

Minutes for August 2, 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>MM</u>
Gov. Szymczak	_____	x <u>MS</u>
Gov. Vardaman	x <u>V</u>	_____
Gov. Mills	x _____	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 2, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Chase, 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 stated:

Letter to Mr. Mitchell, Federal Reserve Agent, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the request contained in your letter of July 12, 1956, the Board of Governors approves the appointment of Mr. John S. Ray as an Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta to succeed Mr. D. E. Moncrief upon his retirement.

This approval is given with the understanding that Mr. Ray will be placed upon the Federal Reserve Agent's payroll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Board of Governors for the proper performance of his duties.

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When not engaged in the performance of his duties as Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

Mr. Ray should execute the usual oath of office, which should be forwarded to the Board of Governors, together with advice of the effective date of his appointment.

In order that the Board may complete its record with respect to Mr. Ray's appointment, it will be appreciated if you will furnish his marital status, number of dependents, and his present indebtedness, if any. It will be appreciated further if you will furnish, also, a recent photograph of Mr. Ray (not over four by six inches in size) and copies of any memoranda prepared in connection with the consideration of his appointment.

Approved unanimously.

Letter to the Board of Directors, Fidelity Trust Company, Pittsburgh, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch of Fidelity Trust Company in a shopping center identified as the Lebanon Shops at 300 Mt. Lebanon Boulevard in the Borough of Castle Shannon, Pennsylvania, provided the branch is established within six months from the date of this letter, and the approval of the State authorities is in effect as of the date the branch is established.

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

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Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the information submitted in your letter of July 23, 1956, and the Reserve Bank's favorable recommendation, the Board of Governors extends until October 23, 1956, the time within which The Sylvania Savings Bank Company, Sylvania, Ohio, may establish a branch at 4735 Monroe Street, Washington Township, Lucas County, Ohio, under the authorization contained in its letter of December 8, 1955.

Approved unanimously.

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

Reference is made to your letter of July 20, 1956, with respect to the proposal of the Old Kent Bank, Grand Rapids, Michigan, to move its branch office from 41 Pearl Street, N. W., to a new location at 111 Pearl Street, N. W., a distance of one block.

From the information submitted it appears that the proposed removal of the branch will constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, therefore, the approval of the Board is not required.

Approved unanimously.

Letters 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 24, 1956, enclosing photostatic copies of an application to organize a national bank at Opa-Locka, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta

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indicates that the proposed capital structure of the bank would be adequate. The earnings prospects of the institution are reported to be unfavorable and arrangements have not been made for satisfactory management. A majority of the proposed directors reside outside of Opa-Locka, are inexperienced in the operation of banks, and three may be ineligible to serve as directors because of service with another bank in the process of organization. Although it appears that the bank would be a convenience to residents of the area it is questionable whether there is sufficient need to justify its establishment at this time. Under the circumstances the Board does not recommend 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.

Reference is made to a letter from your office dated May 16, 1956, enclosing photostatic copies of an application to organize a national bank in Gramercy, Louisiana, 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 a representative of the Federal Reserve Bank of Atlanta indicates generally satisfactory findings with respect to the factors usually considered in connection with such proposals. While it is reported that the banking needs of the community are being met fairly satisfactorily by an institution in an adjacent town it appears that another bank will be needed as a result of the expected industrial expansion and development in the area. 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.

Approved unanimously.

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Letter to Mr. Warren Olney, III, Assistant Attorney General,
Department of Justice, Washington, D. C., reading as follows:

Re: Investigative Jurisdiction Under
Bank Holding Company Act of 1956
Public Law 511 (84th Congress)

This refers to your letter on the above subject dated June 25, 1956 (WO:WPC:ejr, 29-01-7). This matter was discussed by Mr. Chase of the Board with Mr. Collings and other representatives of the Department of Justice in Mr. Collings' office on July 3, 1956.

As you know, it has been the practice of the Federal Reserve Banks and the Board to report to the local United States Attorneys, the Federal Bureau of Investigation, and to the Department of Justice violations of the criminal provisions of the banking laws discovered in the course of bank examination procedures, and it is contemplated that, similarly, violations of the provisions of the Bank Holding Company Act would ordinarily come to the attention of the Federal Reserve Banks or the Board in the course of examinations of banks or bank holding companies and that any such violations would be reported in the same way. This would apply to violations of the Bank Holding Company Act and of regulations or orders of the Board issued thereunder, and also to the making of false entries by officers, directors, agents, and employees of bank holding companies.

While we have not discussed this matter with the Comptroller of the Currency or the Federal Deposit Insurance Corporation, we assume that those agencies likewise would report to the Department of Justice, in accordance with established procedures, violations of the Bank Holding Company Act discovered by them in the course of the examinations of national banks and of insured banks that are not members of the Federal Reserve System.

The extent to which the Federal Bureau of Investigation might wish to make any additional investigations is, of course, a matter for determination of the Department of Justice, but we are of the view that the procedures indicated would be as effective in the case of violations of the Bank Holding Company Act as in the case of other violations of criminal laws relating to banking institutions.

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If you should wish to have any further discussion of this matter with our staff, or if there is any further information that we can give you, please let us know.

Approved unanimously.

Reference was made to a memorandum from the Division of Examinations dated July 17, 1956, copies of which had been sent to the members of the Board, regarding an application for membership in the Federal Reserve System submitted on behalf of the proposed Northside Bank of Jacksonville, Jacksonville, Florida. From the memorandum and its attachments, consisting of material transmitted by the Federal Reserve Bank of Atlanta, it appeared that the Commissioner of Banking for the State of Florida had advised the Reserve Bank that he was ready to approve the charter of the proposed bank subject to its acquisition of deposit insurance through membership in the Federal Reserve System. It was also reported that an application by the organizers for insurance as a nonmember bank was declined by the Federal Deposit Insurance Corporation on April 19, 1956. In a letter dated July 6, 1956, Mr. Denmark, Vice President of the Atlanta Reserve Bank, recommended, with the concurrence of President Bryan and First Vice President Clark, that the application for membership be approved. The letter went on to state, however, that the Reserve Bank's executive committee had voted against a favorable recommendation to the

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Board of Governors because it did not look with favor on an applicant that had been rejected for deposit insurance by the Federal Deposit Insurance Corporation obtaining such insurance through membership in the Federal Reserve System. The memorandum from the Division of Examinations brought out that all of the factors relating to the application on behalf of the proposed bank apparently could be regarded favorably except for a possible question as to the convenience and needs of the community. In this connection, it was understood that the unfavorable finding of the Federal Deposit Insurance Corporation was predicated mainly on the fact that the applicant bank would be located somewhat nearer to an existing institution than was considered desirable. The Division of Examinations recommended advising the Reserve Bank that the Board would not be warranted in giving favorable consideration to the application for membership. It was also recommended that the Reserve Bank suggest to the organizers that the application be withdrawn. These recommendations were based on the premise that in view of the action of the Federal Deposit Insurance Corporation, the applicant bank should not be granted the status of an insured bank through System membership.

In an attached memorandum, dated July 30, 1956, Mr. Hexter expressed doubt whether the fact that a bank's application for deposit

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insurance had recently been declined by the Federal Deposit Insurance Corporation would constitute sufficient reason for denial by the Board of Governors of the bank's application for membership.

Governor Mills stated that after studying the capital, management, and other factors in this case, he had come to the conclusion that the Board should accept the proposed bank for membership. In this connection, he pointed out that the bank would be essentially a branch of a large related institution so that it would have the benefit of strong ownership and management. As to relations with the Federal Deposit Insurance Corporation, he said that a principle was involved which seemed to him to override the natural desire to concur in the position that the Corporation had taken.

Mr. Sloan commented that the recommendation of the Division of Examinations was based on a feeling that the Division should not recommend that the Board assume responsibility for insuring a bank over the protest of the Federal Deposit Insurance Corporation. At the same time, he said, it was recognized that to take such a position would in a sense amount to surrendering the right of the Board to determine whether a bank should be accepted for membership. He suggested that, if the other members of the Board concurred in the views expressed by Governor Mills, one possible procedure would be to bring the situation to the attention of the Chairman of the Federal Deposit Insurance Corporation.

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Governor Robertson stated that although he agreed with Governor Mills' appraisal of the factors in this case, he believed that the statutes relating to deposit insurance were intended to obviate the necessity for going through two agencies rather than to permit an applicant bank to play one supervisory agency against another. In other words, he doubted whether it was intended, if the Federal Deposit Insurance Corporation rejected an application for insurance, that the applicant should have the alternative of going through other channels and obtaining insurance. He was therefore reluctant to act on the matter until the Board of Directors of the Federal Deposit Insurance Corporation had reconsidered the case. In the circumstances, he suggested that a letter be sent to the Chairman of the Corporation explaining the situation and stating that before acting on the application the Board would like to have the benefit of the views of the Corporation's directors, including a confirmation of the findings in the case.

In response to a suggestion by Governor Mills that such a letter might well indicate that on the basis of the information now in its possession the Board of Governors was disposed to consider the bank qualified for membership, Governor Robertson proposed phrasing the letter in terms that on the basis of such information it would

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seem that the application should be approved, but that before acting the Board would like to be advised of any other factors thought to deserve consideration.

At the conclusion of the discussion, it was agreed unanimously that a letter of the kind suggested should be sent to the Chairman of the Federal Deposit Insurance Corporation.

Secretary's Note: In accordance with the foregoing action, the following letter was sent to The Honorable H. Earl Cook, Chairman of the Federal Deposit Insurance Corporation, on August 3, 1956:

The Board of Governors has given consideration to the application of the Northside Bank of Jacksonville, Jacksonville, Florida, a proposed State bank in process of being organized, for membership in the Federal Reserve System.

It is understood that the organizers first applied for deposit insurance as a nonmember bank and this application was disapproved by your Corporation in April 1956 because of the unfavorable findings of your field examiners with respect to the convenience and needs of the community to be served by the bank. An examiner for the Corporation participated with the Federal Reserve Bank in its investigation pursuant to a subsequent application by the organizers for membership in the Federal Reserve System. The Supervising Examiner advised the Reserve Bank that findings were unfavorable in the second investigation and his report to the Corporation reaffirmed the adverse recommendation previously submitted.

It appears that all factors usually considered in connection with such applications are definitely favorable with

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the possible exception of the question of convenience and needs of the community to be served. However, it seems evident that the convenience of the community would be served as the nearest banking facility is over a mile distant and it is noted that your examiner is reported to have agreed with examiners for the State authorities and the Reserve Bank that the proposed bank would obtain deposits of \$3,000,000 by the end of the first year, \$5,000,000 the second year and \$6,000,000 the third year. Such a volume of business would augur well for the profitable operation of the bank and would indicate a need for the facility.

On the basis of the available information, it would seem that the application on behalf of the proposed bank for membership in the Federal Reserve System should be approved. However, before taking action on the matter the Board of Governors would like to have advice as to any factors or circumstances to which you feel special consideration should be given.

Governor Robertson then referred to a pending application of The Michigan Bank, Detroit, Michigan, for permission to establish a branch in Grosse Pointe Park, the file on which had not yet completed circulation to the members of the Board. He stated that in a telephone conversation yesterday with Mr. Harris, First Vice President of the Federal Reserve Bank of Chicago, about another matter, he mentioned this case and pointed out to Mr. Harris that over the past few months The Michigan Bank, which was admitted to membership in the System in April of this year, had expanded its loan volume considerably. He also pointed out that this expansion of loans had taken place after

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the ownership of the bank changed and it became closely connected with the Michigan National Bank of Lansing, Michigan, a bank which has had a record of operating with relatively low capital ratios and has exhibited reluctance to effect correction of the situation. In the circumstances, Governor Robertson said, he suggested to Mr. Harris that the Reserve Bank have a discussion with the management of The Michigan Bank so that there might be some understanding with regard to the kind of operation that would be carried on by the member bank in the future.

Governor Robertson also stated that City Bank, Detroit, Michigan, had forwarded to the Federal Reserve Bank of Chicago an application for a branch in approximately the same location. He felt that this constituted an additional reason why the Board should look into the situation carefully before acting on the application of The Michigan Bank.

Governor Mills called attention to the general policy of the Board that applications for branches shall not be conditioned on the introduction of additional capital and said that a delay in acting on the application of The Michigan Bank in order to consider whether or not additional capital should be supplied in the future would seem to contravene that policy. He suggested that it would be preferable to consider the branch application on the basis of current data. If,

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on such basis, a favorable conclusion was reached, he felt that the application should be approved, leaving the matters of lending policy and capital to be discussed with the bank as a separate matter at an appropriate time.

Governor Vardaman stated that he considered the views expressed by Governor Mills sound in theory and in line with precedent. He felt particularly that to defer action on the current application might be unfair in view of the competing application of the City Bank.

Governor Robertson responded that he did not believe the procurement of additional information was inconsistent with any practice followed by the Board in the past. He felt that the Board should be fully aware of the bank's policies and the trend of its operations before taking action on the application. There being no dire need for an additional banking facility in the area where the branch was proposed to be located, this appeared to him to be clearly a case where a bank desired to enter an area in order to compete. For that reason also, it seemed to him that the past record of the owners was deserving of consideration. He went on to say that the request for additional information did not contemplate holding the matter up for any length of time. What was desired, he said, was not any agreement on the part of the applicant bank but rather an understanding.

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Following further discussion, it was understood that additional consideration would be given to the branch application of The Michigan Bank after the pertinent file had completed circulation among the members of the Board.

Mr. Chase then withdrew from the meeting.

There had been circulated to the members of the Board copies of a memorandum from Mr. Hexter dated July 5, 1956, relating to the disclosure during the September 29, 1955, examination of Bank Shares Incorporated, a holding company affiliate of Minneapolis, Minnesota, that for some time it had been a subsidiary of another holding company affiliate, Northcentral Corporation, also of Minneapolis, the existence of which theretofore had not been known to the supervisory authorities. Attached to the memorandum was a second memorandum, dated January 26, 1956, which Mr. Hexter prepared following a visit to Minneapolis to discuss the situation with appropriate parties. Presentation of that memorandum to the Board had been postponed pending receipt from the Federal Reserve Bank of Minneapolis of the report of examination of Bank Shares Incorporated which was completed on March 1, 1956. The earlier memorandum discussed questions relating to illegal voting of national bank stock, illegal loans to affiliates, failure to file reports, interlocking bank directorates, and false reports by officers and directors of national banks and a holding company affiliate.

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Principally because of the death of the individual chiefly responsible for the incorporation of Northcentral Corporation and the manner in which the Corporation was operated and utilized, the memorandum recommended against action by the Board directed toward revocation of the voting permit of Bank Shares Incorporated. It also recommended against referring to the Department of Justice the question whether there were violations in this case of the statutes relating to false entries. While the Office of the Comptroller of the Currency was understood to have decided against taking any action on the questions within its jurisdiction, at least at the present time, it was suggested that a copy of the memorandum of January 26, 1956, be sent to the Comptroller's Office.

Governor Robertson suggested that Mr. Hexter's recommendations be approved. He felt that they were sound and that there was not a sufficient basis for referring the matter to the Department of Justice or taking any other action at this time.

Governor Balderston said that although he concurred, he did so with some reluctance and only because revocation of the voting permit of Bank Shares Incorporated apparently would carry penalties against the wrong parties. He felt that the failure to disclose information was a serious matter, the reasons for which could only be surmised, and that in principle the violation by a holding company affiliate of

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pertinent statutes without penalty seemed to constitute an unsatisfactory procedure. Nevertheless, in view of all the circumstances he was willing to go along with the recommendation.

The other members of the Board indicated that they concurred in the views expressed by Governor Balderston and that their position against taking any action at this time was based on the circumstances of the particular case.

Thereupon, the recommendations contained in Mr. Hexter's memorandum of January 26, 1956, were approved unanimously, along with the suggestion that a copy of the memorandum be sent to the Comptroller of the Currency.

Mr. Hexter then withdrew from the meeting.

Mr. Carpenter reported receipt of a telephone call yesterday from Mr. Mangels, President of the Federal Reserve Bank of San Francisco, who stated that after discussions with the legal and examining staffs of that Bank, Mr. Powell, Special Counsel for the Board in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, had concluded that it would strengthen the Board's case if a warning under section 30 of the Banking Act of 1933 could be issued against Messrs. Walter E. Cosgriff and K. J. Sullivan, President and Executive Vice President of the bank, respectively. The warning would relate to actions on the part of those individuals in drawing checks

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against insufficient funds and to certain other matters disclosed by examination of the bank. It appeared that Mr. Powell wished to bring those operations into the case as additional evidence of the need for more capital since they indicated increased capital risk attributable to actions on the part of the management. It also appeared that in Mr. Powell's opinion the issuance of a section 30 warning would be advisable against the possibility that Counsel for the Respondent might otherwise ask why such a warning had not been issued. On the other hand, Mr. Mangels seemed to feel that the issuance of a warning would constitute bringing another element into the case when the purpose of that case was essentially to test the authority of the Board to require a member bank to provide additional capital.

Mr. Carpenter also reported that last night Mr. Vest, General Counsel, said that if it were his decision he would be inclined not to issue the warning but that in view of Mr. Powell's responsibility for this case he would have no objection if it were the Board's decision to issue the warning.

In a discussion of the matter, the view was expressed that, as President Mangels had indicated, the case against The Continental Bank and Trust Company was essentially of a type which might be brought against any member bank in a similar situation in an effort to determine

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the authority of the Board to require an increase of the member bank's capital funds where it was believed that a seriously undercapitalized condition existed. The point also was brought out that in several discussions of this matter by the Board the question of proceeding under section 30 had been raised and the position was taken, for reasons stated at the time, that action under section 9 of the Federal Reserve Act would be preferable. In addition, some reservation was expressed concerning the advisability of issuing a section 30 warning under circumstances which indicated that the matter might not be followed to a conclusion. Despite these expressions, however, it was felt that the Board should make no decision regarding a section 30 warning until Mr. Powell returned to Washington and the Board could discuss the matter with him personally. It was suggested that the Secretary so inform President Mangels and that Mr. Solomon tell Mr. Powell of the Board's desire to discuss the matter with him upon his return to Washington. It was also suggested that Mr. Solomon ask Mr. Powell to draft a warning statement of the kind that he thought should be issued and to be prepared to discuss with the Board the considerations that would be involved in a decision on the issuance of such a warning.

There was unanimous agreement with the suggested procedure.

The meeting then adjourned.

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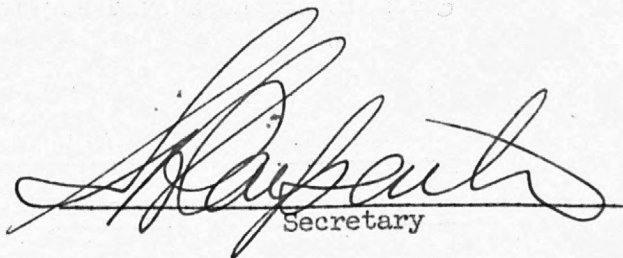
Secretary's Note: On July 31, 1956, Governor Balderston approved the following items on behalf of the Board:

Memorandum dated July 26, 1956, from Mr. Noyes, Adviser, Division of Research and Statistics, recommending the appointment of Harry S. Ditchett as Economist in that Division, with basic annual salary at the rate of \$5,440, effective the date he assumes his duties.

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

In accordance with the requests contained in your letters of July 27, 1956, the Board approves the appointments of Gaylord Bernahl and Gerald F. Hines as assistant examiners for the Federal Reserve Bank of Chicago.

Please advise as to the dates upon which the appointments are made effective.


Secretary