

Minutes for October 11, 1956

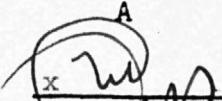
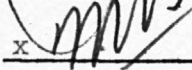

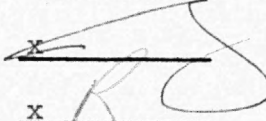
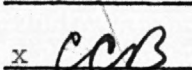
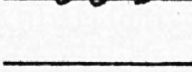

To: Members of the Board

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 Thursday, October 11, 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. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Chase, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Masters, Assistant Director, Division of Examinations
 Mr. Thompson, Supervisory Review Examiner, 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. Exter, Vice President, Federal Reserve Bank of New York, reading as follows:

Your wire October 4. Board approves granting of loan or loans by your Bank to Banco Central de Reserva de El Salvador not to exceed \$7 million on the following terms and conditions:

- A. Such loan or loans up to \$4 million to be drawn in units of \$1 million at any time between October 20 and November 30 inclusive and such loan or loans up to \$3 million to be drawn in units of \$1 million at any time between December 1 and December 31 inclusive;
- B. Such loans to be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;

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- C. Such loan or loans to mature in three months with option to repay at any time before maturity in units of \$1 million;
- D. Each such loan to bear interest at the discount rate of your bank in effect on the date on which such loan is made.

It is understood that the Banco Central de Reserva de El Salvador will be advised at this time only of the approval of the \$4 million loan under the terms and conditions set out above. It is also understood that the usual participation will be offered to the other Federal Reserve Banks.

Following a statement by Governor Szymczak that the International Monetary Fund had been advised informally of the current application because El Salvador was also borrowing from the Fund and that the gold loan application appeared to reflect a seasonal situation, the telegram was approved unanimously.

Letter to the Board of Directors, The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch in the Transportation Center Building, 17th and Market Streets, Philadelphia, Pennsylvania, by The First Pennsylvania Banking and Trust Company, provided the branch is established within twelve months from the date of this letter and approval of the State authorities is effective as of the date the branch is established.

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

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

Reference is made to your letter of September 25, 1956, reaffirming the proposal of the State Bank of Rockville, Rockville, Minnesota, to change its name to "Plaza Park State Bank of St. Cloud," and further advising that the bank now plans to construct quarters at a total cost of \$45,000 adjacent to the proposed shopping center in which it had first planned to rent quarters. It is presumed that approval of the Minnesota Department of Commerce to both the further change in location and construction of the bank building has been obtained. In

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connection with this proposed building program, it is understood that the bank plans to increase its capital accounts by \$60,000 instead of \$30,000 as originally planned, which would result in common stock totaling \$75,000 and aggregate surplus and undivided profits of about \$55,000.

It appears that this additional change in location will have no material effect upon the general character of the bank's business. Therefore the Board continues to interpose no objection to the State member bank's proposal. Inasmuch as the total amount which is to be expended for land and banking quarters (\$45,000) will exceed the bank's present capital stock (\$25,000), the Board's approval is hereby given under Section 24A of the Federal Reserve Act in order to obviate any technical violation of this section which might occur.

It is assumed that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in changing the name and location of this bank.

Approved unanimously.

Memorandum from the Division of Examinations dated October 3, 1956, recommending approval of (1) an attached questionnaire proposed to be used by examiners in developing information for the purposes of the Office of Defense Mobilization regarding the preparedness of commercial banks for possible emergency and submitted along with the report of examination, and (2) a letter proposed to be sent by the Division of Examinations to the Vice President in charge of examinations at each Federal Reserve Bank explaining the use of the questionnaire. The memorandum stated that the questionnaire had been deemed acceptable by the staffs of the three Federal bank supervisory agencies, that the information would be developed with respect to all banks in cities in which one or more banks having deposits of \$50,000,000 are located, and that the letter proposed to be sent to the Federal Reserve Banks would be used by the other Federal bank supervisory agencies with minor adjustments.

Following a comment by Governor Robertson, in response to a question by Governor Balderston, that the principal burden of work involved in the preparation of the questionnaire would fall on the bank examiner rather than the bank under examination and that the burden of work would not be great in any event, the recommendations contained in the memorandum were approved unanimously.

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Memorandum dated October 3, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending acceptance of a bid of \$7,500 submitted by Creative Arts Studio, Inc., Washington, D. C., for graphic art work necessary for the bi-annual revision of the monthly publication, Federal Reserve Charts on Bank Rates, Money Rates and Business.

Approved unanimously, with the understanding that provision for this expenditure had not been made in the 1956 budget of the Division of Research and Statistics.

Pursuant to the request made at the meeting on October 9, 1956, there had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated October 10, 1956, recommending for reasons stated that authorization be given to carry out tentative plans to make a second 1956 examination of The Continental Bank and Trust Company, Salt Lake City, Utah. The memorandum discussed arguments for and against such a procedure and expressed the view of the staff that the adverse considerations were not sufficiently strong to warrant not making the examination. It was stated that the examination would serve two purposes: (1) to discharge the System's responsibility to place State member banks which are serious problem cases on a program of accelerated examination, and (2) to provide information reflecting the current condition of this bank which the Board's Special Counsel believed it advisable to have in connection with the pending hearing instituted for the purpose of determining the adequacy or inadequacy of the bank's capital funds. The memorandum also described the arrangements that would be made for staffing the examination, which would

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include utilizing an examiner from the Federal Reserve Bank of Kansas City as examiner-in-charge and obtaining additional examining assistance from the Kansas City, St. Louis, and Chicago Reserve Banks.

Governor Mills said that he had no comment other than to restate the position which he took at the meeting on Tuesday, October 9, in opposition to the proposal to conduct a special examination of the bank. His position, he said, went back to the fundamental principle that the Board's approach to this case, both with respect to the capital situation of Continental Bank specifically and with respect to the Board's desire for legal confirmation of its authority to require and obtain additional capital from a State member bank, must be impersonal and impartial if the case was to be sustained. He said he had some concern that the approach that the Board had taken might cast doubt on the quality of impartiality and bring charges of abuse of authority. In this respect, he mentioned three items which he felt might give rise to such charges: first, the issuance of a warning against two of the bank's officers under section 30 of the Banking Act of 1933, which as he had stated at the time, he did not consider pertinent to the prosecution of the demand for additional capital; second, the consideration that was given to allowing expert witnesses to have access to reports of examination of the bank (a procedure that was decided against); and, third, the proposal to examine the bank at a time when such an examination might enhance the very doubts and concern about the status of the bank that the Board was endeavoring to avoid creating by following the more gradual process of requiring

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additional capital and then obtaining an improvement in banking practices through normal procedures. For these reasons, he said, he would not look with favor on the proposal to make another examination of the bank at this time.

Chairman Martin asked Governor Mills whether he had taken into consideration the possibility that some serious development might occur that would not be revealed except by examination, and the latter responded by saying that the last examination was only seven months old and that the Federal Reserve had indicated to the bank the nature of the corrective measures that should be taken. In terms of looking ahead, he felt that the Board would be prejudging the case if it accelerated the examination procedure at a time when it had already placed the bank under public scrutiny by way of the demand for additional capital.

Chairman Martin then inquired of Governor Mills whether he would take the same position in other problem bank cases, to which the latter replied in the negative, stating that where a bank was on the problem list but had not been exposed to public scrutiny, he thought that the System should make as many special examinations of the bank as the circumstances might require. An extended delay in the Continental case, he said, might provide a suitable reason in the eyes of the public for an examination, since the examination then would be regarded as in the interest both of the bank and the Board, as a supervisory agency, to determine the justice of the System's position. He went on to say that to his knowledge the Board had not taken the position that the Continental

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Bank was in such an unsatisfactory condition as to require emergency measures. Rather, the Board had based its case on the position that if the bank acceded to the Board's demand and introduced additional capital, it would have at that point met the most serious criticism that the Board had raised. The introduction of the new capital would not change the Board's ideas about the general character of the institution's banking practices as compared with those of banks having the Board's general approval and it would be understood that if the bank continued to follow such practices the System would continue to criticize them, but Continental would at least have protected its depositors by injecting the additional capital.

Governor Szymczak said that while there was a great deal of merit to what Governor Mills had said and although Continental was apt to regard the special examination as another indication of vindictiveness on the part of the Board, he felt that the System could not avoid discharging its responsibilities in a case where a bank was known to be weak. He therefore would favor making the special examination.

Chairman Martin stated that Governor Mills had raised a significant public relations problem and that perhaps the examination should not have been delayed so long. It should not be contemplated, he said, that the examination would be expedited to the point of trying to meet any particular deadline and enough time should be taken to do a creditable job. If the examination was finished in time to be of benefit in

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connection with the section 9 proceeding, so much the better, but that would not be the primary consideration.

Governor Balderston commented that the attitude displayed thus far by the member bank indicated that an effort might be made to delay the current proceeding under section 9 as much as possible. He concurred in the view that the Board should dissociate its supervisory responsibilities as much as possible from the problems confronting the Board's Special Counsel in connection with the current proceeding. Along these lines, he pointed out that if the Board should defer the examination and the Hearing Examiner then ordered such an examination, some additional delay would be involved. Such a delay, he felt, would be undesirable in view of what was known concerning the condition of the Continental Bank and also the Bank of Las Vegas, and if an emergency occurred during that interval the System would not have a satisfactory answer available. Therefore, even though the examination would be closely associated from the standpoint of timing with Mr. Powell's requirements, he would be inclined to proceed with the examination as a regular supervisory action.

Governor Robertson said that he appreciated Governor Mills' position but nevertheless would recommend the procedure suggested in the memorandum from the Division of Examinations.

Governor Mills indicated he did not care to press the matter further, although he would like the record to show clearly the position he had taken and the reasons therefor. Chairman Martin said that

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Governor Mills could extend his remarks in the record as he might desire consistent with his comments at this meeting.

Thereupon, the procedure recommended in the memorandum from the Division of Examinations was approved, Governor Mills voting "no" for the reasons he had stated.

In connection with the foregoing subject, Mr. Sloan inquired whether an offer should be made to reimburse the Federal Reserve Banks of Chicago, St. Louis, and Kansas City for expenses, other than salaries, incurred by their examiners who were assigned to the examination of The Continental Bank and Trust Company. He pointed out that it was customary for a Federal Reserve Bank that borrowed such personnel from another Reserve Bank to make reimbursement, but that in this instance the Board rather than the Federal Reserve Bank of San Francisco was taking the initiative.

There was agreement with a suggestion by Governor Robertson that the Federal Reserve Banks concerned be advised that the Board would be willing to reimburse them for the expenses, other than salary expense, incurred by their examiners in making the examination if the respective Banks wished to submit the necessary vouchers.

Further discussion related to a reference by Governor Balderston to a statement in the memorandum from the Division of Examinations that two senior officers of the Federal Reserve Bank of Kansas City had indicated that the loan of examining personnel might have the effect of reflecting on the bank examination staff or management of the San

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Francisco Reserve Bank. Governor Balderston suggested that any such feeling might be avoided if an examiner from the San Francisco Bank could take charge of the Continental examination and an examiner for the Kansas City Bank could take charge of some other examination in the San Francisco District.

Governor Robertson said that he felt the key point was the attitude of the San Francisco Bank, which had expressed no concern about the suggested procedure. He commented that in the case of national banks there were rather frequent exchanges of examining personnel between the various field offices when the manpower situation or other factors made such a procedure necessary.

Messrs. Hexter, Chase, and Masters then withdrew from the meeting and Messrs. Riefler, Assistant to the Chairman; Thomas, Economic Adviser to the Board; Young, Director, Division of Research and Statistics; Horbett, Associate Director, Division of Bank Operations; Hackley, Assistant General Counsel; Noyes, Adviser, Division of Research and Statistics; and Davis, of the legal staff of the Federal Reserve Bank of New York, entered the room.

Reference was made to the statement by President Bryan on behalf of the Presidents' Conference at the joint meeting of the Board and the Presidents on September 27, 1956, concerning the desire of the Reserve Banks to reach agreement with the Board on mutually acceptable procedures which would tend to eliminate certain problems in connection with the

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collection of statistical data. President Bryan had indicated that a committee of Presidents would like to meet with a member or committee of the Board to discuss the problems that had arisen in this area and attempt to work out more satisfactory procedures.

At the request of the Board, Mr. Young made a statement in which he referred to the general problem mentioned by Mr. Bryan as being one of a recurrent nature. He said that recently the problem perhaps had been more acute because of the unusually large number of occasions on which the research personnel of the Federal Reserve Banks had been called upon for assistance, particularly in connection with statistical surveys of an unusually difficult nature. He pointed out that the situation was further complicated by the demands of the consumer credit study which involved going to the Reserve Banks for special information on a time schedule that precluded always going through the usual formalities. The circumstances of the past year, he said, contributed to a situation where some of the Presidents conceivably could have felt that they did not have full control over the activities of their own research personnel.

In further comments, Mr. Young referred to the request of a Senate committee for data concerning common and personal trusts which had been of concern to the Presidents, particularly because part of the request was in terms of obtaining on a continuing basis information that might have been difficult for the reporting banks to prepare. He said it was now understood that the Trust Division of the American

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Bankers Association was recommending that the Association undertake this program of statistical collection, which would mean that if the recommendation was accepted by the Association, the Reserve Banks would be relieved of this responsibility.

Chairman Martin then suggested that Governor Mills be designated to review the problem with Mr. Young and other members of the staff and endeavor to work out procedures which would meet the objections raised by the Presidents' Conference. He said that the question appeared to involve not only procedural problems but also the question of control over System research activities and that an effort should be made to resolve the problem to the extent possible from the standpoint of relations with the Federal Reserve Banks and the reporting banks without on the other hand losing sight of the Board's responsibilities.

Pursuant to Chairman Martin's suggestion, it was agreed to refer the matter to Governor Mills.

Messrs. Young, Horbett, and Noyes then withdrew from the meeting.

At the meeting on October 3, 1956, the Board gave consideration to whether certain transactions of the Citizens and Southern National Bank and Citizens and Southern Holding Company, both of Atlanta, Georgia, would involve a violation of the Bank Holding Company Act. The question involved was whether the bank or the company, if they participated in the transactions, would be engaging in business other than banking or managing or controlling banks. Before taking action on the matter, the

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Board decided to give the Federal Reserve Bank of Atlanta an opportunity to appear before the Board or submit additional information in support of the view of counsel for the Bank that the transactions would not constitute a violation of the law.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Vest dated October 9, 1956, which quoted a telegram from Counsel for the Atlanta Bank stating that the question had been reviewed with President Bryan who did not feel confident to express an opinion on legal aspects of the matter but said that if there was any basis on which the proposed transactions could be prohibited, he would favor doing so as a matter of policy. The memorandum stated that if the Board decided to take an adverse position the question would be whether it wished to express an opinion that the proposed transactions would not be legally permissible or an opinion that they would not be in accordance with sound banking practices. Distributed with the memorandum was a memorandum from Governor Mills dated October 3, 1956, explaining more fully the position he had presented during the previous discussion of the subject; that is, that the Board should hold the proposed transactions of the Citizens and Southern Holding Company as being in violation of the Bank Holding Company Act.

Mr. Sloan stated that pursuant to the understanding at the meeting on October 3 he described the transactions to a representative of the Office of the Comptroller of the Currency who said that, from

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the description given, that Office would be inclined to discourage such transactions, even if they were found not to violate the Bank Holding Company Act, as being unsafe and unsound banking practices.

Mr. Vest stated that administration of the Bank Holding Company Act raised matters of law and matters of policy. From the legal standpoint the question was whether the Act was violated and, if it was, that was the end of the matter. If not, the Board could then say whether it considered a particular practice to be an unsound banking practice. In this case the transactions involved a national bank, but the question had been submitted to the Board and he thought that the Board would be justified in expressing itself regardless of whether it had any particular jurisdiction.

Chairman Martin inquired how much weight would be attached by a court to the spirit of the Bank Holding Company Act as distinguished from the letter of the law. For example, the Board might say that various practices would not appear to be contemplated by the Act because the Act was designed to permit sound banking and not to permit unsound banking, as evidenced by the history of the legislation. He pointed out that it was not possible to write into law every detail of business that might be engaged in and that some leeway had to be given to the administering agency with respect to the over-all sound banking principles that ought to be inherent in the legislation.

Mr. Vest responded that undoubtedly a court would take into account the spirit and purposes of the Act and not give it an entirely

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literal construction. In this case, he added, the question of sound banking practices could have arisen regardless of the Bank Holding Company Act; in other words, the Act was not an indispensable element of the situation.

Governor Robertson expressed doubt that even a literal interpretation of the statute would justify this type of transaction. In any event, he felt the Board could say that it had substantial doubts and that furthermore this kind of transaction would not be within the limits of sound banking practices. He also noted that a very similar question would be presented to the Board in the near future by Marine Midland Corporation.

Thereupon, unanimous approval was given to a letter to Mr. Bryan, President of the Federal Reserve Bank of Atlanta, in the following form:

This refers to Mr. Patterson's letter of August 23, 1956, with enclosures, presenting the question whether certain proposed transactions of The Citizens and Southern National Bank and The Citizens and Southern Holding Company would involve a violation of section 4(a)(2) of the Bank Holding Company Act of 1956.

On the basis of the facts presented, the Board is of the opinion that there is substantial doubt that the proposed transactions would be legally proper under a literal interpretation of the Act and that the contemplated arrangement between the national bank, the holding company and the insurance companies would be outside the spirit of the Act. Furthermore, the proposed transactions, in the Board's opinion, would not be consistent with sound banking practices and in the best interests of appropriate bank supervision.

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There had been sent to the members of the Board copies of a memorandum from Mr. Davis dated October 9, 1956, relating to the applicability of the Bank Holding Company Act to J. Henry Schroder Banking Corporation, an investment company organized under article 12 of the New York Banking Law. The memorandum, which discussed the matter fully, stated that the facts of the case were substantially similar to those presented in the matter of the Belgian-American Banking Corporation wherein the Board ruled that such a corporation was not a bank for purposes of the Act.

In a discussion of the matter Governor Robertson, who was not present when the Board's decision was made with respect to the Belgian-American Banking Corporation, expressed the view that the matter was not free from doubt but that in any event the Board should not change its position so soon after having ruled on the previous case. He pointed out that if circumstances suggested a reversal the Board could change its interpretation at a later date or propose an amendment to the Bank Holding Company Act.

Thereupon, unanimous approval was given to a letter to Mr. Hayes, President of the Federal Reserve Bank of New York, reading as follows:

This refers to Mr. Wiltse's letter of September 12, 1956, with enclosures, presenting the question whether J. Henry Schroder Banking Corporation, an "investment company" organized under article 12 of the Banking Law of New York, should be considered a bank within the meaning of the Bank Holding Company Act of 1956. It

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is noted that in its letter of August 8, 1956, the Banking Corporation requests a ruling from the Board to the effect that the Banking Corporation is not a "bank" under the Act.

The Board has given consideration to the facts in this matter as presented by the letter and its enclosures, in the light of the intent of the statute and its legislative history. It will be recognized, of course, that any action to enforce the penalties provided for violation of the statute would necessarily be a matter for the Department of Justice.

However, the Board concurs in the opinion expressed in Mr. Wiltse's letter that J. Henry Schroder Banking Corporation is not, on the basis of the information presented, to be regarded as a bank within the meaning of section 2(c) of the Bank Holding Company Act of 1956.

Mr. Sherman referred to the Board's action on September 28, 1956, in approving for transmittal to the Federal Register for publication a notice of a proposed amendment to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which would make a bank loan to purchase securities (particularly convertible bonds or debentures) other than registered stocks subject to the regulation whenever such securities were converted into registered stocks and such stocks were substituted for the original loan collateral. He said that the notice of proposed rule making had now been prepared in form for transmittal to the Federal Register, and to the Federal Reserve Banks for their comments and suggestions and those of interested persons in the respective Reserve Districts.

Governor Mills suggested that copies of the proposed amendment be sent to the American Bankers Association and the Investment Bankers

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Association of America. The National Association of Securities Dealers, Inc., also was suggested.

There being agreement with Governor Mills' suggestion, it was understood that the necessary steps would be taken to transmit the proposed amendment to the Federal Register for publication and to transmit copies to the Federal Reserve Banks and the other organizations that had been mentioned.

The members of the staff then withdrew and the Board went into executive session.

The Secretary's Office later was informed by the Chairman that during the executive session further consideration was given to the proposed appointment of Mr. Joseph H. Thompson as Class C director of the Federal Reserve Bank of Cleveland for the three-year term beginning January 1, 1957 (as discussed at the meeting on October 8, 1956) and that it was agreed that if Mr. Thompson would accept the appointment as Class C director he would also be appointed Deputy Chairman of the Bank for the year 1957.

The meeting then adjourned.

Secretary's Note: Governor Balderston, acting as alternate to Governor Shepardson, today approved the following telegram to Mr. Latham, First Vice President of the Federal Reserve Bank of Boston:

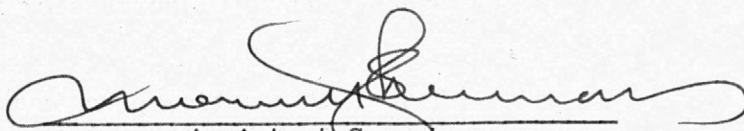
Reurtel October 9, 1956, the Board approves designation of Donald D. Gerry as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of -

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Depositors Trust Company, Augusta, Maine;
The Merrill Trust Company, Bangor, Maine;
The Connecticut Bank and Trust Company,
Hartford, Connecticut;
Rhode Island Hospital Trust Company, Providence,
Rhode Island.

It is assumed that subject is not indebted to any of
these banks.


Assistant Secretary