

Minutes for March 12, 1956

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>MMS</u>	_____
Gov. Szymczak	x <u>MMS</u>	_____
Gov. Vardaman	x <u>CV</u>	_____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>SP</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 12, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations

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 stated:

Letter to Mr. Angney, Vice President, Federal Reserve Bank of Boston, reading as follows:

The Board of Governors approves the increases in the minimums of the two lowest grades in the employee salary structure for the Federal Reserve Bank of Boston effective March 1, 1956, in accordance with the action taken by the Board of Directors as reported in your letter of March 1. The Board's records are being amended to reflect these changes in the grade ranges as follows:

	<u>Minimum Salary</u>	<u>Maximum Salary</u>
Grade 1	\$2,080	\$2,500
Grade 2	2,110	2,710

Approved unanimously.

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Letter to Mr. Newman, Vice President, Federal Reserve Bank of Chicago, reading as follows:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions listed below at the rates indicated in accordance with the request contained in your letter of February 24, 1956:

<u>Title</u>	<u>Annual Salary</u>	
Plumber	\$6,140.16	(effective March 5, 1956)
Head Painter	6,760.00	{effective April 1, 1956}
Painter	6,084.00	

Approved unanimously.

Letter to Mr. Morrill, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request contained in your letter of February 28, 1956, the Board approves the designations of the following as special assistant examiners for the Federal Reserve Bank of San Francisco:

- H. W. Marlatt
- M. C. Petersen

The Board also approves the designation of T. G. Myers as a special assistant examiner for the Federal Reserve Bank of San Francisco for the purpose of participating in the examinations of State member banks only.

The authorizations heretofore given your Bank to designate R. W. Marlatt, T. G. Myers, and M. C. Petersen as special assistant examiners are hereby cancelled.

The name of O. A. Irving has been deleted from the list of special assistant examiners in our records.

Approved unanimously.

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Letter to the Board of Directors, Bank of Passaic and Trust Company, Passaic, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Bank of Allwood, Clifton, New Jersey, into Bank of Passaic and Trust Company, Passaic, New Jersey, and approves the establishment of a branch at each of the following locations in Clifton, New Jersey:

505 Allwood Road and
1344 Clifton Avenue

in the quarters now occupied by the main and branch offices of Bank of Allwood, provided that (a) the transaction is effected substantially in accordance with the agreement of merger dated February 16, 1956, as presented through the Federal Reserve Bank of New York, (b) within 60 days after the effective date of the merger, Bank of Passaic and Trust Company shall increase its capital funds by not less than \$500,000 through the sale of new common stock, (c) formal approval is obtained from appropriate State authorities and (d) the merger and establishment of these branches are accomplished within six months from the date of this letter.

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

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

Reference is made to your letter of February 20, 1956, recommending that the Bank of Warwick, Warwick, Virginia, be permitted to postpone until June 30, 1956, the issuing of a \$100,000 stock dividend which was contemplated in connection with the increase in investment in bank premises approved by the Board on August 3, 1955.

At the time this matter was submitted to the Board, it was stated that the bank proposed to sell \$75,000 of new common stock and to declare a \$50,000 stock dividend. However,

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it appears that the bank actually planned to sell \$37,500 in stock at a premium sufficient to add \$75,000 of new money to capital accounts, which has been accomplished. In addition, the bank has decided to declare a \$100,000 stock dividend instead of \$50,000 as originally proposed. The reason for deferring the stock dividend is to avoid the payment of dividends on the additional stock until the last six months of the year.

The Board has given consideration to the information submitted, including the favorable recommendation of the Reserve Bank, and will interpose no objection to the postponement until June 30, 1956, of the stock dividend.

Approved unanimously.

There were presented telegrams to the following Federal Reserve Banks approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

St. Louis	March 2 and 8
New York	March 8
Cleveland	March 8
Richmond	March 8
Atlanta	March 8
Chicago	March 8
Minneapolis	March 8
Kansas City	March 8
Dallas	March 8

Approved unanimously.

At the meeting on February 27, 1956, the Board gave preliminary consideration to an application for membership in the Federal Reserve System filed on behalf of the proposed Peoples Bank of North Miami Beach, North Miami Beach, Florida. The application was discussed in the light

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of control by the principal proponents of the proposed bank of the only existing banks in two near-by communities, and the question was raised whether in the circumstances the Board should defer action on the membership application pending action by the Federal Deposit Insurance Corporation on an application for deposit insurance filed by a proposed State nonmember bank which would be located in a shopping center approximately 1.2 miles from the site of the Peoples Bank. In addition, an application to organize a national bank which would be located in the shopping center area had been filed with the Comptroller of the Currency, who had requested a recommendation from the Board as to whether the application should be granted. At the conclusion of the discussion at that meeting, action on the application for membership in the Federal Reserve System and on the recommendation to be made to the Comptroller of the Currency was deferred until the pertinent files could be circulated to the members of the Board.

Subsequently it was learned that the Federal Deposit Insurance Corporation had acted favorably on the application for deposit insurance filed by the proposed nonmember bank, which was sponsored by persons associated with a chain of food stores who were instrumental in the development of the shopping center. In addition, President Bryan of the Federal Reserve Bank of Atlanta spoke to Governor Robertson when he was in Washington on March 6 for the meeting of the Federal Open Market Committee, at which time he stated that the Atlanta Bank hoped the Board would see fit to approve the application for membership in the System and that

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comments were being made in the Florida area to the effect that the proponents of the bank could have obtained deposit insurance if they had chosen to proceed in that way rather than to seek membership in the Federal Reserve System. Since Vice President Denmark of the Atlanta Bank expressed the view in submitting the membership application that "as I see it, the community can not at this time support more than one bank", Governor Robertson asked the Division of Examinations to get in touch with Mr. Denmark by telephone and inquire whether he was still of the same opinion. After talking to Mr. Denmark, Mr. Nelson, Assistant Director of the Division of Examinations, reported to Governor Robertson in a memorandum dated March 9, 1956, that Mr. Denmark believed two banks in the community could obtain sufficient deposits to operate successfully if they were both under good management. Mr. Denmark was sure that the Peoples Bank of North Miami Beach would be under good management, and he understood that some two or three million dollars of deposits in the two Usina banks would be transferred to the Peoples Bank. The proponents of the Peoples Bank had expressed the opinion that their bank could operate successfully even if another bank were chartered in the area and, according to the Deputy Commissioner of Banking for the State of Florida, the State authorities in chartering both State banks had no doubt that the banks could prosper, as in their opinion the area was going to grow and expand.

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Governor Robertson said that inasmuch as the application for deposit insurance had been approved, banking competition would be injected into the area and the questions relating to monopolistic aspects of the situation had been substantially removed. In the circumstances, he considered the application for System membership as being decidedly a borderline case. Although he felt that no serious error would be made in approving the application at this time, it was his suggestion that a letter be sent to the organizers of the proposed institution stating that the Board had decided to defer action on the application for a period of six months, with the understanding that the application would retain its priority. He suggested that in this way the insured nonmember bank would have some opportunity to establish itself and at the end of six months a review could be made to see whether further growth of the community was such as to make it reasonably clear that two banks could operate successfully. He also favored sending a letter to the Comptroller of the Currency recommending adversely on the application to organize a national bank. In this connection, he said that the suggestion for deferral of the application for membership was contingent on reaching an understanding with the Comptroller that no favorable decision by his office on the national bank charter would be made until a decision had been reached on the application for System membership.

Governors Szymczak and Shepardson indicated that their views were along the lines of those expressed by Governor Robertson, while Governors

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Balderston, Vardaman, and Mills expressed a preference for favorable action at this time on the application for membership. It was the feeling of the latter group that there were not sufficient reasons to warrant deferring action in view of the recommendation of the Federal Reserve Bank of Atlanta, that the economic situation in the community would not change appreciably in six months, and that due consideration should be given to the fact that the application for a State charter by the proponents of the Peoples Bank predated the filing of applications by the other groups. They also pointed out that the Peoples Bank would have satisfactory management through personnel transfers from the existing Usina banks. In addition, Governor Vardaman felt that it was unfortunate to have had the State nonmember bank cleared first in view of its sponsorship by the food chain interests, who he supposed might be interested in the bank principally to promote the shopping center development.

Governor Robertson then suggested as a compromise that action on the membership application be deferred until the Board had available in writing the views of officials of the Federal Reserve Bank of Atlanta regarding the prospects for successful operation of more than one bank in North Miami Beach. Because of questions raised during the discussion concerning the dates on which the respective applications were filed and processed, it was suggested that full details on this aspect of the matter also be made available to the Board.

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Governors Vardaman and Mills indicated that while they would not object to obtaining information of this nature from the Reserve Bank, they were prepared to vote favorably on the membership application and felt there should be no undue delay in completing the record and reaching a decision. In the circumstances, it was suggested that the Atlanta Bank be requested by telephone to furnish the desired information, with a view to further consideration of the matter by the Board on Thursday, March 15.

With respect to a letter which had been received from Congressman Celler, Chairman of the House Committee on the Judiciary, concerning competitive aspects of the situation arising out of control by the Usina interests of banks in north Dade County, the view was expressed that this phase of the problem had been overcome by approval of deposit insurance for the State nonmember bank and that an appropriate reply should be sent to Mr. Celler. The view also was expressed that despite the decision which might be reached on the membership application, it would be appropriate to send a letter to the Comptroller of the Currency recommending unfavorably on the application to organize a national bank in North Miami Beach.

At the conclusion of the discussion it was agreed that Governor Robertson would request President Bryan by telephone to forward information of the kind mentioned as soon as possible and that letters reflecting the views stated at this meeting would be sent to Congressman Celler and the Comptroller of the Currency.

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Secretary's Note: Pursuant to this action, the following letters were sent:

Letter sent over the signature of Chairman Martin to the Honorable Emanuel Celler, Chairman, Committee on the Judiciary, House of Representatives, Washington, D. C., under date of March 13, 1956

The application of a group headed by Mr. Usina of Miami for a charter for a State bank to be located in North Miami Beach, Florida, to which you refer in your letter of February 18, 1956, is reported to have been filed March 1, 1955. Another group, with which a Mr. Ahronovitz and a Mr. Friedlander are associated, applied on April 14, 1955, for a charter for a State bank to be located in North Miami Beach about 1-1/4 miles from the location selected by the Usina group and within a large new shopping center which is under construction. A third group, with which Messrs. Sams and McKnight are connected, applied for a charter for a national bank, to be located across the street from the shopping center mentioned above, on November 1, 1955.

It is understood that the application for deposit insurance filed by the Ahronovitz group has been approved by the Federal Deposit Insurance Corporation, which will result in the injection of competition into the area. In view of the special circumstances involved, the Board is studying the application for membership filed by the Usina group, and I will be glad to advise you of the action taken by the Board as soon as the Board has reached a decision.

Letter sent to the Comptroller of the Currency, Treasury Department, Washington, D. C., under date of March 12, 1956

Reference is made to a letter from your office dated November 23, 1955, enclosing photostatic copies of an application to organize a national bank at North Miami Beach, 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 that the proponents plan to provide

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a capital structure of \$1,000,000 instead of \$750,000 as outlined in the application. This capital structure would be adequate based upon the anticipated volume of business to be acquired. Earnings prospects are regarded as only fair. The board of directors thus far selected, with possibly one exception, is reported to be satisfactory, but definite arrangements had not been made for experienced operating management.

For your information, an application for membership of the Peoples Bank of North Miami Beach, a newly organized State bank to be located one and two-tenths miles east of the site of the proposed national bank, has been submitted to the Board. It is understood, also, that the Federal Deposit Insurance Corporation has approved an application for insurance of a newly organized State bank to be located in a shopping center across the street from the location of the proposed national bank. It appears that both applications for charters for the State banks predate the application for a national charter and are deserving of favorable consideration. In the circumstances, the Board does not recommend approval of the application for a national charter in North Miami Beach.

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.

During the foregoing discussion, Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, and Young, Director, Division of Research and Statistics, entered the room.

At the meeting of the Board on March 5, 1956, and at a meeting of the Board with Mr. Mangels, President of the Federal Reserve Bank of San Francisco, on the following day, consideration was given to a draft of suggested letter which the Reserve Bank might send to The Continental Bank and Trust Company, Salt Lake City, Utah, in response to the letter

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the Reserve Bank received from the president of the member bank under date of February 15 concerning the request that the bank's capital structure be increased by at least \$1,500,000. Following his meeting with the Board, Mr. Mangels conferred with members of the Board's staff and with members of the Reserve Bank's staff and submitted certain suggestions regarding the draft. Subsequently, there were sent to the members of the Board copies of a memorandum from Mr. Hexter dated March 8 submitting a draft of letter which incorporated Mr. Mangels' suggestions.

In a discussion of the matter, Governor Vardaman raised the question why it was proposed to transmit to the San Francisco Reserve Bank a draft of letter which the Bank might send to the member bank and whether it would not be preferable for the Board to write direct to the member bank.

In response, Mr. Vest reviewed the correspondence to date between the Board and the Reserve Bank and between the Reserve Bank and the member bank, calling attention to the fact that the Reserve Bank had asked the Board for suggestions as to an appropriate reply to the member bank. He said that if the member bank refused to provide the requested capital and the Board decided to institute proceedings under section 9 of the Federal Reserve Act or section 30 of the Banking Act of 1933, it would be necessary for the Board to communicate with the member bank, but that until such time the procedure followed in handling correspondence was a

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matter of preference. He felt there was something to be said for employing the procedure customarily followed in handling bank supervisory matters; that is, to have the correspondence with the member bank handled by the Federal Reserve Bank concerned.

Mr. Hexter supplemented Mr. Vest's comments by stating that in this case it might be particularly advisable to follow the customary procedure in view of suggestions in the past by the management of the member bank, and the predecessor national bank, that in dealing with the bank the supervisory authorities were influenced by personal factors.

Governor Vardaman then stated that, regardless of the question of procedure, he could not agree with the type of letter proposed to be sent to The Continental Bank and Trust Company. He also urged that the Board give consideration to whether outside counsel would be retained in connection with this case.

Chairman Martin said he considered it important for the Board to have the benefit of all of Governor Vardaman's suggestions on the draft of letter. He suggested, therefore, that Governor Vardaman go over the draft again with Mr. Vest with a view to further discussion at the meeting tomorrow.

Governor Vardaman then asked whether arrangements might be made for another member of the Board to be present during his discussion of the draft with Mr. Vest. When Chairman Martin inquired of Governor Mills

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whether he would like to participate, Governor Mills stated that he favored a letter to The Continental Bank and Trust Company in the form drafted and that he felt it made little difference whether the letter was sent to the member bank by the Board or by the Reserve Bank.

Governor Balderston suggested that an alternative draft of letter be prepared for the Board's consideration which would take the form of a relatively brief letter from the Board to the member bank, restricted principally to covering the bank's need for additional capital funds.

At the conclusion of the discussion it was understood that Governor Vardaman would confer with Mr. Vest and Mr. Hexter on the draft of letter to The Continental Bank and Trust Company and that an alternative draft incorporating Governor Vardaman's views would be prepared for discussion at the meeting tomorrow.

Governor Vardaman referred to a file currently in circulation to the members of the Board regarding a request from the Comptroller of the Currency for a recommendation with respect to an application to establish a national bank in Miami, Florida, and said that in view of certain material contained in the report of investigation of the application submitted by the Federal Reserve Bank of Atlanta, he would like to have the Board discuss at an appropriate time the content of the reports prepared by that Bank.

There had been sent to the members of the Board copies of a letter dated March 8, 1956, from Arthur Andersen & Co. enclosing a note of

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the firm's charges in the amount of \$2,500, including out-of-pocket expenses, in connection with the audit examination of the Board's accounts for the year ended December 31, 1955.

Payment of the charges in the amount stated was approved unanimously.

Referring to the discussion at the meeting on February 27, 1956, concerning a proposal for a compromise bank merger bill which grew out of discussions among the staffs of the three Federal bank supervisory agencies, Governor Robertson stated that on Friday, March 9, he received a telephone call from Deputy Comptroller of the Currency Jennings, who said that counsel for the Treasury and an attorney in the Comptroller's Office spoke about the proposal to Assistant Attorney General Barnes, who was opposed to the idea. Governor Robertson went on to say that in view of this development plans were now being made for a luncheon meeting with Mr. Barnes on Wednesday, March 14, which would be attended by Comptroller of the Currency Gidney, Mr. Jennings, Chairman Cook of the Federal Deposit Insurance Corporation, and Mr. Coburn, General Counsel for the Corporation, and that Mr. Jennings suggested attendance by a member of the Board and Mr. Vest. It was Governor Robertson's view that the Board could participate in the luncheon meeting without in any way compromising its current position with respect to proposed bank merger legislation.

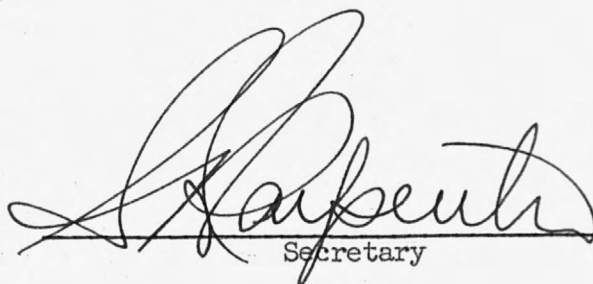
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Chairman Martin suggested that Governor Robertson be designated as the member of the Board to attend the meeting with Mr. Vest.

This suggestion was approved unanimously.

The meeting then adjourned.


Secretary