

Minutes for January 10, 1957

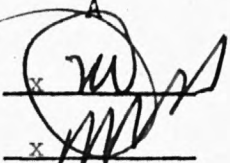
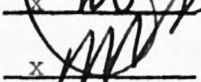
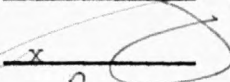
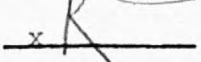
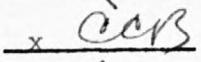
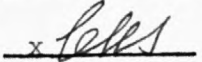
To: Members of the Board

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	<input checked="" type="checkbox"/> 	_____
Gov. Szymczak	<input checked="" type="checkbox"/> 	_____
<u>1/</u> Gov. Vardaman	_____	<input checked="" type="checkbox"/> _____
Gov. Mills	<input checked="" type="checkbox"/> 	_____
Gov. Robertson	<input checked="" type="checkbox"/> 	_____
Gov. Balderston	<input checked="" type="checkbox"/> 	_____
Gov. Shepardson	<input checked="" type="checkbox"/> 	_____

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 Thursday, January 10, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Associate General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Masters, Associate Director, Division of Examinations
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

Earlier this morning there had been distributed to the members of the Board copies of memoranda from the Division of Examinations and the Legal Division, dated January 9 and January 8, 1957, respectively, dealing with the application of Marine Midland Corporation to acquire a majority of the voting shares of The Lake Shore National Bank of Dunkirk, Dunkirk, New York. Governor Robertson asked if the matter could be discussed at this meeting.

As brought out in the memoranda, the Board informed Marine Midland by letter dated October 31, 1956, that it had not yet reached a conclusion on the matter, offered Marine Midland an opportunity to

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furnish additional pertinent material, and stated that, if Marine desired, it would be glad to consider a request for a formal hearing. Subsequently, officers of Marine Midland, the Lake Shore National Bank, and Chautauqua National Bank of Jamestown, New York, (into which Lake Shore would be merged) met with members of the Board's staff and later Marine transmitted additional information through the Federal Reserve Bank of New York. The additional information furnished orally and in writing was summarized in the memorandum from the Division of Examinations, along with statistical data, based on figures as of June 30, 1956, showing the concentration of Marine Midland group banks in the Dunkirk-Fredonia area, in Chautauqua County, and in the Ninth Banking District of New York State both before and after the proposed acquisition. The memorandum also called attention to advice received informally through the New York Reserve Bank to the effect that Manufacturers and Traders Trust Company of Buffalo, New York, had indicated interest in taking over the Lake Shore National Bank and might make an attractive offer. It was pointed out that one of the three banking offices in Dunkirk is a branch of Manufacturers and Traders while Marine Midland currently is not represented in the Dunkirk-Fredonia area. Since in this instance the Division of Examinations concluded that the factors relating to the local banking situation in Dunkirk outweighed the factor of concentration of deposits in the larger area of the Ninth Banking District of New York, it recommended that the application of Marine Midland Corporation be approved.

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The memorandum from the Legal Division discussed the question whether the Congress, in passing the Bank Holding Company Act of 1956, contemplated that the Board would permit a holding company to expand without limit as long as the holding company continued to encounter strong competition from one other large regional bank, plus competition from local lending institutions of other types in the area and from metropolitan banks in relatively distant cities. In the light of the legislative history of the Act, doubt was expressed whether this was the Congressional intent. The memorandum also stated the opinion that the Board would be on sound legal ground if it adopted a general position that whenever a holding company controlled a substantial proportion of the banking offices and deposits in an area, additional acquisitions of existing banking facilities would be regarded as not consistent with the preservation of competition in the field of banking in the absence of special circumstances relating to the convenience, needs, and welfare of the communities and the area concerned which were sufficient to outweigh the general policy against further expansion.

The memorandum also set forth reasons which might be given in favor of ordering a public hearing in this matter. It was pointed out, among other things, that this was the first instance under the Bank Holding Company Act of an application by a large holding company to absorb an existing independent bank and that consequently it was likely that consideration of the matter would lead to the development of important principles in this field. In this connection, the memorandum

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noted that Marine Midland Corporation had expressed the hope that a public hearing would not be considered necessary, and that it would be afforded an opportunity to discuss the matter with the Board in the event the Board should be considering unfavorable action on the application.

Governor Robertson stated that the reason for his suggestion that the matter be discussed at this meeting was that he received a telephone call yesterday from Mr. Bayard Pope, Chairman of the Executive Committee of Marine Midland Corporation, who referred to rumors of an offer by Manufacturers and Traders Trust Company for the shares of Lake Shore National Bank and requested that the Board take action as promptly as possible on the Marine Midland application. Turning to the questions before the Board, Governor Robertson said that as a first step the Board might want to consider whether a hearing on the application should be ordered. He brought out that it might be considered desirable to hold a public hearing in each of the first few cases involving interpretations of the Bank Holding Company Act so that the Board would be assured to the fullest extent possible that its decisions were sound.

At the request of the Board, Mr. Sloan then summarized the facts involved in the Marine Midland application and stated reasons for the favorable recommendation made by the Division of Examinations. He indicated that in the view of the Division the circumstances of the current case were such that a hearing would not be necessary.

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Following a discussion of the factual situation, including the weight that should be given to the reports of a possible offer by Manufacturers and Traders Trust Company for the shares of the Dunkirk bank, Mr. Vest made a statement in which he referred to the expansion of Marine Midland in Western New York State in recent years, the specific responsibilities vested in the Board by the Bank Holding Company Act, the factors required by the Act to be taken into consideration in a case of this kind, and the questions involved in interpreting those standards and making a decision. To the Legal Division, he said, there was a real question whether the proposed acquisition would be consistent with the preservation of competition in the field of banking envisaged by the Bank Holding Company Act.

With reference to the question of holding a public hearing, Mr. Vest brought out that the decision was within the Board's discretion, there being no legal requirement or prohibition. Personally, he said, he would have some reservations about ordering a hearing in this case. The statute requires a hearing where the State authorities or the Comptroller of the Currency, as the case may be, have taken a negative position, but in this case the recommendation of the Comptroller was favorable. Also, from the legislative history of the Bank Holding Company Act, it appeared to be contemplated that where a hearing is not required by the statute, the Board would follow its usual procedures. In addition, the applicant did not request a hearing and there had been no requests from other parties. There seemed no reason to believe that a hearing would

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develop any particular information not already available to the Board, and there was a question whether the holding of a hearing would be a precedent for other cases.

Mr. Hexter followed with a statement in which he first expressed agreement that from the legislative history of the Bank Holding Company Act, it seemed to be contemplated by the Congress that the Board would not hold a hearing in many cases. On the other hand, he pointed out that legally the Board was free to follow such a course as it desired. While in this instance a hearing might not develop much additional information, this was the first case since the enactment of the Bank Holding Company Act involving an application for the acquisition of an existing unit bank by a holding company, and the holding company making the application was one of the largest in the country. Therefore, as a matter of caution and in order to be sure that all of the facts were before the Board, it might be deemed desirable to hold a public hearing.

In further comments Mr. Hexter drew upon the Legal Division memorandum that had been distributed and expressed doubt whether it would be in accord with Congressional intent, as indicated by the legislative history of the Bank Holding Company Act, to permit the development of situations where competition in an area would be between two large banking organizations.

Following a further discussion concerning the local situation in the Dunkirk-Fredonia area, the concentration of Marine Midland interests

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in the Western part of New York State, and the effect of the passage of the Bank Holding Company Act on the Board's responsibilities in this field, the suggestion was made that the members of the Board be given an opportunity to review more carefully the memoranda from the Legal and Examining Divisions and that the matter be considered further at the meeting of the Board tomorrow.

There was unanimous agreement with this suggestion.

All of the members of the staff except Messrs. Carpenter, Sherman, Kenyon, and Fauver then withdrew from the meeting.

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 the Board of Directors, Security Bank, Lincoln Park, Michigan, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by the Security Bank at 23135 Ecorse Road, Taylor Center, Wayne County, Michigan, provided the branch is established within one year from the date of this letter, and approval of the State authorities is effective as of the date the branch is established.

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

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

Reference is made to your letter of December 27, 1956, submitting with a favorable recommendation a

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request of Paris Savings Bank, Paris, Missouri, for approval, under the provisions of Section 24A of the Federal Reserve Act, of an additional investment in banking premises of not to exceed \$52,000 for the purpose of remodeling its present bank building.

The Board has given consideration to the information you have submitted and approves the additional investment of not to exceed \$52,000 by Paris Savings Bank, Paris, Missouri, for the purpose of remodeling its banking house.

Approved unanimously.

Letter to The Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, reading as follows:

Reference is made to your letter of December 27, 1956, concerning the application of The Bank of Rhame, North Dakota, Rhame, North Dakota, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance.

Approved unanimously.

Letter to Mr. Paul F. Krueger, Clearance Officer, Office of Statistical Standards, Bureau of the Budget, reading as follows:

This is to acknowledge your letter of December 21 transmitting a copy of a draft revision prepared by the Banking Committee of the Advisory Council on Federal Reports pertaining to the report of earnings and dividends and its related instructions.

The Board always welcomes constructive criticisms of reports and forms used to gather banking statistics, and it appreciates the time and effort expended by members of the Banking Committee and by a committee of the National Association of Bank Auditors and Comptrollers in preparing these revisions.

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Board representatives will be glad to participate in an informal discussion of the proposals with representatives of the other banking supervisory agencies and the Banking Committee. Copies of the Committees' proposals are being distributed among the Board's staff for their information and comments.

Approved unanimously.

Reference was made to a memorandum from Mr. Fauver dated January 9, 1957, copies of which had been distributed to the members of the Board, containing biographical data about persons suggested for appointment to fill existing vacancies on the boards of directors of the Louisville Branch, Federal Reserve Bank of St. Louis, and the Los Angeles Branch, Federal Reserve Bank of San Francisco.

It was reported that, according to advice from the San Francisco Reserve Bank, Mr. Shannon Crandall, Jr., was resigning as a director of the Los Angeles Branch and was accepting an invitation to serve as a director of a commercial bank. Mr. Crandall's resignation would mean that there would be two vacancies for the Board to fill on the Board of Directors of the Los Angeles Branch.

Following a discussion, it was agreed unanimously:

1. To request the Chairman of the Federal Reserve Bank of St. Louis to ascertain and advise whether Dr. Philip Grant Davidson, Jr., President of the University of Louisville, Louisville, Kentucky, would accept appointment, if tendered, as director of the Louisville Branch for the remainder of the term expiring December 31, 1957, with the understanding that if Dr. Davidson would accept, the appointment would be made;

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2. To request the Chairman of the Federal Reserve Bank of San Francisco to ascertain and advise whether Mr. Leonard Kimball Firestone, President of the Firestone Tire & Rubber Company of California, Los Angeles, California, would accept appointment, if tendered, as a director of the Los Angeles Branch for the remainder of the term expiring December 31, 1958, with the understanding that if Mr. Firestone would accept, the appointment would be made;

3. In anticipation of the resignation of Mr. Crandall, to request the Chairman of the San Francisco Bank to ascertain and advise whether Mr. Edward W. Carter, President of Broadway-Hale Stores, Inc., Los Angeles, California, would accept appointment, if tendered, as a director of the Los Angeles Branch for the remainder of the term expiring December 31, 1957, with the understanding that if Mr. Crandall's resignation should be received and Mr. Carter would accept appointment as his successor, the appointment would be made.

During the foregoing discussion Chairman Martin requested Mr. Fauver to continue his efforts to devise a procedure whereby the names of more small businessmen would be developed for consideration by the Board in the appointment of Federal Reserve Bank and branch directors.

Consideration was given to a suggestion that had been made which contemplated that material circulated to the members of the Board prior to consideration at a meeting would be arranged in each case with the memorandum from the interested division of the Board on top, followed by the draft of the proposed outgoing letter or telegram from the Board and then the incoming correspondence and attachments. It was explained

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that this suggestion had been made in the interest of facilitating review of the various files by the members of the Board.

Following the discussion, it was agreed unanimously that the suggested procedure should be put into effect, with the understanding that the matter would be reviewed if it developed that the arrangement of material was not satisfactory to the members of the Board.

Consideration also was given to a suggestion that had been made that the members of the Board initial rather than check files being circulated prior to consideration at a meeting to insure that they had seen each file, with the understanding that the initials would not indicate approval of the action proposed to be taken but only that the item had been seen by the Board member.

Following a discussion which indicated a preference on the part of some of the members of the Board to reserve their initials for items as to which they had no question, it was agreed not to institute the suggested procedure at this time.

Governor Balderston referred to receipt by the members of the Board of invitations from the American Bankers Association to attend a dinner being given on the evening of January 31, 1957, in connection with the meeting in Washington of officers of the National and State Bank Divisions of the Association. He inquired as to the views of the Board with regard to representation at the dinner.

Following a statement by Governor Szymczak that he had accepted the invitation, it was agreed that the matter of

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attendance should be optional on the part of the other members of the Board.

Governor Shepardson referred to recent correspondence from the Mortgage Bankers Association of America with regard to participation by members of the Board's staff in a series of regional meetings being planned by the Association, and to the response which was made to the effect that the volume of current work would preclude such participation. He said that a representative of the Mortgage Bankers Association had now raised the question whether Mr. Saul Klamman might be allowed to participate in the meeting to be held in New York City on April 16, 1957, in order that he might report on a special research project concerning the operation of mortgage companies in the post-war period. It appeared that in the course of the study the Mortgage Bankers Association was helpful in furnishing information to Mr. Klamman. Governor Shepardson suggested that in the circumstances permission be given to Mr. Klamman to participate in the meeting and that appropriate advice be sent to the Mortgage Bankers Association.

This suggestion was approved unanimously.

In this connection it was suggested that one of the periodic visits of Mr. Miles Colean to the Board's offices would provide an opportunity for appropriate members of the staff to explain to him the circumstances which precluded the participation of members of the staff in the series of regional meetings being arranged by the Mortgage Bankers Association.

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Governor Shepardson then discussed briefly difficulties experienced by the Division of Administrative Services in arranging for service at all times in the barber shop operated under contract in the basement of the Federal Reserve Building.

It was agreed unanimously that the Division of Administrative Services should handle the matter in such way as seemed most appropriate to the Division.

The meeting then adjourned.

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

Transfer and salary increase

Anita E. Perrin, from her present position of Secretary in the Division of Research and Statistics to a different position with the same title in that Division, with an increase in basic salary from \$4,075 to \$4,215 per annum, effective the date she assumes her new duties.

Extension of temporary appointments

Extension of the appointment of Abraham Rose, Cafeteria Laborer in the Division of Administrative Services, on a regular basis, effective at the expiration of his present appointment, with no change in current basic salary at the rate of \$2,745 per annum.

Extension of the appointment of Eleanor W. Yates, Cafeteria Helper in the Division of Administrative Services, on a regular basis, effective at the expiration of her present appointment, with no change in current basic salary at the rate of \$2,600 per annum.

Extension of the appointment of Henry L. Edmonds, Cafeteria Laborer in the Division of Administrative Services, for a period of two

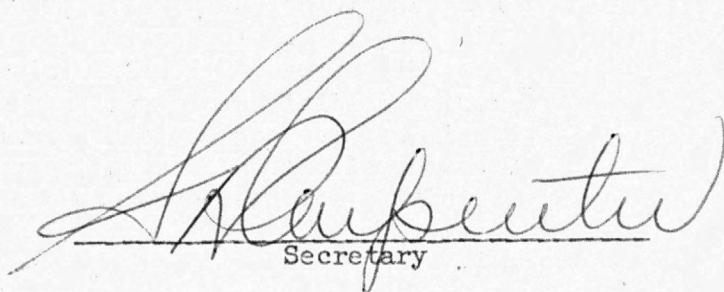
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months, effective at the expiration of his present appointment, with no change in current basic salary at the rate of \$2,745 per annum.

Acceptance of resignation

Roxane L. Hodges, Clerk-Stenographer in the Division of Research and Statistics, effective January 18, 1957.


Secretary