

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 7, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Cherry, Legislative Counsel
Mr. Molony, Special Assistant to the Board
Mr. Hackley, Assistant General Counsel

At the meeting on September 2, 1955, preliminary consideration was given to an application of The Commercial Bank of Utah, Spanish Fork, Utah, to establish a branch at Eureka, Utah. In view of certain questions which were raised regarding the bank's condition, it was decided at that time not to act on the application until Governor Robertson returned and had an opportunity to review the file.

In commenting on the matter, Governor Robertson said that only a small branch operation was envisaged, one which would be more in the nature of a service to a community now without commercial banking facilities than a profit-making venture. Although the report of examination made jointly by the Federal Reserve Bank of San Francisco and the Utah State authorities in June 1954 reflected a rather substantial amount of criticized

9/7/55

-2-

and classified paper together with a lack of conservatism on the part of the management, he felt that the situation was not one to cause undue concern from a supervisory standpoint, particularly since there were indications that the management was cognizant of the bank's problems and was taking steps looking toward improvement. In all the circumstances, he was inclined to approve the application. However, in view of the lapse of time since the last examination of the bank by the Federal Reserve Bank, he suggested that the Division of Examinations be requested to communicate with the State Bank Commissioner of Utah and inquire whether the State authorities had made a more recent examination or, if not, whether the Bank Commissioner had any information which would indicate that the member bank's condition was deteriorating. If the results of such an inquiry were favorable, he recommended that the branch application be granted.

In a further statement, Governor Robertson suggested that it might be well for the Board to follow a general policy of not approving branch applications where the applicant bank had not been examined for a period of one year or more and showed, at the time of the latest examination, a faulty position.

The procedure recommended by Governor Robertson with respect to the application of The Commercial Bank of Utah was approved unanimously with the understanding that if the State Bank Commissioner of Utah supplied no information of such a nature as to indicate that further consideration by the Board would be desirable, the member bank would be advised that the Board approved its application to establish a branch in Eureka.

9/7/55

-3-

Secretary's Note: Pursuant to this action, Mr. Sloan talked by telephone with the State Bank Commissioner of Utah, who said that although his department had not made an examination of The Commercial Bank of Utah since the examination made jointly with the Federal Reserve Bank of San Francisco in June 1954, he had received reports indicating progress by the bank in dealing with criticized and specially mentioned loans. He also expressed confidence in the management of the bank, which he felt had been following a more conservative policy over the past several years and had effected improvement in the condition of the bank. He expected the next examination of the bank, scheduled for the near future, to reflect a continuation of that trend. Accordingly, the following letter to the Board of Directors of The Commercial Bank of Utah was sent to the Federal Reserve Bank of San Francisco under date of September 8, 1955, for transmittal to the member bank:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by The Commercial Bank of Utah in Eureka, Utah, provided the branch is established within six months from the date of this letter.

At the meeting on September 2, 1955, there was a discussion concerning the application of City Bank, Detroit, Michigan, to establish a branch in Madison Heights, Royal Oak Township, and it was decided to defer action on the application until Governor Robertson had returned and reviewed the file. The principal questions concerned the capital position of the applicant bank and the advisability of conditioning approval of the branch upon the providing of capital to correct, at least partially, the bank's existing capital deficiency.

9/7/55

-4-

Governor Robertson suggested that the Board again defer action on the application and that he be authorized to get in touch with the management of the State member bank for the purpose of reviewing the capital situation of the institution and ascertaining whether the bank had any definite plans for providing additional capital.

With respect to a point raised by Governor Mills at the meeting on September 2, Governor Robertson said it was his view that in no case should the Board make its approval of a branch dependent on a requirement that the applicant bank provide more capital -- certainly not on the bank's getting more capital than it appeared able to raise. He thought that a problem of this kind should be met by having a definite understanding with the applying institution concerning its capital situation before the Board acted on the branch application. In the case of City Bank, he felt that if the management gave assurances regarding steps to increase the bank's capital within the reasonably near future, those assurances could be relied upon and the Board would then be justified in approving the application to establish a branch in Royal Oak Township.

There was unanimous agreement
with the procedure suggested by
Governor Robertson.

On August 15, 1955, the Board authorized installation of mobile telephone equipment in one of its automobiles, it being understood at the time that the cost of the service would be at the rate of \$10 per month. Later it was ascertained that the rate originally quoted by the

9/7/55

-5-

telephone company was not correct and that the charge for the service would be at the rate of \$25 per month. In the circumstances, it was decided at the meeting on August 18 to defer a decision on whether to go ahead with the installation until Governor Robertson returned and expressed his views.

Governor Robertson said that although he recognized that the Board might make little or no use of the equipment, the installation of such equipment had been suggested to Government agencies by the Office of Defense Mobilization and it was deemed desirable to cooperate to the extent of equipping one of the Board's automobiles. In view of the opinion of the Office of Defense Mobilization that the installation of mobile telephone equipment was essential to the defense program, he recommended that the Board cooperate to the extent originally envisaged despite the fact that the service would be somewhat more costly than at first understood.

Governor Robertson's recommendation was approved unanimously.

At the meeting on August 24, 1955, consideration was given to the action that should be taken in the light of an inquiry from Senator Scott of North Carolina concerning the right of State member banks to purchase stock in, or become members of, the proposed Business Development Corporation of North Carolina. In view of questions which were raised, particularly concerning the requirement that a member of the corporation

9/7/55

-6-

make loans to the corporation up to a stated percentage of its capital and surplus upon call by the corporation's directors, it was decided to have a further discussion of the matter following Governor Robertson's return.

At the request of the Board, Mr. Hackley again reviewed the obligations incident to membership in the Business Development Corporation of North Carolina and brought out that from a legal standpoint there appeared to be no grounds on which it might be said that State member banks would be prevented from becoming members of the corporation. He also discussed the history of similar corporations organized in six New England states, in which both national and State member banks in the respective States hold membership. In addition, he referred to questions that had arisen with regard to the right of member banks to become members of a development corporation being organized in the State of New York and mentioned the views which had been expressed by the Office of the Comptroller of the Currency and by the legal staff of the Federal Reserve Bank of New York.

Governor Vardaman then made a statement in which he reiterated the views which he expressed at the meeting on August 24. He said that if there were no legal grounds on which State member banks were prevented from becoming members of the development corporations and if such membership involved an obligation to make loans to the corporation over a period

9/7/55

-7-

of time, he felt that the Board should consider advising Senator Scott and the Federal Reserve Banks that it had strong reservations about participation by State member banks in any corporation where they would in a sense delegate a portion of their lending authority over a stated period of time. He said that he wished to make it clear that he had no objection to participation by member banks in the development corporations provided some arrangement could be worked out whereby the banks' directors would have an opportunity to pass on loans made by the corporation at the time such loans were made.

Governor Robertson said that from the standpoint of the principle involved, he concurred in Governor Vardaman's position. Inasmuch as the activities of the development corporations had been limited in scope and the conditions surrounding member bank participation in them seemed to pose no problems of such a nature as to cause undue concern, it was his feeling that the Board should not attempt to do anything which would affect existing relationships but that the Board should make known its views concerning the possibility of the development of unsound practices, for example, if a member bank should accept membership in a number of similar corporations and would be obligated to make loans to each of them. He also concurred in Governor Vardaman's view that arrangements for participation by member banks should be of such a nature that the bank's directors would have the right to pass upon loans made by the corporation at the time they were made.

9/7/55

-8-

Mr. Hackley said he understood that Mr. Masters, Assistant Director, Division of Examinations, had discussed the subject with Vice President Latham of the Federal Reserve Bank of Boston, who indicated that the Reserve Bank would appreciate having an opportunity to express its views on the basis of experience with the development corporations organized in New England.

The members of the Board agreed that it would be desirable to have the views of the Boston Reserve Bank if arrangements could be worked out to obtain them without undue delay. In addition, it was suggested that the subject of member bank participation in development corporations be referred to the Presidents' Conference with the request that the Presidents consider the matter at their next meeting and give the Board the benefit of their views.

Consideration then was given to the type of response which might be made to Senator Scott, and during this discussion it was suggested that the Board might be in a better position to respond after it had an opportunity to hear the representatives of the Federal Reserve Bank of Boston.

At the conclusion of the discussion, it was agreed that arrangements should be made for representatives of the Boston Reserve Bank to meet with the Board next week.

At this point Messrs. Leonard, Director, and Horbett, Associate Director, Division of Bank Operations; Koch, Assistant Director,

9/7/55

-9-

Division of Research and Statistics; and Shay, Assistant Counsel, entered the room.

Under date of May 3, 1955, the Board sent to the Federal Reserve Banks a memorandum discussing alternative policies which might be followed in passing upon questions as to whether various practices constitute an indirect payment of interest on deposits under the law and the Board's Regulation Q, Payment of Interest on Deposits. The alternative policies suggested were: (1) to continue the present general policy of answering questions only after development of the pertinent facts through examination of the member banks involved; (2) to publish a statement to the effect that the provisions of the law are "self-policing", that member banks have the responsibility of determining whether their practices conform to the law, but that the Board would be alert to obvious violations and take steps to enforce the law in such cases; (3) to depart from the present general policy and attempt to give specific answers on the basis of information presented without necessarily waiting for bank examination; and (4) to amend the law for the purpose of making it more practicable and workable. The responses of the Reserve Banks were summarized and discussed in a memorandum from Mr. Vest dated August 8, 1955, of which copies had been sent to the members of the Board. The Reserve Bank responses reflected a lack of uniformity of opinion and in the memorandum Mr. Vest reached the conclusion that much could be said for a continuation

9/7/55

-10-

of the policy followed by the Board in the past (the first alternative). He recognized, however, that strong arguments could be made for following some other practice.

At the request of the Board, Mr. Vest made a statement in which he referred to the earlier discussion of this subject by the Board, summarized the arguments that might be made for and against the several alternatives, and reviewed the comments of the Federal Reserve Banks. He recalled that the problem also had been referred to the Federal Advisory Council and that the Council favored the issuance of a statement along the lines of the second alternative, but he went on to say that this alternative found little favor among the Reserve Banks. He said that some sentiment existed on the part of the Reserve Banks for seeking legislation, but that such a course would present a number of complications, among them the possibility that the subject of absorption of exchange charges would be raised in hearings concerning the proposed legislation.

Chairman Martin stated that his study of the matter led him to conclude, like Mr. Vest, that there was much to be said for continuing the present policy.

Governor Robertson concurred, but suggested a deviation from the present policy to the extent that the Board would consider, without waiting for a bank examination, cases that appeared to involve flagrant

9/7/55

-11-

violations of the law or the Board's regulation. In other words, he would follow the present policy wherever possible, but in flagrant cases would give a specific answer on the basis of the available information. He also felt that the Board should seek legislation at an appropriate time to make the law more workable, perhaps in connection with other legislative changes which the Board might want to propose for consideration at the next session of the Congress.

There was unanimous agreement with the procedure suggested by Governor Robertson.

Messrs. Horbett and Shay then withdrew from the meeting and Mr. Johnson, Controller, and Director, Division of Personnel Administration, entered the room.

Prior to this meeting there had been sent to the members of the Board copies of a proposed response to a questionnaire from the Government Information Subcommittee of the House Committee on Government Operations concerning the availability of information in the possession of Government agencies to the press, the public, and within the Government itself.

Agreement was expressed with the general approach taken in the proposed answers to the questionnaire, but questions were raised concerning the language used in the foreword and in some of the answers.

In the circumstances, Chairman Martin suggested that Governors Vardaman and Mills meet with appropriate members of the staff with a

9/7/55

-12-

view to making such changes as seemed desirable and having another draft submitted for the Board's consideration.

There was unanimous agreement with this suggestion.

Referring to the action taken by the Board on September 2, 1955, Mr. Sherman stated that Messrs. Shannon Crandall, Jr., and Warren W. Braley had advised the Chairman of the Federal Reserve Bank of San Francisco that they would accept appointments as directors of the Los Angeles and Portland Branches, respectively, but that Mr. Charles Detoy was out of the country and was not expected to return until about the first of October. He said it was Governor Mills' suggestion that, in the case of Mr. Detoy, no further action be taken until he returned and it could be ascertained whether he would accept appointment as a director of the Los Angeles Branch.

There was unanimous agreement with Governor Mills' suggestion.

Secretary's Note: Pursuant to the Board's action on September 2, 1955, the following telegrams were sent under date of September 7:

To Mr. Shannon Crandall, Jr., President, California Hardware Company,
Los Angeles, California

Board of Governors of Federal Reserve System has appointed you a director of Los Angeles Branch of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1955. Your acceptance by collect telegram will be appreciated.

9/7/55

-13-

Understand you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of appointment, please advise Chairman of Federal Reserve Bank of San Francisco.

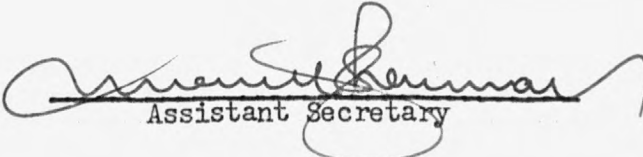
To Mr. Warren W. Braley, Partner, Braley & Graham Buick, Portland, Oregon

Board of Governors of Federal Reserve System has appointed you a director of Portland Branch of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1955. Your acceptance by collect telegram will be appreciated.

Understand you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of your appointment, please advise Chairman of Federal Reserve Bank of San Francisco.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 2, 1955, were approved unanimously.

The meeting then adjourned.


Assistant Secretary