

Minutes for December 18, 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>W</u>	_____
Gov. Szymczak	_____	x <u>MPS</u>
<u>1/</u> Gov. Vardaman	_____	x _____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

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 Tuesday, December 18, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Hayes, President, and Mr. Treiber, First Vice President, of the Federal Reserve Bank of New York, were present for the purpose of discussing salary administration for officers of that Bank. No members of the Board's staff were present.

At the close of the morning session, the Vice Chairman informed the Secretary that the Board had approved the payment of salaries to officers of the Federal Reserve Bank of New York for the year 1957 as recommended in a letter received from Chairman Crane of the New York Bank dated November 16, 1956.

Secretary's Note: In accordance with the foregoing action, the following letters were mailed to Chairman Crane under date of December 19, 1956:

Letter for Chairman Martin's signature

The Board of Governors approves the payment of salaries to Mr. Hayes as President and to Mr. Treiber as First Vice President of the Federal Reserve Bank of New York, for the period January 1, 1957 through December 31, 1957, at the rates of \$60,000 and \$35,000 per annum, respectively, which are the rates fixed by your Board of Directors as reported in your letter of November 16, 1956.

Letter for Secretary's signature

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New

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York and its Buffalo Branch for the period January 1, 1957 through December 31, 1957, at the rates indicated, which are the rates fixed by your Board of Directors as reported in your letter of November 16, 1956.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Robert G. Rouse	Vice President	\$32,500
Arthur Phelan	Vice President	30,000
Valentine Willis	Vice President	28,000
Herbert H. Kimball	Vice President	27,500
Harold V. Roelse	Vice President and Economic Adviser	27,500
Todd G. Tiebout	Vice President and General Counsel	27,500
Harold A. Bilby	Vice President	27,000
John Exter	Vice President	27,000
Robert V. Roosa	Vice President	23,000
Reginald B. Wiltse	Vice President	23,000
Marcus A. Harris	Vice President	22,000
John J. Clarke	Assistant General Counsel	21,500
Horace L. Sanford	Assistant Vice President	21,000
Felix T. Davis	Assistant Vice President	20,500
Howard D. Crosse	Assistant Vice President	20,000
Norman P. Davis	Assistant Vice President	19,000
Walter H. Rozell, Jr.	Assistant Vice President	18,500
Paul R. Fitchen	Assistant Vice President	17,750
Peter P. Lang	Manager	17,250
Donald J. Cameron	General Auditor	17,000
Angus A. MacInnes, Jr.	Assistant Vice President	17,000
Charles A. Coombs	Manager	16,500
Harding Cowan	Assistant Counsel	16,000
Clifton R. Gordon	Assistant Counsel	16,000
John J. Larkin	Assistant Vice President	16,000
Spencer S. Marsh, Jr.	Assistant Vice President	16,000
Thomas O. Waage	Manager and Secretary	16,000
Herbert A. Muether	Manager	15,500
Lawrence E. Quackenbush	Assistant Vice President	15,500
Edward G. Guy	Assistant Counsel	15,250
Donald C. Niles	Manager	15,000
William E. Marple	Manager	14,750
Frederick L. Smedley	Manager	14,750
William A. Heinl	Manager	14,250
George Garvy	Senior Economist	14,000
George C. Smith	Manager	14,000

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<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Arthur I. Bloomfield	Senior Economist	\$13,500
John P. Jensen	Manager	13,500
Arthur H. Noa	Manager	13,500
William F. Palmer	Manager	13,500
Franklin E. Peterson	Manager	13,500
Fred W. Piderit, Jr.	Manager	13,500
Walter S. Rushmore	Manager	13,500
Kenneth E. Small	Manager	13,500
Tilford C. Gaines	Manager	13,000
A. Chester Walton	Manager	13,000
Gregory O'Keefe, Jr.	Assistant Counsel	12,500
William H. Braun, Jr.	Assistant Counsel and Assistant Secretary	12,500
Thomas J. Roche	Foreign Exchange Officer	11,750
Charles R. Pricher	Manager	11,500

BUFFALO BRANCH

Insley B. Smith	Vice President	23,500
Harold M. Wessel	Assistant Vice President	16,250
George J. Doll	Cashier	13,250
Gerald H. Greene	Assistant Cashier	11,750
M. Monroe Myers	Assistant Cashier	10,450

It is noted that Mr. Arthur Phelan will reach retirement age during 1957 and, accordingly, payment of salary to him is approved only to the date of his retirement.

You will be advised in a separate letter with respect to the salaries of the President and First Vice President.

The Vice Chairman also informed the Secretary that during the morning session the Board approved unanimously a letter to Manufacturers and Traders Trust Company, Buffalo, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch in the Grand Island Plaza shopping center to be located at the northeast corner of the intersection of Grand

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Island Boulevard and Base Line Road in an unincorporated area of the Town of Grand Island, Erie County, New York, provided the branch is established within 18 months from the date of this letter and the approval of State authorities is in effect at the time it is established.

The meeting reconvened at 2:00 p.m. In addition to the members of the Board who were in attendance during the morning session, the following members of the staff were present:

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Leonard, Director, Division of Bank  
 Operations  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research  
 and Statistics  
 Mr. Sloan, Director, Division of Examinations  
 Mr. Horbett, Associate Director, Division of  
 Bank Operations  
 Mr. Hackley, Associate General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Noyes, Adviser, Division of Research and  
 Statistics  
 Mr. Thompson, Supervisory Review Examiner,  
 Division of Examinations  
 Mr. Davis, member of the legal staff of the  
 Federal Reserve Bank of New York currently  
 assisting the Board in connection with  
 bank holding company matters.

Before the meeting there had been sent to the members of the Board a memorandum from Mr. Shay dated December 14, 1956, relating to the question whether certain practices of national banks in Lubbock, Texas, involved an indirect payment of interest under Regulation Q, Payment of Interest On Deposits. It was suggested that consideration of this memorandum be deferred pending completion of a memorandum being prepared by the Division of Examinations suggesting a somewhat

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different position from that taken in Mr. Shay's memorandum, and there was agreement with this suggestion.

Mr. Shay withdrew from the meeting at this point.

Reference was made to a memorandum from Mr. Davis dated December 14, 1956, regarding the applicability of the Bank Holding Company Act of 1956 to certain loan practices of banking subsidiaries of Transamerica Corporation, as described in a letter from the Corporation dated November 2, 1956, transmitted to the Board by Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, on November 21, 1956.

The question presented by Transamerica Corporation was whether the Bank Holding Company Act of 1956 prohibits the acceptance by a banking subsidiary of a bank holding company, as collateral security for loans, of the credit life insurance policies written by a company which is a subsidiary of the same bank holding company. The question was raised because of the provision of section 6(a)(2) of the Bank Holding Company Act which provides in part that it shall be unlawful for a bank to accept obligations of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company, as collateral security for advances. Four examples were presented showing the types of loans referred to, including loans protected by life insurance policies where the bank would be the beneficiary, and loans protected by an assignment to the bank of the rights and values under the policy. The memorandum from Mr. Davis expressed the opinion that the Holding Company Act does not prohibit the acceptance by a banking subsidiary of a bank holding

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company of insurance policies as collateral under the circumstances described, and it was accompanied by a draft letter to Mr. Mangels, President of the Federal Reserve Bank of San Francisco, that would transmit that view.

Governor Mills stated that the four types of loans in question would appear to be unobjectionable. He suggested, however, that approval of these loans would be tantamount to approval of loans that might be bought by the bank on tender by a broker, secured by the cash surrender value of life insurance policies; and approval of loans by a subsidiary of a bank holding company against cash surrender values of life insurance policies issued by a sister subsidiary of the same holding company might conflict with what Congress intended to reach in order to prevent an intermingling of diversified activities. He raised the question, therefore, whether it would be preferable to defer a reply to the inquiry from Transamerica Corporation until consideration had been given to whether the insurance company was a "closely related" subsidiary under section 4(c)(6) of the Bank Holding Company Act, and thus exempt from the divestment requirements.

There followed a long discussion of the question raised by Governor Mills, in the course of which Governor Robertson suggested that a reply along the lines of the draft letter to Mr. Mangels need not present difficulties even if it later were determined that the insurance subsidiary must be divested from the holding company, pursuant to the Act. His reasoning was that if the insurance subsidiary of Transamerica Corporation were so closely related to the holding company as to be considered

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a "related business" and therefore exempt from the divestment requirements of the Act, loans of the type Governor Mills mentioned would not be prohibited. On the other hand, if it developed that the insurance subsidiary of Transamerica Corporation must be divested from the bank holding company, the insurance company would then acquire the same status as any other non-subsubsidiary insurance company and the loans would not be prohibited. Furthermore, any such loans that had been made by the banking subsidiary prior to a decision requiring divestment of the insurance subsidiary would not be considered to be violations of the criminal statute since they would have been made prior to a determination that the insurance subsidiary failed to qualify as a "related business" under the terms of the Bank Holding Company Act.

After further discussion, unanimous approval was given to a letter to Mr. Mangels, President of the Federal Reserve Bank of San Francisco, reading as follows:

This refers to Mr. Millard's letter of November 21, 1956, with enclosures, presenting the question, received from Transamerica Corporation, as to whether the Bank Holding Company Act of 1956 prohibits the acceptance by a banking subsidiary of a bank holding company, as collateral security for loans, of the credit life insurance policies written by a company which is a subsidiary of the same bank holding company.

The Board has given consideration to the facts of this matter as presented in the letter and its enclosures, in the light of the intent of the statute and its legislative history. In the opinion of the Board, the prohibitions of section 6(a)(2) of the Act do not apply to the types of credit life insurance commitments described in Transamerica's request for a ruling. It should be mentioned, of course, that although administration of the Act is vested in the Board, its enforcement as a criminal statute falls within the jurisdiction of the Department of Justice, and conceivably the Board's interpretation might not be



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followed by that Department if it should have occasion to consider the matter.

Mr. O'Connell, Assistant General Counsel, entered the room at this point.

At Chairman Martin's request, Mr. Vest summarized the contents of a memorandum that had been distributed under date of December 14, 1956, with respect to the applications for a bank holding company of The First National City Bank of New York, City Bank Farmers Trust Company, and County Trust Company of White Plains, New York. Mr. Vest said that the Comptroller of the Currency had now recommended approval of these applications, while the Superintendent of Banks of the State of New York had raised objections to them and urged postponement of decision. He went on to say that although it appeared that the Board was not legally required to hold a hearing in the matter, the Board's Regulation Y, Bank Holding Companies, provided that it might order a hearing on its own motion and, in view of the importance of the matter and the interest that had been shown in it, a hearing would seem to be desirable. If the Board should decide to have a hearing, a question would arise as to whether it should be public or private, Mr. Vest said, noting that the Board's regulations would provide that it be private unless the Board decided that it should be made public. It was Mr. Vest's suggestion that The First National City Bank be given an opportunity to express its views on this point. Mr. Vest also commented that under the statute the Board was required to proceed "forthwith" in its consideration of the application.

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Chairman Martin noted that two of the members of the Board were absent from this meeting but suggested that if the five members of the Board who were present were unanimous in their views as to how the applications should be handled, it would be desirable for the Board to proceed promptly.

Governor Robertson suggested that there should be a hearing and that it should be a public hearing because of the importance of the questions involved and because of the public interest that had been indicated with respect to these applications. His thought was that the applicants be notified informally that the Board had decided to hold a hearing, that it had also decided that it should be a public hearing, and that it would be glad to receive any comments that the applicant wished to make as to whether the hearing should be public. Governor Robertson also suggested that, in addition to filing notice in the Federal Register, the Board should issue a press statement announcing the hearing and should notify by letter the Department of Justice and Congressmen Celler and Multer, both of whom had written to the Board expressing interest in the applications that had been filed. He further suggested that The First National City Bank be informed by the Legal Division through its Counsel by telephone today of the Board's decision with a request that any comments be submitted not later than Friday, December 21, in order that the decision could be announced within the next few days.

After further discussion, the Board agreed unanimously to hold a hearing with respect to the subject applications, with the understanding that the procedures suggested by Governor Robertson would be

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followed with respect to making the hearing public and notifying interested parties.

Mr. Vest then brought up several subsidiary questions requiring an expression of the Board's views as follows:

1. Mr. Harfield, Counsel for The First National City Bank, had requested a copy of the letter from the Comptroller of the Currency to the Board, expressing his views with respect to the applications. Mr. Vest stated that whether the hearing was public or private, the letter would be included in the record and would thus become available to the applicant.

Governor Robertson said that the Board should not make available a letter such as that submitted by the Comptroller of the Currency except in a manner that it would wish to follow in other cases that might develop under the Bank Holding Company Act. He suggested, therefore, that the letter not be made available by the Board to The First National City Bank until a decision had been announced regarding the holding of a hearing in connection with the application.

There was agreement with Governor Robertson's suggestion, and it was understood that the Legal Division would so inform Counsel for The First National City Bank.

2. Mr. Vest suggested that the matter be set down for hearing in Washington in Room 1202 of the Board's building. Governor Robertson questioned whether Room 1202 would be large enough for the hearing and suggested that the staff look into the possibility of obtaining an alternate room for the purpose. Mr. Vest responded that he felt that Room 1202 would be large enough to accommodate the persons having a legitimate interest in the hearing but proposed that the Order, to be issued pursuant to the action taken by the Board earlier in this meeting calling for a hearing, state that the hearing would be held in Washington in the Board's

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building or in such other place as might be determined to be necessary or appropriate for the convenience of the parties.

There was agreement with this suggestion.

3. Mr. Vest suggested that a representative of the Federal Reserve Bank of New York be asked to present testimony concerning banking arrangements in and around New York City, such testimony to be of a factual nature and to be presented in a neutral manner.

It was agreed that this procedure should be followed and that, in accordance with a further suggestion of Governor Robertson, the Board should invite the Superintendent of Banks of the State of New York, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation to testify at the hearing.

4. Mr. Vest stated that he anticipated requests would be received from different individuals to appear at the hearing. He suggested, therefore, that the Order provide that any person desiring to give testimony in the proceeding should file with the Secretary of the Board on or before January 14, 1957 a written request relative thereto, said request to contain a statement of reasons for wishing to appear, the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wished to give said testimony.

Governor Robertson expressed the view that the Board should not pass upon requests of individuals to testify at the hearing but should turn such requests over to the hearing examiner for decision, and it was understood that the Order would be drawn so as to make this point clear.

In connection with this question, Mr. Vest pointed out that Congressman Multer had written the Board stating he would like to testify

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if a hearing were called in connection with this application. Mr. Vest stated that he also anticipated that Congressman Celler would wish to testify. In a discussion of notices to be given to Congressmen Multer and Celler, it was suggested that they be advised informally of the hearing and that it be made clear that they would be given an opportunity to appear without submitting in advance a statement of their reasons for wishing to do so.

Mr. Vest also stated that informal word had been received through Counsel for The First National City Bank that Governor Harriman of the State of New York intended to appear and to give testimony in the matter but that he would do so only if it were understood that he would not be cross-examined in connection with such testimony.

It was understood that a draft of Order to carry out the understandings reached at this meeting would be prepared and submitted to the Board within the next few days.

Messrs. O'Connell, Davis, and Thompson withdrew from the meeting at this time.

A memorandum from the Division of Bank Operations dated December 17, 1956 with respect to the triennial classification of reserve cities under the rule adopted by the Board in 1947 had been circulated among the members of the Board prior to this meeting. At Chairman Martin's request, Mr. Horbett reviewed the history of the adoption of the rule by the Board and the changes that had resulted in cities classed as reserve cities when that rule had been applied in 1948, 1951, and 1954.

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Mr. Horbett stated that a review of the pertinent data indicated that application of the rule effective March 1, 1957 would result in the designation of one additional city (Miami, Florida) as a reserve city-- the first such designation since National City (National Stockyards), Illinois, was designated when the rule was adopted in 1947. He also stated that application of the rule would terminate the reserve city status of seven cities (Wichita, Topeka, and Kansas City, Kansas; Sioux City and Cedar Rapids, Iowa; Toledo, Ohio; and Pueblo, Colorado) unless, under the terms of the rule, every member bank in the respective cities requested continuance of the designation. Mr. Horbett then commented on the status of several nonreserve cities with substantial interbank deposits, several of which now come close to qualifying as reserve cities under the rule because the volume of their interbank demand deposits has become fairly large. In terms of reserves, Mr. Horbett pointed out that the addition of Miami, Florida, as a reserve city would increase required reserves of member banks in that city by approximately \$15 million, while member bank required reserves would be decreased by approximately \$51 million if all seven cities scheduled for termination as reserve cities were so terminated as a result of failure of the members in the seven cities unanimously to request continuation of their reserve city status.

There followed a general discussion of the rule that had been adopted by the Board in 1947, of possible variations that might be made in the rule to avoid changing the designations of reserve cities from those now existing, and of the desirability of suspending the rule pending some

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further legislative action with respect to reserve requirements of member banks. In the course of this discussion, the suggestion was made that the Board should proceed to advise the Federal Reserve Banks by letter of the indicated actions that would be taken under application of the rule effective March 1, 1957, and that it should request those Reserve Banks concerned that they advise the member banks in cities whose status would be changed by application of the rule of the indicated action. In making this suggestion, it was understood that the Board would not now be acting to apply the rule but would simply be advising the Federal Reserve Banks of the indicated results from application of the rule, in which circumstance the Board would be prepared to give further consideration between now and mid-February to any comments that might be received from member banks whose status would be affected.

At the conclusion of the discussion, unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks reading as follows:

This refers to the rule prescribing standards of classification of reserve cities and providing for a triennial designation of such cities, adopted by the Board on December 19, 1947. The rule appears on pages 86-87 of the Board's 1947 Annual Report.

As a basis of the action which the Board will take under the rule effective March 1, 1957, the enclosed table has been prepared showing total deposits, total demand deposits, and interbank demand deposits of member banks in reserve cities other than Federal Reserve Bank and Branch cities, and in nonreserve cities with a large volume of interbank demand deposits, together with two interbank demand deposit ratios. The figures of deposits are averages of call dates October 7, 1954 to June 30, 1956, inclusive. For comparative purposes, interbank demand deposit ratios are also shown for the period October 10, 1951 to June 30, 1953.

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As you will observe from the table, effective March 1, 1957, Miami, Florida, will be designated as an additional reserve city, and the reserve city designation of each of the following seven cities will be continued effective March 1, 1957, only if all member banks in the respective cities (exclusive of any member banks in outlying districts permitted by the Board of Governors to maintain reduced reserves) request continuation of the designation as provided under the rule for classification of reserve cities:

Wichita, Kansas	Toledo, Ohio
Sioux City, Iowa	Topeka, Kansas
Cedar Rapids, Iowa	Pueblo, Colorado
Kansas City, Kansas	

The Federal Reserve Bank of Atlanta is requested to advise each member bank in Miami, Florida, of the prospective designation of that city as a reserve city. The Federal Reserve Banks of Cleveland, Chicago, and Kansas City are requested to advise each member bank (exclusive of any member bank permitted to carry reduced reserves) in such of the above cities as are in their respective districts of the prospective termination of reserve city designations. As provided in the rule, a request for continuation of the reserve city designation should be accompanied by a certified copy of a resolution of the bank's board of directors authorizing such request and be received by the Federal Reserve Bank not later than February 15, 1957.

It will be appreciated if you will forward to the Board as promptly as convenient all requests received by your Bank from the member banks for continuance of the reserve city status. Should any such requests be received too late to permit their being forwarded to reach the Board by February 16, 1957, it is requested that you advise the Board by wire of the receipt of such requests.

In response to appropriate inquiries you may, in your discretion, give out the information contained herein regarding the indicated designations and terminations.

Messrs. Horbett and Hackley withdrew from the meeting at this point and Mr. Cherry, Legislative Counsel, entered the room.

Referance was made to a memorandum dated December 17, 1956 from Mr. Young transmitting drafts of replies to the additional questions



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asked by Representative Patman at the hearing conducted by the Subcommittee on Economic Stabilization of the Joint Economic Committee on December 11, 1956. The draft was discussed and it was understood that suggestions for change would be submitted to Mr. Thurston in order that the replies might be put in final form and transmitted to Representative Patman, if possible by December 20, by which time he had asked that the comments be submitted.

Secretary's Note: In accordance with this action the following letter for the Vice Chairman's signature was sent to Mr. Patman under date of December 20, 1956:

This will refer to your letter, dated December 13, 1956, to Chairman Martin, submitting 15 supplemental questions, the answers to which you requested to be sent to you by December 20 in order that they may be included in the record of the hearings of your Subcommittee on December 10 and 11.

In accordance with your request, the answers to the supplemental questions are attached hereto.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memoranda dated December 11, 1956, from appropriate individuals concerned recommending that exceptions be made to the Board's Leave Regulations with respect to maternity leave and that the following persons be allowed to continue on active duty through the dates indicated:

Joann J. Connor, Minutes Clerk,  
Office of the Secretary

January 18, 1957

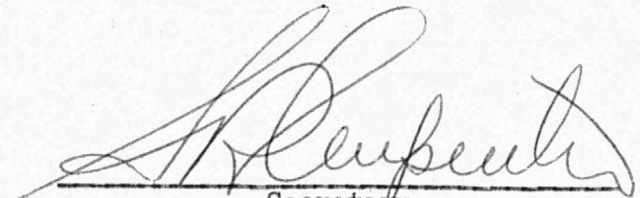
Paula G. Hauprich, Stenographer,  
Division of Examinations

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Memorandum dated December 10, 1956, from Mr. Young, Director, Division of Research and Statistics, recommending that the basic annual salary of Charles A. Yager, Economist in that Division, be increased from \$6,605 to \$7,570, effective December 30, 1956.



Secretary