Minutes for January 18, 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	x	
Gov. Szymczak	x	
1/ 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, January 18, 1957. The Board met in the Board Room at 9:30 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. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Associate General Counsel
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

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

> This refers to your letter of December 4 suggesting a modification of the Board's instructions as set forth in its letter of October 29, 1934 (FRLS 5865), regarding issuance of Federal Reserve notes. The instructions provide that no Federal Reserve notes should be issued at the branches by Federal Reserve Agents' Representatives except upon specific authority, in each case, of the Federal Reserve Agent or the Assistant Federal Reserve Agent. You suggest that the instructions be modified to provide for blanket authorization by the Federal Reserve Agent for the issue by his representatives at the branches of Federal Reserve notes up to specified limits calculated to accommodate the usual day-to-day needs of the respective branches. The proposed procedure

contemplates that the calculation of required collateral pledged with the Federal Reserve Agent would include a mandatory margin in the amount of the blanket authorizations.

The Board recognizes that the suggested change might permit a somewhat more convenient procedure. The Board feels, however, that in view of the specific requirements of the Federal Reserve Act with respect to the issuance of Federal Reserve notes and the pledge of collateral thereto, it would not be desirable to authorize the suggested modification.

Approved unanimously.

Letter to the Board of Directors, Norfolk County Trust Company, Brookline, Massachusetts, reading as follows:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Norfolk County Trust Company, Brookline, Massachusetts, at 693 High Street, Westwood, Massachusetts, as a successor to the branch now located at 938 High Street, provided approval of the State authorities is obtained and the branch is established within six months from the date of this letter.

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

Letter to the Board of Directors, Citizens Bank of Hattiesburg, Hattiesburg, Mississippi, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Citizens Bank of Hattiesburg, Mississippi, in the vicinity of the intersection of 28th Avenue and Hardy Street in the city of Hattiesburg, provided formal approval of the appropriate State authorities is obtained and the branch is established within six months from the date of this letter.

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

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

Reference is made to your letter of January 4, 1957, recommending that the Board approve, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $5,000 in bank premises by the Webster Groves Trust Company, Webster Groves, Missouri.

After considering all available information, the Board of Governors concurs in the Reserve Bank's recommendation and approves this additional investment of $5,000 in banking premises by Webster Groves Trust Company, Webster Groves, Missouri. It is assumed that the bank will continue a satisfactory program of depreciating fixed assets.

Approved unanimously.

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

This is in further reference to your letter of December 4, 1956, and its enclosures, concerning whether a particular form of time certificate of deposit complies with Regulation Q. You related that a number of member banks in Michigan are using the form of certificate.

The certificate, which evidences a deposit in a stated sum and which is nonnegotiable, provides on its face that it is "Redeemable when returned properly endorsed, upon three (3) months written notice during the first thirty (30) months, thereafter upon six (6) months written notice, in accordance with the schedule of redemption values printed on the reverse side hereof. Interest will be paid by check semi-annually at the rate of two and one-half (2-1/2) per cent per annum for all full months. This certificate may be redeemed by this bank anytime after thirty-six (36) months from date of issue upon six (6) months written notice to the payee."

On the reverse side of the certificate there are printed the schedule of redemption values and also a schedule of approximate investment yield. It appears that there would be no investment yield on such a certificate redeemed, pursuant to 3 months' written notice, less than 6 months from date of issue. Otherwise, the approximate investment yield on the

certificate if redeemed pursuant to 3 months' written notice during the first 30 months, would range from 1 per cent to 2 per cent, while the approximate investment yield on the certificate would be 2-1/2 per cent if it were not redeemed until after 30 months pursuant to the necessary 6 months' written notice. The result seems to be that, notwithstanding any previous semi-annual payments of interest at the 2-1/2 per cent rate on such a certificate, the investment yield actually received in the event of redemption pursuant to the 3 months' written notice provision reflects an adjustment to a lower rate of earnings on the deposit.

Considering the matter on the basis of the Supplement to the regulation as it existed prior to January 1, 1957, the Board is of the view that the certificate in question would not conflict with the regulation, assuming, of course, that the actual net investment yield in the event of redemption pursuant to 3 months' written notice during the first 30 months would not exceed 2 per cent. Under the Supplement to the regulation which became effective January 1, 1957, the same view would apply to such a certificate revised to take advantage of the presently effective maximum permissible rates of interest, assuming that the actual net investment yield in the event of redemption pursuant to 3 months' written notice during the first 30 months did not exceed 2-1/2 per cent, and the actual net investment yield on redemption at a later time pursuant to 6 months' written notice did not exceed 3 per cent. On this basis, the rates of investment yield would not appear to exceed the maximum permissible rates of interest applicable under the regulation in the circumstances of the particular redemption privilege elected.

The Board believes that the situation not only bears resemblance to the one involved in the interpretation contained in its letter S-1022 of May 13, 1948 (F.R.L.S. #6301.1), but that the view expressed above is consistent with the principles expressed in its interpretations published at 1953 Federal Reserve Bulletin 721 and 1956 Federal Reserve Bulletin 833 (F.R.L.S. #6301.2).

Approved unanimously.

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

Reference is made to your letter of January 3, 1957, concerning the application of The Washington Loan and Banking

Company, Washington, Georgia, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

Our last report of examination of the bank, as of January 3, 1956, disclosed a satisfactory asset condition, and the matters subject to criticism related primarily to the apparent lack of regard for banking laws and regulations by the management and to certain weaknesses in the institution's records, systems, and controls. These matters were brought to the attention of the directors of the bank and corrections were promised except with respect to the practice of absorption of exchange for customers in violation of the Board's Regulation Q and improving the records, systems, and controls. The Board of Governors does not believe that corrective programs with respect to these matters need be incorporated as conditions to the continuance of deposit insurance.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, reading as follows:

Reference is made to a letter from your office dated November 9, 1956, enclosing photostatic copies of an application to organize a national bank at Seven Corners, Fairfax County, Virginia, 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 Richmond, indicates that the proposed capital structure of the bank would be adequate and that the proposed management possesses the qualities to supervise the institution satisfactorily. On the other hand, the prospective earnings of the institution are not very favorable. The immediate area surrounding the location of the proposed bank is now being served by a branch of a State bank, and it is reported that an additional branch is to be established near the site selected by the applicant. In addition, there are eight other banking offices within a radius of three miles. The investigation did not reveal any evidence of need for additional banking facilities. 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, following a discussion of the characteristics of the territory which would be served by the proposed bank, the number of existing banking facilities in the area, and the question of need for additional banking facilities at the present time.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change on the dates indicated of the rates of discount and purchase in their existing schedules:

Boston	January 14
New York	January 17
Philadelphia	January 17

Approved unanimously.

At this point Messrs. Thomas, Economic Adviser to the Board, and Molony, Special Assistant to the Board, entered the room.

In accordance with the decisions reached at the meeting on January 15, 1957, there was a further discussion at this meeting of the forthcoming hearing under the Bank Holding Company Act pertaining to the formation of a bank holding company involving The First National City Bank of New York, City Bank Farmers Trust Company, also of New York City, and County Trust Company of White Plains, New York.

In a memorandum dated January 17, 1957, copies of which had been sent to the members of the Board, Chairman Martin advised that he had

talked with Mr. Howard Sheperd, Chairman of the Board of First National City Bank, who stated that he and his associates would be opposed to postponement of the hearing as in their eyes it would indicate interference with established procedures by an outside body. However, they saw no objection to indicating at the opening of the hearing that it would be continued until March 15 or April 1 in order to give Mr. Morris Schapiro and his group (the Advisory Council to the Joint Legislative Committee on the Revision of the Banking Law of the State of New York), or representatives of the New York State Legislature an opportunity to present their views or recommendations.

It was reported that according to the press two bills had been introduced in the State Legislature, the first of which would limit to existing State banking districts until May 1, 1957, the formation and expansion of new bank holding companies and would also prohibit further expansion of existing bank holding companies. The second bill would prohibit until May 1, 1958, holding company acquisition of banks across regional branch bank limits.

Governor Robertson stated that he had received this morning a copy of the first bill. He then read the bill and commented on its provisions. It was his understanding that this proposal was more likely to be enacted than the second bill, a measure which reflected the recommendation of the Governor of New York.

Governor Robertson also said that he had talked by telephone with Mr. Schapiro to inform him that the Board would not make a decision regarding the hearing until today, and that Mr. Schapiro said he would so advise the members of the Advisory Council. Governor Robertson went on to say that when he was in New York City yesterday he learned that the bills could not be introduced in the State Legislature on Friday, which accounted for the introduction of both bills yesterday. He said that President Hayes and Vice President Wiltse of the Federal Reserve Bank of New York both were inclined to feel, although they had no definite statement from the parties, that the applicants in this matter would not want to be put in a position of pushing the issue through in the face of prospective legislation. As for themselves, a preference was expressed for opening the hearing on the scheduled date but giving an indication that the Board would not reach its decision until after the termination of the freeze period fixed by whatever bill might be enacted. It was anticipated, Governor Robertson said, that a bill might be passed on Wednesday, January 23.

Mr. Vest said that the question of procedure with respect to the hearing appeared to him to be a relatively close one. He rather hoped that the Board would not go ahead with the hearing and at the same time make a commitment to hold it open when it was not known what the legislative situation would be by the date of the hearing. To make such a commitment, he said, also might mean that the hearing would have to be

reopened for further testimony. He felt that the Board would be justified in going ahead as scheduled or, on the other hand, in postponing the hearing on the grounds that the public interest was reflected in the State legislation. Since the Governor had recommended legislation and bills had now been introduced, it could be said that the situation was somewhat different from the situation prevailing when the hearing was announced.

Mr. Hackley agreed with Mr. Vest that it would be better to defer the hearing than to begin it and make some commitment to hold the hearing open. A postponement of the date of the hearing could be based on the recent developments with respect to the legislative situation in New York State, and it would afford time for the Legislature to consider legislation in a more comprehensive manner. Mr. Hackley also called attention to the provisions of the Bank Holding Company Act which indicate that the Board should consider the views of the State authorities, pointing out that in this case the views of the State Superintendent of Banks were not required by law, but that the Board nevertheless decided to ask for them.

After Mr. Hexter expressed the view that because of the probable enactment of a bill in New York State within the next few days little would be lost by postponement of the hearing, Mr. O'Connell said that he also would be inclined to favor postponement of the hearing rather than to start the hearing and leave the record open. He pointed out that if a hearing is conducted and the record is left open, it is a public record and witnesses may desire to alter their original testimony. He inquired

whether the fact that bills had now been introduced in any way appeared to qualify Mr. Schapiro's suggestion that freeze legislation might not be enacted if the hearing was postponed.

In response to Mr. O'Connell's question, Governor Robertson said it seemed possible that the bills might be withdrawn if the Board postponed the hearing until the end of the legislative session. He expressed doubt, however, whether such action by the Board would be advisable now that the bills had been introduced.

In a further discussion, Mr. Molony commented on the public relations aspects of the situation and suggested that there might be some difficulty in explaining a postponement of the hearing merely in anticipation of the fact that certain State legislation might be enacted. On the other hand, if a bill should be enacted, it would be quite easy to explain an action to postpone. With reference to Mr. Molony's remarks, the additional comment was made that in the event of announcement of similar hearings in the future, opponents of the applications concerned might follow the practice of having bills introduced in the State Legislature in an attempt to influence deferment of the hearings.

Governor Robertson said that he agreed generally with the analysis of the Legal Division. Going one step further, he had some doubt whether the Board should wait until next Wednesday to postpone the hearing scheduled to begin the following day. He, therefore, suggested that the hearing be postponed for a week or 10 days so that interested parties would

have the information and would not make arrangements on the assumption that the hearing would begin as scheduled. While he did not think it should be taken for granted that legislation would be passed, he thought that the interested parties should be afforded more time while legislative developments were awaited, and that a postponement until the first of February would give everyone an opportunity to appraise the situation. If freeze legislation was enacted in the meantime, he assumed that the hearing would be put over until the end of the legislative session.

Governor Mills then stated reasons why he felt that the hearing should proceed as scheduled, the first of which was that he thought the Board should preserve its jurisdictional authority from influence either on the side of interested public authorities or the applicant. To preserve such jurisdictional authority, he believed that the hearing should go forward on schedule unless the applicant withdrew the application or requested a postponement. The second point which he brought out was that the purpose of the hearing was to examine all facets of the problem so that the Board could then reach a mature judgment and make an equitable decision. The information presented at the hearing, he noted, would include not only the reasoning of the applicant but adverse testimony, including that of the New York banking authorities. If, however, the New York State authorities should petition the hearing examiner for an adjournment while presenting their testimony, that petition should of course be decided on its merits.

Governor Szymczak indicated that at the moment he would favor going ahead, despite the introduction of the bills, because of the responsibilities vested in the Board by the Congress and the fact that it was not certain whether any State legislation would be passed. On the other hand, he recognized that such a procedure might create ill feeling in New York State and cause the State Legislature to take some action that otherwise might be avoided.

Chairman Martin then asked a series of questions bearing upon the effect of State legislation on the provisions of the Bank Holding Company Act.

In response, Mr. Vest said that the Congress had made it clear that the Bank Holding Company Act was subject to restrictions in the form of State legislation. Therefore, if freeze legislation was passed in New York State, he felt that it would be futile for the Board to hold hearings, particularly if the legislation effected a freeze until May 1958, as contemplated by one of the two bills. He pointed out that a hearing at the present time could not in such circumstances develop appropriate factors, since it would concern a question on which the Board could not grant effective approval until the expiration date of the State legislation. It was his opinion that pertinent provisions of the Bank Holding Company Act permitted the State of New York to take legislative action which would be effective to prohibit the transactions contemplated by the current applications under the Bank Holding Company Act.

In the light of Mr. Vest's interpretation of the law, the view was expressed that the enactment of freeze legislation in New York State would constitute a valid reason for deferment of the forthcoming hearing. It was pointed out, however, that at this point the situation was somewhat different because the Board could not be sure that legislation would be enacted and, furthermore, did not know what provisions any such legislation might contain. In this connection, it was brought out that the taking of testimony at the hearing would not commence until Monday, January 28, after certain formalities had been disposed of on the preceding Thursday, and that the State legislative situation might have become more clear by the later date.

At this point Governor Robertson left the room to talk by telephone with President Hayes. After returning, he said that Mr. Hayes had discussed the matter with other officers of the Reserve Bank and continued to suggest the possibility of holding the hearing open until after the end of the legislative session so as to give the Legislature a better opportunity to deal with the problem. He said it was Mr. Hayes' view that it would be unfortunate if the freeze legislation were enacted and that the Board might be in a position to prevent such action if it took a position in line with Mr. Schapiro's recommendation. Under this plan the hearing would be started on January 24 and the Board would make a statement that it would not render a decision until after the end of the legislative session.

Such action, Mr. Hayes felt, might result in preventing the passage of hasty and ill-conceived legislation out of a spirit of antagonism.

Governor Balderston said it had been his view, in the light of the importance of the ultimate decision in relation to the New York State banking structure, that a decision on the applications should not be reached by the Board until the State had had an opportunity to pass legislation affecting the whole New York situation. It was his present feeling that the best move might be for the Board to postpone the hearing until a later date, either to the end of a 10-day period mentioned by Governor Robertson or until the end of the legislative session.

Governor Robertson agreed with this position and said that if the Board favored a temporary deferment he could get in touch with Mr. Schapiro and indicate that if the bills were withdrawn the Board would either (1) postpone the hearing or (2) postpone a decision until after the end of the legislative session. He said that if the Board was not going to make a decision following the taking of testimony, it would seem inadvisable to hold the hearing at this time. A postponement of the hearing could be justified on the basis that the State should have an opportunity to devise guide lines pertaining to its own banking structure.

At the conclusion of further discussion of various aspects of the matter, Chairman Martin raised a question whether the Board should decide at this time what it would be best to do by January 24. He said that under the interpretation of the statute given by Mr. Vest, it seemed clear

that the Board would have to terminate the proceeding automatically if one of the pending bills should be passed by the New York State Legislature. In the circumstances, he suggested that no decision on procedure be made at this time and that the Board consider the matter again prior to the scheduled date of the hearing in the light of further developments.

Governor Robertson said that he would be willing to go along with the Chairman's suggestion although he would prefer somewhat to act at this time to postpone the hearing for a week or 10 days. He also said that if the Board decided to defer a decision with regard to the hearing, he would call Mr. Schapiro and tell him that the Board had concluded to do nothing to interfere with the desires or wishes of New York State, that the Board would, therefore, plan to proceed with the hearing, but that if a bill should be passed by the State Legislature, the Board would consider the matter again.

Governor Mills suggested that Governor Robertson might also point out to Mr. Schapiro that his Advisory Council was free to appear at the hearing and offer such testimony as it might desire.

Agreement was expressed with the suggested procedure and it was also understood that Chairman Martin would get in touch with Mr. Howard Sheperd and advise him of the status of the matter.

Also in connection with the First National City Bank matter, unanimous approval was given to letters as follows, drafts of which had been

distributed to the members of the Board prior to this meeting:

Letter for the signature of Chairman Martin to The Honorable Victor R. Hansen, Assistant Attorney General, Antitrust Division, Department of Justice

This will acknowledge receipt of your letter of January 11, 1957, with regard to the forthcoming hearing involving the application of The First National City Bank of New York and others to form a bank holding company. You advise that it is your view that your responsibilities in the enforcement of the antitrust laws require the Department of Justice to investigate this matter fully in an effort to ascertain all the essential competitive facts and that it is your intention to institute an immediate investigation. We note that the Department cannot say at this time that it desires to submit testimony in the hearing but, if possible, would like to reserve the right to file a brief or other statement at a later date. We will be very glad to have you submit a statement or file a brief at the appropriate time if you should decide to do so. In the meantime, the Board or its staff will be glad to be of any assistance it can to the Department in connection with any aspects of this matter.

Letter for the signature of Vice Chairman Balderston to The Honorable Emanuel Celler, House of Representatives

This is in reply to your letter of January 9, 1957, with reference to the hearing regarding the formation of a bank holding company involving The First National City Bank of New York, City Bank Farmers Trust Company of New York, and County Trust Company of White Plains, New York, and enclosing a copy of your statement on January 7, 1957 before the Joint Legislative Committee to Revise the Banking Law of New York. We are pleased that the arrangements outlined in our letter of January 7 with respect to the time of your testifying at the hearing are satisfactory.

Section 11 of the Bank Holding Company Act of 1956 provides that nothing therein shall be interpreted as approving any action which may be in violation of existing

law, nor is anything therein to constitute a defense to any action or proceeding on account of any prohibited antitrust action or conduct. Also, as you indicate, under the Celler-Kefauver amendment to section 7 of the Clayton Act the test is whether the effect of the acquisition may be substantially to lessen competition or to tend to create a monopoly in any section of the country.

Section 3(c) of the Bank Holding Company Act requires the Board, in passing upon each application by a bank holding company for approval of its acquisition of bank stock, to consider certain specific factors, including whether or not the effect of the proposed acquisition would be to expand the size or extent of the holding company system beyond limits consistent with the public interest and the preservation of competition in the field of banking. The concept involved in this factor is a broad one, and in the Board's opinion adequate consideration of the facts in this regard necessarily involves consideration of the standards mentioned in section 7 of the Clayton Act--that is, whether in any line of commerce in any section of the country the effect of such acquisition might be substantially to lessen competition or to tend to create a monopoly.

In the circumstances, it has not been considered necessary to refer specifically in the order for hearing to the standards of the Clayton Act or to give specific instructions to the hearing examiner on the subject. You may be assured that the Board in its consideration of this matter will take into account all pertinent factors, including whether the proposed transactions might involve a violation of section 7 of the Clayton Act or other statutes.

Messrs. Thomas, Molony, and O'Connell then withdrew from the meeting.

On January 14, 1957, the Board met with representatives of Marine Midland Corporation to discuss the Corporation's application to acquire

the voting shares of The Lake Shore National Bank of Dunkirk, Dunkirk, New York. A summary of the discussion had been sent to the members of the Board and further consideration was given to the matter at this time.

Chairman Martin pointed out that the application had been before the Board for several months and that, while there were elements which tended to justify some delay, the Board perhaps should have reached a decision on the matter somewhat more promptly. He went on to say that if the application was denied and Manufacturers and Traders Trust Company of Buffalo then obtained approval to take over the Dunkirk bank, the situation would be difficult to explain. He also made the comment that he doubted whether a formal hearing would add a great deal to the information already available in this particular case. In itself, he said, this proposed acquisition was a very small transaction which would not seem to alter materially the position of Marine Midland Corporation. Turning to the bank holding company bills pending before the New York State Legislature which were discussed earlier in this meeting, he said that they would appear to prohibit an acquisition of this kind and that in the circumstances it might be advisable for the Board to postpone action on the Marine Midland matter until further information was available with respect to those bills.

Governor Mills said it was his feeling that the application should be approved. While he did not know exactly where the stopping point should be in the expansion of Marine Midland, he felt that if there was

justification for any additional bank acquisitions by the holding company, this was a case where there was an abundance of evidence in support of the transaction.

The situation was discussed further in the light of the pending State legislation and Governor Robertson expressed the opinion that action by the Board today might tend to antagonize the State Legislature, for he understood that the bills which had been introduced were designed to prohibit further expansion by Marine Midland. Therefore, he would refrain from acting until after State legislation had been enacted.

Governor Szymczak, who was not present at the meeting with the Marine Midland representatives, said he had reviewed the record and continued to feel that Marine Midland expansion must be stopped at some point. In the case of each proposed acquisition some justification could be given and it was very difficult to know just when the proper stopping point had been reached.

Governor Balderston said that while, as he had stated earlier in this meeting, he would not want to irritate the New York State Legislature by proceeding with the First National City Bank matter, he felt there were other considerations which should be mentioned in the Marine Midland case. In the first place, he asked whether the Board should make its decision in anticipation of legislation that might be enacted or whether it should proceed on the basis of existing legislation. He also suggested that it might not be good strategy for the Board to make an issue of a

proposed acquisition which by its nature was such that the problem would not be understood by the public generally. Since the Congress apparently had not intended to pass legislation which would freeze holding companies, since the acquisition of the Lake Shore Bank would not result in crossing New York State banking district lines and would appear to increase rather than to diminish competition locally, and since the delay in Board action possibly had affected the parties involved adversely, he felt that perhaps the Board should make a favorable decision regardless of the fact that the freeze legislation might be adopted. In other words, he questioned whether the Board's decision should be different than it would have been were it not for the prospect that State legislation might be enacted.

Governor Szymczak then added to his previous statement by saying that his views on the matter were the same as they would have been if the legislative developments in respect to holding company legislation in New York State had not entered the picture. He referred to the expansion of the Marine Midland Group over a long period of time and to the concentration that had been built up in various parts of the State, particularly in the Buffalo area. In view of these long-run developments, it was his conclusion that the point had been reached where further expansion should not be permitted.

Additional discussion brought out that denial of the application would not preclude the Marine Midland Group from taking over the Lake Shore National Bank under certain arrangements outside the purview of the

Bank Holding Company Act. The question was asked whether there was reason to believe that Manufacturers and Traders Trust Company would be able to obtain approval to acquire the Dunkirk bank, and it was stated that no definite information was available on that point.

Governor Shepardson said that basically he was inclined to agree with the point of view expressed by Governor Szymczak. He understood that while the Bank Holding Company Act was not intended to be freeze legislation, its purpose was to restrain bank holding company expansion to the extent that affirmative and convincing justification must be given to permit it. It was clear that a number of small acquisitions could produce results not consistent with the legislation, and he did not feel that strong evidence had been presented to indicate a need for Marine Midland to move into the Dunkirk area. On the other hand, to turn down the application might permit a less satisfactory situation to develop through acquisition of the local bank by other interests, and in all the circumstances he would be inclined to make an exception in this case.

At the request of the Board, Mr. Hackley then reviewed the Board's responsibilities under the provisions of the Bank Holding Company Act in relation to a matter of this kind. He pointed out that in this case there appeared to be no compelling reason for the acquisition, which would involve elimination of an existing bank. In a previous case, involving Northwest Bancorporation, the Board had raised certain questions even though the elimination of an existing bank was not involved and that application was now being held in abeyance at the request of the applicant.

Governor Mills stated that although, on the merits of the case, he would be inclined to approve the application, he felt that Governor Robertson had proposed a sound basis for deferring action temporarily. With regard to the points mentioned by Governor Balderston, Governor Mills said that he thought the logic expressed was correct but that as a practical matter no serious harm would be done by deferring the decision for a week. Assuming that no legislation had been passed by that time, he would be inclined to approve the application.

Chairman Martin then stated that in view of the divergence of opinion expressed at this meeting and in view of the legislative situation in New York State, he would suggest deferring action on the application for further consideration in the light of developments.

There was unanimous agreement with this suggestion.

At this point Messrs. Hexter and Thompson withdrew from the meeting and Messrs. Riefler, Assistant to the Chairman, Solomon, Assistant General Counsel, Noyes, Adviser, Division of Research and Statistics, Cherry, Legislative Counsel, and Brill, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics, entered the room.

In accordance with the decision at the meeting on January 14, 1957, consideration was given to a revised draft of letter to Senator Sparkman, Chairman of the Subcommittee on Housing of the Senate Banking and Currency Committee, responsive to his request for the Board's views on the question of appropriate policy for interest rates for Federally underwritten mortgages.

Governor Mills said that while the first part of the revised draft stated in general terms that in the matter of rate policy there was an area of discretion that the Congress might wish to look into, the two succeeding paragraphs seemed to him to indicate an opinion on the part of the Board that flexibility of rates through the exercise of administrative discretion deserved favorable consideration by the Congress. He doubted whether the Board would want to express such an attitude when it seemed apparent that the Congress was not prepared to delegate discretionary authority in this field to any administering agency. According to his information, the Congress was opposed to granting discretionary authority which might result in interest rates that at some time might be considered inconsistent with the best interests of veterans and those who obtain benefits from the insurance of mortgages by the Federal Housing Administration. On the theoretical side, he remained of the opinion that legislation such as envisaged by the proposal for a flexible formula based on the yield of long-term Goverment securities would tend to solve the problem by producing a general uniformity throughout the United States. He thought that such a formula would fail to apply only in rather remote communities and that in such communities adjustment to a realistic rate could be accomplished by discounting. It was possible, he said, that those cases would be so rare that they would not constitute a serious problem.

Governor Robertson said that his thoughts on the matter were generally along the same lines and that he thought the draft of reply could

be changed in certain respects to meet satisfactorily the points mentioned by Governor Mills. He then suggested the nature of the changes which he had in mind.

Following a discussion of the subject in the light of the comments made by Governors Mills and Robertson, Chairman Martin suggested that another draft of the proposed reply be distributed prior to further consideration of the matter by the Board.

There was unanimous agreement with this suggestion.

Under date of January 9, 1957, there had been sent to the members of the Board copies of a memorandum from Mr. Young summarizing an attached memorandum from the Business Finance and Capital Markets Section which reviewed stock market developments in 1956. This review indicated that basic economic factors relating to the level of stock market margin requirements had changed substantially since the requirements were last increased by the Board in April 1955, and that maintenance of present margin requirement levels could not be supported on the same economic grounds that underlay the 1955 action. However, in view of the economic situation generally, as described in the memorandum from Mr. Young, it was felt that there might still be persuasive reasons for maintaining the present margin requirements, even though such reasons differed substantially from those which led the Board to raise the requirements to the present level.

After Mr. Brill had commented on recent stock market developments, Governor Szymczak said that, as Mr. Young's memorandum indicated, some

argument could be made for reducing the margin requirements at this time. However, in view of the over-all economic situation he felt that such action would be confusing. Accordingly, he suggested that the subject be put over for further consideration a few weeks hence.

In a further discussion, Chairman Martin expressed agreement with Governor Szymczak's reasoning that no action should be taken at this time. He went on to say that the matter was one which should be followed continuously by the Board in the light of developments.

Governor Robertson concurred and made the suggestion that the subject be considered again by the Board whenever circumstances appeared to warrant.

Thereupon, it was agreed unanimously that no action to change the margin requirements should be taken at this time and that, as suggested, the subject would be brought up again for discussion at such time as seemed appropriate in the light of developments.

Messrs. Solomon and Brill then withdrew from the meeting and Mr. Shay, Assistant General Counsel, entered the room.

In a letter dated December 17, 1956, the Federal Reserve Bank of Minneapolis presented on behalf of a member bank two specific questions concerning the application of Regulation Q, Payment of Interest on Deposits. The first question involved whether a deposit that was clearly a time deposit and not a savings deposit might be evidenced by a certificate

labeled "savings certificate". The second question concerned whether it would be permissible for a bank not to require written notice of withdrawal for savings deposits evidenced by a pass book while requiring such notice as to savings deposits evidenced by a written receipt or agreement, the use of which was permitted by the May 16, 1955, amendment to Regulation Q. A draft of reply had been circulated to the members of the Board which would state, with respect to the first question, that the Board continued to feel that it would not be justified in raising objection to the practice. As to the second question, the reply would state that it seemed clear that the bank could not permit withdrawals as to one class of deposits without exercising the option to require advance written notice while at the same time exercising such option as to the other class of deposits.

When the file was in circulation Governor Shepardson attached a memorandum in which he stated, with regard to the first question, that it seemed misleading to place emphasis on detailed provisions in time certificates with regard to maturity and at the same time to confuse the issue by permitting use of a misleading label on the heading of the certificate. In the circumstances, he suggested that the Board might wish to consider reversing the position taken on previous occasions.

The file was then recirculated with a memorandum from Mr. Hackley dated January 7, 1957, in which he stated that if the Board wished to take a position different from that suggested in the proposed letter a further

amendment to Regulation Q would appear to be necessary which would say that no deposit could be classified as a time certificate of deposit if it was labeled or designated as a savings certificate. The memorandum pointed out that any such proposal would involve negotiations with the Federal Deposit Insurance Corporation and publication of a proposed amendment in the Federal Register for comments.

Governor Shepardson said that he did not question the consistency of the proposed reply with the position taken by the Board in the past, but that if the Board was interested, as appeared from recent discussions, in drawing lines of distinction between savings accounts and time deposits it seemed inconsistent to raise questions on relatively minor points and then permit a misleading label to be used on time certificates of deposit.

Mr. Hackley then reviewed the use by banks during recent years of time certificates with alternate maturities and increasing interest rates. Some banks, he said, appeared to feel that it would help competitively to label these certificates as savings certificates and the Board did not object to such labeling. However, following the May 1955 amendment of Regulation Q some banks proposed to use certificates with definite maturities as savings deposits. On this point the Board took an unfavorable view and decided to propose a clarifying amendment to the regulation. In the case now referred to the Board, it could be argued that confusion also might result, although it was merely the form of the certificate that was affected rather than the substance. If the Board wished to discourage

the practice, it would probably be necessary to negotiate with the Federal Deposit Insurance Corporation and publish a proposed amendment to Regulation Q in the Federal Register, and the question was whether the Board felt strongly enough that the practice was unduly confusing and should be stopped.

Mr. Vest stated that, while the Board could of course amend its regulation, a problem of appropriate language would be involved. The time deposit in question could not be classified as a savings deposit, so the Board would almost be put in a position of saying that it must be classified as a demand deposit.

Governor Robertson inquired whether the matter could be handled by suggesting to the Minneapolis Reserve Bank that it advise the interested parties that the practice raised a serious question and might result in an amendment to Regulation Q if continued.

In response, Mr. Shay said that the manner of labeling seemed to be rather widespread in several Federal Reserve districts, and Mr. Hackley added that the Federal Deposit Insurance Corporation had taken the position, after discussion with Board representatives, that it had no objection to the practice.

Following further discussion, Governor Robertson suggested that the question be referred to the Presidents' Conference with a request that it be discussed at the forthcoming meeting of the Conference and the joint meeting of the Presidents and the Board.

This suggestion was approved unanimously.

Secretary's Note: Pursuant to this action, the following telegram was sent today to Mr. Leedy, Chairman of the Presidents' Conference:

Question has been raised with the Board whether Regulation Q and Regulation D should be amended to prohibit the labeling of a deposit as a "savings certificate" where the deposit would not qualify for classification as a savings deposit but would qualify for classification as a time certificate of deposit.

In the past, the Board has not objected to the labeling of time certificates of deposit as "savings certificates". However, as the matter has been raised again and in view of the fact that the Board has under consideration possible amendments to Regulation Q and Regulation D to preclude the representation of savings deposits by certificates having fixed maturities as described in Board's letter to all Federal Reserve Banks of December 21, 1956, Board will appreciate it if you will put the question stated above on the agenda for the forthcoming meeting of the Presidents' Conference and the joint meeting of the Presidents with the Board for discussion in the light of the desirability of such a practice and the extent to which it is used in the different Federal Reserve districts.

At this point Mr. Horbett, Associate Director, Division of Bank Operations, entered the room.

Mr. Carpenter reported receipt by the Board of a letter dated January 15, 1957, written by two Miami, Florida, member bankers on behalf of the eight Miami member banks regarding the reserve city designation of that city. The letter requested deferment of the effective date of the designation (March 1, 1957) for at least 90 days and an opportunity for representatives of the banks involved to appear before the Board to present "certain unusual factors with respect to the local situation

which might have a bearing on the Board's final determination in this matter".

The view was expressed that the requests should be granted, but that it would be advisable for the Miami banks to submit pertinent information in writing before their representatives met with the Board.

At the conclusion of a discussion of the matter, it was understood that a draft of reply to the letter would be prepared for consideration by the Board.

The meeting then adjourned.

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

Memoranda from appropriate individuals concerned recommending appointment of the following persons to the Board's staff, effective as of the respective dates on which they assume their duties:

Name and title	Division	Basic annual salary
John A. Lovejoy, Assistant Federal Reserve Examiner	Examinations	$5,440
Nathan B. Hughes, Jr., Personnel Technician	Personnel Administration	4,525

Letter to Mr. Latham, First Vice President, Federal Reserve Bank of Boston, reading as follows:

In accordance with the request contained in your letters of January 14, 1947, the Board approves the appointments of Richard Oliver Fischer and Frank Michael Hillery as assistant examiners for the Federal Reserve Bank of Boston.

Please advise as to the dates upon which the appointments are made effective.

Letter to Mr. MacDonald, Chief Examiner, Federal Reserve Bank of Boston, reading as follows:

In accordance with the request contained in your letter of January 15, 1957, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Boston for the purpose of participating in the examinations of Depositors Trust Company, Augusta, Maine, The Merrill Trust Company, Bangor, Maine, The Connecticut Bank and Trust Company, Hartford, Connecticut, and Rhode Island Hospital Trust Company, Providence, Rhode Island:

Arthur J. Campatelli — Sven H. Lundberg
Ralph B. Kimball — Earl F. Smith

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of January 10, 1957, the Board approves the appointments of Albert J. Bozio and Constantine C. Kontopirakis as assistant examiners for the Federal Reserve Bank of New York. Please advise as to the dates upon which the appointments are made effective.

It is noted that Mr. Kontopirakis is indebted to the Chemical Corn Exchange Bank, New York, in the amount of $192 payable at the rate of $16 per month. Accordingly, the Board's approval is given with the understanding that Mr. Kontopirakis will not participate in any examinations of the Chemical Corn Exchange Bank, New York, until his indebtedness has been liquidated or otherwise eliminated.

The Board also approves the designation of William K. Springfels as a special assistant examiner for the Federal Reserve Bank of New York.

Secretary