

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, October 6, 1955. The Board met in the Board Room at 9:45 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memoranda dated September 27, 1955, from Mr. Young, Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective October 9, 1955:

<u>Name and title</u>	<u>Basic annual salary</u>	
	<u>From</u>	<u>To</u>
Lyndall McCloud, Economist	\$7,465	\$7,785
Louise P. Root, Editorial Clerk	3,430	3,585

Approved unanimously.

Memorandum dated September 29, 1955, from Mr. Bethea, Director, Division of Administrative Services, advising of the retirement of Hiram H. Florea, Guard in that Division, under the Federal Reserve Retirement System, effective October 1, 1955.

Noted.

10/6/55

-2-

Memorandum dated September 30, 1955, from Mr. Sherman, Assistant Secretary of the Board, recommending that the resignation of Martha L. Ware, Index Clerk in the Office of the Secretary, be accepted effective October 14, 1955.

Approved unanimously.

Letter to the Board of Directors, Peoples State Bank, Williamston, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the absorption of The Farmers State Bank of Webberville, Webberville, Michigan, by the Peoples State Bank, Williamston, Michigan, and approves the establishment by the latter bank of a branch at 101 East Grand River Avenue, Webberville, Michigan, provided (1) the absorption is effected substantially in accordance with the plan submitted to the Reserve Bank, (2) formal approval of the appropriate State authorities is obtained, and (3) the absorption and the establishment of the branch are effected within six months from the date of this letter.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Chicago.

Letter to the Board of Directors, The First National Bank of Roswell, Roswell, New Mexico, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Mexico. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, and administrator, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

10/6/55

-3-

A formal certificate indicating the fiduciary powers which The First National Bank of Roswell is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Dallas.

In connection with the foregoing action, Governor Balderston said that although he did not wish to vote against granting the requested fiduciary powers to The First National Bank of Roswell, it had again occurred to him that the Board was following a rather liberal policy in granting trust powers to smaller banks. He recognized that the size of the applicant institution was not the sole criterion on which the Board should base a decision and that denial of trust powers to smaller banks might result in situations where persons in many communities would not have the benefit of local trust services. He expressed concern, however, from the standpoint of the availability of properly qualified trust personnel, pointing out that even in a case where a small bank has a satisfactory trust officer and has built up a considerable volume of business, the loss of that officer may change the personnel situation completely.

Governor Robertson agreed with Governor Balderston that the ability to provide competent service should be the controlling factor rather than the size of the applicant bank. He also said that in many instances a small banking institution is unable to obtain persons of the calibre needed to exercise fiduciary powers.

Earlier this year, the Board advised the Federal Reserve Bank of New York that on the basis of information submitted, it appeared that

10/6/55

-4-

Robert Winthrop & Co., of New York City, should be regarded as primarily engaged in business of the kinds described in section 32 of the Banking Act of 1933 and that the interlocking relationships involving Mr. Robert Winthrop therefore were prohibited by the statute. Subsequently, the New York Reserve Bank submitted additional information which showed that for the first six months of 1955 the percentage of the firm's total gross income derived from section 32 business was 7.8 per cent, as compared with 14.9 per cent for the year 1954, which in the opinion of the Reserve Bank seemed to substantiate the firm's contention that 1954 was an exceptional year with respect to underwriting profit derived from municipal financing. In the circumstances, the Reserve Bank felt that section 32 was not applicable, but suggested that the case be reviewed again after the year 1955. Accordingly, there had been circulated to the members of the Board a draft of letter to Mr. Wiltse, Vice President of the New York Reserve Bank, which, after summarizing the pertinent information, would state that the Board agreed with the Reserve Bank's conclusion, subject to the understanding that the case would again be reviewed after the end of the year.

Governor Balderston said that he agreed with the position stated in the draft of letter. However, for reasons which he outlined, he submitted an alternative draft, which was read at this meeting.

It being agreed that the response should be in the form of the draft submitted by Governor Balderston, unanimous

10/6/55

-5-

approval was given to a letter to Vice President Wiltse reading as follows:

Reference is made to your letter of September 9, 1955, and previous correspondence regarding the question whether Robert Winthrop & Co. is primarily engaged in business of the kinds described in section 32 of the Banking Act of 1933.

In your letter you point out that the percentage ratio of the firm's income from such business to the firm's total gross income for the first six months of 1955 is 7.8%, and declined further during the next two months; that this information would seem to substantiate the firm's contention that 1954 was an exceptional year with respect to underwriting profit derived from municipal financing, and that it would appear that the firm's underwriting and distributing business "is now in line with the more normal years prior to 1953."

In view of these circumstances and the fact that your Bank will be reviewing the pertinent information again after the end of 1955, the Board agrees with your recommendation to regard section 32 as not applicable at the present time.

Reference then was made to a request from the Comptroller of the Currency for a recommendation regarding an application to organize a national bank in Sarasota, Florida. On the basis of an investigation made by one of its examiners, the Federal Reserve Bank of Atlanta suggested an unfavorable recommendation. The Division of Examinations concluded, however, that although the application might be somewhat premature, the facts were not such as to warrant an adverse recommendation, and a draft of letter along those lines was submitted to the Board. When the file was in circulation, Governor Robertson suggested certain changes in the draft so that it would read as follows:

10/6/55

-6-

Reference is made to a letter from your office dated July 13, 1955, enclosing photostatic copies of an application to organize a national bank at or near Sarasota, Florida, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure of the institution would be adequate, earnings prospects fair, and that the general character of the management would be reasonably satisfactory as to the directorate but not satisfactory as to operating management. The proposed bank is to be located in a growing area some distance from the main business section of Sarasota, and while there is some question as to present need for the banking facility, it is indicated that a more pronounced need will develop if the area continues its growth and development. After considering all of the information available, it appears that the application may be somewhat premature but the Board of Governors is of the opinion that the facts are not such as to warrant an adverse recommendation, provided management satisfactory to your office is obtained.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if you so desire.

In commenting on the matter, Governor Robertson said that the application was of a borderline nature, so much so that he had some doubt whether the Board should make a recommendation different from that suggested by the Atlanta Reserve Bank. He brought out, however, that the proposed site was about 2-1/2 miles from the center of the city of Sarasota and that branch banking is not permitted in the State of Florida. For these reasons, he thought that the proposed letter would be appropriate. He pointed out that it would not be too much at variance with the conclusions reached by the Atlanta Reserve Bank.

10/6/55

-7-

In a further discussion, Governor Balderston expressed some doubt as to the need for an additional bank in a city the size of Sarasota, where three banks are already located. However, after the recent growth of population in and around the city was cited, he expressed himself as agreeable to the suggested letter to the Comptroller of the Currency.

Thereupon, the letter to the Comptroller of the Currency was approved unanimously in the form set forth above.

There had also been received from the Comptroller of the Currency a request for recommendations with respect to two applications to organize national banks in the vicinity of 79th Street and Biscayne Boulevard in Miami, Florida. Following investigations of the applications, the Federal Reserve Bank of Atlanta suggested unfavorable recommendations in both instances, and the Division of Examinations submitted a draft of letter taking the same position. When the file was in circulation, Governor Robertson suggested certain changes in the draft so that the letter would read as follows:

Reference is made to your letters of July 21 and August 2, 1955, submitting photostatic copies of two applications to organize national banks at Miami, Florida, both to be located at 79th Street and Biscayne Boulevard, Miami; one to be known as "The National Bank of Miami" and the other as "First National Bank of Little River".

Although the location specified in each application is the same, it appears that the site chosen by the proponents

10/6/55

-8-

of the second application is at 75th Street and Biscayne Boulevard, four blocks from the location originally specified. In any event, however, it would seem that the two applications pertain to the same community and should receive simultaneous consideration although the investigations appear to have been made independently and neither of the separate reports refers to the other.

In each case, the report of investigation submitted by an examiner for the Federal Reserve Bank of Atlanta indicates that capital as proposed would be adequate but it was felt that estimates of prospective deposit volume by the respective proponents were overoptimistic as the principal business enterprises in the area were so-called national concerns and the prospective earnings factor was considered unfavorable because of lack of loan demand in the area. With the exception of the proposed President and the Cashier of the "First National Bank of Little River," it appears that none of the proponents of either institution have had any banking experience and the "Little River" group as a whole was not considered financially substantial. While an additional facility might be a convenience, it is noted that the head office of the Little River Bank and Trust Company is located within four blocks of one location and nine blocks of the other and four other banks are operating within a radius of 3-1/2 miles. In view of the Board's recent recommendation for approval of an application to establish a national bank at 50th Street on Biscayne Boulevard, the lack of banking experience of the applicants and the questionable need for additional banking facilities at the specified location, the Board does not feel justified in recommending approval of either application.

The Board's Division of Examinations will be glad to discuss these cases with representatives of your office, if you so desire.

Governor Robertson said that the applications were for banks in a well populated area some distance from most of the available banking facilities. He went on to say that he would not wish to recommend favorably on both applications and that in each case there were certain undesirable factors. Since the Board recently recommended approval of an

10/6/55

-9-

application to organize a national bank at 50th Street and Biscayne Boulevard and there would not seem to be reason for the establishment of more than one new bank in that neighborhood, it was his view that this fact, taken together with the unfavorable aspects of each of the new applications, constituted sufficient grounds for the Board to recommend adversely with respect to the two current applications.

Thereupon, unanimous approval was given to a letter to the Comptroller of the Currency in the form set forth above.

Governor Mills referred to the Board's letter of September 15, 1955, to International Banking Corporation, New York, New York, regarding the acquisition by that Corporation of the stock of The Bank of Monrovia, a Liberian corporation. He inquired whether there had been any developments since the date of the letter.

Governor Szymczak said that in response to the Board's letter, International Banking Corporation submitted certain data relating to the transaction. With reference to the proposal to amend the Board's agreement with International Banking Corporation under section 25 of the Federal Reserve Act, the Secretary of the Corporation, in a letter dated September 29, 1955, expressed the belief that an exchange of views preliminary to the submission of formal comments would assist in the establishment of a mutually satisfactory understanding. The Corporation,

10/6/55

-10-

therefore, wished to send representatives to Washington for the purpose of such a discussion.

Governor Szymczak suggested that International Banking Corporation be advised that it would be agreeable for representatives of the Board and the Corporation to discuss the matter at 2:30 p.m. on October 13, 1955, if convenient to the Corporation. He also suggested advising the Corporation that, in the circumstances, the date for receipt of its views and comments on the proposed amendment would be extended from October 17 to October 24, 1955.

There was unanimous agreement that advice should be sent to International Banking Corporation along the lines proposed by Governor Szymczak.

Mr. Sloan then withdrew from the meeting.

There had been circulated to the members of the Board a memorandum dated October 3, 1955, from Mr. Vest, General Counsel, submitting a memorandum from Mr. Hackley, Assistant General Counsel, constituting a historical review of legal aspects relating to the payment of interest on time and savings deposits and the prohibition against interest on demand deposits. The memorandum indicated that the paper was prepared by Mr. Hackley for his own use and convenience, but that it should be a valuable reference source for the Federal Reserve Banks, including their counsel. Accordingly, it was suggested that copies of the memorandum be sent to the Reserve Banks for their information.

10/6/55

-11-

There being agreement with the suggestion contained in Mr. Vest's memorandum, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks reading as follows:

There is enclosed herewith a historical memorandum relating to the legal aspects of payment of interest on deposits by member banks, prepared by Mr. Hackley, Assistant General Counsel, which, it is thought, may be of some reference value to your officers, and particularly your Counsel, in connection with questions which arise from time to time in this field.

Governor Balderston referred to the Board's letter of September 30, 1955, to Mr. Donald C. Rubel, of Parrish & Co., Philadelphia, Pennsylvania, concerning Mr. Rubel's suggestion that Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, be amended to cover bonds and debentures that are convertible into stock. He said that in a subsequent conversation, Mr. Rubel discussed the subject further and stated that he had sent a copy of the Board's letter to the President of the New York Stock Exchange. Governor Balderston stated that he was inclined to look rather sympathetically upon Mr. Rubel's suggestion in view of the recent growth in the volume of convertible bond issues, and he inquired what procedures were anticipated in giving further consideration to the matter.

After recalling that copies of the correspondence with Mr. Rubel and a staff memorandum on the subject had been sent to the Presidents of the Reserve Banks for comment, Mr. Solomon said that replies from the Presidents might be expected in about three or four weeks. Should the

10/6/55

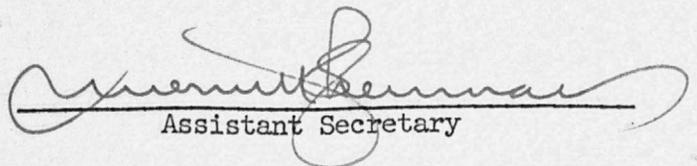
-12-

Board then decide to amend Regulation U, a notice would be placed in the Federal Register giving interested parties a period of 30 days within which to submit comments. Altogether, it appeared to Mr. Solomon that a period of about three months would be required before an amendment could become effective.

Governor Robertson referred to the Board's letter of October 4, 1955, to the Presidents of all Federal Reserve Banks concerning loans on an intermediate-term basis for agricultural purposes and said that he had been advised that the Comptroller of the Currency was sending a similar communication to national bank examiners this morning.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 5, 1955, were approved unanimously.

The meeting then adjourned.


Assistant Secretary