

The attached set of minutes of the Board of Governors of the Federal Reserve System on August 28, 1956, which you have previously initialed, has been amended at the request of Governor Shepardson to revise the first full paragraph on page 14. If you approve these minutes as amended, please initial below.

	A	B
Chm. Martin	<u> </u>	<u> </u>
Gov. Szymczak	x <u><i>[Signature]</i></u>	x <u><i>[Signature]</i></u>
Gov. Mills	<u> </u>	x <u><i>[Signature]</i></u>
Gov. Robertson	x <u><i>[Signature]</i></u>	<u> </u>
Gov. Balderston	<u> </u>	x <u><i>CCB</i></u>

Minutes for August 28, 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	<u> </u>	x <u>(M)</u>
Gov. Szymczak	x <u>MSS</u>	<u> </u>
Gov. Vardaman	x <u>(V)</u>	<u> </u>
Gov. Mills	<u> </u>	x <u> </u>
Gov. Robertson	x <u>R</u>	<u> </u>
Gov. Balderston	<u> </u>	x <u>CCB</u>
Gov. Shepardson	x <u>LSH</u>	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 28, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
 Mr. Vardaman
 Mr. Robertson
 Mr. Shepardson

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Chase, Assistant General Counsel

Pursuant to the understanding at the meeting on August 13, 1956, there had been prepared and circulated to the members of the Board a memorandum from the Secretary dated August 17 relating to the approved maximum fees and allowances for directors of Federal Reserve Banks and branches, as set forth in a letter from the Board to the Federal Reserve Banks dated February 7, 1947. With the memorandum there was submitted a draft of letter to the Chairmen of all Federal Reserve Banks which would refer to the recent informal suggestion that the differential between the maximum fee approved for head office and for branch directors be eliminated and state that the views of the Chairmen would be appreciated concerning this proposal and any other change that might be desirable in the current schedule of maximum fees and allowances.

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When the draft of letter was in circulation to the members of the Board, Governor Shepardson suggested inclusion of a paragraph calling attention to the increasing tendency to make greater use of branch directors, and it was agreed that the paragraph should be included in the letter.

Other minor changes in the draft having been agreed upon, the letter was approved unanimously subject to such further editorial changes as might be deemed appropriate by Mr. Thurston.

Secretary's Note: Pursuant to this action, the following letter was sent today to the Chairmen of all Federal Reserve Banks:

The approved maximum fees and allowances for directors of Federal Reserve Banks and their branches and for members of the Federal Advisory Council are set forth in the Board's letter of February 7, 1947 (S-959; F.R.L.S. 3083).

Recently the informal suggestion was received from a Federal Reserve Bank Chairman that the differential between the maximum fee approved for head office and for branch directors be eliminated. The Board is receptive to such a change but before considering it formally would like to have the views of the Chairmen.

In this connection, the Board has noted with satisfaction the increasing tendency to make greater use of branch directors and to bring them into closer contact with Bank and System problems and policies. The fact that several head office boards are inviting members of branch boards to sit in on their regular meetings would seem to support the recommendation for a uniform schedule of fees for both groups of directors.

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The Board will appreciate your views as to the proposed change and as to any other change that might be desirable in the schedule. It will also appreciate comments or suggestions that you may have to offer regarding the existing schedule of allowances for expenses.

A copy of this letter is being sent to the President of your Bank.

At the meeting on August 2, 1956, consideration was given to an application on behalf of the Northside Bank of Jacksonville, Jacksonville, Florida, for membership in the Federal Reserve System. Earlier this year, an application on behalf of the proposed State bank for deposit insurance had been rejected by the Federal Deposit Insurance Corporation because of an unfavorable finding with respect to the convenience and needs factor. Subsequently, the District Supervising Examiner of that agency reinvestigated this aspect and reaffirmed the unfavorable recommendation to the Corporation's Washington office. The application for membership in the Federal Reserve System was recommended favorably by the officers of the Federal Reserve Bank of Atlanta but the Bank's Executive Committee recommended that the application not be approved. After considering the application, the Board sent a letter to the Chairman of the Federal Deposit Insurance Corporation indicating that, before taking action on the application, the Board would like to have advice as to any factors or circumstances to which it was felt special consideration should be given. In a reply dated August 8, 1956, Chairman Cook set forth

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reasons why the Federal Deposit Insurance Corporation felt that the original decision on the application for deposit insurance should not be changed at this time. In a memorandum dated August 16, the Division of Examinations analyzed the application further on the basis of Mr. Cook's letter and other available information. Despite findings which indicated that approval of the application for System membership could be justified on the basis of the usual standards, the Division continued to recommend advising the Atlanta Reserve Bank that the Board would not be warranted in giving favorable consideration to the application at this time. This recommendation reflected reluctance to bring about a possible deterioration of the close cooperation between the Board and the Federal Deposit Insurance Corporation and it would accept the broad view of the "convenience and needs factor" which appeared to have been taken in this case by the Corporation.

Governor Robertson said that on the basis of information in the report of investigation of the application, it appeared that the strength was on the side of granting the application, and he would favor such action if there were no other factors in the picture. However, there was another factor involved which he considered quite important; namely, the maintenance of the degree of cooperation existing among the three Federal bank supervisory agencies. In this particular case, he questioned the judgment of the Federal Deposit Insurance Corporation. However, if the

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Board were to grant insurance through membership in the System, a situation might arise which would tend to break down the present attitude of cooperation. In addition, he felt that it was advisable to keep applicants from playing one agency against another. Therefore, he would favor denying the application for System membership on the grounds that there was not sufficient need for banking facilities in the community and that the proposed establishment of the new bank was premature. Then, if the applicants wished to resubmit the matter at a later date, they would be free to do so.

After reviewing his understanding of the facts in this case, Governor Szymczak said that he agreed with Governor Robertson concerning the value of maintaining good interagency relationships, but that he had some question regarding the action proposed to be taken by the Board in view of the information that had been developed by the investigation of the application. He suggested that one possible course of action would be to prepare a letter approving the application and show the letter to the Federal Deposit Insurance Corporation before actually sending it. He commented that the Board must be guided not only by its desire to preserve good relationships but by its statutory responsibilities.

In response, Governor Robertson said he did not think that the statutes were intended to enable applicants to play one agency against another, but rather to avoid the necessity of having two agencies pass

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on an application. In this case the applicants did not apply for membership in the System until after they were unable to obtain deposit insurance. He also said that this case was not "open and shut" and that his views might be different in a case where the facts were more clear.

Governor Vardaman said that he recognized fully the desirability of close interagency cooperation, but that if this was allowed to become a "strait jacket" he felt that there would be the risk of stultifying the very objectives that the Congress had sought to preserve in the dual banking system. He did not agree with Governor Robertson's observation concerning the intent of the statutes and felt that they were deliberately phrased to prevent abuse of authority and leave the way open for alternative approaches. As to this particular case, he believed that the action declining the application for deposit insurance might reflect certain elements in the competitive banking situation in the Jacksonville area that tended to exert an influence on supervisory policies. In the circumstances, he was inclined to feel that the Board should judge the case on its merits and explain its action, if any resentment should develop, on the basis that the Board had acted in the light of its statutory responsibilities.

In a further discussion of the problem, Mr. Sloan referred to an application for membership in the System submitted by the Tri-County State Bank of Ortonville, Ortonville, Minnesota. In this case, which

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was being prepared for the Board's consideration, the Federal Deposit Insurance Corporation declined an application for deposit insurance at the time the bank was organized, and the institution began business on January 31, 1955, as an uninsured nonmember bank. Subsequently, another application for deposit insurance failed to obtain approval and the bank had now applied for System membership. The Federal Deposit Insurance Corporation had taken the view that a second bank was not needed in the community and this was the basis for declining the original application for deposit insurance. However, the bank seemed to be operating successfully and the Federal Reserve Bank of Minneapolis had recommended that its application for System membership be approved.

Governor Robertson stated that although he had not yet seen the file on the Ortonville case, he would be inclined, on the basis of the description given by Mr. Sloan, to approve the membership application since the case seemed to be "open and shut". The Jacksonville case, on the other hand, seemed to contain some element of doubt, and he felt that the Board should be very careful in handling it.

In connection with the Ortonville case, Mr. Sloan said that during a recent visit to the Board's offices, President Powell of the Federal Reserve Bank of Minneapolis stated that one reason why local interests supported the organization of the Tri-County Bank was that the existing bank was not giving adequate service to the community. It was suggested

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that Mr. Sloan obtain a memorandum from the Federal Reserve Bank on this point in order to complete the file on the matter.

Governor Shepardson said that he thought the matter of maintaining interagency cooperation and avoiding back-door transactions was an important consideration. It seemed to him, however, that an appropriate solution was available. If a case was clear-cut -- one where in the Board's judgment an error had been made -- he felt that the Board should take action independently, but in a case where there were questions it would be his inclination to support the other supervisory agency. If the Board could give simultaneous consideration to the Jacksonville case and the Ortonville case, the latter of which seemed from Mr. Sloan's description to be more clear-cut, he felt that it would be helpful.

It was then suggested that the file on the Ortonville matter be circulated to the Board as promptly as possible and that this case and the Jacksonville matter be taken up together when a full Board was available.

Agreement was expressed
with the suggested procedure.

There had been sent to the members of the Board copies of a letter dated August 13, 1956, from Counsel for The Continental Bank and Trust Company, Salt Lake City, Utah, enclosing a Demand for More Definite Statement of Legal Authority and Jurisdiction and Matters of Fact and

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Law Asserted in the Board's Notice of Institution of Proceeding and of Hearing Therein dated June 29, 1956. The request was made in the letter that a second copy of the Demand, which was enclosed, be served on Mr. Powell as Special Counsel to the Board. In a memorandum dated August 27, copies of which had been sent to the members of the Board prior to this meeting, Mr. Solomon stated that Mr. Powell proposed, without admitting any insufficiency in the Board's original Notice, to supply the information requested as Counsel to the Board for the investigative and trial functions of the proceeding against the Continental Bank under section 9 of the Federal Reserve Act. The memorandum stated that this would make it unnecessary for the Board to consider the details of this phase of the matter unless Respondent should object to the information supplied and file a further motion for more particulars. It was Mr. Solomon's opinion that the procedure Mr. Powell proposed to follow was reasonable and desirable.

In commenting on the matter, Mr. Solomon said that in administrative hearings there is wide procedural latitude for handling such matters and that the Board could handle this matter in any one of a number of ways, so long as the procedure was reasonable. He went on to say that he agreed with Mr. Powell that there was no technical legal necessity for furnishing Counsel for Respondent any additional information. In other words, there would be no redressable error if the motion were denied.

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However, Mr. Solomon said, both he and Mr. Powell felt that for public relations reasons it would be advisable to furnish all the information that could reasonably be given. That could be handled in a number of different ways and Mr. Powell had suggested, in effect, that he furnish the information as the prosecuting Counsel in this case. This seemed to Mr. Solomon a reasonable approach, and if Counsel for Respondent was satisfied, that would dispose of this phase of the case. If not, Counsel for Respondent could file another motion for information and the Board could give further consideration to the matter.

In response to a question by Governor Vardaman, Mr. Solomon said that if this were a court proceeding one would be bound to much more rigid procedures than in an administrative proceeding. As long as Respondent was dealt with fairly, he said, and received the information requested, it was not important in what form the information went into the record of the proceeding.

Governor Vardaman then referred to procedural aspects of the Board's proceeding against Transamerica Corporation several years ago. He said that he felt the Board as such was not kept fully aware of developments and that in this case it was important for the Board to have full information on a current basis. He suggested that the minutes note receipt of the motion and state that the Board had directed its Special Counsel to prepare the answer.

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Mr. Solomon stated that in a sense the Board would not really pass on matters such as those referred to in the motion until it took action following the forthcoming hearing. He said that the Board was not committed by statements of its Special Counsel and that, while the Board could require its Counsel to submit each paper to the Board so that the Board, as prosecutor, could decide how it wanted the case prosecuted, such a procedure would be rather burdensome for the Board.

Governor Vardaman said that he doubted whether the Board could get away from the broad policies involved, but that this statement did not apply to operating details. In other words, he did not believe that the Board could leave to the judgment of Special Counsel matters which were essentially policy decisions.

Governor Robertson observed that the motion for a bill of particulars had been filed with the Board of Governors, the Board had taken cognizance of it, and the minutes could properly state that the Board had referred the matter to its Special Counsel. If similar documents were received, he suggested that they ought to go not only to Mr. Powell as prosecuting Counsel but also to Counsel for the Board. Such a procedure, he said, would assure that the Board was kept aware of any material developments in the case, and the Board then could act as it saw fit.

After Governor Vardaman had indicated that he would be satisfied with such a procedure, Governor Robertson recalled that at a recent

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meeting the Board decided to ask Mr. Powell to come before the Board and outline how he proposed to conduct the case and what kind of witnesses he proposed to use. He felt that the Board ought to be very careful in delineating the kind of prosecution that should be made in this case. Consequently, it should review with Special Counsel the kind of witnesses to be called and should reach a decision on the advisability of using bankers, academicians, or others outside the bank supervisory field. He went on to say that in his present thinking the case should be based on evidence presented by bank supervisory authorities. To go into the matter from the theoretical side to determine whether the bank's capital was or was not adequate seemed to him to be quite beside the point.

Governor Vardaman noted that if a decision was reached against the use of bankers and university professors as witnesses, that would automatically solve the questions that had been raised concerning the use of unedited reports of examination of the Continental Bank by witnesses outside the field of bank supervision.

Mr. Solomon agreed that such questions were within the province of the Board to determine. He said that Mr. Powell would be available to meet with the Board tomorrow if the Board so desired.

Thereupon, it was agreed that Mr. Powell should be requested to meet with the Board tomorrow and that the minutes should state that Mr. Powell had been

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directed to reply to the motion for a bill of particulars filed by Counsel for Respondent after having cleared the reply with Mr. Solomon.

In this connection Mr. Hexter said it was his understanding that the Board had assigned members of the staff to work with Mr. Powell so as to detach itself and its adjudicatory staff as much as possible from the prosecution of the matter. He inquired whether it was the desire of the Board to have its own Counsel pass on every step in the proceeding. Those members of the Board's legal staff assigned to the prosecuting side of the case presumably would keep in mind things that were in the nature of policy matters and would suggest that such matters be referred to the Board.

With regard to the statement by Mr. Hexter, Governor Robertson said that it was his understanding that the members of the staff assigned to the prosecuting side of the case would act on their own, and that it would be the task of Mr. Vest and Mr. Solomon to keep abreast of developments and look at them from the point of view of what should be brought to the Board's attention, having in mind the interests of the Board and the Board's status.

In response to a request from Governor Shepardson for a further definition of the duties of the members of the Board's staff assigned to the prosecuting side of the case, Governor Robertson said that, as

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he understood it, they were to assist Mr. Powell in determining the adequacy of the steps taken to present the case so that a complete record would be made. Mr. Hexter supplemented Governor Robertson's comment by saying that such members of the Board's staff would endeavor to assist in presenting an effective and strong case on sound principles, and on a high ethical plane.

Governor Shepardson added the further comment that these members of the staff should be responsible for keeping the prosecution of the matter within the framework of policy acceptable to the Board while the function of Messrs. Vest and Solomon should be to follow all developments in the case and keep the Board informed on all pertinent points that might arise.

It was noted that the letter dated August 13 from Counsel for Respondent which transmitted the motion for a bill of particulars stated that it was assumed to be appropriate to address any such motions to the Board and enclose a copy for the Board's Special Counsel. It was agreed to advise Counsel for Respondent that this would be an appropriate manner in which to submit any such documents. It was also agreed to advise Counsel for Respondent that the letter of August 13 and the motion for a bill of particulars had been received by the Board, which had taken cognizance of the matter and had directed its Special Counsel to reply.

The meeting then adjourned.

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Secretary's Note: Pursuant to the procedure approved by the Board on August 24, 1956, the following telegrams were sent today:

To Mr. Erickson, President, Federal Reserve Bank of Boston

Reurtel today. Board approves effective August 28, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 4 per cent to 5-1/2 per cent on direct advances under Section 13b, including advances made in participation with financing institutions. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:20 p.m. EDST today for immediate release.

To Mr. Bryan, President, Federal Reserve Bank of Atlanta

Reurtel today. Board approves effective August 28, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3-3/4 per cent to 5-1/2 per cent on direct advances under Section 13b, including advances made in participation with financing institutions; and commitments under Section 13b--

(a) to make direct advances to industrial or commercial businesses--25 per cent of loan rate with minimum of 1 per cent;

(b) to financing institutions (provided borrower is not charged more than 5-1/2 per cent)--

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- (1) on undisbursed portion--1/2 per cent;
- (2) on disbursed portion of loan--25 per cent of loan rate.

Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate was given to press at 4:20 p.m. EDST today for immediate release.

To Mr. Johns, President, Federal Reserve Bank of St. Louis

Reurtel today. Board approves effective August 28, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 3 per cent to 3-1/2 per cent on advances under Section 13b on portion for which financing institution is obligated, and establishment of rates from 3-1/2 per cent to 5-1/2 per cent on direct advances to established industrial or commercial businesses under Section 13b. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:20 p.m. EDST today for immediate release.

To Mr. Irons, President, Federal Reserve Bank of Dallas

Reurtel today. Board approves effective August 28, 1956, rates of 3 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3-1/2 per cent on advances to member banks under Section 10(b), and 4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase

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in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:20 p.m. EDST today for immediate release.

Assistant Secretary