

Minutes for August 30, 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>                    </u>
Gov. Szymczak	x <u>                    </u>	<u>                    </u>
Gov. Vardaman	x <u>                    </u>	<u>                    </u>
Gov. Mills	<u>                    </u>	x <u>                    </u>
Gov. Robertson	x <u>                    </u>	<u>                    </u>
Gov. Balderston	<u>                    </u>	x <u>                    </u>
Gov. Shepardson	x <u>                    </u>	<u>                    </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 30, 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. Shay, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of Examinations

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Telegram to Mr. Crane, Federal Reserve Agent, Federal Reserve Bank of New York, authorizing the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Marine Midland Corporation, Jersey City, New Jersey, entitling such organization to vote the stock which it owns or controls of The First National Bank of Herkimer, Herkimer, New York, at all meetings of shareholders of such bank, provided that:

Prior to the issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (FRLS #7190).

Approved unanimously.

Letter to Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

This refers to your letter of August 20, 1956, transmitting a copy of a resolution of the board of directors

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the Montana Bank, Great Falls, Montana, authorizing any Federal Reserve Bank to send reports of examination of that member bank to Transamerica Corporation.

In view of the fact that Transamerica Corporation has become a holding company affiliate of the Montana Bank, it is felt that copies of reports of examination of such bank made by your examiners subsequent to the time Transamerica Corporation became a holding company affiliate of the bank may be furnished the corporation in accordance with the authorization received from the bank, provided such reports are transmitted and receipts therefor obtained in such manner as will preserve substantially the same restrictions and conditions as to the use, recall and disclosure for publication as those which govern the copies of reports furnished to State member banks pursuant to Form F.R. 410-45-Receipt.

Approved unanimously.

Letter to the Board of Directors, Portland Trust Bank, Portland, Oregon, 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 on N. E. Sandy Boulevard between N. E. 12th and 21st Avenues, Portland, Oregon, by Portland Trust Bank, Portland, Oregon, provided the branch is established within six months from the date of this letter and the approval of the State authorities is in effect on the date the branch is established.

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

In a letter dated July 23, 1956, addressed to Chairman Martin, Mr. Roland Pierotti, Assistant to the President, Bank of America National Trust and Savings Association, San Francisco, California, requested, on behalf of Bank of America, New York, New York, approval in principle by

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the Board of Governors of the purchase by Bank of America of Banca d'America e d'Italia, Milan, Italy, from Transamerica Corporation. In a letter dated August 2, 1956, containing further information needed for preliminary consideration of the matter, Mr. Pierotti advised that negotiations had not yet been entered into with Transamerica Corporation.

Prior to this meeting there had been circulated to the members of the Board a memorandum dated August 21, 1956, from Mr. Goodman, Assistant Director of the Division of Examinations, recommending that the request be approved in principle, subject to further consideration upon receipt of detailed information regarding the proposal and subject to a number of understandings and limitations set forth in the memorandum. With the memorandum there was submitted a draft of letter to Mr. Pierotti reflecting the recommendation.

In a discussion of various aspects of the proposal it was stated that Bank of America representatives some time ago mentioned informally to members of the Board's staff the possibility that the organization might wish to buy into banks in various foreign countries, that the Division of Examinations had certain reservations regarding such a program from the supervisory standpoint, but that it was not clear whether the proposed stock purchase was a part of any general program. As a condition incident to approval of the current proposal, it was proposed to stipulate that when required by the Board, Bank of America would cause

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Banca d'America e d'Italia to permit examiners appointed by the Board to examine the bank and its branches and agencies, and to furnish the Board such reports as it might request from time to time.

Governor Vardaman stated that he would not be inclined to approve a letter containing an indication that the Board's approval of the proposed transaction would be based on such a condition and that he doubted whether the Board should interfere with the operations of a bank in a foreign country if such bank's operations did not jeopardize or affect the assets of a domestic institution. In this respect, he felt that distinctions could be made between a foreign bank in which a United States foreign banking corporation held stock and foreign branches of an American bank or foreign banking corporation.

Mr. Goodman commented that Governor Vardaman had touched upon a point involving a significant question of policy. After reading the pertinent condition which would be stated in the proposed letter to Mr. Pierotti, he said that he did not believe he could have recommended approval in principle of the proposed stock purchase by Bank of America unless examiners for the Board would be permitted to examine the subsidiary foreign bank. If there were adverse developments within the foreign bank, he was convinced that there would be repercussions of an international nature affecting Bank of America. Therefore, if it was not deemed appropriate to include a condition of the kind indicated he did not feel that he would be warranted in recommending that the proposed purchase be approved.

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Governor Vardaman expressed doubt whether such an agreement would be binding. It was his view that the Board in effect would be assuming responsibility for the operations of the foreign subsidiary bank and that it could not effectively supervise such an institution. In other words, he felt that the Board should not assume responsibility in a situation where its authority was questionable. Following further discussion, Governor Vardaman said that he did not object to the proposed stock purchase by Bank of America but that he objected to the inclusion of conditions incident to approval of the transaction such as the one relating to permission to examine the Italian bank.

In view of the questions raised by Governor Vardaman, it was suggested that action on the proposed letter to Bank of America be deferred pending further discussion on Thursday, September 6, when other members of the Board would be present.

There was unanimous agreement with this suggestion.

Mr. Shay then withdrew from the meeting.

At the meeting on August 28, 1956, consideration was given to an application for membership in the Federal Reserve System made on behalf of the proposed Northside Bank of Jacksonville, Jacksonville, Florida, and a decision was deferred pending further consideration with all of the members of the Board present. At that time it was stated that similar questions were involved in an application for System membership which had been filed by the Tri-County State Bank of Ortonville, Ortonville,

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Minnesota. Subsequently, the file on the Ortonville case was circulated to the available members of the Board with a memorandum from the Division of Examinations which suggested that the following letter be sent to Chairman Cook of the Federal Deposit Insurance Corporation so that Mr. Cook's reply might be available when the Board gave consideration to the Jacksonville and Ortonville membership applications:

The Board of Governors has given consideration to the application of the Tri-County State Bank of Ortonville, Ortonville, Minnesota, a noninsured State bank, for membership in the Federal Reserve System.

It is understood the organizers of the bank applied for deposit insurance as a nonmember bank and that this application was disapproved by your Corporation July 22, 1954, because of unfavorable findings with respect to the convenience and needs of the community to be served. We are informed also that a new application for insurance filed April 2, 1956, has been investigated by your examiners and that the board of directors of the bank, after being informed of the results of the investigation, requested that the application be held in suspense at your field office.

The applicant bank commenced business on January 31, 1955, and has demonstrated ability to operate in a reasonably satisfactory manner. While one bank probably could have served the community adequately, there seems to be ample business available to permit the applicant as well as its competitor to operate profitably. Other factors are reported to be generally satisfactory.

On the basis of all 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 application, the Board of Governors would like to have advice as to any factors or circumstances to which you feel special consideration should be given.

The letter was approved  
unanimously.

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Governor Szymczak referred to a memorandum from the Legal Division distributed to the members of the Board under date of August 29, 1956, submitting a list of possible amendments to Federal Reserve laws that might be considered by the Board for submission to the committee headed by Senator Robertson which is currently engaged in a study of the Federal laws relating to financial institutions and credit. He said that, having in mind Chairman Martin's statement at an earlier Board meeting that it would be helpful to have recommendations from the staff regarding the various items, he had suggested to Mr. Solomon that the staff consider the items further and present a more definite indication of staff views, including differences of opinion within the staff where such differences existed. He also suggested that in preparation for Board consideration of the matter, the members of the Board might wish to take up with the staff individually any points in the August 29 memorandum which they would like to discuss. Governor Szymczak stated that he felt these procedures would contribute to expeditious consideration of the suggestions to be sent to Senator Robertson's committee.

Governor Vardaman commented that although he would favor supplementing the original memorandum by a further indication of staff views, he would not want to see any procedure followed which would result in watered-down recommendations. After reviewing the scope of the Robertson committee study, Governor Vardaman said that it was his intention



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to make full and complete recommendations, that he hoped he could go along with the submission made to the committee by the Board, but that, if not, he intended to submit recommendations individually.

In connection with the Robertson committee study, Governor Robertson called attention to the fact that the Federal Reserve Banks had not yet been asked for their suggestions. Since it did not appear from informal contacts with the legal staff of the Federal Reserve Bank of New York that the Robertson committee had approached the Federal Reserve Banks directly, he suggested that a telegram reading as follows be sent to each Reserve Bank President:

Senator Robertson, in connection with study of Federal laws relating to financial institutions and credit, has asked Board to submit by the first week of October its recommendations as to desirable changes in the Federal Reserve Act and related statutes dealing with membership in the System. He suggests that these recommendations be prepared with two primary thoughts in mind: (1) elimination of obsolete and overlapping provisions, and (2) the addition of new provisions to bring the statutes up to date so that our financial and credit institutions may better meet the needs of the people.

Board would appreciate receiving suggestions your Bank may have and asks that these be sent to reach Board not later than Friday, September 14.

For your information, Federal Advisory Council also has been asked to discuss this subject when it meets with Board September 18.

Copy of a memorandum from Senator Robertson on this subject is being sent to you today.

The telegram was approved  
unanimously.

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Governor Vardaman said that he did not recall having received a copy of the memorandum dated July 20, 1956, which Senator Robertson sent to the Board and certain other Federal agencies. He stated that in view of the importance of the Robertson committee study this memorandum should have been distributed to each member of the Board promptly and the same procedure should be followed with regard to all other documents relating to the study.

It was understood that the Secretary's Office would check on the distribution of the memorandum and other documents pertinent to the Robertson committee study and that copies would be sent to the members of the Board of any documents that had not already been distributed.

The meeting then adjourned.

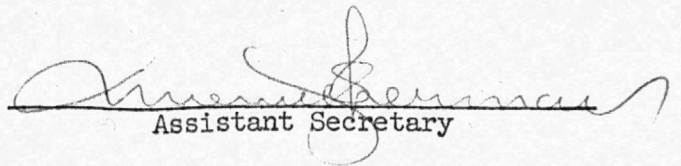
Secretary's Note: Pursuant to the procedure approved by the Board on August 24, 1956, the following telegram was sent today to Mr. Hall, Chairman of the Federal Reserve Bank of Kansas City:

Reurtel today. Board approves effective August 31, 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 3-1/2 per cent to 5-1/2 per cent on direct advances under Section 13b, including advances made in participation with financing institutions; and on commitments to make such advances--1/2 per cent to 1-3/8 per cent. Otherwise, Board approves establishment by your

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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 4:00 p.m. EDST today for immediate release.



Assistant Secretary