

Minutes for February 7, 1966

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>W</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>✓</u>
Gov. Shepardson	<u>ESD</u>
Gov. Mitchell	<u>CSA</u>
Gov. Daane	<u>WD</u>
Gov. Maisel	<u>gjm</u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, February 7, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Broida, 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. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Miss Eaton, General Assistant, Office of the
Secretary
Mr. Morgan, Staff Assistant, Board Members'
Offices
Mr. Furth, Consultant

Messrs. Koch, Garfield, Williams, Smith, Altmann,
Eckert, Ettin, Fisher, Keir, Osborne, Trueblood,
and Wernick of the Division of Research and
Statistics

Messrs. Sammons, Hersey, Irvine, Katz, Reynolds,
Wood, Dahl, Gekker, Grimwood, Hayes, Maroni,
Mills, and Nettles of the Division of Inter-
national Finance

Economic review. The Division of International Finance reported on international financial conditions, following which the Division of Research and Statistics presented information relating to the domestic economy. The staff then responded to questions by members of the Board based on the presentations, which were based to some extent on material prepared and distributed by the staff for purposes of tomorrow's meeting

2/7/66

-2-

of the Federal Open Market Committee. Copies of the relevant documents have been placed in the files of the Committee.

All members of the staff then withdrew except Messrs. Kenyon, Young, Holland, Solomon (Adviser to the Board), Fauver, Solomon (Examinations), and Eckert and Miss Eaton and the following entered the room:

Mr. Hackley, General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Heyde, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Bank lending and investing practices. Staff raised the question whether it would be desirable to make, through the Reserve Banks, a quick telephone or personal contact survey of a small sample of banks concerning trends in lending and investing policies, in light of news reports indicating the possibility of changed banker attitudes recently.

This possibility was discussed in company with an alternative suggestion that the quarterly survey of bank lending practices, which ordinarily would be taken in March, might be moved forward. It was the consensus that it would be appropriate to attempt to obtain whatever information might be helpful to the Federal Reserve policy-making process. Some sympathy was expressed with the proposal for a special informal survey, while other members of the Board favored moving forward the quarterly survey, on the basis that banks had become accustomed to this survey and that the tabulation of results might be more meaningful.

2/7/66

-3-

One member suggested that the Reserve Banks should be alerted always to be ready in advance of an Open Market Committee meeting to open up lines of contact for the purpose of developing information that might at any given time seem particularly pertinent.

It was understood that Board staff would discuss the matter with the Reserve Bank economists at a meeting scheduled to be held tomorrow afternoon and that, in the absence of significant objections such as to suggest further consideration, a survey would be undertaken according to one of the alternative procedures that had been mentioned or some variation thereof.

Circulated 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 the Federal Deposit Insurance Corporation regarding the application of The Bank of Waverly, Waverly, Virginia, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	1
Letter to Coral Way National Bank, Miami, Florida, granting its request for permission to maintain reduced reserves.	2

Application of United California Bank (Items 3-5). There had been distributed drafts of an order and statement reflecting approval by the Board on January 20, 1966, of the application of United California Bank, Los Angeles, California, to merge with Security National Bank of

2/7/66

-4-

Monterey County, Pacific Grove, California. A dissenting statement by Governors Robertson and Maisel also had been distributed. (Governor Mitchell also had dissented.)

The issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 3 and 4. A copy of the dissenting statement of Governors Robertson and Maisel is attached as Item No. 5.

The meeting then adjourned.

Secretary's Note: Attached as Item No. 6 is a copy of a letter sent today to Chemical International Finance Ltd., New York, New York, modifying the Board's letter of January 27, 1966, consenting to the acquisition of stock of Northwest Iron Co. Ltd., Cleveland, Ohio.


Assistant Secretary

Item No. 1

2/7/66 -

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1966



Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of January 18, 1966, concerning the application of The Bank of Waverly, Waverly, Virginia, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no such programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 2
2/7/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1966.

Board of Directors,
Coral Way National Bank,
Miami, Florida.

Gentlemen:

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

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 3
2/7/66

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
Security National Bank of Monterey
County

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 Security National Bank of Monterey County, Pacific Grove, California, under the charter and title of the former. As an incident to the merger, the six offices of Security National Bank of Monterey County 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

-2-

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 7th day of February, 1966.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson,
Mitchell, and Maisel.

(signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Item No. 4
2/7/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY UNITED CALIFORNIA BANK
FOR APPROVAL OF MERGER WITH
SECURITY NATIONAL BANK OF MONTEREY COUNTYSTATEMENT

United California Bank, Los Angeles, California ("United"), with total deposits of \$2.6 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 with the Security National Bank of Monterey County, Pacific Grove, California ("Security"), with total deposits of \$17 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 six offices of Security would become offices of United, increasing the number of its offices to 193.^{2/}

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

^{1/} Deposit figures are as of October 13, 1965.

^{2/} As of December 6, 1965, United was operating 187 branch offices and had received approval for 11 additional offices.

Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all of these factors, it finds the transaction to be in the public interest.

Banking factors. - Control of Security was acquired in 1961 by its present chief executive and his immediate family. At that time, Security operated one office holding about \$2.3 million in total deposits and \$1 million in total loans. Since 1961, five branch offices have been opened with a sixth branch to be opened in May of 1966. Total deposits have grown to \$17 million and total loans to \$12.7 million. At the end of 1963, Security held 7.1 per cent of total deposits in its service area.^{3/} It now holds 11.2 per cent.

This rapid growth has caused severe problems. Deposits have grown faster than capital, and Security's capital position has steadily deteriorated. Relatively large advertising and salary expenses plus heavy expenses involved in establishing new branches have adversely affected the bank's earnings, and it is expected to be several years before these branches generate sufficient business to give the bank a sound earnings base.

Security's management has been aware of the bank's need for capital funds, and more than \$900,000 of new capital has been provided during the past three years. Recent efforts to provide additional capital

^{3/} The area from which a bank derives 75 per cent or more of its deposits of individuals, partnerships, and corporations.

have been unsuccessful, and prospects for a sale of capital instruments are not favorable within the foreseeable future. There is no indication that the retention of earnings will strengthen capital in the near future.

Security's management has been satisfactory under its chief executive officer. Its recent growth must be attributed to this man, and while Security's capital position and low earnings are serious problems, they might be overcome, with time, under his leadership. But the bank's chief executive must withdraw from active management for reasons of health, and no other officer in the bank has the necessary experience and demonstrated ability to cope with present problems. In recent months the chief executive has been able to spend only a very limited time in management of the bank, and an extended search for a qualified replacement has been unsuccessful.

The proposed merger with United would solve Security's problems of low capital, below-average earnings, and lack of an individual capable of succeeding in the very near future to the position of chief executive officer.

Convenience and needs of the communities. - Security's service area consists of the Monterey Peninsula, 120 miles south of San Francisco and 350 miles north of Los Angeles. The Peninsula has a permanent population of approximately 84,000 and an additional 30,000 persons are connected with the military base at Fort Ord.

The financial needs of the Peninsula are being adequately served by Security and by 14 offices of four other banks all with deposits

of over one billion dollars: (1) Bank of America NT&SA, San Francisco; (2) Wells Fargo Bank, San Francisco; (3) Crocker-Citizens National Bank, San Francisco; and (4) Bank of California, N.A., San Francisco. The merger of Security into United would thus eliminate the only small, locally-based bank on the Peninsula, leaving the residents of that area with only offices of five of the seven largest banks in the State. However, the number of banking alternatives available to the public would not be reduced.

Security has attempted to provide residents of the area with locally-oriented banking service. The bank in addition has responded to a need in the area for a service that none of the larger banks have provided - extended and more convenient banking hours. The other banks in the Peninsula have no Saturday banking hours and are open from 10 a.m. to 3 p.m. Monday through Thursday and from 10 a.m. to 5 or 6 p.m. on Friday. Security has provided daily banking hours of 8:30 a.m. to 5:30 p.m. and Saturday hours of 9 a.m. to 1 p.m.

Consummation of the merger would thus not aid the convenience and needs of the public on the Monterey Peninsula and would deprive the area of its only small, locally-based bank.

Competition. - United competes throughout most of the State of California through its extensive branch system, but it operates no branches on the Monterey Peninsula. Its closest banking office is at Salinas, about 15 miles from the nearest office of Security, at Marina, and these offices and their service areas are separated by the vast expanse of Fort Ord.

These offices are not considered by the Board to be active competitors, and effectuation of the merger would consequently eliminate little competition between United and Security. However, United could enter this area through de novo branching, and to this extent, the potential for future competition would be eliminated.

The proposed merger would also increase, although minutely, the concentration of banking resources in the State of California within a few large banks.

Summary and conclusion. - Consummation of the proposed merger would remedy the capital, management, and earnings problems confronting Security. It would, however, have an adverse effect on the convenience and needs of that area if the convenience and needs factor is considered without regard to the banking factors that normally bear on that factor. Consummation would further add to the concentration of banking resources in the State, although by an insignificant amount, while eliminating little present competition between the two banks.

Having carefully considered and weighed the various aspects of the matter, the Board concludes that the benefits expected to flow to the public (if the proposal is effectuated) through the resulting solution of Security's immediate problems regarding capital, management, and earnings more than offset the adverse considerations.

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

February 7, 1966.

DISSENTING STATEMENT OF GOVERNORS ROBERTSON AND MAISEL

Our disagreement with the majority rests mainly with the weight that should be given in this case to each of the factors that the Board is required to consider. We would assign more weight to the effect of the proposed merger on the convenience and needs of the area served by Security. We recognize that Security has problems with its capital structure, low earnings, and its need for a new chief executive, but we do not believe that a merger with United would be the best solution to these problems.

The majority statement reflects our concern with the convenience and needs of the banking public on the Monterey Peninsula. At present, only five banks operate offices in this comparatively isolated area, and four of these banks are among the largest banks in the State of California. With approval of the proposed merger, all of the banks operating offices on the Peninsula would be among the seven largest banks in the State. Area residents would have their choice among five "billion-dollar" banks, all of which are headquartered far from the Peninsula in either San Francisco or Los Angeles.

Part of Security's recent growth can be attributed to its recognition that area residents might desire or need a different quality of banking services from that available at the four large banks. The advantages to an area of having its own locally-headquartered bank are numerous. Perhaps the most important is the advantage of the

-2-

local bank being aware of and being concerned with the diverse needs of the area and its residents. We must also recognize that, for whatever reason, many people prefer to do business with a local bank rather than a branch of a large bank headquartered many miles away.

An example of Security's concern with the needs of its area and residents is cited by the majority: Security has offered extended banking hours while the four large banks have not.

The majority believes that the convenience and needs factor is outweighed by the need for improvement in the condition of Security and its need for a new executive officer. We are not sure that Security would be unable to provide for these needs without outside help. Its capital and earnings positions reflect its rapid expansion and the problems that accompany such expansion. It is alleged that the bank needs an immediate replacement for its chief executive, but it has competent and experienced second-line management that could function adequately in the day-to-day management of the bank.

Even if it is assumed that a merger is the only solution to Security's problems, we do not feel that a merger with a bank the size of United should be approved because of the great detriment to the convenience and needs of the area. A merger with a bank smaller than United and headquartered not far from the Monterey Peninsula would be far preferable. And such a merger, in our view, would not be unlikely. Security is a valuable property; its troubles are only those of a fast-growing bank. Its capital structure could be easily improved by a

bank much smaller than United, and its earnings prospects over the long run are good. A merger with a smaller bank would also solve the alleged management problem.

In this country, unlike practically all other industrial nations of the world, we are fortunate to have developed a banking system composed of a great number and variety of banking organizations. There are large banks and small banks. Some have branches; some do not. Some banks are linked together in groups and chains; most are not. As a consequence, many alternative sources of banking facilities are available for customers of all sizes. A major purpose of the Bank Merger Act is to maintain this advantage of our great banking system, which has contributed so much to the economic growth of this country. Approval for mergers of smaller banks into larger ones must be based on the public interest, not on the fact that large banks may find it economically worthwhile to pay prices that the shareholders of those smaller banks cannot resist and other small institutions cannot afford to pay. Because banking is a regulated industry with limited entry, the value of a merger may be far greater to the bank offering to purchase than it may be to the community and public at large. We should not sacrifice the advantages of diversity in our banking system unless, in a particular case, we are certain that the result will provide greater benefits to all the public, and not just to the few, or to the large, or to the powerful. This is not such a case.

-4-

In our view, approval of the present proposal would not be in the interest of the banking public of the Monterey Peninsula. It would eliminate the Peninsula's only small, locally-headquartered bank and replace it with a branch of a large bank, similar in size and mode of operations to the other banks on the Peninsula. Security's problems are not so serious as to warrant such a result.

We would disapprove the application.

February 7, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
2/7/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1966.



Chemical International Finance Ltd.,
20 Pine Street,
New York, New York. 10015

Gentlemen:

Reference is made to the Board's letter of January 27, 1966, granting consent to your Corporation to purchase and hold 80,000 shares of common stock and 4,000 shares of 6 per cent cumulative preferred stock of Northwest Iron Co. Ltd., Cleveland, Ohio, at an aggregate cost of approximately \$480,000.

The consent was given with the understanding that the investment, combined with other foreign loans and investments of your Corporation, Chemical Bank New York Trust Company, and Chemical International Banking Corporation, would not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort. However, it is now understood that Chemical International Banking Corporation operates under a separate base. Accordingly, the last paragraph of the Board's letter of January 27, 1966, is amended to read as follows:

"The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation and Chemical Bank New York Trust Company, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein."

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.