Minutes for August 25, 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 _____

Gov. Robertson _____

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Gov. Maisel _____

Gov. Brimmer _____

Minutes of the Board of Governors of the Federal Reserve System on Thursday, August 25, 1966. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Shepardson, Acting Chairman
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. Via, Senior Attorney, Legal Division
Mr. Golden, Senior Economist, Division of Research and Statistics
Messrs. Egertson and Maguire, and Miss McShane of the Division of Examinations

Approved items. The following items were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective numbers indicated.

	Item No.
Letter to The Peoples Bank of Montross, Virginia, Incorporated, Montross, Virginia, approving an investment in bank premises.	1

	Item No.
Letter to The Merchants and Planters Bank, Camden, Arkansas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	2
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to (1) the Bank's engineers at specified above-grade rates and (2) the marble maintenance man at a specified hourly rate when performing certain duties; and requesting that the Bank review various aspects of its arrangements for services in the building maintenance area.	3

Governor Brimmer said that the letter to the Chicago Reserve Bank (Item No. 3) covered satisfactorily points about which he had raised questions when the file on the Reserve Bank's current request was in circulation to the Board. (These questions had been outlined by Governor Brimmer at yesterday's meeting of the Board.)

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The North Jersey Trust Company, Ridgewood, New Jersey, Ridgewood, New Jersey, into National Community Bank of Rutherford, Rutherford, New Jersey, was approved unanimously for transmittal, the conclusion being stated as follows:

> Consummation of the merger of National Community Bank of Rutherford, Rutherford, New Jersey, and The North Jersey Trust Company, Ridgewood, New Jersey, Ridgewood, New Jersey, would eliminate minor competition that presently exists between them. However, the proposal would not represent a significant concentration of banking resources, and the resulting institution might provide more effective competition in the Ridgewood area. The overall effect of the proposal upon competition would not be significantly adverse.

Application of St. Joseph Valley Bank. A memorandum from the Division of Examinations dated August 19, 1966, and other pertinent papers had been distributed in connection with an application by St. Joseph Valley Bank, Elkhart, Indiana, to merge First Old State Bank, also of Elkhart. The Division recommended approval, as had the Federal Reserve Bank of Chicago.

In opening the discussion, Mr. Egertson summarized the facts of the case, noting that the competitive effects of the proposed merger would be clearly adverse. He went on to point out, however, that Old State had been rated a problem bank in five of the last six examinations. The bank's capital position was low, and it was doubtful that new capital could be raised through the usual means at this time. The bank's earnings prospects did not appear favorable, and its management was poor, the bank having long been operated as a one-man institution by a president who ignored efforts on the part of the directors to restrict his lending policies, which had resulted in excessive losses to the bank. Net loan losses averaged $90,000 per annum, with $186,000 charged off following the 1966 examination.

In short, Mr. Egertson said, the future prospects of Old State as presently constituted were not favorable, and the Division concluded that the banking factors weighed heavily in favor of merger or other

organizational change that would solve Old State's problems. Possible alternatives had been set forth in the distributed material, but the proposed merger seemed perhaps the only feasible solution. Should the proposed merger be consummated, banking factors in the resulting bank would be satisfactory except for a somewhat low capital position, which the President of St. Joseph Valley Bank had expressed a willingness to correct.

In its consideration of the case the Division of Examinations had worked closely with the Legal Division and the Banking Markets Section of the Division of Research and Statistics, and they concurred in the favorable recommendation. The application had been approved by the Indiana Department of Financial Institutions.

On the other hand, the competitive factor report from the Department of Justice, while noting Old State's problems, indicated that as long as the possibility existed that its problems could be solved other than by merger with a chief competitor, the Department believed the merger would have a substantially adverse effect on competition. The Comptroller of the Currency expressed the view that the case closely paralleled the situation presented by a proposed merger of two national banks in State College, Pennsylvania, which case had been contested by the Department of Justice. The Federal Deposit Insurance Corporation concluded that without regard to the banking factors, which might be of significant importance, the proposed merger would have an adverse effect on competition.

During the ensuing discussion members of the Board expressed concern about the proposed merger in view of the acknowledged adverse competitive effect, which would appear to preclude approval of the application in the absence of clear evidence of overriding factors. A view was expressed that in this case a determination as to the viability of Old State Bank was a factor of critical importance.

In the course of the discussion Governor Maisel stated that it was his understanding, from a reading of the law, that the Board must determine, in such circumstances, that the merging bank was failing or that the probability of failure existed. It was not clear to him that Old State was a failing bank, nor did he believe that the proposed merger promised improvement over services presently available to the community.

Mr. Shay replied that the proposed merger obviously would eliminate a significant competitor and, under the law, in order to approve the application the Board would have to find that the anticompetitive effect would be clearly outweighed by the needs of the community. To him, that would mean the need of the community for a sound institution well established financially. But, as he read the law, the Board would not need to go so far as to find that the probability of failure existed. In the Philadelphia National Bank decision, for instance, the Supreme Court had gone out of its way to state that "the so-called failing company defense . . . might have somewhat larger contours as applied to bank mergers." It appeared to him that a floundering bank would come within

the area that would permit the Board to say that the anticompetitive factors were outweighed.

Governor Maisel observed that, in his view, the impact on the community should be the determining factor, and that it was almost incumbent upon the supervisory agency, when a proposed merger would have a clearly adverse competitive effect, to find that continued operation of the bank proposed to be merged would be harmful from the community standpoint.

Comments then turned to various areas in which there appeared to be gaps in the information available to the Board, such as the attitude of the President of Old State toward the proposed merger, the implications of the diversified ownership of Old State stock, classifications of loans on which losses had been realized, and possible alternatives for solving the problems of Old State other than by merger with St. Joseph Valley Bank.

Following further discussion it was agreed that an oral presentation on the application should be held on a mutually convenient date and that the presence of top officials of both First Old State Bank and St. Joseph Valley Bank, particularly President Martin of Old State, should be specifically requested. It was understood that the oral presentation would not be open to the public since an important consideration involved in the application was the condition of Old State. It was further understood that representatives of the Federal Reserve Bank of Chicago would

be asked to meet with the Board prior to the oral presentation. In anticipation of the oral presentation, members of the Board suggested points of information on which supplemental staff memoranda would be helpful.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Discount rates. A telegram had been received from the Federal Reserve Bank of Cleveland stating that the executive committee of the Bank's Board of Directors, at a meeting today, had established, subject to review and determination by the Board of Governors, rates of 5 per cent on discounts and advances to member banks under sections 13 and 13a of the Federal Reserve Act, 5-1/2 per cent on advances to member banks under section 10(b), and 6-1/2 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13.

It was agreed unanimously that the Cleveland Bank should be advised that the Board did not at this time approve the action taken by the executive committee. This meant that the rates on discounts and advances in the Bank's existing schedule automatically continued in effect.

Reception. The Board authorized payment of one-half (not to exceed $750) of the cost of a Treasury-Federal Reserve reception to be given at Anderson House on September 23, 1966, for representatives of the Group of Ten, Working Party 3, and the Executive Directors of the International Monetary Fund.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointments

Joyce Emily Brueckel as Chief, Computer Systems and Programming Section, Division of Data Processing, with basic annual salary at the rate of $17,550, effective the date of entrance upon duty.

Daniel Garges as Computer Systems Specialist, Division of Data Processing, with basic annual salary at the rate of $13,769, effective the date of entrance upon duty.

Salary increases, effective August 28, 1966

Name and title	Division	Basic annual salary From	Basic annual salary To
	Office of the Secretary		
Linda Kay Goukler, Records Clerk		$ 4,776	$ 4,936
	Legal		
Pauline B. Heller, Senior Attorney		18,157	18,764
	Research and Statistics		
Edward M. Gramlich, Economist		11,306	11,685
Nathaniel Greenspun, Economist		16,152	16,675
Marylee H. Hair, General Assistant		6,065	6,664
Joel Sarfati, Economist		7,696	7,957
John L. Stone, Economist		14,665	15,113
	International Finance		
Rosemary V. Jordan, Secretary		5,683	5,859
	Examinations		
Walker White, Jr., Review Examiner		15,113	15,561

Salary increases, effective August 28, 1966 (continued)

Name and title	Division	Basic annual salary From	To
	Administrative Services		
James R. Carnahan, Captain, Guard Force		$6,461	$6,659
Woodard Collier, Jr., Messenger		3,609	3,731
	Data Processing		
Russell H. Tharp, Programmer		7,957	9,221

Advance of sick leave

Winnie L. Tull, Supervisor, Cafeteria, Division of Administrative Services, for the period August 10 through September 30, 1966.

Leave without pay

Mary F. Weaver, Statistical Assistant, Division of Research and Statistics, for a period of three months beginning August 29, 1966. (It was understood that the Division was authorized to recall Mrs. Weaver for intermittent periods of work if necessary.)

Acceptance of resignations

Constance I. Stokes, Stenographer, Legal Division, effective August 26, 1966.

Woodard Collier, Jr., Messenger, Division of Administrative Services, effective the close of business September 9, 1966.

Robert B. Haycock, Analyst, Division of Bank Operations, effective the close of business September 9, 1966.

Secretary

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

Item No. 1
8/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1966

Board of Directors,
The Peoples Bank of Montross, Virginia,
Incorporated,
Montross, Virginia.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an additional investment in bank premises of $20,000 by The Peoples Bank of Montross, Virginia, Incorporated, which, together with the $115,000 previously approved by the Board, is for the purpose of constructing a new bank building.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 2
8/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1966

Board of Directors,
The Merchants and Planters Bank,
Camden, Arkansas.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors a letter dated August 11, 1966, signed by President Ford, together with the accompanying resolutions dated August 11, 1966, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 3
8/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 26, 1966

CONFIDENTIAL (FR)

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

Dear Mr. Scanlon:

As requested in Mr. Helmer's letter of July 8, the Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the Bank's Engineers at rates above the maximums of the grades in which the positions are classified, effective on the dates indicated, as follows:

	Annual Salaries		
Title	Effective 7-4-66	Effective 7-1-67	Effective 7-1-68
Engineers	$8,840.00	$9,401.60	$9,880.00

As requested in your letter of July 12, the Board also approves the payment of salary to the Bank's Marble Maintenance Man at an hourly rate of $5.15 for time spent performing Marble Setter duties, effective retroactively to June 1, 1966.

In considering these requests, the Board reviewed the procedure that has been followed by your Bank for some years under which salaries for a number of building service positions are fixed in accordance with terms agreed upon by the Building Managers Association of Chicago. This included a review of some very helpful information supplied by Vice President Newman regarding comparative cost figures for fringe benefits provided by your Bank and those specified by union agreements for building trade and service employees.

Question was raised as to whether, at the present time, it is necessary or desirable to relate salary payments for service

employees as precisely to union agreements as has been the case for some years. If so, would it be practicable to bring about a more uniform relationship for the different types of service employees? For example, Carpenters, Electricians "A," Painters (other than supervisors), and the Plumber are paid 90 per cent of the negotiated rates and all Bank fringe benefits; Marble Maintenance, Elevator Operators (other than supervisors), Paper Baler, Matrons, and Janitors receive 100 per cent of the union contract rates plus some of the Bank fringe benefits; Engineers and Firemen are paid 100 per cent of the union rate plus all of the Reserve Bank fringe benefits; and the Electrician "B" receives 100 per cent of the union rates plus union fringe benefits. In addition, the Board is considering whether, rather than following the present procedure of approving each payment at a specified rate above the maximum of the grade in which the position is classified, a procedure could be devised whereby continuing authority to make such payments could be given to your Bank, provided that the Board would be advised of changes in salary rates under that authority, and that no revision in the salary determination procedure would be made without prior Board review.

An alternate that might be considered would be whether, in the light of technological developments in building maintenance since the subject was reviewed several years ago, work of this type might be performed under contract with an outside firm.

The Board will appreciate your reviewing this entire arrangement and giving it your views with respect to each of the questions raised.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.