

Minutes for May 21, 1965.

To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin

W

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SS

Gov. Mitchell

Gov. Daane

Gov. Maisel

DM

Minutes of the Board of Governors of the Federal Reserve System
on Friday, May 21, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Daane
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices
Mr. Furth, Consultant

Messrs. Brill, Holland, Koch, Partee, Williams,
Axilrod, Ettin, Gramley, and Keir of the
Division of Research and Statistics

Messrs. Hersey, Katz, Sammons, Reynolds, and Baker
of the Division of International Finance

Mr. Geng, Manager, Securities Department, Federal
Reserve Bank of New York

Economic and money market review. Mr. Williams reviewed recent trends in various sectors of the domestic economy. Messrs. Ettin and Axilrod then summarized banking and money market developments, relating portions of their remarks to (1) distributed tables affording perspective on the money market and bank reserve utilization and (2) charts showing movements in the level of time and savings deposits in relation to various other financial factors since 1953. Mr. Baker concluded the review with a report on foreign exchange market developments and related matters.

Mr. Geng, Mr. Furth, and all members of the Board's staff who had been present except Messrs. Sherman, Kenyon, Molony, Sammons, and Spencer then withdrew from the meeting and the following entered the room:

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Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Shay, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Miss Hart and Mr. Young, Senior Attorneys, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations
 Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on May 20, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

Item No.

Letter to United California Bank, Los Angeles, California, approving the establishment of a branch at 609 South Grand Avenue in connection with the acquisition of assets and mortgage servicing contracts of Insurance Funds Mortgage Company. 1

Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, granting consent to purchase shares of a nominee corporation to be organized under the laws of Singapore, Malaysia. 2

Report on competitive factors (Albany-Schenectady, New York).

Unanimous approval was given to the transmittal of a report to the Comptroller of the Currency on the competitive factors involved in the proposed

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merger of The Citizens' Trust Company of Schenectady, N. Y., Schenectady, New York, into National Commercial Bank and Trust Company, Albany, New York. The conclusion read as follows:

The proposed merger of The Citizens' Trust Company of Schenectady into National Commercial Bank and Trust Company, Albany, would eliminate the competition existing between the two banks, and would further strengthen the dominant position of National Commercial Bank and Trust Company in the Albany-Schenectady area. The effect of the proposal on competition would be adverse.

Proposed amendment of National Housing Act (Item No. 3). There had been distributed a memorandum from the Legal Division dated May 19, 1965, with regard to a request from the Bureau of the Budget for the Board's views on a revised draft of bill submitted by the Federal Home Loan Bank Board "to amend section 408 of the National Housing Act, as amended, to provide for the regulation of savings and loan holding companies and subsidiary companies."

The memorandum noted that the Board had reported to the Budget Bureau on an earlier draft of the same bill, indicating in a letter of August 17, 1964, that while certain aspects of the draft might merit further study, the Board favored enactment of the proposed legislation. Since the present bill, which would provide for regulation of existing holding companies of savings and loan associations and continue a "freeze" first imposed in 1959, differed only in minor respects from the earlier proposal, it was recommended that a letter phrased in generally favorable terms be sent in response to the Budget Bureau's request. A draft of such a letter was attached to the memorandum.

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Following summarization by Miss Hart of the information presented in the May 19 memorandum, approval was given to the transmittal of the letter, Governor Maisel abstaining. A copy of the letter is attached as Item No. 3.

Application of Bank of Wood County Company (Items 4 and 5).

Pursuant to the decision at the meeting on May 17, 1965, there had been distributed drafts of an order and a statement reflecting the Board's approval of the application of The Bank of Wood County Company, Bowling Green, Ohio, to merge with The First National Bank of North Baltimore, North Baltimore, Ohio.

The issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 4 and 5.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

William S. Davis as Economist, Division of Research and Statistics, on a temporary basis from about June 15 to September 15, 1965, with basic annual salary at the rate of \$9,830.

Bernard Shull as Senior Economist, Division of Research and Statistics, with basic annual salary at the rate of \$18,740, effective the date of entrance upon duty.

Patricia Louise Fike as Operator (Tabulating Equipment), Division of Data Processing, with basic annual salary at the rate of \$4,480, effective the date of entrance upon duty.

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Salary increases, effective May 23, 1965

Lynda Fein, Clerk-Typist, Division of Research and Statistics, from \$3,680 to \$4,005 per annum.

William N. Huff, Economist, Division of Research and Statistics, from \$7,465 to \$7,710 per annum.

Mary Janice Krummack, Economist, Division of Research and Statistics, from \$8,650 to \$8,945 per annum.

Kathryn E. Ridgway, Statistical Clerk, Division of Research and Statistics, from \$5,530 to \$5,680 per annum.

Dorothy M. Vereb, Statistical Clerk, Division of Bank Operations, from \$4,630 to \$4,780 per annum.

Frank P. Herigstad, Assistant Federal Reserve Examiner, Division of Examinations, from \$6,250 to \$6,450 per annum.

Allen E. Simmons, Mail Clerk, Division of Administrative Services, from \$3,680 to \$3,805 per annum.

Charlie H. Ward, Laborer, Division of Administrative Services, from \$4,420 to \$4,514 per annum, with a change in title to Lead Laborer.

Robert M. Steinberg, Economist, Division of Data Processing, from \$10,960 to \$11,315 per annum.

Transfers

Dorothy L. Saunders, from the position of Assistant Supervisor to the position of Supervisor, Stenographic Section, Office of the Secretary, with no change in basic annual salary at the rate of \$6,245, effective May 23, 1965.

Virginia M. Spivey, from the position of Secretary to the position of Assistant Supervisor, Stenographic Section, Office of the Secretary, with no change in basic annual salary at the rate of \$5,330, effective May 23, 1965.



Secretary

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Item No. 1
5/21/65

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1965



Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch at 609 South Grand Avenue, Los Angeles, California, in connection with the acquisition of assets and mortgage servicing contracts of Insurance Funds Mortgage Company, 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.)

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

Item No. 2
5/21/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1965.

Chase Manhattan Overseas Banking Corporation,
1 Chase Manhattan Plaza,
New York 5, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of May 7, 1965, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the purchase by your Corporation of all the shares of a nominee corporation to be organized under the laws of Singapore, Malaysia, at a cost of approximately US\$326.

It is understood that the nominee corporation is to be organized and maintained solely for the purpose of acting as nominee for the registration of securities acquired or held by the Singapore branch of The Chase Manhattan Bank for the account of its customers; that all shares of the nominee corporation are to be owned by your Corporation, except such shares as may be held by individuals in order to meet Singapore legal requirements as to number of shareholders and as to qualifying shares for directors, and all such shares would be held in trust for or assigned to your Corporation under appropriate instruments of transfer; and that it is anticipated that the authorized capital of the nominee corporation would not exceed Malaysian \$1,000 (equivalent to approximately US\$326) and that the paid-in capital would not exceed Malaysian \$100 (equivalent to approximately US\$33).

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 3
5/21/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 21, 1965.



Mr. Phillip S. Hughes, Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D C. 20503

Dear Mr. Hughes:

This is in response to your communication of May 14, 1965, requesting the Board's views on a fresh draft of a bill prepared by the Federal Home Loan Bank Board ("FHLBB") "to amend section 408 of the National Housing Act, as amended, to provide for the regulation of savings and loan holding companies and subsidiary companies."

In its letter of August 17, 1964, the Board reported to the Bureau of the Budget on an earlier draft of the same bill that, while certain aspects of the draft might merit further study, "the Board in general favors enactment of legislation to provide for supervision and regulation of existing holding companies of savings and loan companies and believes the proposed legislation would be helpful in continuing to preserve the local community character of savings and loan associations." Since the present draft differs only in minor respects from the earlier one, most of the Board's comments, including this conclusion, would continue to apply to the bill before it.

Two additional comments may be pertinent. As the Board understands the scheme of the proposed legislation, an organization which is a holding company under such a statute would be forbidden to acquire more than five per cent of the shares in any company, unless that company restricted its business activities to those permitted a "subsidiary" under subsection 2(c). However, a company would not actually be a "subsidiary", under subsection 2(a)(2)(B) unless at least one of four tests were met, (1) 25 per cent of its shares were controlled, (2) the election or appointment of a majority of its directors or trustees were controlled, (3) the controlling person or company was a general partner in the subsidiary, or (4) the controlling person or company had contributed more than 25 per cent of the capital of the subsidiary.

Unless a company is a subsidiary, so defined, of a holding company, certain activities, such as "upstream lending" are not forbidden it, and the FHLBB has no authority, under subsection (d)(6) to approve

Mr. Phillip S. Hughes

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or disapprove certain types of agreement between the company and a controlled savings and loan association, although these agreements are of a kind which the FHLBB clearly considers might be detrimental to such an association. Since a holding company could have effective control of another company without meeting any of the four tests specified, there appears to be a danger that some of the abuses against which the draft bill is directed might occur without violating the statute.

An additional test of control, "exercises a controlling influence over the management or policies of such other company", which would have afforded an instrument for meeting this problem, appeared in the draft bill submitted to the Board last year, but has been dropped from the present bill. It appears to the Board that some language of this kind might helpfully be reinserted in the new draft.

A second, relatively minor comment relates to a possible ambiguity in subsection (4)(1)(A) of the draft bill, which forbids a holding company "To acquire the control of an insured or uninsured institution or to retain the control of such institution". While it is understood that this language is designed only to forbid a holding company to retain control of an institution that has been acquired in violation of the subsection, the words could be read, literally, to require all holding companies to divest control of all institutions, whenever acquired. To meet this difficulty, the words "acquired in violation of this subsection" might be inserted after "control of such institution".

In summary, the Board continues to be of the view expressed in its letter of August 20, 1959, to the Chairman of the Committee on Banking and Currency of the Senate, that having "endorsed proposals that led to the enactment in 1956 of legislation to regulate holding companies of commercial banks" it would in principle "favor similar legislation with respect to holding companies of savings and loan associations if in the judgment of Congress such companies have developed to such an extent as to justify regulation."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
THE BANK OF WOOD COUNTY COMPANY
for approval of merger with
The First National Bank of North Baltimore

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by The Bank of Wood County Company, Bowling Green, Ohio, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The First National Bank of North Baltimore, North Baltimore, Ohio, under the charter and title of The Bank of Wood County Company. As an incident to the merger, the sole office of The First National Bank of North Baltimore would become a branch of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

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and the Attorney General on the competitive factors involved in the proposed merger,

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

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

Dated at Washington, D. C., this 21st day of May, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Balderston, Robertson, and Maisel.

Absent and not voting: Governors Shepardson,
Mitchell, and Daane.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 5
5/21/65

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION OF THE BANK OF WOOD COUNTY COMPANY
FOR APPROVAL OF MERGER WITH
THE FIRST NATIONAL BANK OF NORTH BALTIMORE

STATEMENT

The Bank of Wood County Company, Bowling Green, Ohio ("Bank of Wood County"), with total deposits of \$23.4 million, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and The First National Bank of North Baltimore, North Baltimore, Ohio ("First National"), which has total deposits of \$4.5 million.^{1/} The banks would merge under the charter and title of Bank of Wood County, which is a State member bank of the Federal Reserve System. As an incident to the merger, the sole office of First National would become a branch of Bank of Wood County, increasing the number of its offices from three to four.

Under the law, the Board is required to consider, as to each of the bank's 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

^{1/} The deposit figures are as of December 31, 1964.

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 of these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial histories of Bank of Wood County and First National are satisfactory and each bank has a sound asset condition. Each bank also has a satisfactory earnings record and favorable future earnings prospects. Management of both banks is satisfactory. First National's capital position is adequate. Consummation of the transaction would bring needed improvement in the capital position of Bank of Wood County, and the resulting bank would have capable management, a sound asset condition, and good 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. - Bowling Green, Ohio, with a 1960 population of about 14,000, is the seat of Wood County and is located in the northwestern section of the State, approximately 20 miles south of downtown Toledo, 27 miles northwest of Fostoria, and 26 miles north of Findlay, the closest sizable cities. The economy of Bowling Green is supported by both diversified industry and agriculture.

North Baltimore, with a 1960 population of about 3,000, is located in the south-central portion of Wood County, 14 miles south of

Bowling Green, 12 miles north of Findlay, and 13 miles west of Fostoria. Its economy is supported primarily by agriculture.

Grain farming and livestock feeding are the basic agricultural activities in Wood County. The expansion of these activities in recent years is evidenced by a marked increase in the size of farms as well as the number of livestock of individual feeders. These operations require more credit than can be supplied by small rural banks. First National has not been able to accommodate several of its customers in recent years (including 10 farm customers) due to the bank's low lending limit. The merger would result in a bank with greater resources which could better serve the banking needs and convenience of Wood County, particularly in the North Baltimore area.

Competition. - The service area^{2/} of Bank of Wood County does not overlap that of First National and there appears to be only slight competition between the two banks, due in part to the fact that a bank with deposits of about \$12 million is located midway between North Baltimore and Bowling Green.

The service area of the resulting bank would be a largely rural area extending from Toledo, with a population of over 318,000, south approximately to Findlay, with a population of 30,000. The resulting bank through its office in North Baltimore would compete more directly and effectively with two Findlay banks and two Fostoria banks, all of which have deposits ranging from \$12 to \$41 million. It is not expected that the proposed merger would adversely affect the present

^{2/} The area from which a bank obtains 75 per cent or more of its deposits of individuals, partnerships, and corporations.

competitors of Bank of Wood County or a small bank in North Baltimore that presently competes with First National. Numerous alternate sources of banking services would remain available in Wood County.

Summary. - No significant competition would be eliminated by the proposed merger, while banking competition in the North Baltimore area should be stimulated without any adverse effect on other banks. Bank customers in the North Baltimore area would have ready access to a bank with sufficient resources to supply much of the credit required by an expanding agricultural economy.

Accordingly, the Board finds that the proposed merger would be in the public interest.

May 21, 1965.