

Minutes for January 30, 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"/> <u>W</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> <u>MS</u>	_____
Gov. Vardaman	<input checked="" type="checkbox"/> <u>W</u>	_____
Gov. Mills	<input checked="" type="checkbox"/> _____	_____
Gov. Robertson	<input checked="" type="checkbox"/> <u>R</u>	_____
Gov. Balderston	<input checked="" type="checkbox"/> <u>CCB</u>	_____
Gov. Shepardson	<input checked="" type="checkbox"/> <u>SPS</u>	_____

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 30, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman 1/
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, Associate General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations

With reference to the current hearing under the Bank Holding Company Act involving the applications of The First National City Bank of New York and others to form a bank holding company, Governor Robertson stated that there was a report that Congressman Celler of New York, who had been invited to testify at the hearing, might seek to be admitted as a party to the proceeding in order to move a postponement of the hearing. This, he said, raised a question as to what action should be taken by Mr. O'Connell, Counsel for the Board, in such event.

Mr. Hackley said he assumed the hearing examiner, upon any such request by Mr. Celler, would ask the Congressman to state briefly the reasons for which he desired admission as a party and that, if the Board so

1/ Entered meeting at point indicated in minutes.

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instructed, Mr. O'Connell would then object on legal grounds. In response to a question by Chairman Martin, Mr. Hackley expressed the opinion that Mr. Celler would have no legal right to be admitted as a party.

The matter was discussed and agreement was expressed with the view that, on the basis of information presently available, Congressman Celler should not be admitted as a party. The suggestion was made that Mr. O'Connell be told to use his best judgment in the light of developments, but that in the view of the Board Mr. Celler was not entitled to be admitted as a party. It was further suggested that Mr. O'Connell be told that if the circumstances were such as to make him consider it desirable to obtain the judgment of the Board, he should ask for a recess of the hearing.

There was unanimous agreement with these suggestions.

At this point Governor Vardaman joined the meeting.

Chairman Martin advised Governor Vardaman concerning the foregoing discussion and decision, and the latter indicated concurrence in the action taken. In response to a question by Governor Vardaman, Chairman Martin said that the Governor of New York had now signed legislation freezing, with certain exceptions, the formation and expansion of bank holding companies in that State until May 1, 1957.

Secretary's Note: Later in the meeting Mr. Molony, Special Assistant to the Board, entered the room and stated that at the hearing Counsel for the New York State Banking Department put into the record a

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copy of the freeze legislation, that Counsel for The First National City Bank said he had no objection to the introduction of the document in evidence, and that Counsel for the Board interposed no objection.

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

As recommended in your letter of January 10, 1957, the Board of Governors extends to August 28, 1957, the time within which Portland Trust Bank, Portland, Oregon, may establish a branch on N.E. Sandy Boulevard between N. E. 12th and 21st Avenues, Portland, Oregon. It is understood the bank now plans to locate this branch at the intersection of N. E. 20th Avenue and Sandy Boulevard, Portland, Oregon.

Approved unanimously.

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

The Board's letter of October 12 and supplementary telegram of October 24, 1956, stated that a survey of credit extended to real estate mortgage lenders would be conducted as of February 13, 1957.

It will be appreciated if you will obtain reports at that date in accordance with the attached form from each of the weekly reporting member banks in your District from which such reports were obtained as of November 14, 1956. Banks that reported less than \$1 million in loans and commitments at the August 1956 survey should be omitted but their August figures should be added to tabulated figures as of February 13.

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Please mail or telegraph district summary figures for all items and sub-items in the report, 1.a through 4.e, inclusive, to reach the Board's offices by Monday, February 25, 1957. Reports of individual banks need not be forwarded.

As stated in the Board's letter of October 12, a survey of credit extended to real estate mortgage lenders is scheduled for August 14, 1957. However, in view of the expressed need by the Council of Economic Advisers for the continuation of these surveys on a quarterly basis, it may be necessary to have another survey in May; you will be advised later regarding this.

Approved unanimously.

Mr. Riefler then withdrew from the meeting.

There had been sent to the members of the Board copies of memoranda from the Division of Examinations and the Legal Division, both dated January 29, 1957, relating to an application by Consolidated Naval Stores Company, Sebring, Florida, for a prior tax certification pursuant to sections 1101(b) and 1103 of the Internal Revenue Code of 1954, as amended by the Bank Holding Company Act of 1956, because it wished to cease to be a bank holding company by distributing to its shareholders tax-free 12,000 voting shares of The Barnett National Bank of Jacksonville, Jacksonville, Florida, and 12,000 voting shares of Barnett National Securities Corporation, Jacksonville, Florida, a bank holding company. The matter was presented to the Board at this time because Consolidated held options, expiring January 31, 1957, to purchase a number of shares held by minority stockholders of Tomoka Land Company, a nonbanking subsidiary of Consolidated, and it would therefore like to make the tax-free distribution and cease to be a bank holding company by that date.

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The memoranda from the Division of Examinations and the Legal Division were prepared on the basis of information furnished by Consolidated and obtained by the Federal Reserve Bank of Atlanta from a field check of the books and records of Consolidated. The principal question presented concerned the status of Consolidated as a "qualified bank holding corporation", as defined in the Internal Revenue Code, and this question hinged on acceptance of the applicant's own book values of its agricultural holdings and total assets. If those values were accepted, Consolidated would not fall within the exemption contained in section 2(a)(E) of the Bank Holding Company Act, which provides that no company shall be a bank holding company if at least 80 per cent of its total assets are composed of holdings in the field of agriculture. The use of book value, as against actual value or market value, was deemed by the Legal Division to present complex and difficult questions, including questions relating to the interpretation of other sections of the Bank Holding Company Act. In the circumstances, the memorandum recommended that the Board not permit itself to be hurried into the issuance of certifications in this case before it had had an opportunity to give adequate consideration to the problems involved. In this connection, the memorandum reported that, according to information furnished by counsel for Consolidated to the Atlanta Reserve Bank, it seemed possible that Consolidated could gain certain desired benefits without exercising its current options to acquire additional shares of the Tomoka Land Company.

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At the request of the Board, Mr. Hexter summarized the facts of the case and the ramifications of the Board's determination. In response to a question, he said that further study of the matter would include examination of alternatives, the effects of such alternatives and the practicality of using them, accounting questions, and similar facets of the problem. He also stated that the Board's determination must be a matter of judgment in the light of all the available information.

Attention was called to the fact that, according to the legislative history of the Bank Holding Company Act, the exemption contained in section 2(a)(E) of the Act appeared to have been designed specifically for Consolidated and that, during the hearings on the Act, the president of Consolidated testified to the effect that an exemption along those lines would have the effect of excluding Consolidated from the category of "bank holding company".

In this connection, Mr. Hexter reported that the Atlanta Reserve Bank had not been able to obtain from Consolidated a satisfactory explanation of this statement by its president.

Governor Robertson said that he felt the Board was not in a position to act on the matter at this time and that in the circumstances he did not think the Board should be pushed into an immediate decision. He suggested, therefore, that the recommendation of the Legal Division be approved.

There being unanimous agreement with Governor Robertson's suggestion, it was understood that the

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Federal Reserve Bank of Atlanta would be advised of the circumstances informally and that the Board's staff would study the matter further with a view to submitting additional information for the Board's consideration.

Each agency participating in the current defense planning exercise was required to submit a report concerning its participation to the Office of Defense Mobilization by January 31, 1957. A draft of the letter report and attachment proposed to be transmitted was reviewed yesterday at the joint meeting of the Board and the Presidents of the Federal Reserve Banks.

At the request of the Chairman, the letter was read at this meeting, particularly for the benefit of the members of the Board who were not present at the joint meeting yesterday, following which Governor Robertson recommended that the report be transmitted.

There was unanimous agreement with Governor Robertson's recommendation, and it was understood that the letter would be sent to the Office of Defense Mobilization today over Chairman Martin's signature.

At this point Mr. Molony entered the room.

Governor Shepardson said that Mr. Boothe, Administrator, Office of Defense Loans, had called to his attention a letter from a New York City commercial bank expressing concern about the current maximum permissible rate of interest on loans made pursuant to Regulation V, Loan Guarantees for Defense Production. He also said that Mr. Boothe had been keeping in contact with the Department of Defense to determine whether there had

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been any change in sentiment on the matter, but that apparently there had been no new developments.

Chairman Martin commented that an official of the Department reported yesterday having been unsuccessful in clearing a favorable recommendation for an increase in the maximum rate. In the circumstances, he felt that there was nothing for the Board to do except await developments.

Governor Robertson reported that in his absence a telephone call had been received by his office from Mr. Bayard F. Pope, Chairman of the Executive Committee of Marine Midland Corporation. He presumed that Mr. Pope wished to inquire about the possibility of action by the Board on the Corporation's application to acquire the stock of The Lake Shore National Bank of Dunkirk, Dunkirk, New York.

Following a brief discussion, it was agreed that the Board would consider the matter further at its meeting tomorrow.

At the instance of Governor Vardaman, there was a discussion concerning the practice that should be followed in holding over certain matters for decision until such time as all of the members of the Board were available.

Governor Vardaman said that it seemed unwise to delay the Board's operations because of the absence of one or, in many cases, two Board members except when matters of basic policy were concerned. While he appreciated the desire of the Chairman to bring all of the members of the Board in on decisions to the extent possible, he wondered whether the activities

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of the Board were not such as to necessitate some understanding to the effect that, except in unusual circumstances, the Board would proceed without a full Board available.

Chairman Martin commented that it had been his thought that the Board should proceed unless there was a strong difference of opinion on an important matter, in which case action on a split vote might lead to questions about the position of the absent members. However, he said, he agreed with Governor Vardaman's general thesis that ordinarily the Board must go ahead as a Board and act, particularly in view of the wide area of its responsibilities.

Governor Vardaman indicated that he agreed with the views expressed by Chairman Martin.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum dated January 25, 1956, from Mr. Marget, Director, Division of International Finance, that the resignation of Thelma W. Houck, Assistant Supervisor, International Information Center, in that Division, be accepted effective January 26, 1957.

It having been ascertained that Dr. Gordon M. Cairns, Dean of Agriculture, University of Maryland, College Park, Maryland, would accept appointment, if tendered, as a director of the Baltimore Branch, Federal Reserve Bank of Richmond, the following telegram

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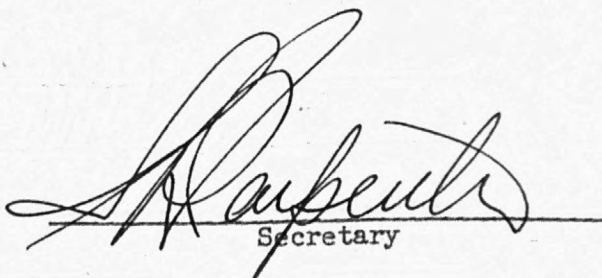
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was sent to Dr. Cairns today pursuant to the action taken by the Board on January 23, 1957:

Board of Governors has appointed you director of Baltimore Branch of Federal Reserve Bank of Richmond for remainder of term expiring December 31, 1959. Your acceptance by collect telegram would be appreciated.

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

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


Secretary