

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 29, 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. Sloan, Director, Division of
Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Powell, Special Counsel

Mr. Powell, who was present to outline procedures proposed to be followed in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, including the selection of witnesses who would appear on behalf of the Board, made substantially the following statement:

As I mentioned when I first met with the Board on this subject, the main idea in selecting witnesses would be to produce such independent experts as we could who were qualified by having done previous research work in the field of bank capital adequacy, a subject on which there has not been too much work published. Part of the work we have been doing has been to investigate who those people are, talk with them, and see if they are in a position to appear. We have now located several people who have indicated that they would be in a position to testify.

We expect to have a representative of each of the Federal bank supervisory agencies. When I spoke of independent witnesses, I meant persons outside the bank supervisory field. We expect to have one academic man testify on the subject of general adequacy of capital. He would also analyze the capital structure of this particular bank and express an opinion as to the adequacy of its capital. This man, Professor Shaw, is the head of the Department of Economics at Stanford University. Here I

8/29/56

-2-

would like to interject that we wanted to get Western people to the extent possible so that this would not appear to be an effort to impose New York or Eastern standards on the West. Mr. Shaw, who is now preparing to testify, has done a great deal of research in this field. It is probably significant that the Continental Bank lawyers also approached him after he had made a commitment to us. In addition, we plan to have an economist who, at the time he made a general study of the economic background of the intermountain area, was on the staff of the San Francisco Reserve Bank. He is now on the staff of the University of California. His testimony would concern the general economic background and growth of the area and the demand for bank credit. The staff of the Reserve Bank felt that it would be better to use this man rather than one of the Bank's staff because of the study that he published, I believe in 1955. He would bring this study up to date and project it into the future.

Those would constitute the only academic men. In addition, we have tried to locate several bankers who are operating banks of the same general size category as Continental and who have had particular experience in capital problems within the past few years. We have at present one such banker on the West Coast who has agreed to testify. He is highly recommended by President Mangels. We have also secured the consent of a banker who has just become president of a bank in Westchester County, New York, with deposits of about \$100 million. He has taught at the Graduate School of Banking for a number of years and has specialized in the field of bank capital adequacy. In addition, the New York State Bankers Association made a study of bank capital adequacy and published it, and the work was performed by a committee under the chairmanship of a banker in Rochester. He is considering whether he will testify but has not given us a final answer. We also plan to use Assistant Vice President Crosse of the Federal Reserve Bank of New York, who was primarily responsible for a study of capital adequacy. Then, too, we have a man in Pennsylvania who has been a member of Congress, a member of the House Banking and Currency Committee, and State bank superintendent in Pennsylvania, and has for many years operated a small bank in that State. At present, he is on several committees of the American Bankers Association.

That would just about cover it. The idea is, of course, that since this is a case of first impression and we have no

8/29/56

-3-

body of decisions of the Board as precedent to indicate the principles involved in judging the adequacy of a bank's capital, it would be very well to have in this case independent experts (that is, independent of the supervisory authorities) who have devoted time and study to this problem. They would give their expert opinions on the subject both in a general way and especially as related to Continental. I feel that that would contribute substantially to the evidence that the Board would like to have before it when arriving at its decision. It would certainly immunize the record against any attack from Respondent on the grounds that this is just some idea of the Federal supervisory authorities which is not in any way shared by the private bankers in the field. Every banker we have talked to in a general way about Continental and have shown the published balance sheet was obviously shocked at the capital picture, even without knowing anything about the high percentage of classified loans and other things of that nature. A great many felt that bankers of this type should be brought into line and they are willing to do what they can to see that this is done. Some experts that we talked to will not be able to testify, despite expressing opinions on the bank's balance sheet, because of banking relationships, the competitive situation, and similar factors.

One of the factors which have a direct bearing on capital adequacy is the nature of the loans that this bank is engaging in--the quality of the risk--and of course the fact that the bank examiner has classified or specially mentioned loans of Continental in excess of 200 per cent of the bank's capital funds. This sheds a great deal of light on the nature of the management. Respondent is, of course, going to fight the classification of these loans, and to the extent that our experts would be called upon to express their opinions as to the proper classification of those loans based on the facts in the report of examination, they would have to know what those facts were. They would not go back of the facts appearing in the report and they would assume that the examiner has set forth all of the pertinent facts, but in order to form an opinion as to the quality of those loans they would have to have the facts before them. In a conversation with Counsel for the member bank when I was in Salt Lake City, I was advised that Counsel felt it would be perfectly all right to turn over to the experts on both sides the report of examination with only the name of the borrower stricken out. If you strike out additional information as to the nature and business of the borrower, you would be depriving the experts of very important facts in determining the risk quality of the loans.

8/29/56

-4-

If the witness does not have the benefit of that information, his opinion would not be of much value as to the risk quality of the loans. The bank's Counsel said that he felt the witnesses could be given unedited copies of the examination report, with the exception that there would be deleted the names of borrowers, so that they could arrive at an expert opinion. Of course, when the witness testifies he would not in any way reveal the name or business of the borrower but it would be brought out in the record that he had knowledge of those facts as set forth in the examination report. That was the feeling of the Counsel for the bank as to the nature of the examination report that the experts should have for purposes of study. The reports would be sent back to the Board as soon as the experts were finished with them.

As to the copy of the report introduced as the basic document, that would be substantially edited according to the order in this proceeding. In carrying that out, we have devised a rather elaborate system of letters and numbers which are being substituted for names of borrowers. That has been worked out, and in addition all information describing the business of the borrower which might reveal the borrower's identity has been deleted. Furthermore, it has been agreed with Counsel for Continental that the phase of the hearing which deals with classified loans will be private in a further effort to conceal the identity of the borrowers. I believe that through those precautions there will be no revealing of names or identities of the borrowers. Incidentally the bank's Counsel apparently was not concerned at all about revealing the identity of borrowers other than those in Salt Lake City. As you know, the bank has some widespread loans but the only ones that seemed to concern Counsel for the bank were those in the Salt Lake City area. He was satisfied with that method of approach and I believe it would observe both the letter and spirit of what the Board's order enjoined not to reveal.

Governor Robertson said that he had substantial reservations about using bankers as witnesses. In the first place, no matter how many banker witnesses the Board used, the other side could get more. In addition, there was always the question whether bankers are completely free from

8/29/56

-5-

bias when testifying about other bankers. It seemed to him that if bankers were used it should be by way of rebuttal rather than in direct testimony, and he felt that the same thing might be true with regard to academicians. Here again, the other side probably could get at least as many college professors as the Board could get to testify with respect to whether the capital of the bank was adequate. However, with regard to the use of academicians, his principal reservations concerned the taking of evidence on the particular bank rather than on the general question of the desirability of adequate capital. He went on to say that whether or not this particular bank's capital was adequate reflected a judgment of the supervisory authorities. It might be true that people would say that the authorities were behind the times and their judgment erroneous, and if the other side should put bankers on the stand to testify, the Board's Counsel might want to use bankers to show that this was not a unanimous view. Primarily, however, it was a supervisory judgment and the best people to testify would be those engaged in bank supervisory work. To put it another way since it was really a matter of bank supervisory judgment that was on trial, there seemed to be a question whether it would be wise to use bankers and academic people. He regarded Professor Shaw as one of the best in the country in his field, and on the matter of general need for capital he felt that it would be all right to have Mr. Shaw testify, but as for an opinion regarding this particular case he felt it would be highly questionable.

8/29/56

-6-

Governor Robertson also pointed out that a decision on the question of what witnesses were to be called would more or less determine the question of furnishing unedited copies of examination reports to the witnesses. He felt that there was a very serious question involved in giving such reports to bankers, pointing out that there was always the feeling that the bankers might misuse the information for the purpose of obtaining business. There was also a question whether certain bankers would be antagonistic to branch banking and use this opportunity to testify. As to West Coast bankers, they might be placed in a position, if given the unedited reports of examination, to compete unfairly with Continental for the business of people now doing business with that bank. He felt that it would be improper for Respondent to give unedited copies to witnesses for Continental and, if that were done, there might be some basis for furnishing similar copies to bankers testifying for the Board. However, personally and as a member of the Board, he would like to see the Board avoid anything which would have the appearance of unfairness, and to him there was some appearance of unfairness in furnishing a banker-witness an unedited examination report. On the other hand, he would not have the same question regarding academic people as long as the witness was not employed by any banking institution.

Mr. Powell responded that, as he had indicated, the bank's own Counsel did not feel that the proposal that the experts be supplied with

8/29/56

-7-

unedited copies of the reports of examination, with the names of borrowers stricken out, would be a matter of concern. On the basis of that, it did not appear that the bank would feel that such a procedure was unfair or in any way prejudicial to the bank. He said that he would agree with Governor Robertson if any of the bankers that the Board contemplated using were either competitors or potential competitors of Continental. However, no actual or potential competitors of Continental were willing to testify. He went on to say that the bankers in the Western part of the country tended to disqualify themselves on the grounds that Governor Robertson mentioned, and that this was increasingly apparent as one got nearer to the Salt Lake City area. In summary, he did not feel that the accusation of being unfair to Continental would be brought against the Board in the circumstances which he outlined, particularly since the bank's Counsel had spoken as he did. Neither did he feel that the matter of relationships between bankers could be thrown against the Board because bankers having even remote relations with Salt Lake City and the Continental Bank had already disqualified themselves.

In response to a question by Governor Robertson as to what the situation would be if a banker asked to testify should later be requested by the Federal Reserve to increase his capital, Mr. Powell said that one reason why he wanted to have such witnesses paid fees appropriate for expert witnesses was so that there would be no feeling of being beholden to them and no sense of obligation would arise out of their cooperation.

8/29/56

-8-

Governor Robertson then suggested that the contention might be made that the bank of a particular witness was not too well capitalized and that he was under some compulsion to testify.

Mr. Powell responded that in each case the bank with which the particular man was associated had been carefully reviewed to be sure that the bank was "above and beyond suspicion" with respect to its capital position.

Governor Vardaman said that his views were in accord with those stated by Governor Robertson and that he did not disagree with any point that Governor Robertson had made. Turning to certain additional factors which he thought worthy of consideration, he said he did not believe that personally he could consent to the furnishing of reports of examination to bankers to win this or any other specific case, due to the principles and the strong tradition involved. He suggested that the whole structure of examinations might be severely weakened by allowing examination reports to be used in the manner suggested in a case of this sort. At first, he said, he was inclined to feel that if there was a stipulation of Counsel, that would be satisfactory, but on further thought he did not believe that this should be done. With regard to the possible use of Professor Shaw as a witness, he said it must be taken into account that Mr. Shaw was now a consultant to the Board and had served as such on several occasions. In further comments, he said it was his concept that this was a case for the

8/29/56

-9-

Government supervisory agencies both in practice and principle, and that the case could best be made, and should be won or lost, on that basis rather than to call in bankers as witnesses who were subject to Governmental regulation. Therefore, he agreed with Governor Robertson in hoping that the Board could refrain from using any private bankers and he would want to consider the matter very seriously before using as a witness any economist outside the Federal Reserve System. On the latter point, he suggested that any court would give as much weight to the testimony of System economists as to the testimony of economists from outside the System. In summary, he did not believe he could consent to the use of unedited reports of examination by other than Federal employees in the bank supervisory field, he would have serious doubts as to the advisability of bringing in bankers to testify against another banker, and he doubted the advisability of bringing in outside economic experts.

Governor Robertson pointed out that Governor Vardaman's position would not preclude the use of Mr. Shaw because Mr. Shaw would be in much the same position as an economist on the Board's pay roll. However, as a consultant to the Board, Mr. Shaw might be subject to the charge of being under some compulsion to testify in order to retain his appointment.

Mr. Powell said he did not think such a charge would discredit

8/29/56

-10-

Mr. Shaw's testimony although it might form the basis for an argument on the part of the opposition.

Regarding the use of the reports of examination, Mr. Powell said that he did not see how this case could be tried without an edited report of examination being presented as an exhibit because it was that report which contained the basic facts on which the whole capital question would rest.

Governor Robertson expressed agreement with Mr. Powell. He added that in the case of supervisory authorities, he felt there was no question but that unedited reports of examination could be properly supplied. Governor Vardaman likewise expressed agreement with a procedure under which the edited examination report would be introduced into evidence as an exhibit.

After further discussion, Mr. Powell suggested that in view of the comments at this meeting, the expert witnesses be supplied the same edited reports of examination as would be put into evidence in this case and that there be a stipulation of Counsel on both sides regarding the use of the examination reports. Mr. Powell said that under such an arrangement there would be some facts that the expert witnesses would not have regarding the nature and business of the borrower, but that it appeared from this discussion that there were reasons of policy which completely outweighed that consideration. He said that in the circumstances the limitation on the facts which could be supplied to the expert witnesses would simply be recognized.

8/29/56

-11-

Returning to the question of the necessity for having the expert witnesses include in their testimony an opinion regarding the adequacy of the capital of this particular bank, Governor Shepardson asked whether such witnesses could be used to advantage in confirming the validity of the standards that the Federal Reserve System had used. In this manner, the determination of the adequacy of the particular bank's capital could rest on the testimony of the examiners themselves, with the standards confirmed by the other witnesses.

Mr. Powell commented on Governor Shepardson's remarks by saying that the fact to be proved on the record in this case was the adequacy or inadequacy of the capital of the Continental Bank. That is what the entire record would be designed to prove. For that reason, it would be much better for each individual expert to testify not only as to the history and theory of bank capital standards but also on the application of those standards to this particular case. The witness would express an opinion or judgment as to whether this bank's capital was or was not adequate and, if not adequate, the range or amount. That would establish a much better record and that is why he, as a lawyer, wanted to go all the way.

Governor Robertson said that although he recognized the point, he thought that other considerations, with which the Board must be concerned as a supervisory agency, put a somewhat different light on the

8/29/56

-12-

matter. Even if it meant losing the case, he felt that it would be well to lean over backward to be absolutely fair and to maintain as completely as possible the confidential relationship between the supervisory authority and the bank. Otherwise, it would be difficult for an examiner to obtain adequate information, for an examiner can go into a bank and come out with a very imperfect picture if a confidential relationship does not exist between him and the banker.

Mr. Powell then asked whether Governor Robertson felt that this relationship would be protected by restricting the witnesses to the use of an edited report of examination, and Governor Robertson replied in the affirmative, adding that any witness representing a Federal supervisory authority could, as he had said before, properly use the unedited report.

Mr. Powell said that he had also looked into the question of using representatives of the State banking authorities as witnesses but that most of the people with whom he discussed the matter seemed to feel that the majority of the State departments were not too well equipped to come into the picture. He also supposed that there would be some reluctance on the part of one State to send its personnel into another State to testify in a case. He did not know what part, if any, the Utah State authorities would take in this case and he had not approached them.

Mr. Powell then stated his understanding that the only copies of the examination reports made available to witnesses not representing the

8/29/56

-13-

Federal bank supervisory authorities would be copies which had been edited by the Federal Reserve Bank of San Francisco, and he said that this procedure would be covered in a stipulation of Counsel. Of course, he said, there was no way of knowing just what the Continental Bank would do with its own copy of the examination report.

Governor Robertson commented that he felt Continental was precluded from showing the examination report to witnesses but that if such a procedure were followed he would rather have Continental do it than the Board.

The discussion then returned to the use of bankers as witnesses and Mr. Powell said that he would like to see the bankers with whom there had already been discussion called to testify, not only because they were private bankers but because of the experience of those particular individuals in the field of bank capital adequacy. He said there were not too many people in the United States who could qualify as experts in that field. In response to Governor Robertson's question as to whether he meant that they would testify merely on the need for adequate capital in a bank, Mr. Powell said that his intention had been to have such witnesses testify on the history and theory of the bank capital problem and then apply their expert knowledge and judgment to this particular situation. Such testimony, he said, would be based solely on the edited report of examination and on published information regarding the bank.

8/29/56

-14-

Governor Robertson said this would be far from desirable from his own point of view but that he did not want to interfere in any way with the prosecution of the case as long as the Board bent over backward to avoid violating the confidentiality that exists and provided it was made clear that the bankers were not testifying under compulsion.

Mr. Powell said that it could be clarified of record that these witnesses were being employed and paid as independent experts. He then summarized a discussion which he had had with Mr. Fred Florence, President of the American Bankers Association, from which it appeared that although Mr. Florence might have considerable sympathy for the Board's position in the matter, he did not feel free to testify personally because of banking relationships and could not commit the American Bankers Association to supply representatives of the Association as witnesses without consulting other officials of the Association. Mr. Powell added that Mr. Florence did make a commitment, however, that neither he nor the American Bankers Association would furnish any witnesses to Continental.

Governor Szymczak called attention to the fact that three members of the Board were absent and that they might have different views from those expressed at this meeting. However, in his opinion it would not be necessary to take the matter up with the other Board members at this time if Mr. Powell felt he now had sufficient information.

8/29/56

-15-

Mr. Powell said that he thought he had enough guidance in the matter. Turning to the motion for a bill of particulars filed recently by Counsel for Respondent, Mr. Powell said that in accordance with the Board's action yesterday, as reported to him by Mr. Solomon, he would prepare and file a response as a document of which the Board would have official cognizance. Counsel for Respondent, if not satisfied with the response, could make a motion to the Board requesting that the Board's Special Counsel be requested to file further particulars. Then Counsel for Respondent could appear and argue his motion and at that time the Board could make a ruling on the sufficiency of the response. In all, he thought that the procedure agreed upon yesterday would be the most expeditious way to handle the matter.

Mr. Solomon said that in view of the discussion at the Board meeting yesterday in which it was indicated that the Board was interested not only in the sufficiency of the information supplied but also in the manner of the proposed presentation, it might be well for Mr. Powell to indicate what he would propose to include in the bill of particulars.

Governor Robertson stated to Mr. Powell that the discussion yesterday was to the effect that whenever motions were filed by Counsel for Respondent or by the Board's Special Counsel, a copy should go to Mr. Vest or Mr. Solomon who would have responsibility for bringing any such papers to the attention of the Board, even before any allegation

8/29/56

-16-

of insufficiency of reply was made by Respondent. It was also agreed, he said, that the Board would always be open to discussion with Continental, with the understanding that Mr. Powell or his representative would be present at any such meeting and that any allegations should be made to the Board as a whole.

Mr. Powell then summarized what he would include in the bill of particulars, after which he said that, if nothing else, the furnishing of the information would put Respondent in a better position to meet the evidence that the Board was going to bring forth and therefore would expedite the hearing. In other words, Respondent would then be prepared to go forward with the defense.

Returning to the question of the use of bankers as witnesses for the Board, Governor Vardaman said that if it was the wish of the other members of the Board to call such witnesses he would go along. However, he urged that consideration be given to making the case by the use of Federal bank supervisory personnel only, with the possible exception of Professor Shaw or some other person in the same category as Mr. Shaw. He felt that it would be unwise to use private bankers as witnesses from the standpoint of the principle involved, and he said that on the practical side it seemed probable that Respondent could produce a larger number of bankers as witnesses than any number that the Board might produce.

Mr. Powell responded that he was not bothered at all by the possibility that Respondent would produce a greater number of witnesses.

8/29/56

-17-

He added that he did not think that Continental would be able to obtain private bankers who had had experience in the field of bank capital adequacy. He believed it could be demonstrated that any private bankers used by Continental were not completely independent, that they were bankers with whom Continental had done substantial business or who had been extended credit by Continental, or that they were affiliated with Mr. Cosgriff in his personal undertakings. He did not think that most private bankers would want to get mixed up in this picture.

With reference to Mr. Powell's last statement, Governor Vardaman said that he did not want the Board to get into the position of having to try to discredit certain bankers. He did not think that this particular case was worth that much to the Board. He feared a bad effect on the dignity of the Board and on the traditions of the Board as an examining authority. In reply to a comment by Mr. Hexter that the Board would be faced with that problem if Continental saw fit to introduce bankers as witnesses, Governor Vardaman said the difference was that if the Board set the precedent, Respondent could say in rebuttal that it was forced to introduce private bankers. In other words, if the Board started out by using private bankers, Continental could maintain that it was forced to introduce other bankers.

Mr. Powell then said that he knew from conversation with Counsel for Respondent that Continental planned to introduce private bankers as witnesses along with academic people. He went on to say that, assuming

8/29/56

-18-

it was found that the bank's capital was inadequate by a certain amount or within a certain range, a question that would appear in the case was how Continental would remedy that capital inadequacy. This would give rise to some very practical issues on which it would be well to have the benefit of testimony as to the actual experience of bankers who had been confronted with the same problem and who had met it successfully. He felt reasonably sure that Continental would take the position that with the present position of the capital markets, a requirement for the sale of stock in a substantial amount would be practically impossible of fulfillment and greatly prejudicial to the existing stockholders of the bank. He thought Continental would find a number of experts who would share the view that the matter was not as simple as just selling stock and that some other plan would have to be worked out. In any event, he said, this would be an issue in the case, and the record should have evidence in it which would be of benefit to the Board in passing judgment on the matter.

Governor Robertson said that he did not think the question was one of how the bank raised the capital, but merely one of adequacy of capital in the light of the bank's nature and volume of business. He went on to say that as an alternative to increasing its capital, Continental could reorganize its business in the light of its current capital, a choice which the bank had been given over the years.

8/29/56

-19-

Mr. Powell commented that, as reflected in the Notice of Hearing, one issue to be determined was what would be a reasonable time for the bank to correct the condition in the event of a finding of capital inadequacy. Evidence along those lines, he thought, would be helpful for the Board to have before it in determining what period of time should be allowed. He did not envisage that in the event of a finding of capital inadequacy, the Board in its order would direct the bank to sell stock or take any other specific measures, but rather that it would direct the bank to correct the existing conditions within a certain time which would be reasonable in all of the circumstances.

Governor Szymczak then inquired whether the question of the calling of bankers as witnesses could be deferred for decision when a full Board was available.

Mr. Powell replied that in the light of his statement when he first met with the Board that it was intended to use outside independent witnesses and in view of the fact that the Board had approved a scale of compensation for such witnesses, he had been proceeding with such experts. He pointed out that they would have only a rather limited period of time to prepare to testify. It was not of concern to him, he said, whether it was decided to use the bankers in the rebuttal phase of the testimony or in the initial phase. While the limitations must be borne in mind against putting in any new evidence in rebuttal, he thought that the bankers called as witnesses would fit into that picture all right.

8/29/56

-20-

However, the element of time was important and he would not want to have a decision postponed too long.

Governor Vardaman then suggested that it would seem appropriate to ask Mr. Powell to proceed with the preparation of the case, including the use of bankers as witnesses, with the understanding that if at a later date it developed that there was a strong feeling on the part of the majority of the Board that bankers should not be used, that bridge could then be crossed.

Governor Robertson also expressed the view that the Board should not stand in the way of Counsel in preparing the case, now that Counsel had had the benefit of this discussion.

Messrs. Hexter, Chase, and Powell then withdrew from the meeting.

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 the Board of Directors, First Bank & Trust Company of Utica, Utica, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by First Bank & Trust Company of Utica, Utica, New York, of a branch in the North Utica Shopping Center on the southerly side of Auert Avenue, approximately 300 feet east of North Genesee Street, Utica, New York, provided the branch is established within six months from the date of this letter and the approval of State authorities is in effect at the time of establishment of the branch.

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

8/29/56

-21-

Letter to The First National City Bank of New York, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish an additional branch in London, England, to be located at 17 Bruton Street, London, W. 1., and to operate and maintain such branch subject to the provisions of such Section; upon condition that, unless the branch is actually established and opened for business on or before September 1, 1957, all rights granted hereby shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date.

It is understood, of course, that no change will be made in the location of such branch without the prior approval of the Board of Governors.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York, with a copy to the Comptroller of the Currency.

Letter to the Board of Directors, Fidelity Trust Company, Indianapolis, Indiana, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by the Fidelity Trust Company at 3000 Southeastern Avenue, Indianapolis, Indiana, provided the branch is established within nine months from the date of this letter, and that approval of State authorities is effective as of the date the branch is established.

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

8/29/56

-22-

Letter to the Board of Directors, The Exchange Bank and Trust Company, El Dorado, Arkansas, reading as follows:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers, limited, however, to a specific appointment.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The Exchange Bank and Trust Company to act solely as trustee under a \$50,000 bond issue of the Union Paving Company, Incorporated.

It is noted that your bank does not at this time desire to exercise general fiduciary powers as authorized by the terms of its articles of incorporation and the laws of the State of Arkansas. Permission, therefore, to act in the specific instance recited above is granted with the understanding that your bank will not accept additional fiduciary appointments without first obtaining the permission of this Board.

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

Letter to Mr. Koppang, First Vice President, Federal Reserve Bank of Kansas City, reading as follows:

This refers to your letter of August 17 and enclosure, regarding the penalty of \$2,321.25 incurred by the Central Bank and Trust Company, Denver, Colorado, on a deficiency in its required reserves for the weekly period ended July 4, 1956.

It is noted that the deficiency amounted to \$17,837,000 on a one-day basis or to a daily average of \$2,548,000 for the reserve computation week; that the subject bank had excess reserves of \$20,774,000 during the week ended July 11, as a result of borrowings which the member bank was given to understand would make up for the deficiency in the previous period; and that, through misunderstanding, your

8/29/56

-23-

Denver Branch has already waived the deficient reserve penalty incurred in this instance.

In the circumstances, the Board ratifies the action of your Branch in waiving the assessment of the penalty in this case.

Approved unanimously.

Letter to the Board of Directors, Occidental Savings & Commercial Bank, Los Angeles (North Hollywood), California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch near the intersection of Roscoe and Van Nuys Boulevards, Los Angeles (Panorama City), California, by Occidental Savings & Commercial Bank, Los Angeles (North Hollywood), California, provided the branch is established within one year from the date of this letter, and the approval of the State authorities is in effect as of the date the branch is established.

It is understood that the capital structure of the bank will be increased in the amount of at least \$300,000 through the sale of additional common stock prior to the opening of the branch.

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

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 May 18, 1956, enclosing photostatic copies of an application to organize a national bank in Houston, Texas, under the title of Lockwood National Bank of Houston 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 Dallas indicates that the proposed capital structure of the bank would

8/29/56

-24-

be adequate and that the prospects for profitable operations of the institution are fairly satisfactory. It is reported that the proposed management of the bank appears to lack the qualifications and background required to manage the bank and that the present banking facilities serving the general area are reasonably convenient and adequate to satisfy the banking needs at present. In the circumstances, the Board of Governors does not feel justified in recommending 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.

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

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form F.R. 105 (Call No. 141), Report of condition of State member banks.

Form F.R. 105e (Revised November 1955), Publisher's copy of report of condition of State member banks.

Form F.R. 105e-1 (Revised November 1955), Publisher's copy of report of condition of State member banks.

Form F.R. 105e-2 (Revised November 1955), Publisher's copy supplement.

Form F.R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.

8/29/56

-25-

Form F.R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

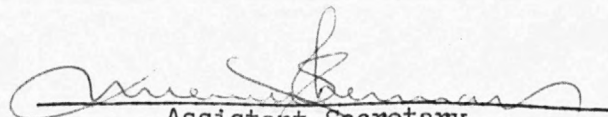
All of the forms are the same as those used on June 30, 1956.

Approved unanimously, with the understanding that the letter would be sent when the forms were printed.

Governor Vardaman reported receipt of a telephone call from Senator Millikin of Colorado who said that he had received a letter from a constituent in the lumber business complaining of the effects of monetary policy on the lumber industry and that he would like to have a letter which he could use in making a reply. Governor Vardaman said that he discussed the matter with Messrs. Young, Director, and Noyes, Adviser, Division of Research and Statistics, that Mr. Noyes talked with the Senator's assistant, and that a draft of letter to the Senator had now been prepared.

Following a reading of the proposed letter by Mr. Sherman, it was agreed that it would be appropriate to send the letter to Senator Millikin.

The meeting then adjourned.


Assistant Secretary