

Minutes for September 3, 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

Gov. Robertson


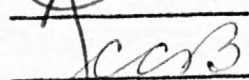
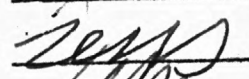

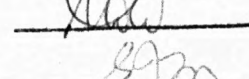
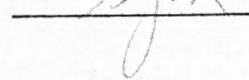
Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Minutes of the Board of Governors of the Federal Reserve System on Friday, September 3, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, 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
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Furth, Consultant
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices

Messrs. Brill, Holland, Koch, Solomon, Axilrod,
Eckert, and Keir of the Division of Research
and Statistics

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

Money market review. Mr. Axilrod presented for the Board a review of developments in the Government securities market, following which Mr. Baker summarized foreign exchange market developments. For purposes of today's review, there were distributed tables affording perspective on money market developments and on bank reserve utilization.

Members of the staff except Messrs. Kenyon, Young, Fauver, Sammons, and Goodman then withdrew and the following entered the room:

Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations

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Mr. Irvine, Associate Adviser, Division of International Finance
 Miss Hart, Senior Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations
 Mr. Lyon, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on September 1 and by the Federal Reserve Banks of New York, Philadelphia, St. Louis, and San Francisco on September 2, 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.

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 Chemical Bank New York Trust Company, New York, New York, approving the establishment of a branch at Third Avenue and East 28th Street, Borough of Manhattan, and commenting on the bank's capital position; letter to the Federal Reserve Bank of New York on these matters.	1-2
Letter to United Bank & Trust Company, Hartford, Connecticut, approving an extension of time to establish a branch in Bristol.	3
Letter to The Bank of Romney, Romney, West Virginia, approving an investment in bank premises.	4
Letter to the Federal Reserve Bank of Atlanta waiving the assessment of a penalty incurred by National Bank of Melbourne and Trust Company, Melbourne, Florida, because of a reserve deficiency.	5
Letter to Irving International Financing Corporation, New York, New York, granting permission to purchase shares of China Trade & Development Corporation Ltd., Taipei, Taiwan.	6

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	<u>Item No.</u>
Letter to Bank of California International Corporation, San Francisco, California, granting permission to purchase shares of China Trade & Development Corporation Ltd.	7
Letter to the Federal Reserve Bank of San Francisco stating that republication of the midyear report of condition of J. N. Ireland and Co. Bankers, Malad City, Idaho, would not be required.	8
Letter to the Federal Reserve Bank of Minneapolis approving the payment of salaries to two officers at rates fixed by the Bank's Board of Directors.	9

Report on competitive factors (Altoona-Bellefonte, Pennsylvania).

After agreement had been reached on a minor change in the draft conclusion, unanimous approval was given to the transmittal to the Federal Deposit Insurance Corporation of a report containing the following conclusion on the competitive factors involved in the proposed merger of Altoona Central Bank and Trust Company, Altoona, Pennsylvania, with First Bellefonte Bank and Trust Company, Bellefonte, Pennsylvania:

Consummation of the proposed merger of Altoona Central Bank and Trust Company and First Bellefonte Bank and Trust Company would eliminate the little, if any, existing competition between them; it would expose the banks presently operating in the service area of First Bellefonte Bank and Trust Company to the competitive capabilities of a substantially larger institution.

The proposed transaction would unite the largest bank in Blair County with the second largest bank in Centre County, and the resulting institution would hold almost 40 per cent of the total deposits held by banks in its service area. The overall effect of the proposed merger on competition would appear to be adverse.

Application of New Jersey Bank and Trust Company (Items 10-12).

After discussion, the issuance was authorized of the following documents

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reflecting Board approval on August 27, 1965, of the application of New Jersey Bank and Trust Company, Clifton, New Jersey, to merge into itself Wayne State Bank, Wayne, New Jersey: order, statement, and dissenting statement of Governor Maisel in which Governor Robertson concurred. Copies of the documents, as issued, are attached as Items 10, 11, and 12, respectively.

Gold loans (Items 13 and 14). There had been distributed memoranda from Mr. Young dated September 2, 1965, relating to proposed gold collateral loans to the Bank of Guatemala and the Central Bank of Costa Rica. These loans had been authorized by the Board of Directors of the Federal Reserve Bank of New York subject to approval by the Board of Governors.

The Bank of Guatemala had requested a loan or loans of \$10 million. As authorized by the New York Bank, such loan or loans:

- (1) would be made up to 98 per cent of the value of gold bars set aside in the vaults of the New York Bank under pledge to it;
- (2) would mature in three months with option to repay at any time before maturity, the advances to be made in multiples of \$1 million and the repayments in multiples of \$1 million;
- (3) would bear interest at the discount rate of the New York Bank in effect on the date on which such loan or loans were made; and
- (4) could be requested and made at any time during a period of 30 days beginning with the date of Bank of Guatemala's acceptance of the New York Bank's terms and conditions. The usual participation in any such loan or loans would be offered to the other Federal Reserve Banks.

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The Central Bank of Costa Rica had requested a loan or loans of \$2 million. As authorized by the New York Bank, such loan or loans: (1) would be made up to 98 per cent of the value of gold bars set aside in the vaults of the New York Bank under pledge to it; (2) would mature in three months with option to repay at any time before maturity, the advances to be made in multiples of \$500,000 and the repayments in multiples of \$100,000; (3) would bear interest at the discount rate of the New York Bank in effect on the date on which such loan or loans were made; and (4) could be requested and made at any time during a period of 30 days beginning with the date of the Central Bank of Costa Rica's acceptance of the New York Bank's terms and conditions. The usual participation in any such loan or loans would be offered to the other Federal Reserve Banks.

After discussion of the circumstances giving rise to the loan requests, unanimous approval was given to telegrams to the Federal Reserve Bank of New York stating that the Board approved the making of the requested loans on the terms and conditions indicated. Copies of the telegrams are attached as Items 13 and 14, respectively.

Question whether to hold hearings. There had been distributed memoranda from Mr. O'Connell dated August 27 and 31, 1965, relating to the question whether hearings should be ordered on the following bank holding company applications: (1) application of Associated Bancorporation, Milwaukee, Wisconsin, to form a bank holding company through the acquisition

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of at least 80 per cent of the voting shares of the Milwaukee Western Bank, Milwaukee, and the Menomonee Falls Bank, Menomonee Falls; and (2) application of Denver U. S. Bancorporation, Inc., Denver, Colorado, for approval of the acquisition of 50 per cent or more of the voting shares of The Mercantile Bank and Trust Company, Boulder.

In the Wisconsin matter, the Commissioner of Banks at first recommended denial of the application, which would have made a hearing mandatory. Later, however, after conversation with representatives of the applicant, the Commissioner withdrew his earlier recommendation and advised that he saw no need for a public hearing on the application. No other indications of opposition to the application had been received. However, the Federal Reserve Bank of Chicago recommended denial of the application, being critical of the asset condition of the larger of the two proposed subsidiary banks and of the management policies in both proposed subsidiary banks. (Such management was the same as proposed for the applicant.)

Mr. O'Connell suggested that the Board authorize the staff to proceed with its analysis of the application for presentation of the case to the Board in the usual manner.

In the Colorado matter, the State Bank Commissioner had recommended on behalf of the State Banking Board that the application be denied, and a hearing thereon in Denver was requested. The Commissioner's letter was

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not received within the 30-day period specified in the statute, so that from a legal standpoint a hearing was discretionary rather than mandatory. Letters of opposition from certain other Colorado banks also had been received. It was the Legal Division's view that the holding of a hearing would be consistent with the Board's regulatory responsibilities under the Bank Holding Company Act and that the hearing would serve the declared interest of the State and also the public interest.

Mr. O'Connell's memorandum proposed that the hearing, if ordered, be conducted by Hearing Examiner David London, who had been detailed to the Board by the Civil Service Commission for a period of six months on a when-actually-employed basis. The date presently contemplated was October 19, chosen to accede to applicant's request as to a hearing date. Messrs. O'Connell and Heyde of the Legal Division would act as Board Counsel.

Governor Robertson began discussion of the Wisconsin application by stating that he looked askance at a situation where a State bank commissioner recommended denial and then reversed his recommendation after consultation with representatives of the applicant. He noted, however, that Mr. O'Connell proposed, if a hearing was not ordered, to request from counsel for applicant a statement of the additional information furnished to the Commissioner of Banks that the latter apparently had found persuasive.

Chairman Martin raised the question whether hearings should not be held in this kind of situation, particularly considering the public

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relations aspect. He inquired whether a decision to hold a hearing in this instance would create any problem from the standpoint of precedent, and Mr. O'Connell replied that a number of hearings had been ordered on applications under the Bank Holding Company Act in situations where they were not mandatory.

Governor Daane expressed the view that a hearing should be held, noting that one would have been required by law if the Commissioner had not reversed his position.

Governor Shepardson observed that the fact that representatives of the applicant had gone to the Commissioner and persuaded him to change his position apparently was not public information. However, knowledge of the circumstances could in some way become public, and this might be an additional argument for holding a hearing. He also referred to the fact that the Federal Reserve Bank of Chicago had recommended denial of the application, and Mr. O'Connell mentioned that this presented something of a delicate situation because the Reserve Bank's recommendation was based on criticism of the asset condition of one of the banks concerned as well as management policies in both banks. If a hearing were held, the Board would have to reach a decision on the application on the basis of the hearing record, which meant that evidence on the financial condition and management policy aspects would have to be adduced at the hearing. The Board, he noted, conceivably might reach a different conclusion from the Reserve Bank on these aspects.

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After further discussion Chairman Martin reiterated his view that there were enough complications in this matter to justify a hearing, and Governor Robertson said he would resolve his doubts in favor of a hearing.

Accordingly, it was agreed unanimously to order a hearing on the application of Associated Bancorporation.

A hearing then was ordered on the application of Denver U. S. Bancorporation, and it was understood that arrangements would be made along the lines suggested in Mr. O'Connell's memorandum.

As to the Wisconsin hearing, Mr. O'Connell was authorized to go forward with the necessary hearing arrangements on a basis that would avoid conflict with the Denver hearing.

In his memorandum on the Wisconsin application, Mr. O'Connell had suggested that the Board might wish to authorize the staff to proceed in the future on the assumption that the Board would not be required to conduct a hearing in any case where, prior to publication of notice for a hearing, a supervisory authority withdrew previously-filed objections, with the understanding that the staff would bring before the Board any case where it appeared that the Board might wish on its own motion to conduct a hearing. This suggestion was not approved, and it was understood that the staff would continue to bring before the Board in such circumstances the question whether a hearing should be held.

Apparent Regulation U violation. An interested party had brought to the attention of the Securities and Exchange Commission certain

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information suggesting a violation of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, that had been noted in a proxy statement recently filed by an organization known as Precisionware, Inc. The Commission had referred the correspondence to the Board. The Board's staff was subsequently in touch with staff of the Federal Reserve Bank of Boston, and through the latter the incident was discussed with the bank involved, namely, The First National Bank of Boston, Boston, Massachusetts. In summary, it appeared that the bank had advanced about \$1.9 million to an organization known as The Triangle Corporation for the purchase of 372,206 shares of common stock of Precisionware, Inc., which stock was registered on a national securities exchange. The amount loaned was far in excess of 30 per cent of the market value of the pledged stock, and it appeared that the loan was made in violation of sections 221.1(a), 221.3(n)(1), and 221.3(n)(3) of Regulation U.

There were distributed at this meeting copies of a proposed letter that might be sent promptly by the Federal Reserve Bank of Boston to First National Bank of Boston requesting an explanation of the transaction in question along with proposals for steps the bank might take to undo the transaction if the Board should conclude that the loan was made in violation of Regulation U.

Following explanatory comments by Miss Hart, it was agreed that the Federal Reserve Bank of Boston should be requested to send to counsel

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for First National Bank of Boston a letter along the lines of the draft that had been distributed.

The meeting then adjourned.

Secretary's Notes: On September 2, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 15) approving the appointment of Donald E. Beazley as assistant examiner.

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

Salary increases, effective September 12, 1965

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Pearl S. Thompson, Senior Records Clerk		\$ 5,990	\$ 6,155
<u>Research and Statistics</u>			
Harlow D. C. Osborne, Chief, Consumer Credit and Finances Section		19,310	19,880
S. G. Schmid, Economist		10,960	11,315
Margaret Stewart, Secretary		5,875	6,060
<u>International Finance</u>			
Charles C. Baker, Jr., Economist		12,495	12,915
Henry F. Lee, Economist		10,605	10,960
<u>Bank Operations</u>			
Peter N. Sapsara, Analyst		6,050	6,250
<u>Personnel Administration</u>			
Edna J. Chavis, Stenographer		4,480	4,630
<u>Administrative Services</u>			
Sanford N. Johnson, Guard		4,005	4,140

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

Letter to the Federal Reserve Bank of Dallas (attached Item No. 16) approving the designation of Sammie C. Clay as special assistant examiner.

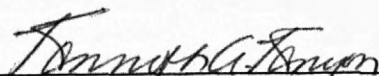
Memoranda recommending the following actions relating to the Board's staff:

Reemployment following maternity leave

Daisy L. Condon as Secretary, Division of Data Processing, with basic annual salary at the rate of \$6,615, effective September 20, 1965.

Acceptance of resignation

Barry E. Huber, Research Assistant (Summer), Division of Data Processing, effective at the close of business September 3, 1965.


Assistant Secretary

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

Item No. 1
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

Board of Directors,
Chemical Bank New York
Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Chemical Bank New York Trust Company, New York, New York, at the intersection of Third Avenue and East 28th Street, Borough of Manhattan, New York, New York, provided the branch is established within six months from the date of this letter.

The Board notes that the capital adequacy of your bank has declined in the past two years or more and, while it is confident that management is aware of this trend, it urges that consideration be given to the need for strengthening capital structure in light of the bank's growth in recent years.

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. 2
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965.

Mr. Fred W. Piderit, Jr., Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Piderit:

There is enclosed, for delivery to the applicant bank, the Board's letter approving the establishment of an in-town branch by Chemical Bank New York Trust Company, New York, New York, at the intersection of Third Avenue and East 28th Street, Borough of Manhattan. Two copies of the letter are enclosed for your use.

The letter to Chemical Bank New York Trust Company provides a six-month period for the establishment of the branch. The Board also has approved a six-month extension of that period. If Chemical Bank New York Trust Company should hereafter apply for an extension, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.

You will note that the letter also refers to the Board's concern for the deterioration in the adequacy of the bank's capital structure. The Form for Analyzing Bank Capital indicates that the ratio of actual capital to that required has declined from 102 per cent at the February 1963 examination to 73 per cent at the March 1965 examination. The ratio of adjusted capital to risk assets has also deteriorated and is 1 to 8.0. Our analysis of the current report leads us to the conclusion that the bank's capital position is somewhat less than satisfactory.

The bank's capital position should be given careful consideration in the course of future examinations.

Very truly yours,

Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

Board of Directors,
United Bank & Trust Company,
Hartford, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System has approved an extension until November 30, 1965, of the time within which United Bank & Trust Company, Hartford, Connecticut, may establish a branch at 1232 Farmington Avenue, Bristol, Connecticut.

Authority to establish this branch was granted on June 30, 1964, by the Federal Deposit Insurance Corporation, to Bristol Bank and Trust Company, Bristol, Connecticut, which was subsequently merged into Riverside Trust Company, Hartford, Connecticut, under the charter of Riverside Trust Company, and title of United Bank & Trust Company. This merger was approved by the Board in its Order of June 4, 1965.

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. 4
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

Board of Directors,
The Bank of Romney,
Romney, West Virginia.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment of \$225,000 by The Bank of Romney, Romney, West Virginia, for construction of new banking quarters.

It is the Board's understanding that present banking premises are to be sold with the proceeds used to reduce the carrying value of bank premises.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

Mr. Harold T. Patterson,
First Vice President and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Patterson:

This refers to your letter of August 17, 1965, regarding the penalty of \$1,312.49 incurred by the National Bank of Melbourne and Trust Company, Melbourne, Florida, on an average daily deficiency of \$570,309 in its required reserves for the biweekly computation period ended August 4, 1965.

It is noted that (1) the deficiency resulted from an error by an employee of the bank who accidentally reversed a transfer of funds to the bank's reserve account; (2) the error was discovered too late to prevent the deficiency; and (3) the bank has not been penalized for a deficiency in its reserves since becoming a member on May 1, 1964.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$1,312.49 for the period ended August 4, 1965.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965.

Irving International
Financing Corporation,
One Wall Street,
New York 15, New York.

Gentlemen:

In accordance with the request contained in your letter of August 11, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Irving International Financing Corporation ("IIFC") to purchase and hold 1,000,000 shares of capital stock of China Trade & Development Corporation Ltd., Taipei, Taiwan, at a cost of approximately US\$250,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of the Chinese company within the terms of the above consent in excess of 10 per cent of IIFC's capital and surplus.

The foregoing consent is given with the understanding that the foreign loans and investments of IIFC, combined with those of Irving Trust Company, including the investment now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect.

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. 7
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965.

Bank of California
International Corporation,
400 California Street,
San Francisco, California. 94120

Gentlemen:

In accordance with the request contained in your letter of August 16, 1965, transmitted through the Federal Reserve Bank of San Francisco, and on the basis of the information furnished, the Board of Governors grants consent for Bank of California International Corporation ("BCIC") to purchase and hold 1,000,000 shares of capital stock of China Trade & Development Corporation Ltd., Taipei, Taiwan, at a cost of approximately US\$250,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consent is given with the understanding that the foreign loans and investments of BCIC, separate and apart from the foreign loans and investments of your parent bank, and including the investment now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect.

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
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

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

Dear Mr. Galvin:

In your letter of August 23, 1965, you report on an error in the published statement of J. N. Ireland and Co. Bankers, Malad City, Idaho. The publication indicated that cash was \$2,186,395.21 instead of \$564,304.13. You feel this is clearly a printer's error since the larger amount is identical to the amount shown as U. S. Government obligations.

In the circumstances mentioned in your letter it appears that republication of the bank's report would serve no useful purpose and the Board agrees that it should not be required.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 9
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

CONFIDENTIAL (FR)

Mr. Hugh D. Galusha, Jr., President,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Galusha:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Minneapolis from effective dates shown through December 31, 1965, at rates indicated, which are those fixed by your Board of Directors as reported in your letters of August 3 and August 23, 1965.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Effective September 1</u>		
Clarence W. Nelson	Director of Research	\$16,000
<u>Effective October 1</u>		
Douglas R. Hellweg	Assistant Vice President	14,500

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant 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
NEW JERSEY BANK AND TRUST COMPANY
for approval of merger with
Wayne State Bank

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 New Jersey Bank and Trust Company, Clifton, New Jersey, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Wayne State Bank, Wayne, New Jersey, under the charter and title of the former. As an incident to the merger, the two offices of Wayne State Bank would become branches 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,

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 3rd day of September, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Balderston, Shepardson, Mitchell,
and Daane.

Voting against this action: Governors Robertson
and Maisel.

(signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY NEW JERSEY BANK AND TRUST COMPANY
FOR APPROVAL OF MERGER WITH WAYNE STATE BANK

STATEMENT

New Jersey Bank and Trust Company, Clifton, New Jersey ("Jersey Bank"), with total deposits of \$319 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 Wayne State Bank, Wayne, New Jersey ("State Bank"), which has total deposits of \$8 million.^{1/} The banks would merge under the charter and title of Jersey Bank, which is a member of the Federal Reserve System. As an incident to the merger, the two offices of State Bank would become offices of Jersey Bank, increasing the number of its authorized offices from 18 to 20.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the

^{1/} Deposit figures are as of June 30, 1965.

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 proposed merger unless, after considering all of these factors, it finds the transaction to be in the public interest.

Banking factors. - The financial history and condition of Jersey Bank and State Bank are satisfactory. Jersey Bank's capital structure is adequate, as is its management, and its earnings prospects are favorable. State Bank opened for business a little more than three years ago. Its capital structure is satisfactory and the growth of the bank has exceeded original projections, but has not been based on broad community support. Earnings have been slightly above average for banks of its class, but the bank has achieved this result by avoiding loans which require specialized personnel, and by purchasing a high proportion of its portfolio from other banks. Earnings of State Bank would probably continue to be satisfactory, were the application denied.

Management of State Bank has rested chiefly in the hands of its president, a man of dominant personality but not a professional banker, who is beyond normal retirement age. The bank has been unable to solve the problem of obtaining a satisfactory full-time executive officer who can work with the president. Were the proposal consummated, Jersey Bank would be able to supply appropriate executive personnel. While the problem could undoubtedly be solved in other ways, this factor provides some slight support for approval of the application.

The condition of the resulting bank would be sound, its capital structure satisfactory, its earnings prospects favorable, and its management competent. Neither the corporate powers of the two existing banks nor those of the resulting bank are, or would be, inconsistent with the purposes of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - On a map, Passaic County shows a wasp-waisted or hourglass figure. The only banking offices in the northern and larger portion, which is mainly rural, are those of First National Bank of Passaic County ("First National"), the second largest bank in the county. The southeastern two-thirds of the southern portion, where Jersey Bank's offices are scattered, is densely populated and heavily industrialized, with the older manufacturing cities of Paterson and Passaic losing inhabitants to the growing residential sectors of Wayne Township.

Because State Bank is too small for consummation of the proposal to affect the services the larger bank can render, the effects of the merger would be felt only in Wayne Township.

Wayne, the middle ground, covers about 25 square miles and lies just south of the county's narrow waist. While it is the fastest growing area in the county, with a number of new industrial parks and residential developments, it remains almost completely fragmented as to its commercial life, with neighborhood instead of regional shopping centers, and inconvenient local road communication. As a result, the head office of State Bank serves very little more of the township than

the two miles surrounding it. State Bank's new branch, operating in a trailer on the site of a projected shopping center which, it is claimed, will be the world's largest, serves only a very limited area at present.

The township's banking needs are being met, to a considerable extent, by two offices of First National, a \$305 million bank capable of meeting the needs of all but the largest customers located in the county. Jersey Bank, with four offices located not far across the township border, also offers a full range of banking services. Five other banks located in Passaic County, ranging in size from \$98 to about \$11 million, as well as several in neighboring counties, are reasonably accessible to Wayne customers.

Were State Bank to remain as an independent institution, local customers would have a choice of banking services from a wider range of sources. However, State Bank has been making very little effort to serve community needs. These needs can be allocated, roughly, to three strata. The largest customers, represented by such national firms as U.S. Rubber Company, American Cyanamid, W. R. Grace and Company, and Owen-Illinois Glass Company, have requirements far beyond the capacity of any of the county's banks. No rearrangement of local banking facilities is likely to make any difference to their convenience and needs.

A second stratum contains customers whose needs are within the capacity of either Jersey Bank or First National to serve, but who are far larger than a \$8 million bank can hope to deal with, even on a

participation basis. This stratum would contain some local industrial concerns, real estate developers, merchants in need of substantial floor-plan credit, and the like. While customers in this stratum can, and undoubtedly do, range over Passaic and neighboring counties for alternative sources of banking services, the presence of a second bank capable of serving them, within Wayne Township itself, will contribute, to some extent, to their convenience.

However, it is the third stratum whose needs and convenience are most directly concerned in the proposed merger. This group includes individual homeowners in need of mortgages, customers wanting installment loans to purchase automobiles, appliances, and for other purposes, small commercial and industrial concerns, and the like. State Bank has chosen not to attempt to serve this market. The bank has no FHA or GI mortgages, and has generally avoided committing bank funds in the mortgage market. Such few mortgages as it has made were accommodations to customers connected with the board of directors. It has made few automobile loans in the community, preferring to purchase paper from other institutions. Indeed, it has followed a similar policy as to all loans, originating only a minor portion in Wayne, obtaining some from directors' contacts outside the community, and purchasing a large majority. In sum, only about 20 per cent of the bank's total loan volume is derived from its own community. Jersey Bank has specialized in mortgage and installment lending, and would provide a genuine alternative for customers who do

not wish to bank with First National and for whom it is, perhaps, something more than inconvenient to bank outside their own community.

Competition. - As discussed above, Passaic County is served by eight banks, Jersey State and First National in the \$300 million class, and the others ranging downward from \$100 million. In addition, banks in neighboring counties compete in Passaic, as do, to a considerable extent, larger New York City and other metropolitan banks which actively advertise, in newspapers and on radio and television, for business over the entire area, and are accessible by mail and to commuters from the county and from Wayne, itself.

Nevertheless, despite customer mobility, particularly as to larger accounts, and the fact that banking connections may be made elsewhere by commuters or by mail, office location is probably still a dominant factor in banking competition, at least as to the lower and middle strata described above. However, under present State law, it is extremely difficult for meaningful office competition to occur, especially in smaller communities, or in developing areas, such as Wayne. Under the local form of office protection, only a bank headquartered in a municipality can establish a de novo branch there if any other bank already has an office in the community. Thus, local office competition for First National in Wayne is limited to that State Bank can provide, a burden the smaller bank is unable to assume. Its single new branch is operating at a loss, despite the loan of paid personnel from Jersey

Bank, and it lacks resources to open another. Moreover, the record indicates that competitive tactics of First National have been aggressively calculated to prevent the smaller bank from establishing itself on a firm community basis, even had it shown a healthier disposition to do so.

That the community would welcome competition for First National is shown by the amount of business Jersey Bank drew from Wayne before State Bank was established. Partly because of the extent of this business, amounting to \$4 million in some three thousand deposit accounts and \$6 million in over a thousand loans, and partly because of the location of four Jersey Bank offices near Wayne's borders, there would have been a potentiality for substantial competition between the two banks, had the smaller institution followed different policies. However, such competition has not developed, nor does it seem likely to develop unless State Bank were radically to alter its policies.

The relative absence of competition between State Bank and Jersey Bank is evidenced by a number of circumstances. First, the smaller bank has not developed business in Wayne beyond the immediate environs of its home office. The balance of the township has remained unaffected. Second, about three-quarters of Jersey Bank's loans in Wayne are mortgages, a type of loan which State Bank generally avoids. Of these, more than half originated before State Bank opened for business, and about 60 per cent were made to home purchasers moving from Jersey Bank's service area^{2/} in lower Passaic County into Wayne Township. In fact, according

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

to the 1960 Census, about 40 per cent of persons moving into Wayne during the five preceding years came from Passaic, Paterson, or Clifton, all in Jersey Bank's service area. Customer inertia, and the failure of the smaller bank to make any real effort to attract their business, have evidently caused Jersey Bank's customers to leave their accounts with their former bank on moving to Wayne.

It is a disturbing factor in the competitive picture that effectuation of the proposal would increase, although to an insubstantial extent, the proportion of county loans and deposits held by the slightly larger of the two largest banks in Passaic County. Jersey Bank's share of IPC^{3/} deposits will rise from 36.5 to 37.3 per cent, and of total loans from 38.2 to 39.2 per cent, as opposed to First National's 33 per cent of IPC deposits and 32.3 per cent of loans. Banking concentration in the county will be increased, and the only small independent bank in an area dominated by First National will disappear. However, under present State law, there seems to be no other way in which meaningful banking competition can be provided through offices located in Wayne.

It does not appear that consummation of the merger will have any adverse competitive effect on the remaining banks located in southern and southeastern Passaic County, which are already competing successfully with Jersey Bank.

Summary and conclusion. - While consummation of the merger would increase banking concentration in Passaic County, this effect is

^{3/} Based on data for December 31, 1964.

more apparent than real, due to the failure of State Bank to provide meaningful competition for either of its larger neighbors. Under State law, a merger of this kind is the only means by which First National's virtual local-office monopoly can be broken, and the entrance of a second large and vigorous bank into the community will improve both the competitive picture and the way in which community needs and convenience are served. A management problem in the smaller bank will incidentally be solved.

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

September 3, 1965.

DISSENTING STATEMENT OF GOVERNOR MAISEL
IN WHICH GOVERNOR ROBERTSON CONCURS

Item No. 12
9/3/65

It is difficult to understand, let alone to justify, the decision announced today by the Board, which grants the two largest banks in Passaic County a duopoly position in the county's fastest growing market. There is general agreement that nothing in the banking factors justifies this merger. On the other hand, the competitive factors are strongly adverse. Under New Jersey law, once this merger is consummated no third bank can enter Wayne Township except for a bank that is newly organized. Prospects for establishing a new local competitor, when two large banks are so firmly entrenched in the field, seem very unpromising.

Today, three banks are competing in Wayne Township, one of them, the acquiring bank in the application before the Board, very effectively from just across the township line. The smaller bank, it is true, may not be competing with great energy. But it is an alternative source of banking services, it is competing, and, in fact, is making money. The amount of loans and deposits which Jersey Bank and State Bank draw from one another's territory is evidence that competition exists. State Bank offers more attractive rates to individual customers both with respect to interest on savings deposits and charges on checking accounts, than Jersey Bank does; this is competition. In fact, whenever a member of the public, Mr. A. or Mrs. X, makes a choice whether to drive to an office of State Bank or First National, or just across the line to an office of Jersey Bank in, say, Haledon, competition occurs. And the potential for future competition, were the application denied, is far stronger.

The majority complains that State Bank is not competing in a vigorous healthy way, and is not serving the needs of its community, as if this were an unalterable state of affairs. The fact remains, however, that some competition is far greater than none. Even if one assumes that State Bank's board of directors has determined to dispose of the bank, it is plain that they have a very attractive, salable article. A location in what is advertised to become a giant shopping center is inherently very desirable. Given, in addition, the projected growth of Wayne Township, and that a location there is protected from much competition, what State Bank's directors have to sell becomes extremely valuable. That this is so is demonstrated by the premium offered by Jersey Bank, the highest ever to come before the Board in a merger application. The record shows that this high offer was made to outbid other institutions anxious to acquire State Bank.

There can be no doubt that, if the application were denied, a less dominant Passaic County bank would be found willing to purchase on satisfactory terms and merge State Bank. After all, at least two of the others are in the \$75 to \$100 million class, not exactly Lilliputians. Thus, denial of the application would assure Wayne Township of continuing access to three banks located in it or so close to the line as to be conveniently available.

There are two troubling fallacies in the majority's reasoning, both indicating a failure to analyze and apply what Congress meant by "the effect of the transaction on competition (including any tendency toward monopoly)". The first, and by far the most important, is the assumption--not only here, but in earlier decisions on merger applications--

that competition is improved by increasing the size of the competing banks. This argument has perhaps been made most often where the bank to be aggrandized is already one of the largest in the community, and is particularly fallacious in such a case. The Board is to concern itself with competition in respect to its effect on community welfare. The competition offered by a pair of powerful banks is of a different character and does not have the therapeutic effect on the public welfare usually implied by the term competition. This is particularly true as to customers in the lower and lower-middle strata described by the majority. A third choice for these groups is certain to be better than only two.

The second fallacy is a weakness for having things both ways. In other statements on merger applications, where the question was whether offices of two merging banks were in competition, the majority has solemnly stated that the fact that offices of other banks were located in between the two prevented any serious amount of competition from occurring. Here, where the question is whether Wayne Township will be subject to a duopoly if the application is approved, the majority with equal solemnity assures us that banks outside Passaic County, and even in New York City, compete effectively within the township, despite myriad intervening offices!

In sum, what the majority has done is to grant an assured duopoly position in a protected market to the two largest banks already present there, on the pretext that this will "improve competition" by eliminating a small bank that has failed to exert itself. This has

been done in the face of the virtual certainty that a more eligible applicant would have appeared if the application had been denied, and that the merger will foreclose the possibility of a stronger, third competitor appearing in Wayne Township for quite some time in the future.

I would disapprove the application.

September 3, 1965.

TELEGRAM
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

September 3, 1965

SANFORD - NEW YORK

BOARD APPROVES GRANTING LOAN OR LOANS ON GOLD UP TO A
TOTAL OF \$10 MILLION BY THE FEDERAL RESERVE BANK OF NEW YORK TO
THE BANCO DE GUATEMALA ON THE TERMS DESCRIBED IN YOUR WIRE OF
SEPTEMBER 2.

(Signed) Kenneth A. Kenyon

KENYON

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

September 3, 1965.

SANFORD - NEW YORK

BOARD APPROVES GRANTING LOAN OR LOANS ON GOLD UP TO A
TOTAL OF \$2 MILLION BY THE FEDERAL RESERVE BANK OF NEW YORK TO
THE BANCO CENTRAL DE COSTA RICA ON THE TERMS DESCRIBED IN YOUR
WIRE OF SEPTEMBER 2.

(Signed) Kenneth A. Kenyon

KENYON

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

Item No. 15
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the request contained in your letter of August 30, 1965, the Board approves the appointment of Donald E. Beazley as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

2875

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

Item No. 16
9/3/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 3, 1965.

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 August 31, 1965, the Board approves the designation of Sammie C. Clay as a special assistant examiner for the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.