

Minutes for September 27, 1965

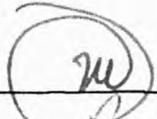
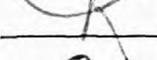
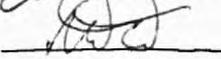
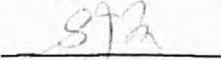
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, September 27, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Goodman, Assistant Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Sammons, Irvine, Dahl, Emery, Gekker, Gemmill, Hayes, Marlin, and Maroni of the Division of International Finance

Messrs. Holland, Koch, Garfield, Partee, Williams, Solomon, Eckert, Ettin, Fisher, Keir, Manookian, Osborne, Trueblood, and Wernick of the Division of Research and Statistics

Economic review. A review of international financial developments and trends in the domestic economy was presented by the International Finance and Research Divisions. The summaries presented in the respective reporting areas were based to a certain extent on staff documentation that had been distributed to members of the Federal Open Market Committee for use in connection with the forthcoming meeting

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of the Committee. Copies thereof have been placed in the files of the Committee.

After discussion based on the staff reports, all members of the staff withdrew from the meeting except Messrs. Sherman, Kenyon, Noyes, Fauver, Koch, Partee, and Goodman and the following joined the meeting:

Mr. Hackley, General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Via, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

Ratification of actions. Actions taken by the available members of the Board at the meeting on September 24, 1965, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Report on competitive factors (Medina-Sharon Center, Ohio).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Old Phoenix National Bank of Medina, Medina, Ohio, with The Sharon Center Banking Company, Sharon Center, Ohio. The conclusion, as drafted, stated that there appeared to be a small amount of competition between the two banks, that consummation of the proposed merger would increase slightly the size of the largest bank headquartered in Medina County,

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but that the resulting institution would encounter competition from considerably larger Akron banks and the overall effect of the proposed transaction on competition did not appear to be significantly adverse.

Governor Maisel suggested that the conclusion be changed to indicate that consummation of the proposed merger would increase the size and dominance of the largest bank headquartered in Medina County and that, while the resulting institution would encounter competition from considerably larger Akron banks, the overall effect of the proposed transaction on competition appeared to be significantly adverse.

Governor Mitchell said he believed the implication that Medina County was the banking market in this case was incorrect. The fact that the county lay between Akron and Cleveland created a difficult problem in defining the market area, and he would prefer to avoid too rigid an approach in the competitive factor report.

Governor Maisel observed, however, that this was quite a large county. He gathered that under Ohio law no outside bank could come into the county. So far as the county was a market area, the proposed transaction would give the resulting bank even greater dominance than the Old Phoenix bank already had.

Governor Robertson expressed agreement with Governor Maisel's proposed revision of the conclusion. Governor Mitchell then suggested another version of the conclusion, reflecting his preference, and in further discussion Governor Shepardson and Governor Balderston expressed

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agreement with Governor Mitchell's formulation. Accordingly, with Governors Robertson and Maisel dissenting, approval was given to the transmittal of the competitive factor report to the Comptroller of the Currency in a form in which the conclusion read as follows:

There appears to be a small amount of competition existing between The Old Phoenix National Bank of Medina and The Sharon Center Banking Company. Consummation of the proposed merger would increase the size of the largest bank headquartered in Medina County and, to the extent that Medina County is the banking market involved in this proposal, the effect of the transaction on competition would be adverse. However, large Akron banks are important competitors in the area around Medina County.

Format of condition report. There had been distributed a memorandum from Messrs. Partee and Veenstra dated September 24, 1965, reporting the results of negotiations by representatives of the Federal and State bank supervisory authorities to achieve a uniform format of bank condition report. The basis for the most recent discussion had been a draft report form and covering memorandum prepared by the Comptroller of the Currency, whose proposal in effect represented a response to the Board's proposal for a "compromise" uniform format, as transmitted to the other agencies in December 1964 and modified in subsequent negotiations in early 1965.

The memorandum stated that it did not appear possible to achieve full uniformity between the national and State bank report forms, the Comptroller having indicated unwillingness to make changes

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in his format that were deemed necessary for the Board's purposes and the purposes of the State supervisors. However, the proposed national bank form would permit the Board to obtain without use of a reconciliation statement all of the essential information necessary to adjust national bank data to a basis consistent with the Board's rulings and with data reported by State banks. Conversely, inclusion of certain memorandum items for State banks would permit the Comptroller to convert State bank data to the national bank treatment if he so desired. There was also an understanding that mid-year and year-end condition report calls would be at month-end dates, with compulsory publication of 15-day average deposit and loan data as a window-dressing deterrent.

It was recommended that the Board adopt the proposed State bank form subject to approval of a similar form by the Federal Deposit Insurance Corporation. The State bank supervisors, it was noted, seemed likely to accept this format. It was further recommended that the Board's staff be authorized to negotiate any minor differences arising from the few remaining matters still awaiting final clearance with the other agencies.

The memorandum set forth and described the principal changes reflected in the proposed State bank form that also appeared in the national bank form. It then described proposed changes not included in the State bank form because the Board's representatives had been unable to obtain support for them. Finally, it described the principal

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remaining differences between the proposed national and State report forms, along with methods of obtaining reconcilable information where possible in the State form.

In discussing the matter, Mr. Partee said it was hoped that approval of the new State bank form could be obtained in time for use in connection with the call to be made at the end of this year. He felt that, in essence, the Comptroller's counterproposal represented a major breakthrough in this area after several years of negotiation. It would permit accomplishing certain important objectives from the Board's point of view. Principal among these, it would make possible a reconciliation of the State bank reports with the national bank reports without the use of a reconciliation statement. At the same time it would, of course, make it possible for the Comptroller to correlate the call reports on the basis of his own regulations. In those instances where it had not been possible to achieve changes in the report form to obtain statistics that would be desirable for the Board's purposes, in each case it seemed that the opportunity to establish compatibility between the forms was more important than insisting on changes to meet statistical preferences.

The ensuing discussion was centered on the principal remaining differences between the proposed national and State bank report forms. During this discussion it was noted that the Comptroller had remained adamant on rewording the caption in the real estate loan item in

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Schedule A to make clear that only loans secured primarily by liens on real estate were to be included. The intention was to exclude loans where real estate liens were considered to be incidental to the loan transaction. The State form had not been changed in this respect, and it was hoped that the Comptroller's change would not affect substantially the method of reporting real estate loans by national banks. To the extent that it did, the coverage of mortgage loan data available for national banks would be narrowed. The Comptroller's representatives had agreed to try to write the instructions to avoid gross confusion or misinterpretation of the revised wording.

Members of the Board expressed the view that there was merit in consistency with the Comptroller's position on the foregoing item. While the staff pointed out certain objections raised by the Board's real estate specialists, the consensus was that the language of the Comptroller's caption in this regard might well be conceded in the interest of a uniform definition. The Board's staff, it was suggested, could negotiate with the Comptroller's staff on the instructions covering this item, with a view to safeguarding against the possibilities of misinterpretation concerning which apprehension had been expressed.

There followed additional discussion, principally for the purpose of clarification, concerning a number of the other items on the proposed State bank form, after which the Board approved the adoption of the proposed form for use by State member banks, subject to the comments made

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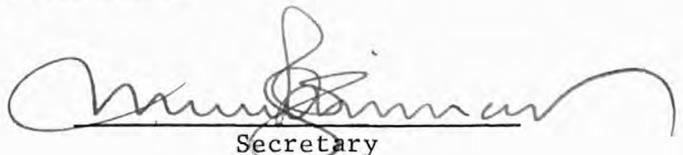
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with respect to the real estate loan item, and authorized the staff to negotiate any minor remaining differences.

The meeting then adjourned.

Secretary's Notes: Letters were sent today to The Chase Manhattan Bank (National Association), New York, New York, extending to May 1, 1966, the time for establishment of the following branches: (1) an additional branch in San Juan, Puerto Rico, to be located in the New Port section of San Juan, and (2) an additional branch in Nassau, Bahamas, to be located at Russell Road and Thompson Boulevard. (A letter of November 18, 1963, had acknowledged the bank's notice of intent to establish the branch in San Juan, and a letter of October 29, 1964, had extended to December 1, 1965, the time for its establishment. A letter of October 16, 1964, had acknowledged the bank's notice of intent to establish the branch in Nassau.)

Pursuant to the recommendation contained in a memorandum from the Office of the Controller dated September 24, 1965, Governor Shepardson today authorized, on behalf of the Board, transmitting to General Services Administration copies of certain Board vouchers relating to payment for the two leased telephone lines between the Board and the Federal Reserve Banks of New York and Philadelphia, such information having been requested in connection with a proceeding against American Telephone and Telegraph Company seeking reparations based on failure to apply rates applicable to multiple private line services and channels in lieu of single private line rates and failure to consider the Federal Government as a single customer in applying the multiple channel schedules.



Secretary