

Minutes for December 14, 1956

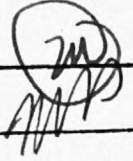
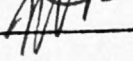
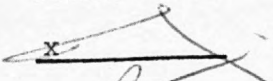
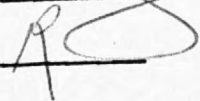
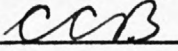
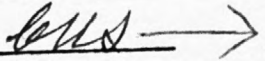
To: Members of the Board

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 	_____
Gov. Szymczak	x 	_____
<u>1</u> /Gov. Vardaman	_____	x _____
Gov. Mills	x 	_____
Gov. Robertson	x 	_____
Gov. Balderston	_____	x 
Gov. Shepardson	 →	x _____

1 The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the Statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. 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 Friday, December 14, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Fauver, Assistant Secretary
Mr. Vest, 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 stated:

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

Thank you for your letter of December 3, 1956, advising that, at the request of Senator Walter J. Mahoney, Majority Leader of the New York State Legislature, the services of Mr. Thomas O. Waage, Manager, Public Information Department, and Secretary are being made available to the Joint Legislative Committee to Revise the Banking Law to enable him to serve as staff director for the Committee. It is noted from your letter that, in this connection, the Board of Directors approved a leave of absence, without pay, for Mr. Waage, commencing on or about December 1, 1956, for a period of two months, with the understanding that a further extension of an additional two months may be possible.

The Board of Governors interposes no objection to the arrangements with respect to Mr. Waage as described in your letter.

It is noted further from your letter that, in order to provide you with assistance in assuming the duties of the Secretary during the period of Mr. Waage's leave, the Board of Directors appointed Mr. Edward G. Guy, Assistant Counsel, as Acting Assistant Secretary, with no change in salary. It is noted also that Mr. Guy will continue to serve as Assistant Counsel as well.

Approved unanimously.

12/14/56

-2-

Letter to Mr. Meinel, Chairman, Federal Reserve Bank of Philadelphia, reading as follows:

This letter is in response to yours of November 23, 1956 with respect to the services of Mr. W. J. Davis as First Vice President of the Federal Reserve Bank of Philadelphia.

Since the appointment of Mr. Davis approved by the Board in its letter of February 7, 1956 was for a term of five years from March 1, 1956, no further approval by the Board is required for service by Mr. Davis beyond his 65th year and within the five-year period.

Approved unanimously.

Letter to Mr. Patterson, Vice President and General Counsel, Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of November 19, 1956 and its enclosure, regarding the application of section 32 of the Banking Act of 1933 to the proposed service of Mr. Page Hufty as a member of the Advisory Board of Florida Growth Fund, Inc., and his service as a director of the First National Bank in Palm Beach, Florida.

On the basis of the information contained in your letter and its enclosure, the Board is of the view that the statute would not prohibit the proposed interlocking relationship. It is noted that this is in accord with the view expressed in your letter.

It should be understood, of course, that if there should be any material change in the circumstances described in your letter, it may be necessary to give the question further consideration.

Approved unanimously.

Letter to the Board of Directors, State Bank of Suffolk, Bay Shore, 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 State Bank of Suffolk,

12/14/56

-3-

Bay Shore, New York, of a branch at 8 East Main Street, Riverhead, New York, the present location of The Suffolk County Trust Company, provided that (a) the merger of The Suffolk County Trust Company into State Bank of Suffolk is effected substantially in accordance with the plan of merger 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.

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

Letter to the Board of Directors, Peoples Trust Company of Bergen County, Hackensack, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 14 Park Avenue, Rutherford, New Jersey, by Peoples Trust Company of Bergen County, Hackensack, New Jersey, incident to its proposed merger with the Rutherford Trust Company, Rutherford, New Jersey, provided (a) the merger is effected substantially in accordance with the agreement of merger dated November 13, 1956, as submitted through the Federal Reserve Bank of New York, and (b) the merger and establishment of the branch are accomplished within six months from the date of this letter.

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

Letter to the Board of Directors, Lenawee County Savings Bank, Adrian, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of the Lenawee County Savings Bank, Adrian, Michigan, and the First State Savings Bank, Morenci,

12/14/56

-4-

Michigan, under the charter of the former, and approves the establishment of a branch by the merged institution in Morenci, Michigan, provided (a) the proposed merger is effected substantially in accordance with the Agreement of Merger and/or Consolidation dated November 9, 1956, (b) formal approval is given by the appropriate State authorities, and (c) the proposed merger and establishment of the branch are effected within six months from the date of this letter.

It is understood that the title of the continuing bank will be Bank of Lenawee County.

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

Letter to the Board of Directors, Citizens Commercial & Savings Bank, Flint, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the consolidation of the Citizens Commercial & Savings Bank, Flint, Michigan, and The Otisville State Bank, Otisville, Michigan, under the charter of the former, and approves the establishment by the consolidated bank of a branch in Otisville, Michigan, and a branch in Columbiaville, Michigan, provided (a) the proposed consolidation is effected substantially in accordance with Consolidation Agreement dated September 25, 1956, (b) the two branches are established within six months from the date of this letter, and (c) formal approval of the State authorities of the merger and the establishment of the branches is obtained.

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

Letter to the Board of Directors, Old Kent Bank, Grand Rapids, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by Old Kent Bank

12/14/56

-5-

at 40-50 Pearl Street, N. W., Grand Rapids, Michigan, in connection with the proposed consolidation of your institution and The Michigan Trust Company under the charter of your bank, with a change of corporate title to Old Kent Bank and Michigan Trust Company.

It is noted that Old Kent Bank proposes to succeed to the trust business of The Michigan Trust Company; that the articles of incorporation of Old Kent Bank are to be amended to provide for the exercise of full statutory trust powers; and that the requisite approval of the State authorities for exercise of such powers will be obtained before the proposed merger is effected. Consequently, the Board of Governors hereby grants permission to Old Kent Bank to exercise the trust powers now or hereafter authorized under the terms of its articles of incorporation and the laws of the State of Michigan.

The approval and permission contained herein are given provided (a) the consolidation is effected in accordance with the consolidation agreement dated October 24, 1956, as amended, (b) the establishment of the branch is effected within six months from the date of this letter, and (c) the necessary approvals of the State Banking Department and the Federal Deposit Insurance Corporation are obtained.

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

Letter to the Board of Directors, California Bank, Los Angeles, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the central business district near the intersection of "A" Street (Holt Boulevard) and Euclid Avenue, Ontario, California, by California Bank, Los Angeles, California, provided the branch is established within six months from the date of this letter and that formal approval of the Superintendent of Banks of the State of California is effective at the time the branch is established.

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

12/14/56

-6-

Letter to the Board of Directors, American Trust Company, San Francisco, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Sansome and Market Streets, San Francisco, California, by American Trust Company, provided the branch is established within two years from the date of this letter and the approval of the Superintendent of Banking of the State of California is in effect at that time.

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

Letter to Mr. Bryan, President, Federal Reserve Bank of Atlanta, reading as follows:

This refers to the pending application by Consolidated Naval Stores Company, Sebring, Florida, for a certification by the Board of Governors pursuant to section 1101(b) of the Internal Revenue Code of 1954.

The tax benefits provided by section 1101 are available only in connection with distributions by a "qualified bank holding corporation". That term is defined in section 1103(b), which also provides that:

". . . A corporation shall be treated as a qualified bank holding corporation only if the Board certifies that it satisfies the foregoing requirements of this subsection."

In view of these provisions, it is necessary, in connection with each prior certification, that the Board be in a position to certify not only with respect to the two matters enumerated in section 1101(b)(1)(B), but also that the holding company making the distribution satisfies the requirements of section 1103(b) and consequently is a "qualified bank holding corporation".

The requirement of certification regarding "qualified bank holding corporation" status in this case involves determination of several factual matters that

12/14/56

-7-

would not be called for if the Board's duty to certify related only to the two matters enumerated in section 1101(b)(1)(B). The attached memorandum dated December 3, 1956, lists these matters of fact, and it is suggested that your Bank request Consolidated Naval Stores Company to authorize one of its officers to submit the required information in duplicate to your Bank for transmittal to the Board.

This is the second application that the Board has received for a prior certification with respect to a proposed distribution of stock for the purpose of ceasing to be a bank holding company. The previous case, involving the W. R. Stephens Investment Co., Inc., Little Rock, Arkansas, was generally similar to the instant case. It is believed that acquaintance with the procedure followed by the Board and by the Federal Reserve Bank of St. Louis in that matter may be of some assistance to your Bank, and accordingly there are enclosed for your information memoranda to the Board dated September 26, 1956, and October 29, 1956 (both with attachments): copies of letters from Stephens dated July 26, 1956, and October 2, 1956, with enclosures; memorandum of October 8, 1956, by O. O. Wyrick, Chief Examiner, and G. T. Dunne, Counsel, of the Federal Reserve Bank of St. Louis, with attachments; and copies of the Certification issued by the Board October 31, 1956, and of the letters of transmittal, dated October 31, 1956, to the Commissioner of Internal Revenue and the Federal Reserve Bank of St. Louis.

As you will note from the enclosures, officers of the Federal Reserve Bank of St. Louis visited Little Rock for the purpose of ascertaining independently, to the extent practicable, the factual information that was prerequisite to certification by the Board.

As stated in the enclosed memorandum of September 26, 1956, the requirement in the tax provisions of the Bank Holding Company Act that the Board shall certify regarding certain matters imposes upon the Board "the duty to ascertain the necessary facts with as much certainty as can be attained by such expenditure of time, effort, and money as seems reasonably justified." The procedure followed by the Federal Reserve Bank of St. Louis in the Stephens case appeared to be appropriate in

12/14/56

-8-

those circumstances, and in this case your Bank may wish to follow a similar procedure, modified to the extent required by different circumstances.

The Board and its staff will, of course, be happy to assist in connection with any problems or questions that may arise in this matter.

Approved unanimously.

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

This refers to the application for a voting permit submitted by Montana Shares, Incorporated, Havre, Montana, covering the stock which that corporation owns or controls of The Miners National Bank of Butte, Butte, Montana, and First State Bank of Chinook, Chinook, Montana.

In acting upon an application for a voting permit the Board is required by section 5144 of the Revised Statutes to consider, among other things, the financial condition of the applicant. It is noted from the report of examination of the applicant as of July 23, 1956, that its short-term debt is large in relation to its assets other than the investment in bank stocks, which presumably is a long-term investment. In addition, the applicant had an operating deficit. In the circumstances, the Board believes that it should not grant a general voting permit to the applicant at this time and that further consideration of the issuance of such a permit should be deferred until such time as the current liabilities of the corporation are not disproportionate to its current assets and it has eliminated its deficit from operations.

The Board is prepared, however, to issue a limited voting permit to Montana Shares, Incorporated, in order that it may vote the stock which it owns or controls of its subsidiary national bank and State member bank in the 1957 annual meetings of shareholders of those banks. The holding company affiliate should inform your Bank as to

12/14/56

-9-

the actions proposed to be taken by the shareholders at the annual meetings in order that the limited voting permit will authorize voting by the holding company for all of the purposes desired.

Please advise the applicant accordingly.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

There have been instances in some Federal Reserve Districts where the Bank Examination Departments have not required State member banks to charge off losses on loans estimated by examiners because banks concerned had established loan valuation reserves in amounts sufficient to cover the estimated losses.

Even though their management generally agrees with the examiners' loss estimates, some banks are reluctant to charge against valuation reserves any portion of losses estimated by examiners until collection efforts have been abandoned with respect to the loans so classified. In the case of certain commercial and industrial loans this collection period may cover a span of several years. During this period the bank's reports of condition and reports of earnings and dividends, made periodically to the Board of Governors, reflect the full valuation reserves without indication that a portion is offset by estimated probable losses.

It is true that published reports of State member banks reflect loans net of valuation reserves. At the option of the bank, however, the amount of such valuation reserves may be published as a memorandum item. Not all State member banks exercise this option; but when they do, the published figure would be misleading to the extent that it has not been adjusted by the amount of estimated losses.

In addition, the failure to charge off estimated losses results in overstating loan valuation reserve figures and understating loan loss experience of State member banks in System statistics covering the years when the losses are first recognized. During a period

12/14/56

-10-

of declining business conditions, when banks accumulate problem loans on which some loss is inevitable, these statistics would fail to show properly the loan loss experience and available loan valuation reserves.

Consistent with established bank examination practice, State member banks should charge all losses estimated by examiners against undivided profits, or against valuation reserves if such have been provided. If a bank prefers, in lieu of a direct charge against a valuation reserve, to designate a portion of the valuation reserve as a specific reserve to cover the amount classified as loss, and in reports of condition and reports of earnings to reduce the gross asset total and the valuation reserve by the amount so designated, such an arrangement would be acceptable. In any case, the pertinent book entries should be made at the conclusion of the examination or within a reasonable period thereafter. The requested practice is consistent with the instructions for the preparation of reports of condition and of earnings and dividends which state that when losses are "definitely determined" (page 9, Form F.R. 105a) or "actually occur" (page 9, Form F.R. 107a) they should be charged to the applicable valuation reserve.

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 July 16, 1956, enclosing photostatic copies of an application to organize a national bank in Cedar Lake, Indiana, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Chicago indicates that the original application, which provided for a capital structure of \$250,000, has been amended to provide for a capital structure of \$300,000. This report discloses satisfactory findings with respect to all of the factors usually considered in connection with such applications. Accordingly, the Board of Governors recommends approval of the application.

12/14/56

-11-

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 July 19, 1956, enclosing photostatic copies of an application to organize a national bank in Houston, Texas, and requesting a recommendation as to whether or not the application should be approved.

The report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas discloses that the proponents plan to provide a capital structure of \$500,000 instead of \$400,000 as outlined in the application, and this capital structure would be adequate based upon the anticipated volume of business to be acquired. Other factors which may be regarded favorably are the earnings prospects and management, since the affiliated Bank of the Southwest National Association, located in downtown Houston, will be in a position to furnish loan participations and experienced management. On the other hand, the area to be served by the institution is completely surrounded by existing banks, most of which are near enough to provide fairly convenient and satisfactory banking services. Moreover, it is reported that sufficient development of the area has not occurred to require the services of another bank and that the application is regarded as premature. While it is recognized that this is a borderline situation, after considering the information available, the Board of Governors does not feel justified in recommending approval of the application at this time.

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.

Approved unanimously.

There were presented telegrams proposed to be sent to the following Federal Reserve Banks approving the establishment, without

12/14/56

-12-

change, on the dates indicated of the rates of discount and purchase in their existing schedules:

Atlanta	December 7 and 13
San Francisco	December 12 and 13
New York	December 13
Cleveland	December 13
Richmond	December 13
Chicago	December 13
St. Louis	December 13
Minneapolis	December 13
Kansas City	December 13
Dallas	December 13

Approved unanimously.

The Board then discussed plans for a meeting with representatives of the State and National Bank Divisions of the American Bankers Association who are scheduled to be in Washington on January 31 and February 1, 1957.

It was agreed that the group would be asked to come for luncheon on February 1 and that those members of the Board who are available would meet with them in the Board Room following lunch and that one of the Board's economists would make a statement on the current economic situation.

Chairman Martin then mentioned the possibility of setting a tentative date for the fourth annual directors' day to which all newly elected or appointed directors of the Reserve Banks and branches would be invited as well as those who have taken office since the directors' day program in 1956. It was suggested that the Secretary's Office contact each Board member to see if the dates of February 18 or February

12/14/56

-13-

20 would be convenient and, if not, to determine alternative convenient dates.

It was agreed that the Chairmen and Presidents of the Federal Reserve Banks would be advised of the tentative dates and their concurrence obtained for a definite date.

Governor Robertson asked whether it would be possible to invite the three members of the staff of the Federal Reserve Bank of San Francisco, who were primarily responsible for the preparation of the study entitled "Investigation of Banking in Arizona", to meet with the Board early in January to discuss their findings. He felt that it would be most helpful to the members of the Board and to the members of the staff who would be working with the report, to have these three men present the highlights of their report.

It was agreed that the Secretary would arrange with the San Francisco Bank for a convenient date during the week of January 14-18 when Messrs. Robert S. Einzig, Assistant Vice President, E. H. Galvin, Chief Examiner, and John A. O'Kane, General Counsel, could meet with the Board.

The meeting then adjourned.

Secretary's Note: It having been ascertained, pursuant to the action taken by the Board on December 12, 1956, that Mr. Raymond E. Olson, President of the Taylor Instrument Companies, Rochester, New York, would accept appointment, if tendered, as a director of the Buffalo Branch, Federal Reserve Bank of New York, the following telegram was sent today to Mr. Olson:

Board of Governors Federal Reserve System has appointed you a director of the Buffalo Branch of the Federal Reserve

12/14/56

-14-

Bank of New York for three-year term beginning January 1, 1957. Your acceptance by collect telegram would be appreciated.

It is understood you are not director of bank and do not hold public or political office. Should situation change in these respects during your tenure please advise Chairman New York Bank.

Please withhold announcement of appointment until Board announces appointments at all Reserve Banks and Branches near end of year.

We should like to know how you wish your name and principal business affiliation to be shown in Board's announcement and publications.

Secretary's Note: On December 13, 1956, Governor Shepardson approved on behalf of the Board the following letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In accordance with the request contained in your letter of December 10, 1956, the Board approves the appointment of Kyle Alexander Morris as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise as to the date upon which the appointment is made effective.

Secretary's Note: Governor Szymczak, acting as alternate to Governor Shepardson, today approved on behalf of the Board the following items:

Memoranda dated November 21, 1956, from Mr. Sloan, Director, Division of Examinations, recommending that the basic annual salaries of the following persons in that Division be increased in the amounts indicated, effective December 16, 1956:

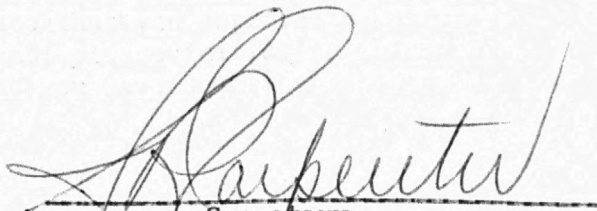
<u>Name and title</u>	<u>Basic annual salary</u>	
	<u>From</u>	<u>To</u>
Adrien P. Francoeur, Assistant Federal Reserve Examiner	\$5,200	\$5,440
Att W. Hammons, Jr., Assistant Federal Reserve Examiner	4,930	5,440

12/14/56

-15-

Letter to Mr. Campbell, Assistant Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

In accordance with the request contained in your letter of December 10, 1956, the Board approves the reappointment of Stanley J. Grigalunas as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the Board if this appointment is not made effective on January 1, 1957, as planned.



Secretary