

Minutes for November 8, 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	x <u>AM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
<u>1/</u> Gov. Vardaman	x _____	_____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	_____	x <u>CCB</u>
Gov. Shepardson	x <u>SS</u>	_____

1/ The attached set of minutes was sent to Governor Vardaman in accordance with the procedure approved at the meeting of the Board on November 29, 1955. They were returned to the Minutes Section with the statement (see Mr. Kenyon's memorandum of February 19, 1957) that although the Governor was present at the meeting he did

not initial the minutes because no statements were attributed to him in the minutes. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 8, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hackley, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Cherry, Legislative Counsel

At the meeting of the Board yesterday consideration was given to the request of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, for the Board's written consent, as required by section 18(c) of the Federal Deposit Insurance Act, to merge into itself The Farmers National Bank of Bucks County, Bristol, Pennsylvania, and Roosevelt Bank, Philadelphia, Pennsylvania, and for permission to establish branches at the present main offices and branches of the last two banks. It was decided to defer action on the matter because the approval of the State banking authorities was conditioned on action by the Comptroller of the Currency with respect to a proposed merger of The Philadelphia National Bank, Philadelphia, Pennsylvania, with the Delaware Valley Bank and Trust Company, Bristol, Pennsylvania.

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Mr. Sloan reported having been advised by Deputy Comptroller of the Currency Jennings yesterday afternoon that the Comptroller had approved and placed in the mail a certificate authorizing The Philadelphia National Bank to establish a branch in Bristol in connection with its absorption of the Delaware Valley Bank. He also reported having been advised this morning by the Federal Reserve Bank of Philadelphia that the Secretary of Banking of the State of Pennsylvania had announced his unconditional approval of the application of Fidelity-Philadelphia Trust Company.

On the basis of the developments reported by Mr. Sloan, unanimous approval was given to a letter to the Board of Directors, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, reading as follows, for transmittal through the Federal Reserve Bank of Philadelphia:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the mergers of Roosevelt Bank, Philadelphia, Pennsylvania, and The Farmers National Bank of Bucks County, Bristol, Pennsylvania, with and into Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, and approves the establishment of branches at the following locations of the present main offices and branches of the merging banks:

In Philadelphia, Pennsylvania:

21st and Wharton Streets, and
Southwest corner of 23rd Street and Snyder Avenue,

In Bucks County, Pennsylvania:

244 North Radcliffe Street, Bristol
220 North Radcliffe Street, Bristol
Route 13 and Locust Avenue, Andalusia, Bensalem
Township

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Shopping Center, Oxford Valley Road, Fairless Hills, Falls Township
Bristol Pike and Clover Avenue, Croydon, Bristol Township, and
Shopping Center, Newportville Road and Fallsington Road, Levittown, Bristol Township (authorized branch of The Farmers National Bank of Bucks County, which has not yet opened),

provided that (a) the transactions are effected substantially in accordance with the Joint Plan of Merger dated July 6, 1956, (b) formal approval is obtained from the appropriate State authorities, and (c) the mergers and establishment of the branches are accomplished within six months from the date of this letter.

Pursuant to Section 24A of the Federal Reserve Act, the Board of Governors also approves an additional investment of \$625,000 in bank premises by Fidelity-Philadelphia Trust Company, representing the bank premises of the banks and branches being absorbed, including \$30,000 covering the cost of leasehold improvements of the Levittown Branch, which has not yet been opened.

There had been sent to the members of the Board copies of a memorandum from Mr. Solomon dated November 7, 1956, relating to the Board's recent action in publishing in the Federal Register a possible amendment to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, on the subject of convertible bonds and debentures. The notice, published in the Federal Register on October 17, requested that comments be submitted to be received not later than November 9, 1956. Mr. Solomon's memorandum stated that several requests for an extension of the time for submitting comments had been received, including one request from a member bank for a 60-day extension. In the circumstances, it was recommended that the time for submitting comments be extended to January 9, 1957.

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The memorandum also reported that Counsel for the Guaranty Trust Company of New York City had requested an opportunity to be heard on the possible amendment. It was suggested that the member bank be advised that the Board would be glad to have representatives of the trust company discuss the matter with representatives of the Board after there had been an opportunity to consider whatever written comments the trust company might wish to submit.

The recommendations contained in the memorandum were approved unanimously, with the understanding that a notice would be sent to the Federal Register and that appropriate advice would be sent to the Federal Reserve Banks and other interested parties.

With reference to the proposal of The First National City Bank of New York to form a holding company which would acquire ownership of that bank, the City Bank Farmers Trust Company, also of New York City, and County Trust Company of White Plains, New York, Chairman Martin said that several telephone calls about the matter were received yesterday, including a call from Mr. Howard C. Sheperd, Chairman of the Board of First National City Bank, and that he expressed to Mr. Sheperd the view that it would be in order for the bank, if it so desired, to make an announcement that application for the formation of the holding company had been submitted to the Board through the Federal Reserve Bank of New York. Chairman Martin said he also told Mr. Sheperd that the Board probably would not want to issue any public statement at this time.

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Governor Robertson said that receipt of the application meant that the Board should consider promptly requesting the views of the Comptroller of the Currency, as required by the Bank Holding Company Act. He went on to say although the proposed plan contemplated that the holding company would acquire three national banks, two of them would be new banks into which existing State member banks would be converted and he would therefore be disposed to request the views of the New York State Superintendent of Banks. Another aspect of the matter, he said, was whether the Board should consider first the application of International Banking Corporation (a wholly-owned subsidiary of First National City Bank operating under an agreement with the Board pursuant to section 25 of the Federal Reserve Act) to acquire the stock of the proposed holding company, since that would be the initial step in carrying out the plan proposed by First National City Bank and if the Board was not prepared to grant that application the whole plan would have to be revised.

With reference to the procedural questions involved, Mr. Vest said that while the Board might well decide to act first on the application of International Banking Corporation, it would be possible to follow a different procedure. The Board could submit the application under the Bank Holding Company Act to the Comptroller of the Currency and to the New York State banking authorities - if it should be decided to request the views of the State authorities - and then act on the entire matter at the same time. He also said that he saw no reason

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why the matter of the application under the Bank Holding Company Act could not be sent to the Comptroller of the Currency immediately if the Board wished to take such action.

There followed a discussion of whether the views of the New York State banking authorities on the application for the formation of a holding company should be requested. No conclusion was reached, however, and it was understood that the matter would be considered further at a later meeting of the Board.

At the request of the Board, Mr. Sloan outlined why the Division of Examinations felt that the Board should first consider whether it would permit International Banking Corporation to acquire the shares of the proposed holding company, stating that if the Board decided not to grant such permission the refusal would impede, but not necessarily prevent, the accomplishment of the over-all plan. In other words, since a denial would at least require a revamping of the plan, the Division felt that it would be advisable for the Board to reach a decision before the plan, as now proposed, was submitted to the Comptroller of the Currency for his views. Mr. Sloan also said that Mr. Goodman favored denial of the application by International Banking Corporation, while he (Mr. Sloan) would recommend approval.

Mr. Goodman then reviewed developments following the Board's request several years ago that International Banking Corporation dispose of its shares of a national bank in Ossining, New York. While International Banking Corporation eventually complied with this request, it

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acquired shares of the County Trust Company; and when the Board requested disposition of those shares, delay in compliance was encouraged and eventually a "spin-off" plan was proposed. This proposal was not carried out, however, and the plan now before the Board was substituted. Mr. Goodman said that although a number of tentative plans had been discussed with the Board's staff over a period of time it appeared to him that International Banking Corporation simply did not want to comply with the Board's request to dispose of the stock of County Trust Company, that First National City Bank wanted to be in a position to establish branches in Westchester County if and when the State banking laws permitted, and that the Board was now being requested to approve a plan, based in part on the retention of the shares, which would permit First National City Bank to enter Westchester County through the holding company device. In the circumstances, he questioned whether it would be appropriate for the Board to approve the application of International Banking Corporation. In further comments Mr. Goodman said that information had been received that the stock of the Ossining bank was being held in safekeeping by the First National City Bank as nominee, but that this did not necessarily mean that the shares were being held in such a way as to circumvent the Board's earlier request.

Governor Mills suggested that Mr. Goodman might not have taken sufficiently into consideration the fact that representatives of First National City Bank had consulted on several occasions with representatives

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of the Board in recognition of the Board's request that International Banking Corporation divest itself of its shares of County Trust Company. On such occasions, he said, proposals had been discussed that would satisfy the request within the limits of the law, including the "spin-off" proposal. Going back over the chain of events, he failed to see as much basis for criticism as suggested by Mr. Goodman.

With respect to Governor Mills' comments, Mr. Goodman explained his position further by saying that under the proposed "spin-off" arrangement the Board would not have had to take any action, whereas under the current proposal the Board would have to grant its approval.

Mr. Sloan then stated the several reasons which caused him to favor granting permission to International Banking Corporation to acquire the shares of the proposed holding company.

At the conclusion of this statement, Chairman Martin suggested that Mr. Sloan's comments and those of Mr. Goodman be put in memorandum form, that a memorandum be prepared by the Legal Division on the question of whether the application under the Bank Holding Company Act should be sent to the New York State banking authorities for comment, and that copies of each memorandum be sent to the members of the Board for review prior to further consideration of the various aspects of the proposed transactions at a meeting of the Board at 2:00 p.m. on Tuesday, November 13.

There was unanimous agreement with the suggested procedure.

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With reference to the question of publicity in respect to actions under the Bank Holding Company Act, Mr. Thurston requested that he be given authority to discuss in some detail with Mr. U. V. Wilcox, Editor of Washington Banktrends, the nature of and reasons for the policy adopted by the Board on November 5, 1956. He said that he thought Mr. Wilcox would appreciate the reasons for the Board's policy if they were explained fully.

Chairman Martin replied to Mr. Thurston that he should feel free to handle the matter at his discretion.

Governor Robertson referred to views expressed by Governor Balderston regarding the two instances in which the Board had submitted alternative legislative recommendations to the Senate Banking and Currency Committee in connection with the Committee's study of the Federal banking laws, on which hearings were to be held beginning tomorrow. The two instances had to do with the payment of interest on deposits and the transfer of a portion of the earnings of the Federal Reserve Banks to the Treasury. Governor Robertson said he understood Governor Balderston felt that the submitting of alternative recommendations without an indication of preference tended to put the Board in the position of asking someone else to make a decision and that it might be advisable for the Board to express its views as to which of the alternatives it preferred.

Governor Robertson pointed out that in the case of the payment of interest on deposits the Federal Deposit Insurance Corporation also was involved, which led him to feel that it might not be appropriate for the Board to make a single recommendation. As to the transfer of Federal

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Reserve Bank earnings to the Treasury, he saw no great difficulty in submitting alternatives for he understood that the Board had no distinct preference between the suggested procedures. If pressed, he said, he could always say that he would take the matter up with the Board and advise the Committee of the Board's views.

Governor Szymczak said that personally he would prefer the re-institution of a franchise tax. However, he did not think this feeling was unanimous among the members of the Board.

After some discussion, Chairman Martin suggested that it would seem inadvisable for the Board to alter its presentation at this time and that he would favor going ahead on the present basis and then re-viewing the matter, if necessary, in the light of developments during the course of the Committee's study.

The meeting then adjourned.


Secretary