

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 24, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, 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:

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the request contained in your letter of October 17, 1955, the Board approves the designation of Shirley S. Shannon as a special assistant examiner for the Federal Reserve Bank of Atlanta for the purpose of participating in the examinations of State member banks only.

Approved unanimously.

Letter to the Board of Directors, The Northern New York Trust Company, Watertown, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by The Northern New York Trust Company, Watertown, New York, on the north side of East Orvis Street, 100 feet west of the Grasse River Cantilever Bridge, in an unincorporated area of the Town of

10/24/55

-2-

Massena, St. Lawrence County, New York, provided the branch is established within one year from the date of this letter.

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

Letter to the Board of Directors, Walker Bank and Trust Company,
Salt Lake City, Utah, reading as follows:

Pursuant to your request, submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch by Walker Bank and Trust Company at 9 North 3rd West Street, Provo, Utah, provided the merger with the Farmers' and Merchants' Bank, Provo, Utah, is effected substantially in accordance with the proposed merger agreement dated September 28, 1955, and the branch is established within six months from the date of this letter.

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

Letter to Mr. Patterson, Vice President and General Counsel, Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of September 26, 1955, enclosing a letter from Mr. J. W. Shands, President of the Atlantic National Bank of Jacksonville, Jacksonville, Florida, requesting a ruling upon the question of whether Atlantic Trust Company, a holding company affiliate, may use its 12 per cent reserve of readily marketable assets, maintained pursuant to section 5114 Revised Statutes, to provide additional capital for one of its subsidiary banks.

With respect to Mr. Shands' basic question, it is clear from the wording of the statute that the reserve of readily marketable assets may be used for only two purposes, namely, "for replacement of capital" in banks affiliated with the holding company and "for losses incurred in such banks". Therefore, the reserve of readily marketable assets may not be used to provide additional capital for a subsidiary bank.

10/24/55

-3-

Your letter points out that Mr. Shands is of the opinion that the reserve of readily marketable assets could be used for "appropriate corporate purposes". It is not clear what Mr. Shands means by "appropriate corporate purposes" as, by the terms of the statute, the reserve of readily marketable assets must be maintained "free and clear of any lien, pledge, or hypothecation of any nature". Therefore, these assets may not be pledged as security for corporate borrowing although, of course, they would be available to general creditors of the corporation in case of insolvency.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

This refers to the Board's letter of August 11, 1952, (S-1465, F.R.L.S. #3593) relating to the uniform system of rating member banks, with particular reference to its last two paragraphs pertaining to the rating of trust activities, which are superseded by this letter and its enclosure.

Experience with the existing trust rating system has thus far not been wholly satisfactory, largely because of difficulties in attempting to apply rather limited rating definitions to trust activities varying greatly in volume and nature as well as in the organization and character of administration provided. Consequently, efforts have been directed for some time toward improvement in the trust rating system to a point where it may be utilized more effectively as a guide to the general quality of administration provided by member banks as regards their fiduciary activities and, at the same time, to indicate the probable effect of such activities on bank condition. The enclosed revised trust rating system has been approved for immediate use.

It will be noted that in the revised rating system provision is made for the use of four rating indices: "A", "B", "C", and "D". Perhaps the most significant change is the elimination from "A" rated trust departments of those where trust activities are conducted on a "part-time" basis; the most favorable rating such activities may now be accorded is "B". The "A" category is now reserved for trust departments

10/24/55

-4-

employing full-time staffs and having "above-average" characteristics; there are relatively few trust departments of member banks to which the "A" rating may be properly assigned.

At the other extreme is the "D" or "poor" rating which will be assigned only to trust activities definitely determined to involve problems of a serious nature and reflecting a relatively hazardous situation for the bank. On the basis of present information, trust activities of very few member banks would be so rated.

It is anticipated that in the majority of cases analysis of trust activities of member banks will justify use of the "B" or "average" rating symbol. In a smaller number of cases, involving less satisfactory condition, the "below-average" or "C" rating will be applicable.

It is believed that the addition of a fourth rating symbol and expanded definitions relative to each of the symbols employed will afford the opportunity for a more accurate and more significant rating of trust activities of member banks than has been possible heretofore.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

The Board has received an inquiry from a Federal Reserve Bank that raises questions as to the extent to which defaulted installment loans constitute "bad debts" within the purview of R. S. 5204 (12 U.S.C. 56), which is applicable to member State banks by virtue of section 9 of the Federal Reserve Act.

R. S. 5204 prohibits the payment of dividends "to an amount greater than (the bank's) net profits then on hand, deducting therefrom its losses and bad debts." Paragraph 6330 of your Office's Digest of Opinions points out that-

"The term 'debts due to' (the bank) has been interpreted as meaning debts which have matured, and as a result an obligation is not a statutory bad debt until it has matured and the principal amount thereof is due and payable."

10/24/55

-5-

If the question were now presented for the first time, a strong argument might be made that "all debts due" should include, for this purpose, every obligation held by the bank whether or not its maturity date had been reached. Under this interpretation, the sole criterion for a "statutory bad debt" would be whether interest was past due and unpaid for six months (unless the obligation was well secured and in process of collection). It is somewhat difficult to see why an indebtedness on which interest is substantially in arrears should be excluded from the statutory bad debt concept in a provision of law which is intended to insure conservative practices in the declaration of dividends.

However, the above-quoted interpretation has been adhered to for decades, and it is questionable whether its reversal at this time would be appropriate. The case presented for the Board's consideration, however, relates to installment loans in which one or more payments of principal are in default, in addition to interest being past due for six months. With respect to such situations, Paragraph 6330 states that "the obligation is a statutory bad debt . . . to the extent that payments of principal are in default."

In the examination of member banks, time-consuming and sometimes complex procedures are required in applying this ruling where the bank has a large number of installment loans as to which interest is in arrears for six months and one or more principal installments are past due and the due dates for the remaining installments of principal are in the future. In view of this fact, in addition to the general arguments for construing "debts due to" as covering all obligations regardless of maturity date, the Board would appreciate your views as to whether such installment obligations could be regarded as bad debts within the purview of section 5204 in toto, rather than only to the extent of matured installments. Needless to say, it is most desirable that your Office and the Board place the same construction on this provision of law, in the supervision of national banks and member State banks.

Members of the Board's staff who are familiar with this problem will be happy to confer with representatives of your Office if that will be of assistance in the formulation of your views.

Approved unanimously.

10/24/55

-6-

Reference was made to the application of The County Trust Company, White Plains, New York, for permission to establish branches in the villages of Elmsford and Dobbs Ferry, New York, in connection with proposed mergers with The First National Bank of Elmsford, Elmsford, New York, and the Dobbs Ferry Bank, Dobbs Ferry, New York. The Federal Reserve Bank of New York recommended that the request be approved and the Board's Division of Examinations concurred. The Board's Legal Division, however, attached to the file a memorandum calling attention to the position of The County Trust Company in Westchester County, where it has 35 offices and holds 47 per cent of the county's commercial bank deposits. The proposed absorptions would increase the percentage of deposits to 48.5. Looking at the situation from the standpoint of the township of Greenburgh, in which the villages of Dobbs Ferry and Elmsford are located, the Legal Division's memorandum pointed out that the township is presently served by five branches of The County Trust Company and three offices of other commercial banks. The trust company therefore would have seven of the eight commercial bank offices if the Elmsford and Dobbs Ferry branches were approved.

During a discussion, the thought was expressed that some indication should be given to the trust company to the effect that because of its dominant position in Westchester County the Board of Governors would be inclined to look closely at any further expansion.

10/24/55

-7-

The alternative suggestion was also made that the branch applications be approved but that the views of the Superintendent of Banks for the State of New York be obtained regarding any further expansion of the trust company in the light of the competitive situation in Westchester County and the position of the trust company and that the Board then consider whether it would be desirable to communicate further with the trust company regarding the matter.

There being agreement with the suggested alternative procedure, unanimous approval was given to a letter to the Board of Directors, The County Trust Company, White Plains, New York, reading as follows, for transmittal through the Federal Reserve Bank of New York:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of one branch each in the villages of Elmsford and Dobbs Ferry, New York, by The County Trust Company, White Plains, New York, provided (a) the proposed merger with The First National Bank, Elmsford, New York, is effected substantially in accordance with the plan of merger dated July 21, 1955; (b) the proposed merger with the Dobbs Ferry Bank, Dobbs Ferry, New York, is effected substantially in accordance with the plan of merger dated July 25, 1955; (c) the branches are established within six months from the date of this letter.

Reference then was made to a request from the Comptroller of the Currency for a recommendation regarding an application to organize a national bank three miles west of Fort Lauderdale, Florida. Following an investigation of the application, the Federal Reserve Bank of Atlanta suggested an unfavorable recommendation in view of its conclusion that

10/24/55

-8-

the community in which the bank would be located was not in need of banking facilities at this time. The Board's Division of Examinations, however, submitted a draft of letter which would recommend favorable consideration of the application on the basis that continued growth in the area might be expected and that other factors pertinent to the application were favorable. When the file was in circulation to the Board, questions were raised by Governor Robertson following which a revised draft of letter was circulated which took the position that the application seemed to be premature.

In commenting on the matter, Governor Mills brought out that the proponents of the bank were of good reputation and were prepared to furnish an adequate amount of capital. He commented that the State of Florida does not permit branch banking and that the only way in which banking facilities can be brought to outlying communities is through the organization of a new bank. He suggested, therefore, that this case might be considered according to the standards which would be applicable to a request for permission to establish a branch in States where branch banking is permitted.

Mr. Sloan stated that the new bank would be in effect a branch of The First National Bank in Fort Lauderdale, so that good management would be assured. He said that at present it did not appear that there would be a large amount of loans in the area where the new bank would be located,

10/24/55

-9-

but that the area had experienced a rapid growth which would probably make banking facilities necessary within the period of a few years.

That being the case, he said, it was the feeling of the Division of Examinations that the Board might wish to recommend favorable consideration of the current application.

Governor Robertson said he regarded this case as distinctly of a borderline nature and that, as indicated during the discussion, either a favorable or an unfavorable recommendation could be supported. He recalled that in several instances recently the Board had not followed the recommendation of the Federal Reserve Bank of Atlanta and in a case as close as this one, he felt that it might be well to go along with the Reserve Bank. In a further discussion, he pointed out that the Reserve Bank was much closer to the situation than the Board of Governors, and that when a case was of a borderline nature, he felt that there was something to be said for concurring in the Reserve Bank's conclusions.

There being agreement with a change in wording suggested by Governor Balderston, unanimous approval was given to a letter to the Comptroller of the Currency reading as follows:

Reference is made to a letter from your office dated August 31, 1955, enclosing photostatic copies of an application to organize a national bank three miles west of Fort Lauderdale, 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

10/24/55

-10-

Bank of Atlanta discloses generally satisfactory findings with respect to the factors usually considered in connection with such proposals except as to the need for the bank in the community to be served by it. It is indicated that Fort Lauderdale has experienced considerable growth but it is questionable whether the area selected by the proponents has developed sufficiently to support a bank. Consequently, the application would seem to be premature and the Board of Governors therefore recommends that the application be denied at this time.

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.

Consideration then was given to a request from the Comptroller of the Currency for a recommendation with respect to an application to organize a national bank at Eustis, Florida. In this case, the Federal Reserve Bank of Atlanta suggested an unfavorable recommendation on the basis that there did not appear to be a definite need for a second bank in the community. The Board's Division of Examinations submitted a draft of letter to the Comptroller of the Currency which would express the opinion that although a definite need for the proposed bank was not apparent, the application should be approved in view of the desirability of providing banking competition in the community. When the file was in circulation, Governors Mills and Robertson suggested that the letter be revised to read as follows:

Reference is made to a letter from your office dated August 8, 1955, enclosing photostatic copies of an application to organize a national bank at Eustis, Florida, and requesting a recommendation as to whether or not the application should be approved.

10/24/55

-11-

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the capital structure as proposed would be inadequate on the basis of the anticipated volume of business, the earnings prospects fair and the management satisfactory. Although the need for an additional bank in the community is not urgent, the facts indicate that the community is able to support two competing banks and therefore the Board of Governors is of the opinion that the application should be approved, provided arrangements are made for a capital structure satisfactory to your office.

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.

The letter was approved
unanimously in the form set
forth above.

The Comptroller of the Currency also had requested a recommendation regarding an application to organize a national bank to be situated at Biscayne Boulevard and 13th Street in Miami, Florida. The Federal Reserve Bank of Atlanta suggested an unfavorable recommendation on the grounds that there did not appear to be any actual need for the bank. However, the Division of Examinations submitted a draft of reply to the Comptroller of the Currency which would point out that although there appeared to be no real need for the institution, the nearest banking facilities were located in the financial district of Miami about 13 blocks from the proposed site. In view of this situation and favorable findings with respect to other factors in connection with the application, the draft would take the position that favorable consideration might be given to the application.

10/24/55

-12-

When the file was in circulation, Governor Balderston suggested that the language of the letter be revised along the lines of the letter concerning the application to organize a national bank in Eustis, Florida.

There being agreement with Governor Balderston's suggestion, unanimous approval was given to a letter to the Comptroller of the Currency reading as follows:

Reference is made to a letter from your office dated August 11, 1955, enclosing photostatic copies of an application to organize a national bank at the northeast corner of Biscayne Boulevard and 13th Street, Miami, 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 discloses generally favorable findings with respect to the factors usually considered in connection with such proposals except as to the need for the bank in the community. It is indicated that the bank would be an added convenience for the businesses and individuals residing in the area but that no urgent need exists for the institution at this time. However, it appears that the nearest banking facilities are located in the financial district of Miami about 13 blocks distant. After considering all of the factors, the Board is of the opinion that the application should be approved.

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.

Mr. Sloan then withdrew from the meeting.

Governor Robertson recalled that in 1953 the Board on two occasions sent to all Federal Reserve Bank and branch directors a summary of economic conditions based on economic presentations given by the Board's

10/24/55

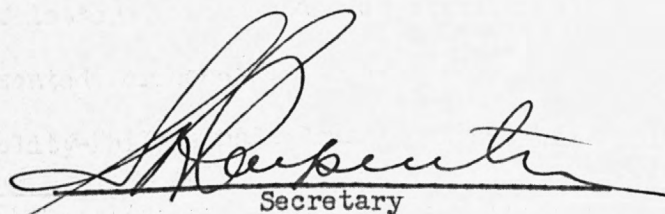
-13-

research staff. After commenting that the response of the directors was quite favorable, he suggested that thought be given to reinstituting the distribution of such summaries periodically. Following a brief discussion, Chairman Martin suggested that Mr. Thurston, Assistant to the Board, be asked to explore the matter.

This suggestion was approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 21, 1955, were approved unanimously.

The meeting then adjourned.


Secretary