

Minutes for November 26, 1956

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<u><i>[Signature]</i></u>	_____
Gov. Szymczak	<u><i>[Signature]</i></u>	_____
Gov. Vardaman	<u><i>[Signature]</i></u>	_____
Gov. Mills	_____	<u><i>[Signature]</i></u>
Gov. Robertson	<u><i>R</i></u>	_____
Gov. Balderston	<u><i>ccr B</i></u>	_____
Gov. Shepardson	<u><i>[Signature]</i></u>	<u><i>X</i></u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 26, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman 2/
 Mr. Robertson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Hackley, Associate General Counsel
 Mr. Hexter, Assistant General Counsel

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 follows:

Letter to Mr. Waage, Secretary, Federal Reserve Bank of New York, reading as follows:

Thank you for your letter of November 7, 1956, advising that Mr. Alan R. Holmes, Economist "A," Foreign Research Division, and Mr. Andrew F. Brimmer, Economist "C," Domestic Research Division, Research Department, have been granted leaves of absence with pay for a period of approximately three months, plus necessary travel time, commencing on or about December 3, 1956.

It is noted from your letter that, in response to a formal request from the Sudanese Government to the Secretary of State, Messrs. Holmes and Brimmer, together with Mr. Oliver P. Wheeler, are to serve as a mission consisting of three members of the Federal Reserve System to advise the Sudanese Government on the functions and organization of a central bank.

It is noted further that the financial arrangements agreed upon provide (1) the Department of State will pay transportation costs to and from the Sudan and provide a

1/ Entered meeting at point indicated in minutes.

2/ Withdrew from meeting at point indicated in minutes.

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per diem allowance in U. S. dollars; (2) the Sudanese Government will pay for subsistence and incidental expenses; and (3) the New York Reserve Bank will reimburse Messrs. Holmes and Brimmer for any reasonable expenses incurred in connection with this mission, which are not provided for by the Department of State and the Sudanese Government.

The Board of Governors interposes no objection to the arrangements with respect to Messrs. Holmes and Brimmer as described in your letter.

Approved unanimously.

Telegram to Mr. Mangels, President, Federal Reserve Bank of San Francisco, reading as follows:

Re November 1, 1956, letter from Swan, Board approves acceptance of low bid for manufacture and erection of structural steel for new building for the Salt Lake City Branch, as recommended by your Directors. It is understood from your telegram of November 16 that the contract will contain cancellation provisions to protect the Bank.

Approved unanimously.

Letter to the Board of Directors, Sears-Community State Bank, Chicago, Illinois, reading as follows:

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

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Sears-Community State Bank to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of Illinois.

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

Letter to Mr. Deming, First Vice President, Federal Reserve Bank of St. Louis, reading as follows:

This will acknowledge your letter of October 22, 1956, in which you enclosed duplicate copies of Form F.R. Y-5

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submitted by Trustees Under Trust Agreement with Reference to Stock in First National Bank of Louisville, Kentucky, and Other Corporations, dated July 1, 1925. It is stated in your letter that the Trustees have inquired whether First National Bank of Louisville should submit a registration statement pursuant to the Bank Holding Company Act of 1956.

In the Board's opinion, the First National Bank of Louisville is not, on the basis of the facts presented, a bank holding company and therefore is not required to register under the Act.

It is understood that under the Trust Agreement, the Trustees who are charged with the management and control of corporations owned by the Trust are chosen by an Advisory Committee composed of the members of the board of directors of the national bank, and that consequently it may be said that the national bank, through its board of directors, controls itself as well as Kentucky Trust Company. However, it does not appear that the Congress contemplated that the term "bank holding company" would include a bank which controls itself and only one other bank. An earlier draft of a bank holding company bill in 1949 (S. 2318, 81st Congress, 1st Session) defined, as pertinent, a bank holding company as any company controlling 15 per centum or more of the voting shares of each of two or more banks, or "any company which is a bank and which directly or indirectly owns, controls, or holds with power to vote 15 per centum or more of the voting shares of one or more other banks". (Underscoring supplied.) That bill failed to pass, however.

The intent of the bill finally enacted into law (H.R. 6227) appears to be that a bank in order to be a bank holding company must control in some form or manner, within the meaning of section 2(a) of the Act, at least two other banks.

As suggested by footnote "2" on page 1 of the Board's Regulation Y, the status of the First National Bank as a holding company affiliate is irrelevant to the applicability of the Bank Holding Company Act to that bank.

Approved unanimously.

Letters to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows:

Reference is made to a letter from your office dated September 25, 1956, enclosing photostatic copies of an

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application to organize a national bank in Springfield, Virginia, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by a representative of the Federal Reserve Bank of Richmond indicates satisfactory findings with respect to the adequacy of the capital structure of the proposed bank, its future earnings prospects and the convenience and needs of the community to be served. The proposed management of the bank may be somewhat weak due to the lack of previous banking experience of the directors. It appears that a group of local individuals previously applied for permission to organize a State bank in Springfield, and that this application will now receive favorable consideration of the State banking authorities. Inasmuch as there does not appear to be sufficient business to support two banks at this time, the Board of Governors does not feel justified in recommending approval of the application to organize a national bank in Springfield.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Reference is made to a letter from your office dated October 3, 1956, advising that a reinvestigation was to be made of the application to organize a national bank at Opa-Locka, Florida, with particular attention being given to the development of information on three points having a bearing on the convenience and needs of the community to be served and requesting a further recommendation from the Board as to whether or not the application should be approved.

A supplemental report from the Federal Reserve Bank of Atlanta with respect to the matters mentioned in your letter emphasizes the unfavorable earnings prospects of the institution and indicates that losses probably would be sustained from operations during the first three years. The area to be served by the bank is principally residential with only nominal business activity, and, apparently, most of the people living in the community do their trading in

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surrounding communities. There are reported to be ten existing banks within five and three-fourths to nine miles of the town whose trade areas are contiguous to that of Opa-Locka. Inasmuch as the majority of the income earners travel to other areas of employment, the present existing banking facilities would be more accessible to them than a bank located in Opa-Locka. It is also indicated that the proposed location of the bank would not be too convenient for the workers traveling from their places of employment because of certain natural barriers, heavy traffic and layout of highways and streets in the vicinity. While it would appear that a bank in Opa-Locka would be an added convenience for a few people who are employed within the town, in the opinion of our informant the majority of the residents would continue to find surrounding banks already in existence more conveniently located for handling their business. The report indicates that almost without exception bankers in the area feel that the banking needs of the area are being adequately cared for. After reviewing all of the information submitted in connection with this case, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Reference is made to the Board's letters to you dated November 18, 1955, and February 15, 1956, and Mr. Jennings' letter to the Board dated January 10, 1956, relating to cases in which one bank absorbs another through a procedure that involves the temporary acquisition by the absorbing bank (directly or through an agent) of stock of the bank being absorbed.

As stated in the November 18, 1955, letter, the Board had informed the Federal Reserve Banks that it was inclined to look with disfavor upon the above-described practice, since there appeared to be some possibility that it might violate the provision of R.S. 5136 that forbids national banks and member State banks to purchase corporate stocks. However, one of the Federal Reserve Banks suggested that the Board's position might put member State banks at a disadvantage as compared with competing national banks, unless R.S. 5136 was

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similarly interpreted and applied in the supervision of national banks. Accordingly, the Board asked to be informed of your Office's interpretation and the manner in which that interpretation is applied where the stock is acquired on behalf of a national bank by its directors or officers or other individuals.

Mr. Jennings' letter of January 10, 1956, informed the Board that the Comptroller interprets R.S. 5136 to mean that a national bank's funds may not lawfully be used directly or indirectly for the purpose of purchasing stock in another bank on behalf of the bank furnishing the funds, but that it is permissible for persons connected with a national bank to acquire the stock of another bank in order to facilitate a take-over where the absorbing bank's funds are not used and where the stock purchase takes place after the Comptroller has approved the proposed absorption.

On the basis of this information, the Board sent to all Federal Reserve Banks a second letter on this subject, taking a position similar to that of your Office. (Copies of these letters were sent to you, and additional copies are enclosed.) The Board's letter stated that such purchases by persons connected with a member State bank were permissible only

" . . . where the funds for the stock purchase are not furnished by the banks involved in the take-over and where the purchase does not take place until the take-over arrangements have been approved by the State and Federal supervisors."

The attention of the Board has now been directed to the October 1956 examination report of the Western Pennsylvania National Bank, McKeesport, Pennsylvania. The report mentioned that the bank had made loans of \$3,392,000 to six of its directors for the purpose of purchasing a majority of the stock of Washington Trust Company, Pittsburgh. The report further stated that the assets of Washington Trust Company "will be purchased by the national bank if approval is granted by the Comptroller of the Currency."

The report of examination apparently did not list this transaction as constituting a violation of R.S. 5136, and it is understood that your Office has given its consent to the take-over, pursuant to section 18(c) of the Federal Deposit Insurance Act.

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In its letter of November 18, 1955, the Board referred to the desirability of consistent interpretations of the statutes that apply to both national banks and member State banks, and the letter of February 13, 1956, to the Federal Reserve Banks was intended to forward that objective as well as to place member State banks on a basis of competitive equality with national banks in this respect. With these points in mind, the Board would appreciate being informed whether the absence from the examination report of a reference to these transactions as violations of R.S. 5136, and the approval by your Office of a take-over based on indirect acquisitions of stock by the absorbing bank, indicate a change in the position of your Office on this matter.

Approved unanimously.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment without change, on the dates indicated, of the rates of discount and purchase in their existing schedules:

Boston	November 19
Atlanta	November 19
St. Louis	November 19
Kansas City	November 19
Philadelphia	November 21
Cleveland	November 21
Richmond	November 21
Minneapolis	November 21
Dallas	November 21

Approved unanimously.

The Board then discussed briefly a memorandum from Mr. Thomas dated November 21, 1956, which had been distributed prior to the meeting, regarding an invitation from the Mortgage Bankers Association to address a Mortgage Clinic of that group on April 26, 1957. Governor Vardaman commented on the heavy burden of work at the present time on all members of the staff and questioned whether additional outside

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activities of this nature should be undertaken until the present workload had been somewhat relieved. In his opinion, it seemed inadvisable to make a commitment now for a date next April. After further discussion, it was agreed that this matter would be carried over until the meeting of the Board on Thursday, November 29.

During the discussion of this matter, Mr. Clifford A. Davis, a member of the legal staff of the Federal Reserve Bank of New York, and Mr. Thomas, Economic Adviser to the Board, entered the meeting.

The Board also considered a memorandum from Mr. Vest dated November 16, which had been distributed prior to the meeting, regarding the applicability of the Bank Holding Company Act to certain subsidiaries of Beneficial Finance Company. In response to Governor Balderston's suggestion, Mr. Vest summarized the issues involved in this matter. He pointed out that the Beneficial Finance Company of Wilmington, Delaware, owns more than 50 per cent of the voting shares of Peoples Bank and Trust Company of the same city, an institution which is a bank. It also owns stock of more than 300 other finance companies, industrial banks, or similar institutions throughout some 30 States. If any one of this large group of companies in which Beneficial owns more than 25 per cent of the stock is a bank within the meaning of the Bank Holding Company Act, then Beneficial would be a bank holding company subject to the provisions of that Act.

Beneficial Finance Company, Mr. Vest said, has picked out six companies from the entire group and submitted these to the Board for a determination whether any of the six is a bank within the meaning of

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the Bank Holding Company Act. It was the conclusion of the legal staff, as set forth in the memorandum of Mr. Clifford A. Davis dated November 19, 1956, to the Board that none of these six subsidiaries should be regarded as banks within the meaning of the Act.

Mr. Vest pointed out that the Board might wish to consider whether it wanted to pass on the matter of these six companies at the present time or to withhold judgment until it was possible to review the entire operations of this company and its affiliated subsidiaries. If the latter course were chosen, he said, the next step would be to request additional information from the subject company.

Governor Szymczak commented that the company might be presumed to have chosen subsidiaries in which the question would be clear-cut and pointed out that no mention had been made of operations in Florida where the question whether the subsidiary companies are banks would be more difficult.

In response to a question from Governor Szymczak, Mr. Davis indicated that while there were instances, under State laws, where these subsidiaries would be authorized to receive savings deposits, it did not appear from the facts at hand that they were actually receiving such deposits at the present time. This was true in the case of the laws of Colorado applicable to two of the subsidiary companies under consideration.

Mr. Vest suggested the possibility of approving these six firms on the basis of the facts at hand, reserving the right of the Board to

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determine whether the Beneficial Finance Company might otherwise be classified as a bank holding company.

Chairman Martin and Mr. Sloan, Director, Division of Examinations came into the meeting during these last comments.

Governor Robertson complimented Mr. Davis on the comprehensive and thorough presentation of the issues in his memorandum and indicated he did not feel the Board should go into any questions not raised before it at this time. Therefore, he said he favored limiting the present action to the six companies. Governors Szymczak, Vardaman, and Balderston said their views coincided with this position.

It was agreed that a letter would be prepared stating the view of the Board that none of these six companies was a bank but reserving the right to question whether the Beneficial Finance Company might be a bank holding company in other respects.

Secretary's Note: In accordance with this action, the following letter was sent to the Federal Reserve Bank of Philadelphia on November 28, 1956:

This refers to Mr. Goodwin's letter of October 15, 1956, with enclosures, presenting the question whether Beneficial Finance Co. of Wilmington, Delaware, is a bank holding company under the Bank Holding Company Act of 1956.

It is understood that Beneficial Finance Co. controls one bank (Peoples Bank and Trust Company, Wilmington, Delaware) and owns or controls many other organizations among which are included the following six subsidiaries with respect to which the Board has been requested to rule as to whether they are banks within the meaning of the Act.

Beneficial Finance Co. of Columbia, Columbia, South
Carolina
Beneficial Industrial Loan Co., Seattle, Washington
Beneficial Finance & Thrift Co. of Austin, Austin,
Texas

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Beneficial Finance Co. of Oklahoma, Inc., Oklahoma
City, Okla.
Beneficial Industrial Bank, Denver, Colorado
Beneficial Industrial Bank, Pueblo, Colorado

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. In the opinion of the Board, none of the six subsidiaries is, 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.

Inasmuch as it is understood that Beneficial Finance Co. controls numerous other financial organizations in this country, the question of whether or not it is a bank holding company would depend upon whether or not any of the other organizations controlled by it is a "bank" within the meaning of the Act; and whether any of such other organizations is a "bank" under the Act would depend in turn on the particular facts presented. Consequently, in the absence of information as to the nature and activities of such organizations, the Board is not in a position to determine whether Beneficial Finance Co. is a bank holding company under the Act.

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.

Mr. Davis then withdrew from the meeting.

The Board then turned to the consideration of a letter to the Comptroller of the Currency regarding a proposed merger of the First National Bank of Arizona in Phoenix and the First National Bank of Holbrook, Arizona. A draft of a reply to the letter of the Comptroller of the Currency dated November 15, 1956, seeking the benefit of the Board's views in this matter had been circulated prior to the meeting. At the Chairman's request, Mr. Sloan reported on the progress of the study of the banking situation in Arizona made by the Federal Reserve

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Bank of San Francisco at the request of the Board and indicated that a preliminary draft of that report had been received, although an expected resume of the 200-odd page document had not yet been received. He indicated the report included an introduction, an analysis of individual areas within the State, and a presentation of conclusions to be drawn from the analysis. The report would substantiate a decision that the proposed merger would result in no substantial decrease in competition. In response to an inquiry as to when the resume of the final draft of the study might be available, Mr. Sloan reported that he did not know when copies would be received.

The following letter to the
Comptroller of the Currency was
then approved unanimously:

The preliminary draft of the study of the banking situation in the State of Arizona, to which you refer in your letter of November 15, 1956, indicates that the proposed merger of the First National Bank of Arizona, Phoenix, Arizona, and the First National Bank of Holbrook, Arizona, could not reasonably be held to result in a substantial decrease in competition. In the circumstances, the Board of Governors would interpose no objection to the merger as proposed.

At this point Governor Vardaman withdrew from the meeting and asked that the minutes reflect his position that the presentation of economic reviews by the staffs of the Divisions of International Finance and Research and Statistics should be studied to see how they could be made more effective and more useful to the members of the Board. Until such study had been made, he said he did not plan to attend further sessions of this kind.

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Members of the Legal Division and of the Division of Examinations also left the room and the following members of the Division of International Finance and the Division of Research and Statistics came into the meeting:

Division of International Finance:

Messrs. Marget, Bangs, Furth, Sammons, Wood, Dahl, and Westebbe.

Division of Research and Statistics:

Messrs. Young, Garfield, Noyes, and Robinson, Miss Burr, and Messrs. Brill, Eckert, Gehman, Jones, Miller, Weiner, Allen, Altmann, Wernick, and Wood.

Messrs. Cherry, Legislative Counsel, and Molony, Special Assistant to the Board, also entered the meeting at this time.

The Division of International Finance then presented a comprehensive review of foreign economic developments concentrating their attention on the possible effects of the closing of the Suez Canal on economic developments abroad. Members of the Division of Research and Statistics then covered the most recent developments in the domestic economy.

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

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston, acting as alternate to Governor Shepardson, today approved on behalf of the Board the following matters relating to the Board's staff:

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Appointments, effective as of the re-
spective dates of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>
Ruth Jean Myers, Clerk	Administrative Services	\$3,415
James C. Byrnes, Economist	Research and Statistics	6,605

Salary increase, effective
December 2, 1956

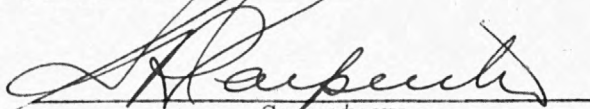
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Harvey A. Robinson, Statistical Assistant	Research and Statistics	\$4,890	\$5,065

Acceptance of resignation

<u>Name and title</u>	<u>Division</u>	<u>Effective date</u>
John A. Bladen, Assistant Federal Reserve Examiner	Examinations	December 2, 1956

Secretary's Note: Governor Szymczak, acting as alternate to Governor Shepardson, approved on behalf of the Board on November 23, 1956, the following letter to Mr. Kroner, Vice President, Federal Reserve Bank of St. Louis:

In accordance with the request contained in your letter of November 9, 1956, the Board approves the designation of Alexander P. Orr, Jr. as a special assistant examiner for the Federal Reserve Bank of St. Louis. It is noted that Mr. Orr is indebted to the Tower Grove Bank and Trust Company, St. Louis, Missouri, a State member bank, in the amount of \$6,596 secured by a mortgage on his home. Accordingly, the Board's approval is given with the understanding that Mr. Orr will not participate in any examinations of the Tower Grove Bank and Trust Company, St. Louis, Missouri, until his indebtedness has been liquidated or otherwise eliminated.


Secretary