.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 11
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964.



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

Dear Mr. Campbell:

This refers to your letter of June 11, 1964, with respect to the offer by a national bank of a bonus of 2 cents for each 98 cents in coin deposited in a savings account.

Banks in many areas have been buying coins, because of the current shortage, and this practice does not appear to be prohibited by any provision of Federal law. The offer to buy only from savings depositors, by crediting a bonus equal to a definite percentage of the amount deposited, presents the further question whether the bank is, in fact, paying interest at a greater rate than is permitted by Regulation Q when such depositors will also receive interest at the maximum rate of 3-1/2 per cent on the deposits. However, the Board has concluded that, as long as the coin shortage continues, and the bonus is of nominal amount, this offer should be viewed more as a method of acquiring needed coin than as compensation for the use of funds constituting a deposit, and therefore is not the payment of interest on a deposit.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
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WASHINGTON, D. C. 20551

Item No. 12
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 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 Mr. Bilby's letter of July 1, 1964, the Board approves the appointment of the following employees as assistant examiners for the Federal Reserve Bank of New York:

Bruce D. Brereton
James B. Crawford
Jerome P. Foley
Bruce E. Leinster

James C. McKenna
Corbett J. Monica
David W. Parmelee
Robert F. Rose

Please advise the effective dates of the appointments.

It is noted that Mr. McKenna is indebted to The St. Lawrence County National Bank, Canton, New York. Accordingly, the Board's approval of Mr. McKenna's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated. It is noted also that Mr. McKenna owns 16 shares of common stock of The National Bank of Northern New York, Watertown, New York, which he will sell prior to his employment by your Bank.

Very truly yours,

Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 13
7/9/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1964.

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained in your letter of July 2, 1964, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Dallas for the purpose of participating in examinations of Southern Arizona Bank & Trust Company, Tucson, Arizona:

James T. Johnson
Frank R. Litton

James O. Broyles
Richard W. Hampton

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

