

Minutes for February 14, 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>RM</u>
Gov. Robertson	<u>UR</u>
Gov. Balderston	<u>MB</u>
Gov. Shepardson	<u>MB</u>
Gov. Mitchell	<u>MB</u>
Gov. Daane	<u>MB</u>
Gov. Maisel	<u>MB</u>



Minutes of the Board of Governors of the Federal Reserve System on Monday, February 14, 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. Daane  
Mr. Maisel

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Senior Adviser to the Board and  
Director, Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and  
Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Associate General Counsel  
Messrs. O'Connell and Shay, Assistant General  
Counsel  
Mr. Smith, Associate Adviser, Division of  
Research and Statistics  
Mr. Sammons, Associate Director, Division of  
International Finance  
Messrs. Leavitt and Thompson, Assistant Directors,  
Division of Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Messrs. Heyde and Smith and Mrs. Heller of the  
Legal Division  
Mr. Lawrence, Economist, Division of Research  
and Statistics  
Messrs. Burton, Donovan, Egertson, Guth, Kline,  
Lyon, Maguire, Noory, Poundstone, and Rumbarger  
and Miss Greene of the Division of Examinations  
Mr. Hart, Assistant to the Director, Division of  
Personnel Administration

2/14/66

-2-

Application of First National City Bank (Item No. 1). Unanimous approval was given to a letter approving the establishment by First National City Bank, New York, New York, of a branch in Saigon, South Vietnam. A copy of the letter is attached as Item No. 1.

Foreign travel program. There had been circulated a draft of letter that would interpose no objection to a proposed program of foreign travel during 1966 by staff of the Federal Reserve Bank of New York, as described in a letter from the Bank.

After discussion of several questions that were raised, it was agreed that the travel program would be discussed by the Board with President Hayes at some mutually convenient time.

Messrs. Sammons and Poundstone then withdrew from the meeting.

New York State holding company applications. Today's agenda included the following holding company proposals:

Application of Security New York State Corporation, Rochester, New York, to become a bank holding company through acquisition of up to 100 per cent of the outstanding voting shares of Security Trust Company of Rochester, Rochester, New York, and The State Bank of Seneca Falls, N. Y., Seneca Falls, New York.

Application of Charter New York Corporation, New York, New York, to become a bank holding company through acquisition of all of the outstanding voting shares of Irving Trust Company, New York, New York, and at least 80 per cent of the outstanding voting shares of The Merchants National Bank & Trust Company of Syracuse, Syracuse, New York.

Application of BT New York Corporation, New York, New York, to become a bank holding company through acquisition of all of the outstanding voting shares of Bankers Trust Company, New York, New York; First Trust Company of Albany, Albany, New York; The First State Bank of Spring Valley, Spring Valley, New York (successor by conversion of The First National Bank

2/14/66

-3-

of Spring Valley); and The Fallkill Bank and Trust Company of Poughkeepsie, Poughkeepsie, New York (successor by conversion of The Fallkill National Bank and Trust Company of Poughkeepsie). Applications had also been filed for admission of the latter two banks, upon their conversion to State charter, to membership in the Federal Reserve System.

Because of the far-reaching implications of the applications in terms of the banking structure of the State of New York, the Board met on January 27, 1966, with Mr. Wille, New York State Superintendent of Banks, and on February 8, 1966, with President Hayes and Vice President Piderit of the Federal Reserve Bank of New York. Memoranda of these discussions have been placed in the Board's files.

An additional element in the over-all situation was the application of The Chase Manhattan Bank (National Association), New York, New York, to acquire stock of Liberty National Bank and Trust Company, Buffalo, New York. Various aspects of that application had been discussed by the Board, including requests by Chase Manhattan for a section 301 determination or, if that be denied, a permit to vote the stock of Liberty. More recently the Comptroller of the Currency had taken the position that the proposed transaction required approval under the Bank Merger Act.

In addition to the usual staff memoranda concerning the three applications to be considered today, there had been distributed a memorandum dated February 7 in which the Division of Examinations provided an analysis of commercial banks in the banking districts in upstate New York. Also distributed were a statement by the Department of Justice regarding the applications of Charter New York Corporation and BT New

2/14/66

-4-

York Corporation, and a memorandum of February 10, 1966, in which Mr. Solomon reported a question that had arisen regarding the adequacy of Irving Trust Company's capital.

Application of Security New York State Corporation. The primary memorandum analyzing the application of Security New York State Corporation to acquire Security Trust Company of Rochester and The State Bank of Seneca Falls was dated January 17, 1966. The Division of Examinations recommended approval, as had the Federal Reserve Bank of New York. The New York State Banking Board had approved a similar application.

Mr. Lyon made summary comments, based principally on the distributed material, after which the staff responded to several questions raised by members of the Board to clarify particular points of information.

The members of the Board then stated their tentative positions, beginning with Governor Robertson, who said he could not agree with the contention that the proposed transaction would lead to greater competition for the Seneca Falls branch of Lincoln National Bank and Trust Company of Syracuse. Affiliation with the proposed holding company would not increase the size of State Bank of Seneca Falls. The most that could happen would be that Security Trust of Rochester, in a holding company relationship, might more willingly participate in larger credits originating in Seneca Falls than it would in a correspondent relationship, or that it would take larger participations than the combined total of correspondent banks in the area, including a number of those within a 15-mile

2/14/66

-5-

radius. In his view, practically all of the sections of the application where one might ordinarily look for benefits were negative. The larger bank in Rochester could provide electronic data processing to the Seneca Falls bank, but that service was already available to the latter through one of its correspondent banks. The Seneca Falls bank had no particular management problem, and its capital position was stronger than that of the Rochester bank. Although it was alleged that there was no competition between the two banks, they had offices only 16 miles apart, and he found it hard to believe that the Rochester bank was not getting as much business as possible from the Seneca Falls area. In his view, approval would be tantamount to saying that the Board was in favor of restructuring the banking system of New York State through avoidance of the limitations of State law. The applicant had expressed the belief that the laws of the State were obsolete, especially with respect to home office protection and branch restrictions, but the answer was that the State legislature should re-examine the existing statutes. If the holding company device was thought of as a means of providing competition for the Marine Midland system, much more than the small combination here proposed would be required; if that was the objective, there would be no basis for turning down applications for additional acquisitions because only a full-blown system would accomplish the purpose. More likely, the several holding company proposals in New York State represented an effort by the large banks to provide themselves with good locations for branches, through

2/14/66

-6-

conversion of affiliated banks, if the State enacted more liberal branch banking legislation. Instead of sanctioning use of the holding company device to escape the present laws, it seemed to him that it would be better to let the existence of those laws generate pressure on the legislature to pass whatever laws were considered commensurate with the needs of the public.

Governor Shepardson stated that it did not seem to him that the proposal was an attempt to evade the policy of the State as expressed in its legislation. As he understood it, recent State legislation looked to holding companies as a means of achieving some restructuring of the banking system. As he recalled, in cases in the past the position had been taken that there were advantages to business and industry, from a convenience and needs standpoint, in having broadly-based banking organizations available. It seemed to him that in the instant case there was also a definite advantage in providing increased competition in the process of satisfying larger-scale banking needs. Admittedly, the present proposal was probably only a first step, but the fact that the current application was limited in scope did not argue against the proposal. Instead, it evidenced an intent to expand in an orderly, systematic way.

Governor Mitchell said he would approve on the grounds that the proposed transaction would not be inimical to or inconsistent with the public interest. He would hope, if the majority of the Board voted for approval, that this would be the publicly-stated basis for the action.

2/14/66

-7-

Governor Daane expressed the view that, going a little beyond Governor Mitchell's position, there were some actual advantages to the public interest both in terms of converting the Seneca Falls bank into a more effective competitor and in affording wider banking services to the public.

Governor Maisel said that he would approve, principally because of his belief that the public interest would be served better by regional holding companies, such as here proposed, than by State-wide organizations anchored by New York City banks. He suggested that it would be appropriate for the Board to express itself in favor of the regional type of holding company as a matter of policy.

Governor Balderston commented that he had the feeling that the New York legislature had in fact wrestled with the question of what the people of the State wanted for the future. While the legislature had not abolished the banking districts, which imposed a type of local monopoly, it had permitted the organization of bank holding companies as an alternative. The present proposal, which would permit an important Rochester bank to move into another banking district, seemed to him a part of the process of improving upstate banking.

Chairman Martin observed that a certain amount of initiative had been shown by the proponents, and in his view progress was badly needed in the entire area involved. Since the banks concerned thought they were going to make progress in this way, he saw no reason why the Board should try to hold them back.

2/14/66

-8-

Mr. Solomon noted that references had been made to the intent of New York State legislation. Although it was true that the legislature had continued the existence of the banking districts, which imposed limitations on branching, the law of the State also specifically recognized bank holding companies as a means available for bank expansion. While these two facts might appear somewhat inconsistent, the retention of the banking districts had the effect of insuring the State authorities a greater voice in the course of banking expansion than they might have had if the districts had been abolished and national banks were able to establish branches throughout the State.

Governor Robertson inquired about the specific language of the New York banking statutes in regard to bank holding companies, in response to which Mr. Solomon commented further on provisions of State law. (A New York State law that became effective in March 1961 contained the following statement: "The enactment of federal law to regulate bank holding companies . . . has made it necessary for the state of New York to review the structure of banking organizations operating in New York state. After full consideration of the complex issues involved it is hereby declared to be the policy of the state of New York that appropriate restrictions be imposed to prevent statewide control of banking by a few giant institutions; that no law or the administration of any such law should work a discrimination in favor of federally chartered banking institutions or against state chartered institutions; that the dual banking system be preserved; that competitive as well as banking factors be

2/14/66

-9-

applied by supervisory authorities in approving or disapproving bank mergers, the operations of bank holding companies, acquisitions thereby or mergers or consolidations thereof; that no existing bank holding company be granted a statutory monopoly; that healthy and nondestructive competition be fostered among all types of banking organizations within natural economic and trade areas; that statutory home office protection for small unit banking organizations be preserved and extended; and that there be state supervision over the activities of bank holding companies and banking organizations for the purpose of assuring that the activities of such companies and organizations conform to the declared policy of the state in respect of banking. . . . .")

Governor Robertson remarked that from these passages it appeared to be the intent of the State legislature to provide additional banking competition by allowing resort to the regional holding company type of organization, within supervisory restrictions, and Superintendent of Banks Wille, during his meeting with the Board, had expressed himself along those same lines. After further reflection in light of these circumstances, he (Governor Robertson) would be willing to concur with the majority of the Board in approving the application of Security New York State Corporation.

The application of Security New York State Corporation to become a bank holding company through acquisition of shares of Security Trust Company of Rochester and The State Bank of Seneca Falls was thereupon approved unanimously. It was understood that an order and statement reflecting this decision would be drafted for the Board's consideration.

2/14/66

-10-

Application of Charter New York Corporation. The discussion then turned to the application of Charter New York Corporation to become a bank holding company through acquisition of Irving Trust Company, New York City, and a majority of the stock of The Merchants National Bank and Trust Company of Syracuse. In a distributed memorandum dated January 4, 1966, the Division of Examinations had presented an analysis on the basis of which it recommended approval. The Federal Reserve Bank of New York likewise recommended favorably, and a similar application had been approved by the New York State Banking Board.

In introductory comments Mr. Solomon reported on developments in connection with a question that had been raised as to the adequacy of Irving Trust Company's capital. In a memorandum of February 10, 1966, copies of which had been furnished to members of the Board, he had commented on a letter from the Federal Reserve Bank of New York indicating that information would be available shortly from an examination of Irving Trust Company now in progress, and on the Reserve Bank's suggestion that the Board might wish to defer action on the holding company transaction application until it could be ascertained what steps Irving Trust planned to take to improve its capital position. A letter from the New York Reserve Bank dated February 11 had now been received stating that Irving Trust had formulated plans whereby, if and when the holding company proposal was approved, the holding company would issue \$60 million of long-term notes, a portion of the proceeds to be used to increase the capital

2/14/66

-11-

of the proposed subsidiary bank in Syracuse and the balance to go into Irving Trust as additional capital. The Reserve Bank believed this would provide sufficiently for the capital needs of the holding company and its constituent banks insofar as could be judged at the present time. The immediate question, Mr. Solomon continued, was whether the Board wished to accept this assurance or whether it wished to reserve judgment pending the receipt of more detailed information and analysis.

The ensuing discussion disclosed a general view in favor of postponing consideration of the case until full information was available and proceeding to the next application, particularly since consideration of the latter might help to develop the Board's conclusions on the fundamental issues involved in both cases.

Application of BT New York Corporation. A distributed memorandum of January 17, 1966, contained the Division of Examinations' principal analysis of the application of BT New York Corporation to become a bank holding company through acquisition of Bankers Trust Company, New York City, First Trust Company of Albany, The First State Bank of Spring Valley, and The Fallkill Bank and Trust Company, Poughkeepsie. The Division recommended approval, as had the Federal Reserve Bank of New York, and a similar application had been approved by the New York State Banking Board.

Summary comments by Mr. Thompson, based principally on the distributed material, were followed by a discussion relating generally to the competitive position of First Trust Company of Albany. It was brought

2/14/66

-12-

out, among other things, that the three principal commercial banks in Albany had a common problem resulting from the heavy proportion of public funds in their deposit structures. To the extent that such funds had to be secured, the banks' lending ability was restricted. First Trust of Albany was about comparable to the two larger banks in the city with respect to proportion of State deposits. It was mentioned that Bankers Trust expected to be able to assist in providing additional funds for lending to businesses in the Albany area, and claimed that its municipal consultation service would be helpful to local governments in providing advice on the structure and marketing of their issues.

In response to a question whether First Trust of Albany might be considered nonaggressive and "sleepy" as compared with the two larger banks in Albany, the staff said the record did not so indicate. Governor Maisel referred to a statement in the memorandum from the Federal Reserve Bank of New York to the effect that in the five-year period ended December 31, 1964, the bank's deposits had increased by 66 per cent and its loans by 88 per cent.

Governor Shepardson asked whether it was necessary to make the same decision with respect to all three upstate banks proposed to be acquired by the holding company or whether they could be considered separately. In response, Mr. O'Connell expressed the view that at the outset it would seem appropriate to consider the application as submitted, including all three upstate banks. However, there was nothing to prevent the

2/14/66

-13-

Board from denying the application in the form submitted and indicating that it would be willing to consider a revised application.

The members of the Board then commented, beginning with Governor Robertson, who said it seemed to him there would be a diminution of competition in that, instead of having a number of correspondent banks in New York City as they did at present, the upstate subsidiary banks would have only one. He did not regard the convenience and needs factor as strong; in fact, he could not see that any significant public benefit would be derived from the transaction. He saw the proposed step as one move in the direction of concentrating financial power in a few corporate setups. As the Department of Justice had pointed out, it would provide a precedent for similar moves by other large New York City banks. In the absence of benefits to the public, which he could not find, he regarded it as an unfortunate and unnecessary step.

Governor Shepardson noted that the question confronting the Board was the total philosophical approach to the course of banking in the State of New York. As mentioned in connection with the application of Security New York State Corporation, the New York State legislature seemed to have given its blessing to the limited development of bank holding companies. Also, there seemed to be some merit in the point made by Messrs. Hayes and Piderit during their conference with the Board that there was not only an advantage to the public but a degree of need for upstate banks in highly industrialized areas to have an affiliation with banks in New York City.

2/14/66

-14-

There had been much discussion in the conferences with Messrs. Hayes and Piderit and with Mr. Wille on the relative merits of regional bank holding companies as opposed to holding companies in which large New York City banks were the anchor banks. While it appeared that there might be a need for a regional bank holding company to have an affiliation with a New York City bank, that need probably could be served by affiliation with one of the smaller banks in the City rather than with one of the largest. Conversely, he questioned whether it was appropriate to cut off New York City banks from any affiliation with upstate banks. If there was an opportunity to branch upstate, the City banks could establish de novo branches, but State law did not permit that. It seemed to him that the Board might well look with favor on requiring any New York City banks that sought upstate affiliations to accomplish their purposes through affiliation with relatively small banks, but he did not have a firm view as to where the dividing line should be. There was a considerable size difference among the Albany banks, with the two largest at \$400-\$500 million and First Trust in third place at \$120 million, yet the latter was not a small bank. He had some doubt as to whether the Albany acquisition was justifiable, but he thought there was justification for permitting the acquisition of the two smaller banks in Spring Valley and Poughkeepsie.

Governor Mitchell said he thought it was better to allow New York City banks to make affiliations upstate than to keep them out. He believed it would be desirable from a competitive standpoint to permit them to open

2/14/66

-15-

offices upstate, because there was nothing more conducive to monopoly than local groups of banks that had been working together for years. Generally speaking, the entry of outsiders should provide more competition than continuation of the restrictions that had prevailed heretofore. However, the question Governor Shepardson had raised, namely, how large an upstate bank one should be prepared to see taken over by a large New York City bank, was difficult to resolve. Personally, he would not want to see any one of the dominant independent upstate banks taken over. First Trust of Albany was peculiar in that its large proportion of public funds was not typical of most banks with \$120 million in deposits; it might be more realistic to take into account only its other deposits as an indicator of size for this purpose. If the majority of the Board was willing to let Bankers Trust acquire just the two smaller banks in Spring Valley and Poughkeepsie, he would be willing to go along, but he would also be willing to let it have the Albany bank, even though this might amount to stretching a little on the upper end. Even if the indications were that First Trust was giving good service, he thought that letting Bankers Trust go upstate would tone up the competitive climate.

Governor Daane remarked that philosophically he came out at about the same place as Governor Shepardson, although he also agreed with much of what Governor Mitchell had said. He did not believe it would be desirable to prevent New York City banks from going upstate. He thought that their doing so would tone up the competition and vitalize it in a number

2/14/66

-16-

of areas where that was needed, and he was not convinced that purely regional bank holding companies would be able to do the job. In the specific case under consideration, he had no qualms about the acquisition of the two smaller banks, but the matter of the Albany bank troubled him. Any proposal by a New York City bank to acquire the largest bank in an upstate community would of course present a problem, and it seemed to stretch matters a bit to say that the problem did not reach down to the third largest bank in a city like Albany. Although he could go either way with respect to the Albany bank, at the moment he would be somewhat disposed to reject that acquisition.

Governor Maisel stated that he was fairly firm in the view that for the time being the Board should set about a \$50 million deposit limit on any upstate bank that could be acquired by a New York City bank. To go higher would provide an undesirable precedent. Accordingly, for the present he would suggest a policy of allowing regional holding companies to include upstate banks of above \$50 million in deposits, but of not allowing a New York City bank to acquire an upstate bank larger than that. He would support the acquisition of the Spring Valley and Poughkeepsie banks, but not the one in Albany.

Governor Balderston expressed the view that banking throughout New York State as a whole would be better with the New York City banks participating, provided the leading upstate banks were not assimilated. His first inclination had been to oppose the acquisition of the Albany

2/14/66

-17-

bank, but a large part of the bank's deposits, backed by a lot of its securities, were State deposits that did not represent banking in the usual sense of the term. It seemed to him the pivotal question was whether the Board was willing to approve formation by a large New York City bank of a holding company that would include a bank the size of First Trust of Albany, minus its public deposits. He was not sure that anything would be gained, in terms of the situation that might prevail 10 years hence, by refusing to include a bank that big in one of the newly-forming holding companies.

Chairman Martin remarked that although he could argue the present case either way, he was apprehensive about the Pandora's box that would be opened. He found perplexing the question of standards that could be established to differentiate one application from another. As a general philosophy, he believed that eventually New York City banks were going to have outlets in the rest of the State and vice versa. It was debatable, however, whether the movement should be permitted to start during the present period of inflationary forces and business boom. As to the present application, he did not see much difference between allowing only the acquisition of the two smaller banks and allowing the acquisition in Albany also. It seemed to him that an attempt to shape the banking structure of New York State in detail would place too great a burden on the Board, and that it would be advisable either to allow the complete package or to take a position that the Board would accept only regional bank holding

2/14/66

-18-

companies. The latter, of course, could hardly provide the degree of competition for the Marine Midland system that probably would be required eventually.

The discussion then reverted to the question of what procedures would be appropriate if the Board were disposed to allow acquisition by BT New York Corporation of only the banks in Spring Valley and Poughkeepsie. Mr. O'Connell advised against any formal statement that would suggest the manner in which the application should be restructured; it was the prerogative of the applicant to choose its terms, which might conceivably be revised to include a different combination of proposed subsidiaries.

Question was raised whether approval of the present application would seem likely to prompt the Department of Justice to bring antitrust proceedings, and Mr. O'Connell replied that the Department had filed far stronger statements in other cases. The reasons cited by the Department had to do principally with correspondent banking and the possibility of triggering further holding company acquisitions. In his opinion the Department might not take action on the basis of the presently-proposed acquisitions alone, although they might be used later as background for antitrust proceedings related to future trends toward banking concentration in New York State.

Governor Balderston observed that the Justice Department's question about correspondent banking led him to turn over in his mind that

2/14/66

-19-

banks in upstate New York normally had more than one correspondent in New York City and that they added to or changed their correspondent relationships from time to time, which they would not be able to do if they were tied to a particular New York City bank in a holding company setup. There was a further question, however, to which he did not know the answer, that is, whether their City correspondent relationships helped the upstate banks very much in developing participations in upstate business that they could not handle without help. He had heard conflicting reports on that point.

After some discussion based on Governor Balderston's remarks, Governor Daane commented that if the majority was inclined toward the view that the Board ought to go one way or the other with respect to all three of the acquisitions proposed by BT New York Corporation, he would be willing to go along with the favorable recommendations of the Division of Examinations and of the Federal Reserve Bank of New York. Although he would do so reluctantly with respect to the Albany bank, on balance he thought it might be true that the holding company proposals before the Board represented an inevitable development in New York banking and one that would prove useful over a period of time.

Governor Shepardson remarked that he had expressed reservations as to the Albany bank principally because of uncertainty as to where the dividing line should be on the size of upstate banks that New York City banks would or would not be permitted to acquire. Leaving aside that

2/14/66

-20-

question, he could see reasons for allowing BT New York Corporation to acquire the Albany bank as well as the other two. The Albany case was particularly difficult to appraise, he noted, because of the substantial volume of public deposits. However, a figure of \$100 million in deposits, which had been mentioned as a possible dividing line, was in his opinion a higher limit for acquisitions by New York City banks than might seem altogether desirable.

Mr. O'Connell observed that the decision would be read as indicating the limit on bank size that the Board was willing to allow, whether or not so intended. He referred to the influence exerted by certain merger case decisions, both by the Board and the Supreme Court, in terms of the quantitative guidelines that they were thought to suggest.

Governor Maisel expressed agreement with Mr. O'Connell's remarks. It was because of the implications of setting a dividing line that he would not be willing to acquiesce in the acquisition of the Albany bank. On the other hand, he would approve the acquisition of the other two banks, particularly the one in Poughkeepsie, because he believed competition would thereby be improved and because the dividing line would not be too high.

During further discussion of the question whether the size of First Trust of Albany should be measured, for this purpose, by its total deposits or by its deposits other than public funds, it was observed that the Board might not want to place itself in the position of divorcing

2/14/66

-21-

public funds from the competitive picture. Banks did in fact compete for such funds; moreover, related accounts tended to follow the State and municipal deposits.

Governor Mitchell suggested thinking about the problem in terms of proportion of the local market as well as absolute size. In Albany, where the first and second largest banks each had between \$400 and \$500 million in deposits, First Trust of Albany was the third largest with about \$120 million, even including its deposits of public funds. Thus, it had only a relatively small percentage of the total deposits of the metropolitan area. On that ground, he found it somewhat easier to rationalize a decision than in terms of absolute size.

Governor Maisel commented that he approached the question from the point of view of what would be the size of a viable bank that would enable the eventual formation of possibly 10 bank holding company systems in upstate New York. Along this line, it might be noted that there was some size beyond which no significant further economies of scale would be achieved. He did not consider the matter of public funds as an important part of the question. First Trust of Albany was obviously large enough to provide all the services the community needed; it was not suffering through lack of size.

After further discussion it was agreed that the application of BT New York Corporation would be considered further after the members of the Board had had an opportunity to review the issues involved in the light of the points brought out at this meeting.

2/14/66

-22-

Members of the staff not concerned with the following topics withdrew from the meeting at this point, and Messrs. Koch, Deputy Director, and Ettin, Economist, and Mrs. Sette, Chief, Economic Editing, Division of Research and Statistics, entered the room.

Legislative recommendations. There had been distributed a memorandum dated February 11, 1966, from the Legal Division submitting draft legislative recommendations proposed for publication in the Board's Annual Report for 1965. (The draft recommendations had been revised to reflect suggestions regarding material distributed earlier.)

After discussion, recommendations pertaining to the following subjects were approved for inclusion in the Annual Report, subject to possible further editorial changes not affecting substance:

- Lending authority of the Federal Reserve Banks
- Reserve requirements
- Bank Holding Company Act amendments
- Loans to executive officers
- Purchase of obligations of foreign governments
- Delegation of authority

The recommendation regarding reserve requirements reiterated a recommendation made in the Annual Report for 1964 that the Board be given authority to impose a graduated system of reserve requirements, without the restrictions contained in present law, and that all banks subject to such requirements be afforded access to the Federal Reserve Bank discount window. In the form in which the current recommendation was approved it included a passage pointing out that inequity between member and nonmember banks with respect to reserve requirements had resulted in accelerated

2/14/66

-23-

withdrawals of State member banks from the Federal Reserve System. Some misgivings were expressed by members of the Board as to whether the terms of the proposed recommendation might inhibit the Board from acting, if it should so elect, to adopt a system of graduated reserve requirements within the present statutory restrictions. It was understood, however, that the language of the recommendation would make it clear that the Board's present authority to adopt a system of graduated reserve requirements was limited, being applicable only to member banks and only within the present statutory percentage limitations.

Among other proposed recommendations attached to the Legal Division's February 11 memorandum was one regarding absorption of exchange charges. Mr. Hackley pointed out that the draft recommendation proposed that all insured banks be required to remit at par for checks drawn on themselves. This would undoubtedly arouse strong opposition from nonpar banks. If the Board preferred, the recommendation could simply reiterate the one made in 1956 that the law define whether or not absorption of exchange charges constituted payment of interest. (The Board had held over the years that absorption of exchange charges constituted payment of interest on demand deposits in violation of the prohibition against such payment in section 19 of the Federal Reserve Act and in the Board's Regulation Q, Payment of Interest on Deposits. The Federal Deposit Insurance Corporation had held that absorption of exchange charges did not constitute payment of interest.)

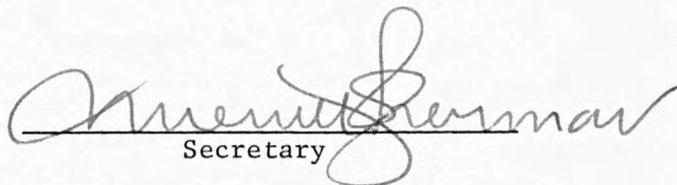
2/14/66

-24-

The ensuing discussion related principally to the question whether it would or would not be advisable to indicate to the Congress that unless the interagency conflict was resolved through clarification of the law and the inequity between classes of banks thereby eliminated, the Board might abandon its position and adopt that of the Corporation. As to the two main issues involved--first, the question of requiring par clearance by all insured banks, and second, the question whether, in the absence of a requirement for par clearance, absorption of exchange charges constituted payment of interest on demand deposits--there was general agreement that recommendations on both of these points should be made.

At the conclusion of the discussion it was understood that further consideration would be given to the recommendations involving exchange charges and also to the remaining draft legislative recommendations that there had not been sufficient time to discuss today.

The meeting then adjourned.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
2/14/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 14, 1966.

First National City Bank,  
399 Park Avenue,  
New York, New York. 10022

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to First National City Bank, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Saigon, South Vietnam, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before March 1, 1967, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

As you are aware, with respect to the establishment of foreign branches, funds provided by home office (whether in the form of allocated capital, advances, or otherwise) should be regarded as foreign assets for purposes of the voluntary foreign credit restraint effort.

Please inform the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Saigon.

Very truly yours,

*Karl E. Bakke*

Karl E. Bakke,  
Assistant Secretary.