

Minutes for January 2, 1957

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> </u>	<u> </u>
Gov. Szymczak	<u>x</u> <u> </u>	<u> </u>
<u>1</u> / Gov. Vardaman	<u> </u>	<u> </u>
Gov. Mills	<u>x</u> <u> </u>	<u> </u>
Gov. Robertson	<u>x</u> <u> </u>	<u> </u>
Gov. Balderston	<u>x</u> <u> </u>	<u> </u>
Gov. Shepardson	<u>x</u> <u> </u>	<u> </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 Wednesday, January 2, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 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. Masters, Associate Director, Division of Examinations
 Mr. Conkling, Assistant Director, Division of Bank Operations
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics

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. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

Reference is made to your letter of December 19, 1956, enclosing a resolution adopted by the board of directors of the DeForest-Morrisonville Bank, DeForest, Wisconsin, signifying its intention to withdraw from membership in the Federal Reserve System and a letter requesting waiver of the six months' notice of such withdrawal. Also enclosed was a letter from the cashier of the bank setting forth reasons for withdrawal, and copy of opinion of Counsel regarding the resolution.

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In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

It is noted that the bank has made application to the Federal Deposit Insurance Corporation for continuance of deposit insurance after withdrawal from membership.

Approved unanimously.

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

This is in response to Mr. O'Kane's telegram of December 12, transmitting the request of the Superintendent of Banks of California that the Board reconsider its determination that the removal by California Bank, Los Angeles, of some of its functions to a building at 626 South Spring Street, Los Angeles, constitutes the establishment of a branch. In its letter of October 19, 1956, to California Bank, the Board approved the establishment of a branch at that location.

Upon reconsideration of this matter, the Board again has reached the conclusion that the proposed action by California Bank will constitute the establishment of a branch within the meaning of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes.

It appears from Mr. O'Kane's telegram that the Superintendent of Banks is concerned by the fact that the Federal Reserve figures on the number of branches of member State banks

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in California will not hereafter be the same as the figures of the State department. However, this seems only to reflect the fact that the concept of "branch" in the Federal banking laws is different from the concept of "branch" in the banking laws of California. The difference is brought out by section 1110 of the Banking Law of California, which was referred to in Superintendent Burkett's letter of July 27, 1956, to California Bank, in which he consented to the bank's conducting in a separate building the functions here involved. Section 1110 indicates that certain activities that unquestionably would amount to establishment of branches under Federal law do not necessarily constitute establishment of branches under the Banking Law of California. For example, in special circumstances the Superintendent of Banks could authorize a State bank to make loans, pay checks, and receive deposits at additional offices "in the same vicinity" as the bank, and such offices would not be branches within California law, whereas they undoubtedly would be branches under Federal law and would require the approval of the Board of Governors if the bank was a member of the Federal Reserve System.

As you may be aware, there are other States besides California in which the definition of "branch" for purposes of State supervision is different from its definition for purposes of Federal supervision, and in such cases the number of branches reflected in Federal supervisory statistics differs from the number reflected in the statistics of the State department. This is the case even in States where the Constitution or statutes prohibit branch banking, so that the State supervisory figure necessarily is zero whereas the Federal supervisory publications indicate the existence of one or more "branches" as defined in the Federal statutes. No material difficulty has resulted from this divergence.

You are requested to present to the Superintendent of Banks any of the foregoing that may assist in clarifying the position of the Board in this matter.

Approved unanimously.

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

Reference is made to a letter from your office dated December 11, 1956, enclosing photostatic copies of an

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application of the Zapp State Bank, St. Cloud, Minnesota, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

This bank has been a member of the Federal Reserve System since June 1938. Information in the files of the Board and that supplied by the Federal Reserve Bank of Minneapolis is favorable with respect to the bank's financial history, adequacy of capital structure, earnings prospects, character of management and services to the community. Therefore, the Board of Governors recommends 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.

Approved unanimously.

Letter to Mr. James S. Barker, Vice President and Trust Officer, The Mechanics National Bank of Concord, Concord, New Hampshire, reading as follows:

Your letter of November 8 inquires concerning the bona fides of certain trusts for purposes of their investment in the common trust fund administered by your bank under the provisions of section 17 of Regulation F. With your letter, there are enclosed copies of the trust agreements in question, as well as a copy of the plan and agreement of your common trust fund.

The Board believes it is impracticable to give its approval to participation in common trust funds of specific trusts based on its interpretation of their purposes and provisions and the conformity thereof with the requirements of applicable provisions of Regulation F. In fact, considerations underlying a determination whether a particular trust has been created or is being used for bona fide fiduciary purposes within the meaning of section 17(a) of the Regulation, are dependent to a considerable extent on facts and circumstances not necessarily disclosed by the written provisions of the governing instrument or the date of its execution.

As an example, the fact that a trust is revocable by the donor would not in and of itself denote a purpose

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underlying its creation and use inconsistent with the subject provisions of the Regulation. On the other hand, if the purpose for establishment of a revocable trust with the trustee bank was clearly and primarily to obtain the benefits of investment management of the trustee property, with trust form serving merely as a guise to permit investment of the funds of the trust in the bank's common trust fund, then it could well be concluded that a true fiduciary purpose was not involved. The Trust Division of the American Bankers Association, in a letter dated March 17, 1953, addressed to all banks operating common trust funds, reflected this view by stating: "The revocable trust which meets the requirements of Regulation F is one carefully adapted to the requirements of a particular situation and requiring a trustee's services for more than merely the investment function."

The Board previously has expressed its views on this question in an interpretation which appeared in the 1940 Federal Reserve Bulletin, page 393:

"In amending Regulation F to permit the operation of Common Trust Funds, the Board intended that a Common Trust Fund should be used merely to aid in the administration of trusts by a trust institution through the commingled investment of funds of various trusts. While the operation of a Common Trust Fund might thus enable a trust institution to accept small trusts which it otherwise would be unwilling to handle, it was contemplated that trust guise or form should not be used to enable a trust institution to operate a Common Trust Fund as an investment trust attracting money seeking investment alone and to embark upon what would be in effect the sale of participations in a Common Trust Fund to the public as investments. In dealing with this matter, it appeared desirable to use largely general language, omitting certain exact, arbitrary restrictions which might unduly hamper the use of Common Trust Funds for proper purposes.....By adopting this approach, the Board placed reliance upon the exercise of sound judgment and good faith on the part of trust institutions and their trust investment committees in carrying out the broad intent and purposes of such provisions. In determining whether a particular trust is created and used for 'bona fide fiduciary purposes', it is necessary to consider, in the light of such intent and purposes, not only the terms of the trust instrument but also

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other facts and circumstances concerning the creation and use of the trust. The regulation forbids the investment of funds of a trust in a Common Trust Fund if the trust investment committee 'has reason to believe' that the trust does not conform."

This quoted excerpt from an earlier opinion of the Board is included in a brochure containing all administrative interpretations relating to section 17 of Regulation F. A copy of this publication is enclosed for your use.

We hope you will find this discussion and the material contained in the brochure helpful in resolving questions relating to the administration of your common trust fund.

Approved unanimously.

Letter to the Board of Directors, First National Bank and Trust Company of Corning, Corning, New York, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the First National Bank and Trust Company of Corning is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Board of Directors, Citizens Bank, Savannah, Tennessee, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors approves

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the establishment of a branch in Counce, Tennessee, by Citizens Bank, Savannah, Tennessee, provided (a) the branch is established within eight months from the date of this letter, (b) capital is increased to not less than \$100,000 to meet Federal statutory requirements, and (c) formal approval of the Tennessee Superintendent of Banks is effective at the time the branch is established.

Approved unanimously for
transmittal through the Federal
Reserve Bank of St. Louis.

Letter to Crenshaw, Hansell, Ware & Brandon, Trust Company of Georgia Building, Atlanta, Georgia, reading as follows:

This refers to the request contained in your letter of November 28, 1956, submitted through the Federal Reserve Bank of Atlanta, for a determination by the Board of Governors as to the status of Phoenix, Inc., a Georgia corporation, as a holding company affiliate.

From the information supplied the Board understands that Phoenix, Inc., a corporation engaged in owning and holding real and personal property as investments for the benefit of its stockholders, owns 415 of the 800 outstanding shares of stock of First National Bank of McDonough, McDonough, Georgia, but that Phoenix, Inc., does not own or control, directly or indirectly, any other bank stock, and does not manage or control, directly or indirectly, any other banking institution.

In view of these facts the Board has determined that Phoenix, Inc., is not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Phoenix, Inc., is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Phoenix, Inc. might be deemed to be so engaged, this

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matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts.

Approved unanimously with
a copy to the Federal Reserve
Bank of Atlanta.

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 branches at

501 North Main Street, Santa Ana, California,
521 West 17th Street, Santa Ana, California, and
2133 South Main Street, Santa Ana, California,

by California Bank, Los Angeles, California, provided (a) the proposed merger with The Commercial National Bank of Santa Ana, Santa Ana, California, is effected substantially in accordance with the plan of merger dated November 7, 1956, (b) the branches are established within six months from the date of this letter, and (c) formal approval of the State authorities continues in effect.

It is understood that the branch at 2133 South Main Street is to be moved to a new location in the immediate neighborhood at 2222 South Main Street. Since this change of location would not appear to affect the nature of its business or customers served, the approval of the Board of Governors is not required.

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

Memorandum dated December 26, 1956, from Mr. Goodman, Assistant Director, Division of Examinations, recommending that letters submitted with the memorandum be sent to the following foreign banking corporations calling for the submission of reports of condition as of December 31, 1956:

Bankers Company of New York
First of Boston International
Corporation
International Banking Corporation

New York, New York

New York, New York
New York, New York

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Morgan & Cie. Incorporated	New York, New York
American Overseas Finance Corporation	New York, New York
Bank of America	New York, New York
The Chase Bank	New York, New York

Approved unanimously, together with a letter to the Federal Reserve Bank of New York enclosing copies of the letters to the foreign banking corporations and calling attention to the fact that the reports were to be transmitted to the Board through the New York Reserve Bank.

X With regard to a letter to the International Cooperation Administration, which had been circulated to the members of the Board, prior to the meeting, concerning the selection of a two-man team to give technical assistance to the Central Bank of Paraguay, Governor Robertson commented that he had raised a question while this matter was in circulation as to whether adequate consideration had been given to the possibility of participation by members of the Board's own staff in the mission. He indicated a feeling that members of the Division of International Finance, the Division of Research and Statistics, and other divisions were well qualified for such missions and that they should be given equal consideration with representatives from the Federal Reserve Banks when requests were received. He suggested that the Secretary's Office and the Division of International Finance work out procedures to assure that this objective would be accomplished.

There was unanimous agreement with Governor Robertson's suggestion and the following letter to Mr. Edward B. McMenamin, Acting Director of

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Personnel, International Cooperation
Administration, Washington, D. C.,
was approved unanimously:

This letter is in response to your letter of December 7 requesting the services of a two-man team from the Federal Reserve System to advise the Central Bank of Paraguay on certain operational problems.

I am glad to inform you that the Board of Governors has acted favorably on your request.

It is understood that Messrs. Edwin W. Carroll and Harvey Fleetwood, of the Federal Reserve Bank of New York, have been selected to staff this team, and that their services will be available on a consulting basis, not to exceed six months, in accordance with detailed arrangements between your agency and the Federal Reserve Bank of New York.

Copies of this correspondence are being sent to the President of the Federal Reserve Bank of New York. X

The Board then turned to consideration of a suggested telegram to the Presidents of all Federal Reserve Banks, which had been distributed prior to the meeting, regarding changes in interest rates paid by commercial banks on time and savings deposits since the announcement on December 3 of the amendment to Regulation Q.

Governor Balderston commented that inasmuch as a month had passed since the amendment was made, he felt the Board should be apprised of the effect of the new ruling. It was the purpose of this telegram, he said, to collect such data as were readily available.

Mr. Horbett explained that this survey would provide only a "spot" check and would not produce a scientific sample. Its results would be largely limited to changes that had taken place in Federal Reserve Bank

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and branch cities. To go beyond that point would involve clearance with the Bureau of the Budget and a full-fledged survey which was not the present intention.

Mr. Eckert suggested that the information requested about the banks that had not changed their rates should be classified to show a breakdown on the basis of the rate of interest they were paying. This would keep the data comparable with those obtained for the banks that had made some change in their rates.

Governor Robertson asked if he were correct in his understanding that direct contacts with banks themselves were not contemplated in this study. Mr. Horbett replied that the phrase "readily available" was intended to convey to the Reserve Banks that they should use published announcements or statements received from member banks without making direct contacts. The only instances in which such contacts would be warranted, he felt, were those instances where the announcements made by the individual banks were not clear.

Governor Balderston said he felt the telegram should be made explicit in saying that it was not intended that the Reserve Banks should contact individual banks and that they should rely on newspaper reports or other published material. In response to Governor Balderston's question whether there were any doubts about the desirability of making such a study at this time, it was the consensus that it was a good thing to do but that it would be unfortunate if the Reserve Banks should contact individual banks to obtain the data.

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In response to a comment by Mr. Thomas that arrangements should be made for obtaining data on the rates of interest paid on time and savings deposits on a regularized basis, either from examination reports or from other sources, Mr. Horbett reported that joint discussions were under way at staff level with the Office of the Comptroller and the Federal Deposit Insurance Corporation toward this end. The matter was not yet ready for submission to the Board, he said.

Governor Balderston suggested that the text be revised to make clear the fact that this was not a formal survey and was not to be construed as such and that appropriate changes also be made to cover the point raised by Mr. Eckert.

There was unanimous
agreement with Governor
Balderston's suggestion.

Secretary's Note: In accordance with the foregoing action, a telegram to the Presidents of all Federal Reserve Banks and a supplemental telegram to the New York Reserve Bank were sent today as follows:

To the Presidents of all Federal Reserve Banks

Since announcement on December 3 of increase in maximum permissible interest rates on time and savings deposits, there have been numerous announcements by individual banks of increased rates.

In order that some estimate can be made of general effect of such increases, Board will appreciate it if you will compile and furnish summary of following data, without contacting member banks, limited to such data as readily available from press announcements or other information in your Bank on member banks in Federal Reserve Bank and Branch cities and to the larger member bank holders of savings deposits elsewhere in your District.

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- (a) Number of member banks making no change in rates on savings deposits, and aggregate amount of their time deposits of individuals, partnerships, and corporations, subdivided according to level of existing maximum rates shown in latest examination reports or otherwise available.
- (b) Number of member banks changing maximum rates on savings deposits, and aggregate amount of their time deposits of individuals, partnerships, and corporations, subdivided according to level of change, e.g., increased from 2-1/2 to 3 per cent, from 2 to 3 per cent, and 1 to 1-1/2 per cent, etc.

Amount of time deposits of individuals, partnerships, and corporations should be shown in millions, from a recent call or weekly condition report.

Would appreciate any available general information regarding rate changes on savings deposits at member banks not covered in summary and at nonmembers, also regarding rate changes on time deposits other than savings.

Suggest that summary be completed on January 10 or 11 for Washington arrival on 14th, since additional announcements by individual banks may be made during early January. Rough copy or photostat of supporting work sheet by cities or areas will be helpful.

To Mr. Hayes, President, Federal Reserve Bank of New York

Supplementing telegram to all Reserve Banks regarding banks changing rates on time deposits.

Because of special circumstances in your District, suggest that, instead of general information requested in next to last paragraph regarding time deposits other than savings, your summaries be expanded to reflect extent of changes in rates applicable to time deposits of corporations, foreign banks, or any other important classifications affected by December 3 announcement. Also suggest in savings deposit summary that your Bank use rough estimates of savings deposits, based on examination reports, rather than time deposits of individuals, partnerships, and corporations.

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All of the members of the staff then withdrew with the exception of Messrs. Carpenter, Fauver, and Vest.

Governor Robertson then referred again to the matter discussed at the meeting on December 27 relating to the invitation he had received to testify before the Joint Legislative Committee to Revise the Banking Laws of the State of New York. He indicated that he felt he should not delay a reply any longer and that unless the Board felt otherwise he would decline the invitation, indicating that he felt it was "inappropriate" for him to testify in this matter.

There was unanimous
agreement with Governor
Robertson's suggestion.

The meeting then adjourned.

Secretary's Note: Pursuant to the action taken at the meeting on December 27, 1956, a telegram was sent today to the President of each Federal Reserve Bank stating that the Board had established under authority of the fourth paragraph of section 16 of the Federal Reserve Act the rate of (see column 1) per cent per annum interest for the preceding three calendar months on \$ (see column 2) daily average of outstanding Federal Reserve notes of the Reserve Bank in excess of gold certificates pledged with the Federal Reserve Agent as collateral security; and that an interest payment of \$ (see column 3) should be credited to the appropriate symbol of the Treasurer's General Account today:

	(1)	(2)	(3)
Boston	2.17496	\$1,066,552,497	\$ 5,846,937.80
New York	3.61758	3,495,971,461	31,877,260.06
Philadelphia	2.35970	1,171,023,935	6,964,942.37
Cleveland	2.51719	1,490,905,031	9,459,342.29

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Richmond	2.05691	1,261,680,218	6,541,231.90
Atlanta	2.42758	923,580,574	5,651,234.17
Chicago	2.84714	3,001,017,696	21,536,361.98
St. Louis	2.08280	790,708,218	4,151,057.84
Minneapolis	2.03305	398,159,037	2,040,326.17
Kansas City	2.50628	787,906,038	4,977,359.16
Dallas	2.61391	479,035,217	3,156,116.57
San Francisco	2.60184	1,344,032,270	8,814,247.58

The payments for the Federal Reserve Banks of Atlanta, Kansas City, Dallas, and San Francisco were determined after deductions to bring surplus, section 7, of those Banks up to an amount equal to 100 per cent of subscribed capital stock, as follows:

Amount deducted

Atlanta	\$ 145,798
San Francisco	6,939,697
(including \$3 million deducted in third quarter)	
Kansas City	88,838
Dallas	2,191,328
(including \$1 million deducted in third quarter)	

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

Memorandum from Mr. Young, Director, Division of Research and Statistics, dated December 26, 1956, recommending that permission be granted Laura Robinson, Clerk in that Division, to accept employment on a part-time basis with the Civil Aeronautics Administration Credit Union for accounting work for two or three nights a week for approximately three weeks beginning January 2, 1957.

Memorandum from Mr. Carpenter, Secretary of the Board, dated December 27, 1956, recommending that the resignation of Margaret J. Dougherty, Clerk in the Office of the Secretary, be accepted effective January 11, 1957.


Secretary