

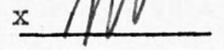
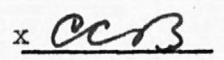
Minutes for June 1, 1956

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></u>	_____
Gov. Szymczak	x <u></u>	_____
Gov. Vardaman	_____	x <u></u>
Gov. Mills	_____	x <u></u>
Gov. Robertson	_____	x <u></u>
Gov. Balderston	x <u></u>	_____
Gov. Shepardson	x <u></u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, June 1, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Hostrup, Assistant Director,  
Division of Examinations  
Mr. Hackley, Assistant General Counsel  
Mr. Cherry, Legislative 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 stated:

Letter to Mr. Waage, Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of May 17, 1956, advising that, in response to a request presented by His Excellency, Sr. Mario Rodriguez A., The Ambassador of Chile, on behalf of the Ministry of Finance of Chile and the Directorate of the Banco de Chile, and also upon the recommendation of Mr. Harry R. Turkel, Acting Director of the Office of Regional American Affairs, Department of State, the leave of absence, without pay, granted to Mr. Philip J. W. Glaessner has been extended to April 1, 1957. It is noted from your letter that this period of service will enable Mr. Glaessner, as a member of the Klein and Saks Mission, to assist the Banco Central de Chile in several vital problems related to financial and economic stabilization. It is also noted from your letter that after the expiration of the Government of Chile's contract with the Mission on December 31, 1956, Mr. Glaessner would be employed directly by the Banco Central.

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In light of the circumstances, the Board of Governors interposes no objection to the arrangement with respect to Mr. Glaessner as described in your letter.

Approved unanimously.

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

Reference is made to a letter from your office dated April 19, 1956, enclosing photostatic copies of an application to convert the Bank of Raleigh, Raleigh, North Carolina, into a national banking association and requesting a recommendation as to whether or not the application should be approved.

Information supplied by the Federal Reserve Bank of Richmond about the Bank of Raleigh is favorable with respect to its financial history, adequacy of capital structure, earnings prospects, character of its management, and service to the community. Therefore, the Board of Governors recommends approval of the application.

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.

For your information and files there are enclosed three copies of the Board's letter of this date to Mr. E. T. Burr, Vice President and Actuary, Durham Life Insurance Company, Raleigh, North Carolina, relating to the holding company affiliate status of that Company if the Bank of Raleigh is converted into a national banking association.

Approved unanimously, with  
a copy to the Federal Reserve  
Bank of Richmond.

Letter to Mr. E. T. Burr, Vice President and Actuary, Durham Life Insurance Company, Raleigh, North Carolina, reading as follows:

This refers to the request contained in your letter of May 7, 1956, transmitted through the Federal Reserve Bank of Richmond, for a determination by the Board

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of Governors as to the status of Durham Life Insurance Company, Raleigh, North Carolina, as a holding company affiliate if Bank of Raleigh, Raleigh, North Carolina, is converted into a national banking association.

From the information supplied, the Board understands that Durham Life Insurance Company is engaged in the business of issuing life insurance; that such Company owns 14,380 of the 20,000 outstanding shares of common stock of Bank of Raleigh, which stock was acquired for investment purposes only; and that such Company does not and will not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than Bank of Raleigh or the national banking association into which it is to be converted.

In view of these facts the Board has determined that Durham Life Insurance Company will not be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, such Company will not be deemed to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act and will not need a voting permit from the Board of Governors in order to vote the stock of the bank after its conversion into a national banking association.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that Durham Life Insurance Company, Raleigh, North Carolina, might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts.

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

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Letter to The Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Reference is made to your letter of May 15, 1956, concerning the application of Bank of Las Vegas, Las Vegas, Nevada, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

Our last report of examination of the bank as of December 13, 1955, disclosed serious deterioration in its condition and, as a result, a problem bank rating was assigned. While no formal request has been made by the Board for correction of the criticized matters, the Reserve Bank requested advice from the board of directors:

1. Of the progress made in eliminating or reducing the classified and specially mentioned loans.
2. Of the procedures adopted for obtaining more complete credit information and improving credit files.
3. Of the action taken to insure compliance with State laws pertaining to overdrafts.
4. That each executive officer of the bank has made a written report to the directors of his indebtedness to other banks as required by section 5 of Regulation O of the Board of Governors of the Federal Reserve System.
5. That steps have been taken to improve internal controls and establish adequate auditing procedures.
6. Of the action taken with respect to blanket bond coverage.
7. That the trust account administered by the bank has been terminated and that no additional trust business will be accepted without first obtaining permission of the Board of Governors of the Federal Reserve System.

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Your report of examination for continuance of deposit insurance, no doubt, would indicate whether or not proper corrective action has been taken.

Approved unanimously, with  
a copy to the Federal Reserve  
Bank of San Francisco.

There had been sent to the members of the Board copies of a draft of letter to Mr. Irving C. Rasmussen, Commissioner of Banks, State of Minnesota, St. Paul, Minnesota, which would request his views and recommendations, pursuant to the procedure prescribed by the Bank Holding Company Act of 1956, regarding an application from First Bank Stock Corporation, of Minneapolis, for the prior approval by the Board of the acquisition of 470 shares of the capital stock of First State Bank of Babbitt, Babbitt, Minnesota. The application was the first to be received by the Board since the enactment of the Bank Holding Company Act.

There being concurrence in a change suggested by Governor Szymczak in the language of the last paragraph of the draft, it was agreed unanimously that the letter should be sent to Mr. Rasmussen in the following form, with a copy to the Federal Reserve Bank of Minneapolis:

Under the Bank Holding Company Act of 1956, this Board, in passing upon any application for the Board's approval of certain transactions under that Act, is required to give notice to the appropriate supervisory authority of the interested State if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a State bank and to allow 30 days within which the views and recommendations of the State supervisory authority may be submitted.

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In accordance with this requirement of the law, you are advised that First Bank Stock Corporation, Minneapolis, Minnesota, a bank holding company, has made application to this Board pursuant to the Bank Holding Company Act of 1956, for the prior approval by the Board of the acquisition of 470 shares of the capital stock of First State Bank of Babbitt, Babbitt, Minnesota. There is enclosed, for your information, a copy of the application, with the exception of Exhibits A, B, and J, which were not submitted to the Board in duplicate. However, it is understood that your office holds the originals of the documents and the transcript of testimony comprising those three exhibits.

It will be appreciated if you will advise the Board in writing of your views and recommendations with respect to this application. For your information in this connection there is enclosed a copy of section 3 of the Bank Holding Company Act of 1956.

For your convenience, this letter is being sent to you by registered mail, return receipt requested, because the date of receipt of the letter by your office must be made a part of the Board's records with respect to the application.

In connection with the foregoing action, the Secretary pointed out that whenever an application was received from a bank holding company for the Board's prior approval of an acquisition of bank shares or assets, it would be necessary to send to either the Comptroller of the Currency or to the bank supervisory authority of the appropriate State a letter similar to the one addressed to Mr. Rasmussen. He inquired whether it was desired to have each such letter brought to the Board's attention before it was sent.

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Chairman Martin responded that he felt it would be advisable to follow such a procedure for the time being as a means of enabling the Board to keep informed of developments under the Bank Holding Company Act. The other members of the Board expressed agreement with the Chairman's statement.

Mr. Vest stated that the staff had been working on a number of procedural problems under the Bank Holding Company Act. One of these points, he said, concerned whether the staff should review rather carefully all applications from bank holding companies for prior approval of bank stock or asset acquisitions before the views and recommendations of the Comptroller of the Currency or the appropriate State supervisory authority were requested. In the case of the current application of First Bank Stock Corporation, there was reason to believe that no objection to the proposed acquisition would be interposed by the State Commissioner of Banks. However, if a letter of request was sent and objection was interposed, the Board would be required under the law to give notice forthwith that a hearing would be set up within 30 days. Therefore, from the standpoint of timing, the Board would lose control over the matter when the letter was sent. On the other hand, adoption of the alternative procedure would of course tend to delay somewhat the sending of the letter.

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Consideration then was given to a draft of suggested letter from Chairman Martin to Senator O'Mahoney, Acting Chairman of the Senate Judiciary Subcommittee on Antitrust and Monopoly Legislation, which had been prepared as the result of a request made by the Senator of Chairman Martin when the latter testified before the Subcommittee on May 23, 1956, regarding proposed bank merger legislation. Additional information was requested on certain specific points, particularly regarding cases in which it was deemed appropriate to approve a bank merger because of banking factors even though some lessening of competition was involved. Copies of the proposed letter had been sent to the members of the Board with a memorandum from Mr. Vest dated May 31, 1956.

Aside from certain suggestions with respect to form and phraseology, the discussion related principally to the three cases cited in the draft as illustrations of instances where it seemed desirable in the public interest to permit a merger of banks even though the effect was to lessen competition. In this connection, Mr. Vest said that the files had been reviewed for recent cases and that, although stronger illustrations would have been desirable, the cases mentioned seemed to the staff to be the best available examples. Since it developed that one of the cases had not required approval by the Federal bank supervisory agencies under existing law, it was suggested that the letter so indicate

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in order to avoid any misunderstanding. It was also suggested that there be included in the letter a statement which would bring out that each proposed bank merger must be considered in the light of the particular facts, with the effect on the public interest being the basic criterion, and that in cases where lessening of competition is not outweighed by other factors, the public interest would require that the transaction not be approved.

At the conclusion of the discussion, unanimous approval was given to a letter from Chairman Martin to Senator O'Mahoney in the following form, with the understanding that if inquiry indicated that the letter was to be made a part of the record of the recent hearings before the Subcommittee, Mr. Cherry was authorized to give a copy of the letter to the staff of the Senate Banking and Currency Committee:

When I appeared before your Subcommittee on May 23 and testified with respect to the pending merger bills, it was suggested that I write you a letter with respect to some of the specific points raised at that time.

Inquiry was made with respect to the types of cases in which it would be desirable in the public interest to permit the merger of two banks even though the effect would be to lessen competition substantially. Such cases occur because of the nature of banking and its direct and important effect upon the economy generally. For example, a lessening of competition may result and yet the acquisition of one bank by another through a merger may be desirable in the public interest if the bank to be acquired would otherwise have to close its doors, if because of inadequate management the future prospects of that bank are unfavorable, if the acquired bank is too small to meet the banking needs of its community, or if an overbanked situation in a particular place has resulted in

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unsound competitive practices and the merger of two or more of the banks in the community would put an end to such practices.

The following instances from our files may serve to illustrate these comments.

1. Bank A, with deposits of \$500,000, was the only bank in a farming community. Its President had just died and the bank was being managed by its cashier, aged 74, who was in ill health and wished to retire. Only one director of the bank was less than 65 years old. This created a serious management problem, because the small size of the bank and its limited prospects probably would make it difficult to attract competent younger officers at salaries the bank could afford to pay. There were two larger banks in the area, one located in a town six miles to the west and one five miles to the east. Bank A was absorbed by, and became a branch of, the bank to the west.

2. A town in an agricultural area that had suffered from drought had three banks, two with deposits of over \$2 million and the third with deposits of less than \$1 million. It had been felt for a considerable period that the community was overbanked, and that in fact adequate services probably could be furnished by one bank. The smallest of the banks was an economically unsound institution due to small volume of business and lack of earnings. It was absorbed by one of its two competitors, which left the town with two banks of about equal size.

3. A town of 2,300 people serving a trade area with an estimated population of 5,000 had two banks, with additional competition from five other banks from five miles to 18 miles distant. There appeared to be some question as to the successor management in the smaller of the two banks, and its earnings were considered poor. There seemed to be no doubt that one bank could adequately serve the financial needs of the community. The two banks were consolidated, the stockholders of the smaller receiving stock in the continuing

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institution. In this particular case, approval by the Federal bank supervisory authorities was unnecessary under existing law, but a merger of this kind would have to have the consideration of some Federal agency under pending legislation.

It should be emphasized again that the business of banking has always been a regulated business because banking, more than other types of business, directly affects credit conditions and the basic economy of the country. If a non-banking business becomes insolvent, its stockholders and creditors suffer. If a bank fails, however, the effect is felt not only by its stockholders and creditors but also by its depositors, the Federal Deposit Insurance Corporation which insures its deposits, and businesses and individuals in the community that must have banking facilities in order to carry on their activities. For these reasons, banks, which operate by using other people's money, are governed by special statutes and are carefully regulated, examined, and supervised by the banking authorities.

Undue lessening of competition in the banking field must, of course, be prevented in the public interest, but the latter also makes it essential that, in the case of any bank mergers, the soundness of the particular banks involved or the adequacy of banking facilities in a particular community be considered as well as lessening of competition. On the other hand, in cases where lessening of competition is not outweighed by other factors, the public interest requires that the transaction not be approved or carried out. Each case, of course, must be considered in the light of its own particular facts, with the basic criterion being the effect upon the public interest.

Another point that I would like to emphasize is the desirability of advance approval of bank mergers by the appropriate Federal bank supervisory authority. Under the bills pending before your Committee proceedings under the Clayton Act in bank merger cases in which there might be a substantial lessening of competition might well come after rather than before the consummation of the merger. It is believed that a requirement for advance approval would be more effective and workable. It is most difficult to unscramble a bank merger months after it has taken place.

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One final point should be noted with respect to the effect of H.R. 9424 and the similar bills before your Committee. Under those bills it would be necessary for any corporation, with certain limited exceptions, to give 90 days' advance notice both to the Board and to the Attorney General before acquiring any stock in any bank. Very recently, however, in the Bank Holding Company Act approved May 9, 1956, Congress, after long and careful consideration, legislated in this particular area by requiring every bank holding company to obtain the prior approval of the Board of Governors of the Federal Reserve System before acquiring the stock of any bank, subject to certain limited exceptions. It would appear unnecessary, therefore, to add the advance notice requirement provided in the pending merger bills in the case of acquisitions of bank stocks. The Board is required, under the Bank Holding Company Act, to report to Congress within two years with respect to any substantial difficulties encountered in the administration of that Act and to make recommendations for any changes in the law. It would seem desirable to await developments in the administration of this new statute before imposing additional requirements for the acquisition of bank stocks.

We trust that this letter may be of assistance to your Committee in connection with its further consideration of any proposed legislation on this subject.

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

Atlanta	May 28
St. Louis	May 28
Chicago	May 31

Approved unanimously.

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Messrs. Vest, Hackley, and Cherry then withdrew from the meeting.

Governor Balderston stated that Miss Burr, Assistant Director, Division of Research and Statistics, had been invited to attend the Merrill Center For Economics at Southampton, Long Island, this summer. In this connection, he referred to a memorandum dated May 24, 1956, from Mr. Young, Director of the Division of Research and Statistics, which recommended that Miss Burr be authorized to attend the Center from July 16 to July 27, with the understanding that her actual necessary travel expenses, including such expenses incurred on weekends away from the Center would be paid by the Board in accordance with its travel regulations, and with reimbursement on a mileage basis if a privately owned automobile should be used. The memorandum indicated that room and meals at Southampton would be provided by the Merrill Center.

Governor Balderston said that the principal question concerned the absence of approximately two weeks that would be involved, and that he would like to have the Board's views on this point.

Following a statement by Chairman Martin that it would seem worth while for Miss Burr to attend the Center if she wished to accept the invitation, the recommendation contained in Mr. Young's memorandum was approved unanimously.

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Governor Balderston recalled that at the meeting on May 21, 1956, the Board decided, at the suggestion of Governor Mills, to defer for two weeks further consideration of a possible change in the maximum permissible rate of interest on loans made pursuant to Regulation V, Loan Guarantees for Defense Production. Since then, he said, he had given some thought to the alternative possibility of a reduction in the schedule of guarantee and commitment fees and in this connection had inquired regarding the reserves accumulated by the Armed Services under the V-loan program. It developed that the reserves amounted to only about \$20 million, or approximately 4 per cent of the guaranteed loans outstanding, and this led him to conclude that a reduction of the schedule of fees perhaps would not be appropriate. He then suggested the advisability of giving further consideration to the maximum permissible interest rate in the near future so as to avoid any impression, if the Board decided to raise the rate, that it had taken the action only under pressure from the guaranteeing agencies, particularly the Defense Department.

Following a review of the Board's schedule for next week, it was agreed that the subject mentioned by Governor Balderston would be taken up at the earliest convenient time.

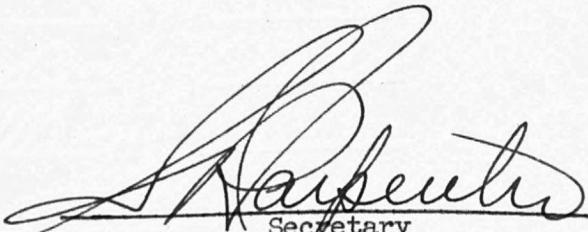
The meeting then adjourned.

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Secretary's Note: Governor Balderston today approved, on behalf of the Board, memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased as indicated:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Effective June 3, 1956:</u>			
Maurice H. Schwartz, Economist	Research and Statistics	\$8,000	\$8,990
Franklin Taylor, Supervisor, Duplicat- ing and Mail Section	Administrative Services	6,032	6,232
Thomas V. Kopfman, Assistant Supervisor, Duplicating and Mail Section	Administrative Services	5,304	5,699
Jacquelyn Haas, Clerk	International Finance	3,600	3,755
<u>Effective June 17, 1956:</u>			
J. Robert Surguy, Clerk (Composition)	Administrative Services	5,200	5,346

  
Secretary