

Minutes for October 9, 1956

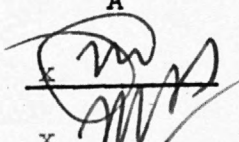
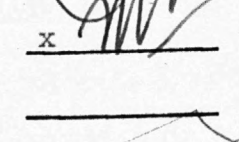

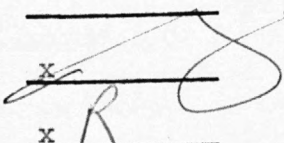
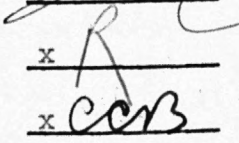
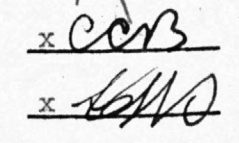
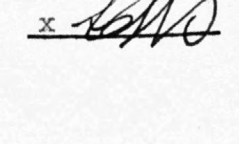
To: Members of the Board

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	<input checked="" type="checkbox"/> 	_____
Gov. Szymczak	<input checked="" type="checkbox"/> 	_____
Gov. Vardaman	_____	<input checked="" type="checkbox"/> 
Gov. Mills	<input checked="" type="checkbox"/> 	_____
Gov. Robertson	<input checked="" type="checkbox"/> 	_____
Gov. Balderston	<input checked="" type="checkbox"/> 	_____
Gov. Shepardson	<input checked="" type="checkbox"/> 	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 9, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Masters, Assistant Director, Division of Examinations

Question was raised as to when the Board wished to give further consideration to the proposed revision of Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, and after the advisability had been mentioned of carrying forward the Board's study of the subject as promptly as possible in the light of unresolved questions under the current regulation, it was agreed to place the subject on the agenda for the meeting on October 15, 1956.

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. Leach, Chairman of the Committee on Fiscal Agency Operations of the Conference of Presidents of the Federal Reserve Banks, reading as follows:

This letter is in response to yours of October 1, 1956. The Board will be glad to have Mr. Vest continue

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as an associate of the Subcommittee of Counsel on Fiscal Agency Operations and would like to have Mr. John R. Farrell, Assistant Director of the Division of Bank Operations, serve as associate of the Subcommittee on Fiscal Agency Operations.

Approved unanimously.

Letter to Mr. Erickson, President, Federal Reserve Bank of Boston, reading as follows:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Boston for the period November 1, 1956, through December 31, 1956, at the rates indicated which are the rates fixed by your Board of Directors as reported in your letter of September 12, 1956.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Ansgar R. Berge	Vice President	\$15,000
John E. Lowe	Cashier	13,500
Dana D. Sawyer	Vice President	14,500
Wallace Dickson	Director of Public Information	12,500

Approved unanimously.

Secretary's Note: The memorandum from the Division of Personnel Administration submitting the above letter to the Board suggested that the Boston Reserve Bank be contacted informally to discuss the fact that it was contemplated at the time of adoption of the Officers' Salary Administration Plan that salary increases for other than promotions and transfers would be proposed, with as few exceptions as possible, when submitting the Banks' budgets each year.

Letter to Mr. Prall, Federal Reserve Agent, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in Mr. Dawes' letter of September 21, 1956, the Board of

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Governors approves the appointment of Mr. John Thorndell Stentz as Alternate Assistant Federal Reserve Agent to succeed Mr. Clarence W. Kolz, deceased.

This approval is given with the understanding that Mr. Stentz will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

Mr. Stentz 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.

Approved unanimously.

Letter to the Board of Directors, Poughkeepsie Trust Company, Poughkeepsie, 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 Poughkeepsie Trust Company, Poughkeepsie, New York, of a branch at 236 Main Street, Poughkeepsie, New York, provided that (a) the merger of Merchants National Bank & Trust Company of Poughkeepsie into Poughkeepsie Trust Company is effected substantially in accordance with the Plan and Agreement of Merger dated August 1, 1956, as submitted through the Federal Reserve Bank of New York, (b) formal approval is obtained from the appropriate State authorities, and (c) the merger and establishment of the branch are accomplished within six months from the date of this letter; and with the understanding that the branch is to be discontinued after completion of alterations to the main office, at which time the two offices will be consolidated.

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It is noted that under the terms of the agreement the title of Poughkeepsie Trust Company will be changed to "Dutchess Bank & Trust Company" on the effective date of the merger and that its main office will be located at 285 Main Street, the present site of Merchants National Bank & Trust Company of Poughkeepsie.

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

Letter to the Board of Directors, The Tootle National Bank, Saint Joseph, Missouri, St. Joseph, Missouri, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Missouri. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Tootle National Bank, Saint Joseph, Missouri is now authorized to exercise will be forwarded to you in due course.

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

Letter for the signature of Chairman Martin to Mr. Lewis W. Douglas, Chairman of the Board, Southern Arizona Bank & Trust Company, Tucson, Arizona, reading as follows:

I have received your letter of September 24, 1956, with further reference to Mr. Henry Dahlberg's eligibility to go on the Board of the Southern Arizona Bank & Trust Company.

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You asked whether the same decision would be rendered if the underwriting activities of the firm constituted a smaller proportion, say 5 per cent, of its total business.

I do not know whether you have seen the information which was submitted to the Board on which its conclusion was based in 1955 and in June of this year. That information indicates that it would require a rather drastic change in the business of the firm in order to reduce the percentage to anything like 5 per cent. In addition to its ordinary underwriting and distributing, the firm sells mutual fund shares, and the figures indicate that this business alone would bring the percentage up to some such figure as you mention.

The question whether the statute is applicable in a particular case cannot be decided solely on the basis of a percentage figure, because, as you will readily understand, the amount of profit a firm derives from a particular class of business is not always a measure of the amount of effort which the firm devotes to that particular class of business or of the importance which the firm attaches to it. The question whether it is one of the primary activities of the firm has to be decided on the basis of all the circumstances.

The information which the Board had before it on the two previous occasions when it considered this case indicated that it could not reach any other conclusion without reconsidering and reversing the views expressed by it in a number of other cases. However, if there should be any significant change in the business of Mr. Dahlberg's firm, the Board will be glad to reconsider the matter. The Federal Reserve Bank of Dallas has all the information which has been submitted to date, and I think it would be desirable to obtain their views in the event the question is to be reconsidered on the basis of any new factual background.

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

Reference was made to the following draft of letter to Mr. Kroner, Vice President of the Federal Reserve Bank of St. Louis, copies of which had been distributed to the members of the Board:

This will acknowledge your letter of September 20, 1956, with which there was enclosed a letter, dated

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September 18, 1956, from the law firm of Thompson Mitchell Thompson & Douglas, St. Louis, Missouri, containing an inquiry relating to the issuance by the Board of regulations or forms under section 4(c)(6) of the Bank Holding Company Act of 1956.

At the present time the Board does not contemplate the use of a specific form for the purpose of a request to the Board of Governors for a determination, pursuant to section 4(c)(6) of the Act, as to whether all the activities of a subsidiary are so closely related to the business of banking, as conducted by a particular bank holding company or its banking subsidiaries, as to except the bank holding company from the divestment requirements of section 4. However, there is being prepared for transmission to all Federal Reserve Banks a general letter of instruction in this connection. It is presently anticipated that, in substance, the letter will suggest that should a determination pursuant to section 4(c)(6) be desired, the applicant will submit with such request all pertinent details of organization and operation of the company in which shares are held. This should include a statement of the nature, purpose, and activity of the company, and of the relation of its activities to the business of the bank holding company and its subsidiaries, together with submission of all documents of incorporation or organization and of schedules and statements deemed to have bearing on the Board's determination. Among such statements should be the balance sheets of the company or organization as of the close of each of the three fiscal years immediately preceding the request, together with income statements for the same years. The need for additional information, if any, can be ascertained during the course of the hearing.

It is contemplated that the proposed letter of instruction will shortly be transmitted to all Federal Reserve Banks.

Approved unanimously.

There had been circulated to the members of the Board proposed letters to the First National Bank of Edna, Edna, Texas, and The Liberty

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National Bank of Dickinson, Dickinson, North Dakota, which would disapprove in each instance the bank's application for authority to act in all fiduciary capacities specified in section 11(k) of the Federal Reserve Act. In the Texas case the proposed adverse decision would be based on unfavorable findings with regard to the needs of the community for trust services, the probable volume of fiduciary business available to the bank, and the qualifications and experience of the officers and directors who would be designated to administer and to supervise fiduciary activities of the bank. In the case of the North Dakota application, the adverse decision would be based on the lack of requisite qualifications on the part of those proposed to administer and supervise trust business and the fact that there appeared to be little need for an additional corporate fiduciary in the community. The Federal Reserve Bank concerned had recommended unfavorably in each case.

In this connection, there had also been circulated to the members of the Board a memorandum from Mr. Masters dated August 24, 1956, commenting from the point of view of policy on the granting of trust powers to small national banks in the light of the recommendation with respect to the application of the First National Bank of Edna. This memorandum pointed out that the circumstances of the subject application differed in substance very little from those surrounding many similar applications for fiduciary powers submitted by small national banks which had been acted upon favorably by the Board. It then referred to the general

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policy followed by the Board in the past that such applications would not be denied if (1) the bank's condition was satisfactory to the supervisory authorities, (2) its management was regarded as satisfactory to cope not only with the problems associated with its banking business but with the administrative responsibilities associated with the kind and volume of business likely to be obtained, and (3) its capital was adequate in relation to its deposit liabilities and other corporate responsibilities, including the proposed exercise of fiduciary authority. It also appeared, according to the memorandum, that under long-standing policy the Board had not denied trust power applications because of (1) already existing corporate fiduciary facilities, (2) insufficient potential trust business, or (3) the lack of technically qualified personnel. The memorandum then presented for consideration the question whether, as a matter of policy, the grant of fiduciary authority should be reserved only for those national banks which are able to support their request by a satisfactory showing of (1) sound condition, (2) adequate capitalization, (3) satisfactory bank management, (4) definite community need (other than for competitive reasons) for the requested facilities in a volume, present or potential, which would permit competent and attentive administration on a basis which would be profitable to the bank and which thereby would foster adequately supporting attitudes by the directorate, and (5) a management (and available legal counsel) sufficiently well qualified by experience and technical knowledge to meet satisfactorily the problems ordinarily

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associated with fiduciary account administration. The memorandum presented arguments for and against adoption of such a policy, but it did not undertake to suggest a solution to the problem. It was stated that the Division of Examinations had long felt that the Board's policy had been liberal in this respect, but that the Division recognized the difficulty of tightening the policy in view of (1) the long history of granting fiduciary authority to small national banks primarily on the basis of a demonstrated sound condition, and (2) the charge that might be made that the Board was discriminating in favor of larger banks. In conclusion, the memorandum noted the lack, in most jurisdictions, of effective attempts to control the exercise of trust authority by State chartered banks and trust companies.

In commenting on the matter, Mr. Masters recalled that the question of policy in regard to granting applications from small national banks for trust powers had been raised several times in the recent past. He then referred to the two current applications and pointed out that the findings did not differ significantly, except for emphasis, from other applications that had been approved on the favorable recommendation of the Reserve Bank concerned. Turning to the question of policy in granting such applications, he said that most of the applications seemed to arise primarily from competitive reasons and a desire to retain commercial banking business which sometimes flows to a bank in connection with fiduciary appointments. Also present, he said, was a desire to obtain whatever earnings the bank thought

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it would get through conducting a trust business. It was felt, he went on to say, that the need for technical qualifications was frequently overlooked by the management of small banks in making such applications, and usually there was almost a complete lack of experience on the part of those in the bank who would supervise the trust powers. This forced dependence on legal counsel and although such a procedure did serve frequently to offset the lack of experience on the part of the bank management, counsel is usually outside the bank and is brought in mostly when trouble is sensed. Mr. Masters also said that usually there were within a reasonable distance established fiduciary facilities, in many cases a bank that had held trust powers for some time and had acquired some experience and skill in the trust business. In addition, the applicant bank frequently had a lack of sufficient capital, over and above that normally considered necessary to operate the commercial banking business, as a guarantee against the potential hazards and risks of fiduciary operations. He noted that it was usually in connection with the small trust operation that there was cause for critical comment on the part of the bank examiner, and that 60 per cent of the approximately 1,480 national banks exercising trust powers had a total volume of trust business under \$1 million.

In summarizing, Mr. Masters said that the problem was not an easy one to resolve. Although some members of the staff felt that the current policy with regard to granting trust powers was rather liberal, any

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consideration of a tighter policy would have to take into account various problems of the kind mentioned in his memorandum.

Mr. Sloan commented that one of the factors underlying the liberal Board policy in granting applications for trust powers was believed to have been a comparison of the individual and the corporate trustee, the thought being that regardless of the training of the individual it was desirable to make available corporate trust services because the individual trustee is likely not to be technically capable and is not able to bring to bear the collective judgment which is the real strength of the corporate trusteeship.

Governor Mills said, that although, as Mr. Masters had indicated, the majority of national banks having trust powers do only a small amount of trust business, nevertheless the problems that had arisen in the field of bank supervision from the misuse of the trust powers by small banks appeared to be relatively few. This would indicate that the small banks, even though lacking personnel to give the quality of attention that should be devoted to trusts and the kind of attention given larger trusts by banks of greater size, had not become involved in risks that had eventuated in surcharges which would impose a liability on the shareholders or the depositors. In reading the trust applications coming to the Board, he had been impressed that a temporary enthusiasm seemed to cause many of the banks to apply for trust powers. Once vested with such powers, however, it appeared that a large number of the banks put them to a relatively limited

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use. In all the circumstances, it was his opinion that trust powers perhaps should be granted to the small banks in cases where they had generally adequate qualifications to justify the request.

Governor Szymczak recalled that former Governor Ransom, who had had previous experience in the trust field, customarily took a position against the granting of trust powers to small banks on the ground that they could not do justice to the trust business they obtained. Mr. Sloan added that it had been the policy of the Federal Reserve Banks to discourage applications by small banks by calling to their attention the potential risks involved and he understood that in many cases applications had been forestalled in this way. Mr. Masters commented that the Trust Division of the American Bankers Association had adopted a similar attitude.

Governor Robertson then made a statement in which he expressed the view that over the years the Board's policy in granting trust power applications had been too lenient. He said that the Board did not see first-hand the difficulties arising in the trust departments of smaller institutions, but that the bank examiners were much aware of the potential liability. While he felt that the Board should not lean too far on the other side and that it should give due consideration to factors such as the location of the bank, he thought that it should insist on the applicant bank having adequate personnel and that it should use all information available in deciding on each application. In other words, it was his view that the Board should follow a somewhat tighter

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policy than it had been following, with careful attention to the circumstances surrounding each application.

Governor Balderston inquired whether in the case of each application the Federal Reserve Bank had visited the applicant bank and talked with the officers and directors about getting experienced counsel and appropriate investment advice. When Mr. Masters replied that this procedure was usually followed, but not in every case, Governor Balderston suggested that consideration be given to making this a standard practice.

Governor Robertson made the further comment in considering trust power applications there might have been a tendency to give too much consideration to the statement of the Office of the Comptroller of the Currency that it saw no reason to object to the application. Such a comment, he said, should be considered in the light of the fact that the Comptroller's Office is not the agency vested with responsibility for deciding cases of this kind.

Governor Balderston raised the point that while the Board must grant applications for trust powers in the light of existing conditions, the personnel at banks changes over the course of time and at a later date the personnel of the bank may not be adequate to exercise the trust powers vested in the bank.

In a discussion of this point, reference was made to the fact that among the legislative suggestions recently submitted to the Senate Committee on Banking and Currency was a recommendation for an amendment to the

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Federal Reserve Act which would authorize the Board of Governors, on complaint by the Comptroller of the Currency, to revoke trust powers of national banks if it was determined after hearing that such powers were being unlawfully or improperly exercised.

The discussion then turned to the facet of the problem involving competition between banks and Governor Robertson expressed the view that in the case of an application involving such a problem the Board ought to explore carefully whether the applicant bank was in a position to handle trust business if it received the necessary authority.

Mr. Vest said that one of the basic purposes of the statute vesting in the Board the authority to grant trust powers to national banks was to put national banks on an equal competitive basis with State banks, to which Mr. Hexter added that it was his impression that in passing the legislation the Congress wanted to open the field of trust activities to national banks in suitable cases. In other words, he felt that while the Congress wished to enable national banks to exercise trust functions in appropriate circumstances, it did not want national banks to exercise those functions unless they were suitably equipped.

Governor Mills then referred to the question of denying applications for trust powers where the ground for denial would be the availability of trust facilities in a neighboring community or in the same community and pointed out that such a policy might tend to create or perpetuate a monopolistic situation. Perhaps, therefore, the Board

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should give most attention to the qualifications of the individual applicant bank, irrespective of size, to administer trust powers. He also said that in considering whether to tighten its policy with respect to granting trust powers to national banks, the Board would have to weigh the problem from the standpoint of competition with State banks. As he understood it, where the State law permits a State bank to exercise trust powers, the Board's policy had been to grant authority to exercise those powers rather than to deny the privilege that had already been granted by the appropriate State authority.

Consideration then was given to the most appropriate way of handling the two applications now before the Board in the light of the general discussion and Governor Robertson suggested advising each Federal Reserve Bank concerned to inform the applicant national bank that there would be a delay in the Board's decision. At the same time, the Division of Examinations would be requested to draft a letter to all Federal Reserve Banks setting forth in general terms the Board's current policy with regard to granting applications from national banks for trust powers and stating that the Board wanted to be sure, before granting any such applications, that the bank was able to administer trust functions satisfactorily and therefore would like to have explored carefully the internal situation at the bank and the availability of competent counsel. He went on to say that on the basis of such a general letter the two Reserve Banks concerned could be asked to review carefully the two current applications. He also suggested that Mr. Sloan could discuss the Board's

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thinking on the matter with representatives of the Bank Examination Departments of the Federal Reserve Banks, perhaps at the System meeting to be held in Los Angeles, California, later this month in connection with the annual meeting of the National Association of Supervisors of State Banks.

In a discussion of the procedure suggested by Governor Robertson, the difficulty was brought out of developing any standards that would be generally applicable and the thought was expressed that the proposed letter to the Federal Reserve Banks might emphasize the procedures that the Board wishes the Reserve Banks to follow in handling applications for trust powers.

At the conclusion of the discussion, it was agreed that a letter to the Federal Reserve Banks along the lines suggested by Governor Robertson would be prepared for the Board's consideration.

At this point Mr. Holahan, Supervisory Review Examiner, Division of Examinations, entered the room.

Consideration then was given to a proposal for a second 1956 examination of The Continental Bank and Trust Company, Salt Lake City, Utah, last examined as of March 12, 1956. While the scheduling of an accelerated program of examination normally would be a matter for determination by the Federal Reserve Bank concerned in cooperation with the appropriate State supervisory authority, this matter was brought before the Board because of its special nature due to the pending

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proceeding under section 9 of the Federal Reserve Act to determine the adequacy of the bank's capital funds and the circumstances which would require unusual arrangements for staffing an examination at this time.

In an explanatory statement on the background of the matter, Mr. Masters said that Mr. Powell, Special Counsel to the Board, had raised with members of the Board's staff the question of making another examination of the subject bank to provide more up-to-date information when the hearing on the matter of the bank's capital position was reconvened, particularly since it now appeared likely that the hearing would not reconvene until late in November and the information from the last examination would then be more than eight months old. It was understood from Mr. Powell also that the hearing examiner, Mr. Emery J. Woodall, had indicated to him that even if the hearing had gone on as originally scheduled, he might have had to recess the hearing on the basis of the need for another examination of the bank to bring pertinent data up to date. The proposal, however, raised first a procedural question having to do with commitments of the examining staff of the Federal Reserve Bank of San Francisco to an extent that would necessitate obtaining an examiner-in-charge from another Reserve Bank and recruiting additional examining assistance from other Banks. The proposal also raised a question from the standpoint of the reaction of the subject bank's management as to the timing, possibly resulting in allegations of persecution, and from the standpoint of public reaction in the Salt Lake City area. As to these points, Mr. Masters said that, putting aside considerations

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arising out of the pending proceeding, the condition of the member bank was such as to warrant an accelerated examining schedule from the bank supervisory standpoint.

There ensued a discussion of indicated developments with respect to the condition of the bank since the last examination on the basis of information that had become available since that date, during which Mr. Holahan stressed the value of securing current data and made the personal recommendation that it would be advisable to conduct another examination at this time.

Governor Mills then made a statement about the proposal in which he said that his first cause for concern arose out of the fact that the suggestion had come from the Board's Special Counsel. It occurred to him that in making the suggestion Special Counsel had gone beyond the scope of his responsibility and that if the Board accepted this recommendation it would be in effect dissolving further the separation of functions that it had attempted to establish between the prosecuting and the adjudicatory functions of the case. Perhaps an even more important consideration, Governor Mills felt, was the fact that a special examination was proposed in the current circumstances. After referring to the usual schedule of examination for State member banks, he said that to undertake a special examination of the Continental Bank at a time when the institution was under criticism from the Board for alleged inadequacy of its capital funds might well serve, in a community the size of Salt Lake City, to heighten whatever doubts had arisen regarding the condition of the bank, and this might serve to defeat the

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purpose of the Board to improve the bank's condition. He suggested that to make a special examination of the bank at a time when the Board had been charged with vindictiveness might provoke a further charge of persecution, especially if the examination was started in the interim before the hearing reconvened. It was his impression that the number of special examinations throughout the System had been nominal and that they had usually been conducted in cases where the banks concerned were believed to be in a much more unsatisfactory condition than would appear to be true in the case of the Continental Bank. It should be borne in mind, he said, that the case for holding a hearing and requiring Continental to increase its capital funds rested on the fact that the bank was following banking practices which were within the law but were of a character that exposed the bank to risks which, if accepted at the choice of the bank, should be buttressed by additional capital. The Board had not publicly questioned at this time the over-all quality of the bank's assets to the point that it had sought aggressively to obtain a correction of the list of loans subject to criticism. If it was the Board's judgment that the bank's loans and investments were of a quality that deserved aggressive action, he suggested that the Board was remiss for not having taken such action before this time. Turning to the Bank of Las Vegas, Las Vegas, Nevada, a State member bank also controlled by the interests that own the Continental Bank, he said that this bank had been found by examination some time ago to be unquestionably in an unsound condition - a finding borne out by an examination conducted by the

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Federal Deposit Insurance Corporation when the bank sought to leave the System and retain deposit insurance - and that thereafter the Board sent a letter to the Federal Deposit Insurance Corporation indicating that the System would proceed to take whatever steps were necessary to remedy the situation. So far as he knew, the matter had not been aggressively pursued.

In a responsive statement, Mr. Masters said that in the case of problem banks it had been the customary practice to make more than one examination in the course of a calendar year, in some cases as many as four examinations per year having been made. The practice, however, varied somewhat as between Federal Reserve Banks and was not so prevalent in the San Francisco District. If the hearing in the Continental matter had gone on as scheduled, thought would not have been given to starting another examination; but on the other hand if the hearing had not been in prospect the condition of the bank would have called for another examination in 1956. Mr. Masters also said that the fact that the current suggestion came from the Board's Special Counsel was pretty much happenstance, and that the fact that the hearing had been delayed could not be ignored. Regarding the Las Vegas situation, he said that another examination had been completed by the San Francisco Reserve Bank and that steps necessary to effect correction of the matters criticized were being undertaken.

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Chairman Martin said that, as he understood it, Governor Mills felt that the wiser course would be to await developments with respect to the postponement of the hearing before making a decision on an examination of the Continental Bank.

Governor Mills responded that he would leave the matter of examination open but take no step until such time as the status of the hearing had been clarified. It was his feeling that if the hearing proceeded, much of the information now sought would be brought out in the course of the testimony. If not, and if at any time the hearing examiner and counsel on both sides concluded that additional and more up-to-date information should be assembled, it would be appropriate to make the special examination.

Mr. Holahan explained by way of background that in July of this year he had proposed that another examination of Continental be made before the end of 1956, that after staff discussion he was authorized to discuss the matter with Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, but that the latter said the Bank did not have the manpower to make an examination and have the report completed before the originally scheduled date of the hearing. It was with this background, Mr. Holahan said, that the suggestion of Mr. Powell apparently was made when it developed that the hearing was to be postponed.

In a further discussion, Mr. Vest suggested the possibility that the proposal might be held in abeyance until Mr. Powell returned to

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Washington next week and could discuss the matter with the Board. Regarding the separation of functions to which Governor Mills had referred, he said that such a separation was a difficult thing since the Board itself had both prosecuting and adjudicatory functions. According to the law, no member of the staff engaged in the prosecuting or investigating functions may advise the Board on any other aspect of the case. This morning the Board appeared to be sitting in the capacity of prosecutor and the members of the legal and examining staffs present, except for himself and possibly Mr. Sloan, were on the same side of the case. So, although the question was perhaps debatable, he felt that it was appropriate for Special Counsel and the members of the staff who had spoken to propose a special examination.

Governor Robertson suggested that there might be a tendency to confuse the bank supervisory function and the adjudicatory function. As he saw the examination proposal, it was simply a supervisory matter, and he was inclined to feel that actually the second 1956 examination should have been made earlier. In any event, he thought that the System should make adequate examinations to determine the bank's condition from a supervisory point of view. The date of commencement of the hearing was now indefinite, he said, and conceivably would be further postponed. After emphasizing his view that the System should not refrain from making special examinations in problem cases, he said that the System should never be in a position where it could be said that it was not carrying out its supervisory function properly. On that basis, he felt

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that this particular bank should be examined at least twice a year and that perhaps an examiner should stay in the bank at all times, a practice that has been followed in certain other problem bank cases, in order to achieve correction of criticized matters. The Board, he said, should put aside any feelings that might arise out of the possibility of charges of vindictiveness or persecution and do the best possible job to improve the condition of the bank. With regard to manpower, he felt that, if necessary, examinations of banks known to be in good condition could be postponed. Should the trial examiner recess the hearing to allow the System to make an examination that should have been made before, there would be a reflection on the bank supervision function. In substance, he thought the System should perform its function of examination irrespective of who made the suggestion and that the proposed examination of Continental should be made to provide up-to-date information with respect to the institution.

Chairman Martin stated that he saw a great deal of merit in the point of view expressed by Governor Robertson, while on the other hand the problem presented by Governor Mills could not be overlooked. In hindsight, it appeared to him that it would have been better to go ahead with the second 1956 examination earlier in the year.

Following a discussion of factors that discouraged an earlier examination and the time that would be required to complete an examination started shortly, Chairman Martin inquired of Governor Mills as to

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his view on postponing an examination of Continental in the light of the possibility of substantial delay before the hearing started, to which Governor Mills responded that he would not be disturbed by the possibility of delay. He said that if this was a bank in such a condition that in the interest of its depositors it should be examined immediately, that was one thing, but this was a bank that did not appear to have reached a position deserving active and aggressive supervision to the extent of a special examination.

Chairman Martin then suggested that perhaps such a judgment could not be made in the absence of examination and Governor Mills commented by asking whether measures were being taken in the case of other problem banks comparable to those being followed in this instance. In this connection, Governor Robertson remarked that corrective procedures usually did not reach the stage of formal proceedings and that on the whole the System had been in his opinion extremely successful in bringing about correction of criticized matters by other procedures, including special examinations.

Mr. Hexter stated that the question raised by Governor Mills was fundamental, that if as a supervisory matter this bank would not be appropriate for examination there would be serious doubt regarding the current proposal. However, if the bank was suitable for examination in accordance with customary standards of supervision the fact that the current proceeding under section 9 was under way seemed to add weight

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to the reasons for having an examination conducted because, in fairness to both the bank and the Board, the information brought out at the hearing should be as current as possible. While it was not certain that the Hearing Examiner would recess the hearing for another examination, such a step would reflect on the Board's preparation of the case, and if as a supervisory matter the Board felt that this was an appropriate case for examination, all of the factors would seem to favor examination of the bank at this time.

Chairman Martin then repeated a view he had expressed earlier; that is, that an examination, if conducted, should not be geared to the time that it was thought the hearing might reconvene. In expressing this view, he had in mind that the examination would then fall more clearly into the category of a bank supervisory procedure. He inquired of Governor Mills whether examination on such a basis would meet the objection that he had raised.

Governor Mills responded that he did not think the factors could be disassociated and that if the matter were one that had to come to a vote today, he would vote against a special examination at this time.

After additional discussion concerning the circumstances under which the matter had come before the Board, Chairman Martin suggested that in view of the points raised by Governor Mills, the staff be requested to submit to the Board a memorandum on the subject which would serve as a basis for reaching a decision at an early date.

It was agreed that the procedure suggested by Chairman Martin would be followed.

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With further reference to the proceeding involving The Continental Bank and Trust Company, Mr. Vest stated as a matter of information that in a telephone conversation yesterday Mr. Powell confirmed his plan to go with the Hearing Examiner and General Counsel for the Federal Reserve Bank of San Francisco to Albuquerque, New Mexico, to talk with the Senior Judge of the Tenth Circuit Court of Appeals and request that the hearing on the current restraining order be advanced to a date earlier than November 12, when the next regular session of the Court was scheduled. He understood also that this morning Mr. Powell was going to move the Hearing Examiner that the hearing be recessed and reconvened in Washington, D. C., on October 23, in the thought that if the case should be advanced the Board would not want to be in a position of having set the hearing too far ahead. Mr. Powell, he said, made the point that since the restraining order was against the Hearing Examiner, it would be legally possible to arrange for another hearing examiner to conduct the hearing in Washington or elsewhere. Mr. Vest said he told Mr. Powell that he would mention this possibility to the Board, but that he would not recommend that the Board take such action.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated September 26, 1956, from Mr. Leonard, Director, Division of Bank Operations, Governor Shepardson today approved on behalf

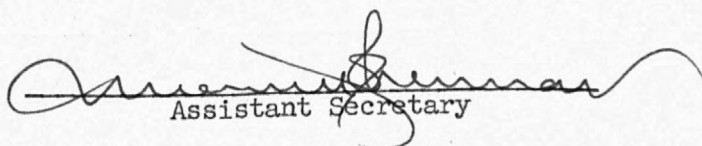
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of the Board the transfer of Margaret C. Griset from the position of Secretary to the position of Administrative Clerk in that Division, without change in her present basic salary at the rate of \$4,620 per annum, effective the date she assumes her new duties.

Governor Shepardson also approved on behalf of the Board the following letter to Mr. Latham, First Vice President of the Federal Reserve Bank of Boston:

In accordance with the request contained in your letter of October 2, 1956, the Board approves the designation of Roger C. Muse as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of assisting in the examination of State member banks. The approval heretofore given the designation of Roger C. Muse as a special assistant examiner is hereby cancelled.


Assistant Secretary