

Minutes for November 22, 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>RM</u>
Gov. Robertson	<u> </u>
Gov. Balderston	<u>CRB</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, November 22, 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. Daane 1/
Mr. Maisel

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser 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
Mr. Furth, Consultant

Messrs. Brill, Koch, Partee, Axilrod, Eckert,
Ettin, and Keir of the Division of
Research and Statistics

Messrs. Sammons, Hersey, Katz, Wood, Dahl, and
Gemmill of the Division of International
Finance

Mr. Galusha, President of the Federal Reserve
Bank of Minneapolis

Money market review. Mr. Axilrod reported on recent develop-
ments in the Government securities and corporate bond markets, Mr. Ettin
commented on bank credit developments, and Mr. Gemmill reviewed foreign
exchange market developments, along with interest rates on bank loans

1/ Withdrew from meeting following money market review.

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to foreigners and the latest available information on the U.S. balance of payments. Tables affording perspectives on the money market, the capital market, and bank reserve utilization were distributed.

Following discussion of the reports, Governor Daane, President Galusha, and all members of the staff except Messrs. Sherman, Kenyon, and Fauver, and Miss Eaton withdrew and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. Schwartz, Director, Division of Data Processing
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Shay, Assistant General Counsel
 Mr. Smith, Associate Adviser, Division of Research and
 and Statistics
 Miss Hart, Senior Attorney, Legal Division
 Mr. Via, Senior Attorney, Legal Division
 Messrs. Heyde and Shuter, Attorneys, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division
 of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Kansas City on November 17, 1965, and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on November 18, 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:

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Item No.

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| Letter to Bankers Trust Company, New York, New York,
approving the establishment of a branch at 207 Varick
Street, Borough of Manhattan. | 1 |
| Letter to Nevada Bank of Commerce, Reno, Nevada,
approving the establishment of a branch in Carson City. | 2 |
| Letter to Wells Fargo Bank, San Francisco, California,
approving the establishment of a branch near Aptos,
Santa Cruz County. | 3 |
| Letter to United California Bank, Los Angeles,
California, approving the establishment of a branch
in the vicinity of Saratoga Avenue and Campbell
Avenue, San Jose. | 4 |
| Letter to the Federal Reserve Bank of Atlanta waiving
the assessment of a penalty incurred by St. Bernard
Bank and Trust Company, Arabi, Louisiana, because of
a deficiency in its required reserves. | 5 |
| Letter to the Federal Reserve Bank of Minneapolis
approving the appointment of Raynold W. Anderson as
Assistant Federal Reserve Agent. | 6 |
| Letter to the Federal Reserve Bank of Chicago approving
the payment of salaries to the Bank's electricians at
specified rates. | 7 |

Report on competitive factors (Richmond-Virginia Beach). After certain suggested changes in the distributed draft had been agreed upon by a majority of the Board, a report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Bank of Virginia Beach, Virginia Beach, Virginia, into First & Merchants National Bank, Richmond, Virginia, was approved for transmittal in a form in which the conclusion read as follows:

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There is no significant competition between First & Merchants National Bank, Richmond, and Bank of Virginia Beach. The conversion of Virginia Beach Bank's 10 offices into branches of the State's largest bank would enhance Merchants' position by an increase in size but, more importantly, by an extension of its geographic coverage into the Norfolk-Portsmouth area. Consummation of the merger would eliminate the only locally headquartered bank in Virginia Beach.

The overall effect of the proposed transaction on competition would not be significantly adverse.

Governor Robertson dissented from the sending of the report, it being his view that the conclusion should say that the consummation of the merger would eliminate the only locally headquartered bank in Virginia Beach and would represent a continuation of a dangerous trend toward concentration of banking in Virginia, which was already proceeding at an accelerated pace; and that the overall effect of the proposed transaction on competition would be significantly adverse.

Report on competitive factors (Greenville, Ohio). After discussion resulting in a view that the effect on competition should be described as seriously adverse (rather than adverse), unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed merger of The Peoples Savings Bank of Greenville, Ohio, into The Second National Bank of Greenville. The conclusion read as follows:

While alternate banking facilities would remain for the Greenville community, consummation of the proposed merger of The Second National Bank of Greenville and The Peoples Savings Bank of Greenville would eliminate a considerable amount of competition, and thus the effect of the proposed transaction on competition is seriously adverse.

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Application of United California Bank; form of statement in merger cases (Items 8, 9, and 10). There had been distributed a memorandum from the Legal Division submitting drafts of a proposed order, statement, and dissenting statement by Governor Robertson concerning the Board's approval on November 3, 1965, of the application of United California Bank, Los Angeles, California, to merge into itself Feather River National Bank, Oroville, California.

In discussion, Messrs. Hackley and Shay directed attention to the format of the majority statement. They suggested eliminating certain paragraphs containing comments on matters that were not material to the Board's decision, thus pointing up the influential factors. At the same time, the introductory part of the statement would continue to list the factors required by law to be considered in a case of this kind, and it would indicate that the Board could not approve such a transaction unless, after considering all those factors, it found the transaction to be in the public interest.

The members of the Board expressed themselves favorably on the suggested changes, and it was understood that the same rationale would be applied in preparing statements on merger cases in the future.

Governor Maisel then referred to the comments on competitive factors in the proposed statement in the United California Bank matter. He cited the numerous mergers of the subject bank and recalled that at the November 3 meeting, when the current application was acted upon, he

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had suggested the possibility of including a warning-type comment in the Board's statement. As he read the draft statement, it seemed to say that the competitive factors were favorable, whereas they were not favorable, given the merger record of United California Bank. The merger was approved only because of strong considerations under the banking factors.

Governor Mitchell suggested, in this regard, that the summary and conclusion of the statement might be modified to set forth that Feather River National Bank had not provided service to meet the needs of its community adequately and that it had been unable to acquire succession to its temporary management; and that therefore the proposed merger had been found to be in the public interest despite the fact that United California Bank was not a bank that should have to be expanding by acquiring offices in this fashion.

After further suggestions had been made for changes in the statement along such lines, the issuance of the order, statement, and dissenting statement was authorized.

Secretary's Note: The order and statements were issued later in the day. However, in light of subsequent questions by Governor Maisel, certain further changes, with which other members of the Board agreed, were made in the majority statement. Copies of the order, majority statement, and dissenting statement, in the form in which they were finally issued, are attached as Items 8, 9, and 10, respectively.

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Check collection system (Item No. 11). There had been distributed a draft of letter to the Chairman of the Conference of Presidents of the Federal Reserve Banks noting that the Presidents, at their meeting on September 27, 1965, had considered proposals for improvement in the Federal Reserve check collection system and had authorized a subcommittee study that would give early consideration to the following topics: (1) the promotion and encouragement of all types of local or regional check clearing arrangements or facilities; (2) improvements in the means of transportation of checks; and (3) revision of payment procedures by country banks, such as an automatic charge plan, in lieu of present remittance practices.

The draft letter would indicate that while the Board had no objection to studies along such lines, it felt that the time had now come for the System to develop a broader program to extend to member banks the full potential of benefits that could be derived from automated check handling. Such a program should include as initial steps: (1) The development in the near future of a plan under which Federal Reserve Banks and branches would serve as clearing centers for all items fully qualified for electronic handling. Hopefully, such a plan would eliminate the direct-sending and other sorting requirements now imposed upon member banks using Federal Reserve check collection facilities. (2) A survey of the possibilities and problems that would need to be taken into account in the development of a plan under which (a) in the initial stage all cash

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items deposited in Federal Reserve Banks and branches would be immediately credited to the depositing bank and immediately charged to the drawee bank; and (b) ultimately the sorting and forwarding of checks would be eliminated by having the Federal Reserve office in which they were first deposited file them, after having recorded them on magnetic tape, so that the data on the tape could be used for the purposes now served by the checks themselves.

The proposed letter would contain recognition that such comprehensive changes in Federal Reserve check collection procedures would involve complex problems that might take some time to solve. However, it would conclude with the statement that these circumstances in themselves suggested that there should be no delay in attacking the problem.

In discussion, Mr. Schwartz questioned the advisability of sending such a letter. He cited the studies being pursued actively by an ad hoc Conference committee headed by President Ellis, and by its subcommittee, as reflecting a new approach by the Reserve Banks to planning for the use of computers and data communication techniques. The regular committees and subcommittees were increasingly being expected to look into shorter-run problems and solutions, while the Ellis committee was expected to investigate long-term possibilities. In the circumstances, he doubted whether the Reserve Banks needed further prodding.

Governor Mitchell commented that nevertheless the issues here involved had been under discussion for a long time by various System

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committees. While there was interest within the Reserve Banks concerning matters such as referred to in the draft letter, in his judgment it was not adequately focused on the ultimate objective. The program outlined in the draft letter dealt with intermediate steps that could be phased into the ultimate goal. Thus, it seemed advisable to him for the Board to take a position. If the Reserve Banks were in fact now starting to move, the letter would reinforce the position of those at the Reserve Banks who had the ultimate goal in mind. It would make it easier for them to come forward with a check collection system that was practical and would permit moving forward step by step in a logical way.

Mr. Schwartz then suggested that the letter be revised to reflect awareness of the studies currently in process under the auspices of the Ellis committee and to reflect the Board's support of them and its interest in developments.

Governor Mitchell agreed that changes to such effect could be made in the letter. The important thing, he felt, was for the Board to put its position on record.

Governor Robertson concurred in the view of Mr. Schwartz that the Ellis committee was likely to move in the right direction. At the same time, he agreed with Governor Mitchell that the Board should go on record and give the Ellis committee, along with other committees of the Presidents' Conference working in the area of check collection, such encouragement as they needed. He made certain suggestions for changes in the final part of the letter that he thought would be appropriate.

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Other suggestions followed along the same general lines, and unanimous approval then was given to a letter to the Chairman of the Presidents' Conference in the form attached as Item No. 11.

Definition of business days under Regulation T (Item No. 12).

A broker-dealer in Portland, Oregon, had asked the Board for an interpretation as to whether the seven full business days in which payment in a special cash account was required by Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, included a banking holiday on which the stock exchanges were open for transaction of business. In a distributed memorandum dated November 17, 1965, the Legal Division recommended that a day on which the stock exchanges were open be considered a business day for the purpose of section 220.4(c)(7) of Regulation T, for reasons expressed in a proposed reply to the broker-dealer.

In discussion, it was suggested that emphasis be placed on days on which the brokerage house was open rather than days on which the exchanges were open. Unanimous approval then was given to a letter in the form attached to these minutes as Item No. 12.

All members of the staff then withdrew and the Board went into executive session.

Classification of typing, stenographic, and secretarial positions. The Secretary was informed later by Governor Shepardson that during the executive session the Board approved the revised policy

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described in a memorandum from the Division of Personnel Administration dated November 16, 1965, with regard to classification of typing, stenographic, and secretarial positions of the Board's staff, as follows:

1. The minimum for hiring typists is established at Grade FR-2 and for hiring stenographers at Grades FR-3 and FR-4, dependent upon educational background, experience, test scores, etc., as determined by the Division of Personnel Administration. Typists employed in Grade FR-2 and stenographers in Grade FR-3 may be reclassified to Grades FR-3 and FR-4, respectively, after six months' experience, upon the recommendation of the Division concerned.

2. The secretarial position assigned to the Chief of a Section shall be allocated to the Grade FR-5 level. Each Division of the Board that does not have Sections in its organization and where there are Grade FR-4 stenographic positions may present, for review by the Division of Personnel Administration, the allocation at the Grade FR-5 level of one existing Grade FR-4 stenographic position.

3. The secretarial positions assigned to the levels (and equivalents) of the following officials shall be allocated at the grades shown:

Assistant Division Head	FR-6
Division Head	FR-7
Adviser to the Board	FR-7
Legislative Counsel	FR-7
Assistant to the Board	FR-7
Senior Adviser to the Board	FR-8
Member of the Board	FR-11
Chairman of the Board	FR-11 plus one step in grade

With the exception of the six-month qualification period designated for typists in Grade FR-2 to Grade FR-3 and stenographers in Grade FR-3 to Grade FR-4, one year of experience in the next lower grade is required for the above designated positions before reclassification to the grade levels shown through Grade FR-8.

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The foregoing action was taken subject to the understanding, as expressed in a memorandum from the Division of Personnel Administration dated November 19, 1965, that the application of the revised policy would not affect the classification of certain Grade FR-8 secretarial positions in the Board Members' Offices as long as those positions were held by the incumbents.

The meeting then adjourned.

Secretary's Notes: On November 19, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Legal Counsel for the Council of State Governments (attached Item No. 13) transmitting a summary of information obtained in 1964 from the Federal Reserve Banks concerning the operation and regulation of nonbank money order issuers in their districts.

Memorandum from the Division of Research and Statistics dated November 18, 1965, recommending the establishment of an additional economist position in the Business Conditions Section.

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

Salary increases

Guy R. DeCarlo, Economist, Division of International Finance, from \$9,267 to \$10,619 per annum, effective November 21, 1965.

William T. Houser, General Mechanic-Operating Engineer, Division of Administrative Services, from \$5,533 to \$5,782 per annum, effective November 21, 1965.

Transfers

Judy Shaffer, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of International Finance, with no change in basic annual salary at the rate of \$4,149, effective November 21, 1965.

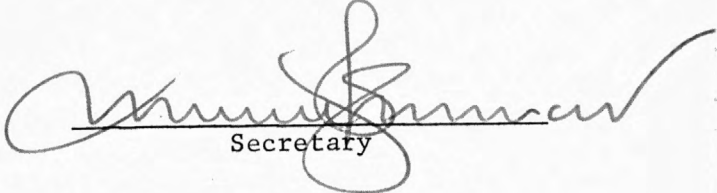
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Transfers (continued)

Kathleen Thomas, from the position of Clerk-Stenographer in the Division of International Finance to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from \$4,953 to \$5,352, effective November 21, 1965.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond (attached Item No. 14) approving the appointment of Edward T. Whitlock, Jr., and Burrie E. Eaves, III, as assistant examiners.



Secretary

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

Item No. 1
11/22/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965



Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bankers Trust Company, New York, New York, of a branch at 207 Varick Street, Borough of Manhattan, New York, New York, 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.)

Item No. 2
11/22/65

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965



Board of Directors,
Nevada Bank of Commerce,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Nevada Bank of Commerce, Reno, Nevada, of a branch at the southeast corner of North Carson Street and East John Street, Carson City, Nevada, 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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Item No. 3
11/22/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the vicinity of the intersection of State Park Drive and State Highway No. 1 adjacent to Aptos, Santa Cruz County, California, 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. 4
11/22/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 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 in the vicinity of the intersection of Saratoga Avenue and Campbell Avenue, San Jose, California, 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. 5
11/22/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965



Mr. M. Monroe Kimbrel, First Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Kimbrel:

This refers to your letter of November 3, 1965,
regarding a penalty of \$179.51 incurred by the St. Bernard Bank
and Trust Company, Arabi, Louisiana, on an average daily deficiency
in reserves of \$78,000 for the biweekly computation period ended
October 13, 1965.

It is noted that the deficiency occurred because of
operational difficulties as a result of recent hurricane and flood
conditions and that the bank has been penalized for a reserve
deficiency only once during the past five years.

In the circumstances, the Board authorizes your Bank to
waive the assessment of the penalty of \$179.51 for the period ended
October 13, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
11/22/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965

Mr. Atherton Bean,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Bean:

In accordance with the request contained in your letter of November 6, 1965, the Board of Governors approves the appointment of Mr. Raynold W. Anderson as Assistant Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, to succeed Mr. Morris G. Anderson, effective immediately.

This approval is given with the understanding that Mr. Anderson will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent, or a vacancy in that office, his responsibility will be to the Board of Governors.

When not engaged in the performance of his duties as Assistant Federal Reserve Agent, Mr. Anderson may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

It will be appreciated if Mr. Anderson is reminded of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Anderson execute the usual Oath of Office, which should be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
11/22/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965

CONFIDENTIAL (FR)

Mr. C. J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Scanlon:

As requested in your letter of November 5, the Board of Governors approves, retroactive to November 1, 1965, payment by the Federal Reserve Bank of Chicago to the Bank's Electricians of the following annual salaries, which are above the maximum of the grades in which the positions are classified.

<u>Title</u>	<u>Annual Salaries</u>
Head Electrician	\$9,880
Electrician	8,892

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
UNITED CALIFORNIA BANK
for approval of merger with
Feather River National 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 United California Bank, Los Angeles, California, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Feather River National Bank, Oroville, California, under the charter and title of the former. As an incident to the merger, the sole office of Feather River National Bank 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,

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 22nd day of November, 1965.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION OF UNITED CALIFORNIA BANK
FOR APPROVAL OF MERGER WITH
FEATHER RIVER NATIONAL BANK

STATEMENT

United California Bank, Los Angeles, California ("United"), with total deposits of \$2.7 billion, 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 Feather River National Bank, Oroville, California ("National"), which has total deposits of \$3.6 million.^{1/} The banks would merge under the charter and title of United, which is a member of the Federal Reserve System. As an incident to the merger, the one office of National would become an office of United, increasing the number of its authorized offices to 180.

As required by law, the Board has considered, 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 Federal Deposit Insurance Act), (6) the convenience and needs of the

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

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. - National opened for business a little more than three years ago and its capital structure is adequate. From its inception, National pursued an aggressive policy of soliciting commercial and industrial loans well in excess of its lending capacity, with overlines placed with a correspondent bank. Many of these loans were for relatively long terms, and several were made to borrowers outside the Oroville area. As of June 16, 1965, the bank's loan-to-deposit ratio exceeded 80 per cent. The application states that this ratio cannot be reduced without substantial loss to the bank and that reduction of the ratio through the repayment of outstanding loans will take from three to five years. The bank's condition has been further affected by the failure of deposits to continue to increase, and as a result of the high loan-to-deposit ratio and its restricted secondary reserves, National has been forced to limit its lending functions primarily to servicing prior commitments. While the bank's future operating earnings prospects may be regarded as fairly satisfactory, sizable losses on loans are probable.

National is experiencing management difficulties. Its original executive officer resigned in late 1964. At that time, its

current president, who is well past normal retirement age, assumed executive duties on a temporary basis until new management could be found. Shortly thereafter, the bank's vice president resigned. National's current president has devoted a substantial amount of his time to a search for permanent management but has failed to find a qualified executive officer interested in supervising the affairs of the bank. Consummation of the proposal would solve this problem.

Convenience and needs of the communities. - Because National is too small for consummation of the proposal to affect the services that United can render, the effects of the merger would be felt only in the Oroville area.

As National is the only banking institution headquartered in Oroville, merger of it into a large bank would deprive local customers of the opportunity to do business with a local bank; however, the number of alternatives in Oroville would remain unchanged. National is not in a position to serve its community to an effective degree. At present the Oroville area is predominantly an agricultural area, but with the completion of the nearby Oroville dam project in 1968, rapid development is expected, particularly of recreational facilities and attendant service establishments. National has made relatively few loans to farmers, and the bank's financial condition does not allow it to aid in the development of

its community or assist with the agricultural requirements upon which the area's economy is currently based. In view of this condition and the bank's management difficulties, the needs of the community would be better served by approval of the proposed merger.

Competition. - United is a State-wide banking organization operating branches in 33 of the 58 counties of the State. National operates primarily in the immediate Oroville area, and competition between the two banks is insignificant. The nearest offices of United are 23 and 25 miles from National, and the service areas,^{2/} separated by natural barriers, do not overlap.

Within the immediate vicinity of National are four branches of three other banks: (1) Bank of America NT & SA, San Francisco; (2) First Western Bank and Trust Company, Los Angeles; and (3) Central Valley National Bank, Oakland. Each of these banks constitutes an active competitive force throughout the central valley of California.

While approval of the proposed merger would eliminate a local bank, National is no longer a significant competitive force in the Oroville area. The replacement of a noncompetitive unit with a branch of an aggressive institution would strengthen competition in the area served, and the merger would have little effect outside this area.

Banking in California is characterized by the concentration of banking resources and banking offices in five large branch banking systems. Consummation of this proposal would result in some increase

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

in this concentration, although such increase would be relatively insignificant. United ranks fifth in deposit size in California with 8.2 per cent of the total deposits in the State. The addition of National's deposits, which comprise 4/100ths of one per cent of total deposits in the State, would not change United's relative position in California.^{3/} The small increase in concentration of banking resources that would result from this proposal would be more than offset by the other factors in this case and the restoration of the office of National to a significant competitive position.

During the period 1955-1964, 38 per cent of United's total deposit growth and 59 per cent of its total increase in number of offices resulted from mergers. It should be noted that 28 per cent of the total deposit growth and 36 per cent of the total office growth resulted from only one merger, that of First Western Bank and Trust Company into California Bank (United's predecessor).

Summary and conclusion. - National has failed to provide meaningful competition in the Oroville area, and in view of its liquidity position, developing loan problems, and inability to acquire succession to its temporary management, the banking needs of the area would be better served if the proposal were effectuated. These factors offset the adverse considerations that arise from the fact that United has followed an expansive merger policy and from the high degree of concentration existing in California.

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

November 24, 1965. (Revised)

^{3/} These figures are as of December 31, 1964.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

The effect of the proposed merger of United and National must be assessed in the light of both the history of United and the degree of concentration of banking resources in the State of California in the hands of a few large banks. United's proposed acquisition is only the latest of a series of similar acquisitions by United and other large California banks that could lead to a complete oligopoly in commercial banking in the State.

National is the only local banking institution in the Oroville area, and it has shown increasing profits every year since its inception. Two of the three other banks in this area are huge, State-wide banking institutions, and the third bank, Central Valley National Bank, Oakland, with deposits of \$156 million, is an aggressive competitor throughout the central valley of the State. Elimination of National leaves the residents of Oroville with only a choice among large, monolithic banking institutions with home offices far removed from the Oroville area.

The majority attempts to justify the elimination of National as a local banking institution by citing its high loan-to-deposit ratio, its inability effectively to serve the community, and its need for successor management. Perhaps it is true that National would not, in the immediate future, be able to serve its community as effectively as if

it had a lower loan-to-deposit ratio. However, rejection of the application would mean that the bank would remain an alternative source of banking services, and I am unconvinced from the record before the Board that the bank would not soon be in a position to compete aggressively once again for new loan business. In my opinion, the bank's difficulties were alleviated with the institution of its current management. I realize that the current management is in a sense only temporary, but I believe that a diligent search would produce an alternative more in the public interest than the present proposal.

United has compiled an extremely aggressive merger record over the past ten years. In the period 1955-64, United's deposits grew by \$2,050 million, and mergers accounted for approximately 38 per cent of this growth. During the same period, mergers accounted for 59 per cent of United's increase in number of banking offices. The Department of Justice sued to prevent one merger - the 1961 merger of California Bank (United's predecessor) with First Western Bank and Trust Company - charging violations of both the Sherman and Clayton Acts. As a result of this suit, 65 banking offices of First Western Bank and Trust Company were sold to a new State-wide banking organization. However, United still ranks fifth in size of all banks in the State of California with 8.2 per cent of total deposits.

Not only do I view United's aggressiveness in acquiring small, independent banks with apprehension, but, absent unusual circumstances, the concentration of banking resources in the five largest banks in the

State should in itself prohibit further bank acquisitions by any of these five, which together hold 78.5 per cent^{1/} of all deposits in the State. Accordingly, even the slightest increase in concentration of banking resources through the acquisition of sound, independent banks cannot be said to be "insignificant". Each acquisition by these giants makes it more difficult for the small banks to compete, which could result in a banking structure that would be the very antithesis of that contemplated by the Bank Merger Act of 1960.

I would disapprove the application.

November 22, 1965.

^{1/} This percentage is as of December 31, 1964.

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

Item No. 11
11/22/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 29, 1965.

Mr. Karl R. Bopp, Chairman,
Conference of Presidents,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Bopp:

The Board has noted that at its September 27, 1965, meeting, the Conference of Presidents considered proposals for improvement in the Federal Reserve check collection system. At that time, the Conference authorized a subcommittee study that would give early consideration to the following topics:

- (1) The promotion and encouragement of all types of local or regional check clearing arrangements or facilities.
- (2) Improvements in the means of transportation of checks.
- (3) Revision of payment procedures by country banks, such as an automatic charge plan, in lieu of present remittance practices.

The Board also has noted that the report of the First Vice Presidents, which originally recommended the above studies, further recommended that the Ad Hoc Subcommittee appointed to study Data Transmission and Processing should consider the development of electronic transmission systems designed to reduce the importance of the check as a payment mechanism, and that the Conference approved this recommendation.

The Board is gratified at the prospect of studies along these lines, which in effect include both a short-range program and a long-range program. In this connection, it believes that there is also a need for the development of what might be called an intermediate program aimed at extending to member banks as soon as practicable the full potential of benefits that can be derived from automated check handling. Such a program should include:

- (1) The development in the near future of a plan under which Federal Reserve Banks and Branches would serve as clearing centers for all items fully qualified

Mr. Karl R. Bopp, Chairman. -2-

for electronic handling. Hopefully, such a plan would eliminate the direct-sending and other sorting requirements now imposed upon member banks that use Federal Reserve check collection facilities.

- (2) A survey of the possibilities and problems that would need to be taken into account in the development of a plan under which (a) in the initial stage all cash items deposited in Federal Reserve Banks and Branches would be immediately credited to the depositing bank and immediately charged to the drawee bank; and (b) ultimately the sorting and forwarding of checks would be eliminated by having the Federal Reserve office in which they are first deposited file them after having recorded them on magnetic tape so that the data on the tape could be used for the purposes now served by the checks themselves.

The Board recognizes that comprehensive changes in Federal Reserve check collection procedures would involve, among other considerations, legal questions, bank relations, the possible need for adoption of new check and account numbering systems, and the acquisition of new equipment. It also recognizes that in each of these areas there are complex problems that may take some time to solve. These circumstances themselves, however, suggest that there should be no delay in attacking the problem, and the Board will appreciate your conveying to the appropriate committee or committees of the Presidents' Conference the views expressed in this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Mr. Lawrence C. Murdoch, Jr.,
Secretary, Conference of Presidents.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3801
Item No. 12
11/22/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1966.

Mr. Louis Berelson,
Lind, Somers & Co.,
U.S. National Bank Bldg.,
Portland, Oregon. 97204

Dear Mr. Berelson:

This is in response to your letter of October 15, 1965, in which you request an interpretation of the meaning of a "business day" as that term is used in section 220.4(c)(7) of Federal Reserve Regulation T, "Credit by Brokers, Dealers and Members of National Securities Exchanges". In particular, you wish to know if a banking holiday on which the stock exchanges are open is a business day for the purpose of calculating the "7 full business days" that are the maximum time for payment for a security purchased in a special cash account.

As you know, transactions in a special cash account must be bona fide cash purchases; the customer must be in a position to make prompt payment and is required to do so. As soon as it appears to the creditor that the customer will not pay, he must liquidate the transaction. The "7 full business days" rule refers only to the maximum time that a broker may wait for payment, before such liquidation. Accordingly, the business days referred to represent not banking business days on which the customer may obtain the cash, but rather business days on which the brokerage house is open to receive payment.

Therefore, the Board concludes that any day on which the brokerage house that effects a transaction is open for the transaction of business constitutes a "business day" within the purview of section 220.4(c)(7).

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 13
11/22/65

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1965.



Mitchell Wendell, Esq.,
Legal Counsel,
Council of State Governments,
1755 Massachusetts Avenue, N.W.,
Washington, D. C. 20036.

Dear Doctor Wendell:

At the request of Mr. Grove Smith, Acting Director of the Marketing Division, BDSA, Department of Commerce, there is enclosed a summary of information obtained in 1964 from the twelve Federal Reserve Banks concerning the operation and regulation of nonbank money order issuers in their Districts, for use in connection with consideration of a proposal made by the Department of Commerce that the Council of State Governments develop a model code of State regulatory legislation with reference to such activity.

Although the enclosed document has been made available to certain members of Congress in response to requests for information on the subject, it was not prepared for publication, and it is assumed that you will use it only in evaluating the proposal in question.

We trust the information supplied will be helpful to you, and should there be any further way in which we might be of assistance, please do not hesitate to suggest that Mr. Smith discuss the matter with us.

Sincerely,

Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Enclosure.

cc: Mr. Smith

3803

Item No. 14
11/22/65

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 24, 1965

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

Dear Mr. Nosker:

In accordance with the requests contained in your letters of November 18, 1965, the Board approves the appointments of Edward T. Whitlock, Jr., and Burrie E. Eaves, III, as assistant examiners for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.