Minutes for February 11, 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	
Gov. Vardaman	X	
Gov. Mills	X	
Gov. Robertson	X	
Gov. Balderston	X	
Gov. Shepardson	X	

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 11, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, 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:

> The Board of Governors approves the appointments of Messrs. Wakefield Baker, E. S. Dulin, Keith G. Fisken, J. A. Folger, and Walter A. Starr as members of the Industrial Advisory Committee for the Twelfth Federal Reserve District to serve for terms of one year each beginning March 1, 1957, in accordance with the action taken by the Board of Directors as reported in your letter of January 23, 1957.

Approved unanimously.

Letter to the Board of Directors, Rapides Bank & Trust Company in Alexandria, Alexandria, Louisiana, 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 Rapides Bank & Trust Company in Alexandria, Alexandria, Louisiana, at or about 725 Main Street in the city of Pineville, Louisiana, provided 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. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

The Board of Governors of the Federal Reserve System has considered the recommendation of the Board of Directors of your Bank contained in your letter of January 30, 1957, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Gateway National Bank of Chicago, Chicago, Illinois, to maintain the same reserves against deposits as are required to be maintained by banks located in reserve cities, effective as of the date of commencement of business by the subject bank.

Please advise the bank of the Board's action in this matter, calling attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Approved unanimously, with a copy to the Comptroller of the Currency.

Letter to Mr. Hodge, Vice President and General Counsel, Federal Reserve Bank of Chicago, reading as follows:

This is in further reference to your letter of October 16, 1956, and its enclosures, concerning whether the proposed use of a so-called "Check-and-Save Plan" by the Commercial State Savings Bank, Greenville, Michigan, a State member bank, would result in any indirect payments of interest on deposits for the purposes of Regulation Q. You presented the matter at the request of the member bank.

The plan appears to contemplate that the bank would waive its usual service charge on each of the first 15 checks per month drawn by any customer who, in addition to his checking deposit, maintained with the bank a minimum balance of $400 in a savings deposit; and that funds with which to establish the necessary savings deposit would be available through a loan by the bank payable in monthly installments and made at a discount rate which apparently would be lower than the rate which would usually prevail in other circumstances. With respect to any such loan, it appears also that the savings deposit would be assigned as security therefor, but that, in the event of the customer's death, any balance remaining due on the loan at that time would be covered by insurance on his life procured and paid for by the bank, so that the savings deposit would be released to the customer's estate. The plan would seem to be available to all customers of the bank eligible under the regulation to have savings deposits.

While the matter has not been submitted on the basis of facts developed in the course of an examination of the bank, the questions raised by the bank's proposal would appear to be governed by the principles involved in positions heretofore taken by the Board. Thus, the Board uniformly has held that the use of account analyses by banks to determine whether demand depositors should be charged for various banking services in connection with such deposits, including the payment of checks drawn thereon, does not involve any payment to a customer or the giving of any credit which would increase the amount of his deposit balance and, accordingly, that the use of such analyses does not constitute a payment of interest. (F.R.L.S. #6238) The fact that, in determining whether to refrain from making the usual service charge for payment of checks in the present case, the bank would take into account the customer's savings deposit balance, would not remove the situation from the principle of the above interpretations.

The same basic principle is applicable also with respect to the apparently special discount rate on loans under the plan; and, in this connection, attention is invited to the Board's recent letter to all Federal Reserve Banks of January 23, 1957 (S-1617) which involved, among other things, a somewhat similar question.

With respect to the insurance which would be procured and paid for by the bank on the lives of borrowers under the plan,

it seems clear that such insurance would be chiefly for the bank's own protection, so that the situation would differ materially from those involved in the Board's interpretations of January 6, 1955, S-1556 (F.R.L.S. #6243) and of April 19, 1956, S-1590 (F.R.L.S. #6393), for example.

Accordingly, the Board is of the opinion that the bank's use of the plan in question would not involve any practice which need be regarded as constituting any indirect payment of interest for the purposes of Regulation Q.

Cases such as these, of course, necessarily depend on the particular facts and circumstances involved, and the views expressed herein are based on the Board's understanding of the information enclosed with your letter. Therefore, if in actual practice there should be any material deviations from the facts as summarized above, the matter would be subject to review in the light of any such development.

Approved unanimously, with a copy to the Federal Reserve Bank of Cleveland and with the understanding that edited copies would be sent to the Presidents of all Federal Reserve Banks.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

This refers to your letter to Mr. Sloan of January 14, 1957, transmitting the registration statement filed pursuant to the Bank Holding Company Act of 1956 by Cornell Oil Company, Lubbock, Texas, together with a copy of a letter from the firm of Robertson, Jackson, Payne, Lancaster & Walker, attorneys for Cornell Oil Company, dated December 27, 1956, requesting an opinion of the Board as to the present status of Cornell Oil Company as a bank holding company.

It is noted from Cornell Oil Company's registration statement that, as of May 9, 1956, that Company owned more than 25 per cent of the stock of the First State Bank, Celina, Texas, and more than 25 per cent of the Muleshoe State Bank, Muleshoe, Texas, but that on December 17, 1956, Cornell Oil Company sold all of its stockholdings in the First State Bank, Celina, Texas, to the Texhoma Trust. It is understood that the Texhoma Trust

is an irrevocable trust created by Anson L. Clark in 1954; that the beneficiaries of this trust are his two children, Anson L. Clark, Jr., and Nancy C. McGee; and that the present trustees of the trust are Anson L. Clark, T. Dwight Williams, and Robert H. Middleton.

In the circumstances, it is understood that Cornell Oil Company now owns in excess of 25 per cent of the voting shares of only one bank, the Muleshoe State Bank, Muleshoe, Texas; and that it does not own, control, or hold with power to vote 25 per cent or more of the voting shares of any other bank or of any bank holding company, or control in any manner the election of a majority of the directors of any other bank; and that trustees do not hold 25 per cent or more of the voting shares of any bank for the benefit of the shareholders of Cornell Oil Company.

On the basis of the facts above stated, it is the Board's opinion that neither Cornell Oil Company not the Texhoma Trust is a bank holding company as that term is defined in section 2(a) of the Bank Holding Company Act. It will be appreciated if you will inform Cornell Oil Company to that effect. It should be mentioned, of course, that, although administration of the Act is vested in the Board, its enforcement as a criminal statute falls within the jurisdiction of the Department of Justice, and conceivably the Board's interpretation might not be followed by that Department if it should have occasion to consider the matter.

Approved unanimously.

Letter to Mr. John J. McCloy, Chairman of the Board of Directors, The Chase Bank, New York, New York, reading as follows:

There is enclosed a copy of the report of examination of the Home Office of The Chase Bank, New York, New York, made as of December 10, 1956, by examiners for the Board of Governors of the Federal Reserve System. The figures for the foreign branches shown in the combined statement of condition (as well as the figures for Arcturus Investment & Development, Ltd., The Chase Manhattan Executor and Trustee Corporation Limited, and Union Provinciale Immobiliere) were supplied by the Home Office.

As may be noted from the Summary of Examiner's Classifications on page 11 of the report, the examiner has classified

the depreciation in stock of Arcturus Investment & Development, Ltd. in the amount of $87,784.09 as LOSS. (No portion of the General Reserve for Investments of $84,748.52 was applied in arriving at this figure.) It is requested that the estimated loss be charged off, reserved against, or otherwise eliminated, and the Board of Governors advised when this has been done.

Approved unanimously, with a copy to the Federal Reserve Bank of New York, and with the understanding that certain aspects of the matter would be discussed further in executive session, in accordance with a request by Governor Vardaman.

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

Governor Robertson referred to the discussion of the defense planning program at the joint meeting of the Board and the Presidents of the Federal Reserve Banks on January 29, 1957, and to the approval given by the Presidents at that time to the report of the Special Committee on Emergency Operations dated January 28, 1957. He suggested that the Board accept the report of the Special Committee as a basis of defense planning.

Pursuant to Governor Robertson's recommendation, unanimous approval was given to the following letter to the Presidents of all Federal Reserve Banks:

The Board of Governors accepts as a basis of defense planning the report of the Special Committee on Emergency Operations approved by the Conference of Presidents at the joint meeting with the Board on January 29, 1957.

Messrs. Thomas and Leonard then withdrew from the meeting and Mr. Molony, Special Assistant to the Board, entered the room.

At the meeting on February 7, 1957, consideration was given to procedures to be followed in connection with the forthcoming hearings relating to requests by General Contract Corporation, St. Louis, Missouri, and Transamerica Corporation, San Francisco, California, for determinations pursuant to section 4(c)(6) of the Bank Holding Company Act. It was understood at that meeting that the Legal Division would get in touch with the respective holding companies to inquire whether they would have any objection to the hearings in these matters being public.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Vest, dated February 8, reporting the views expressed by the applicants. It developed that Transamerica Corporation preferred a closed hearing, but was not disposed to make an issue of the matter. On the other hand, General Contract Corporation stated at some length reasons why it felt that the hearing on its application should be private.

In commenting on the matter, Mr. Vest said that he thought the Board had legal authority to order either public or private hearings, with the understanding that if the Board desired to make the hearings public, appropriate orders would have to be issued. He than expressed the personal opinion that in view of the objections to a public hearing stated by the applicants, the Board should have some good reason if it wished to make

the hearings public. He also said that whatever course was decided upon in one case probably should be followed in both cases for otherwise there might be charges of discrimination.

In response to a question by Governor Balderston as to whether the Board could order such a hearing made public during the progress of the hearing, Mr. Vest said that he thought it would be possible for the Board's Counsel to wait until some special question came up during the hearing and then ask for a public hearing if that seemed desirable in the public interest. In such circumstances, the matter would be one for the decision of the hearing examiner in the first instance, subject to appeal to the Board. While it might be possible for the Board to enter an order making the hearing public during the course of the hearing, he felt that any such action probably should be worked out with the hearing examiner.

With respect to the reasons stated by General Contract Corporation for desiring a private hearing on its applications, Mr. Hackley suggested that there appeared to have been some misunderstanding on the part of the Corporation, for the argument was made that no parties other than the Board and the applicant should be permitted to participate. He pointed out that a private hearing would not preclude testimony from interested parties who might express a desire to testify.

Governor Vardaman suggested that there might be some inconsistency between the Board's action in ordering a public hearing on the applications of The First National City Bank of New York and others to form a

bank holding company and a decision to hold private hearings in the two forthcoming cases. In the First National City case, he said, it appeared to have been the view of some of the members of the Board that a liberal position should be taken on requests by other parties to intervene in the proceding. He then said that during the forthcoming hearings, if they were public, something might develop which would cause certain parties to petition the hearing officer for admission to the proceeding. If the hearings were private, such action on the part of interested parties would of course be precluded. Governor Vardaman went on to say that in principle he was inclined to favor public hearings, and that he had wished to bring out what he considered to be an element of possible inconsistency.

Governor Mills referred to the statement which he made at the meeting on February 7, that there would appear to be a distinction between hearings on matters under the Bank Holding Company Act that had broad public interest and matters that concerned principally the internal affairs or administration of a bank holding company group. Since both of the forthcoming cases could be classified in the latter category, he was inclined to feel that the hearings should be private in the interest of the parties concerned and that private hearings in these cases would not be in any way adverse to the general public interest.

With respect to Governor Vardaman's comments, Governor Balderston inquired whether, if the hearing in the General Contract Corporation matter was started as a public hearing, it would then be possible to close the hearing for receipt of privileged material.

Mr. Vest responded that it would be possible to have evidence of a confidential character submitted on a sealed basis and exclude the public from the hearing room for such purpose. This would become sealed testimony and would not appear in the public record. However, he said, he would have some question about starting a public hearing and then ordering the hearing to be private because he felt that such action might tend to put the Board on the defensive.

In a further discussion on this point, Mr. Hackley commented that the cases in question bore a resemblance to section 301 determinations under the holding company affiliate law in that they simply called for a determination by the Board as to the nature of the activities of the holding company concerned and its subsidiaries. For that reason it could be argued that there was little need for a public hearing, since the only parties having a legitimate interest might be institutions competing with the subsidiary companies. If such parties had a legitimate interest in the proceeding, they would be at liberty to request the Board for permission to testify or even to intervene.

With respect to the points brought out by Mr. Hackley, Governor Shepardson said that the Board's determination, whatever it might be, would have an effect on the nature of competition and that therefore it might be questionable whether these cases were more "within the family" than other types of cases under the Bank Holding Company Act.

Governor Robertson stated that he saw quite a bit of difference between a case involving expansion of a bank holding company and a request

for determination such as was involved in the forthcoming cases, because a case of proposed expansion would involve matters of public concern such as the need for banking facilities. On the other hand, a request for determination under section 4(c)(6) would involve a decision whether a holding company may continue to conduct business within the framework of its current relationships. In this case competition would still exist and the only question was whether the competition would be furnished by a member of a holding company group or whether there must be a transfer of ownership. Since this would involve the necessity for looking at internal records of the institutions concerned, it raised a question of the right of other parties to examine such records. In such circumstances, he felt that the matter of public or private hearings must be considered carefully by the Board. Although in principle he was in favor of public hearings, he felt that the forthcoming cases were ones having characteristics such that they should be private. In other words, he saw no reason why the Board should deviate from its rules of procedure, particularly in view of the opposition expressed by the holding companies concerned to a public hearing.

Governor Szymczak said that he agreed with the statements made by Governors Mills and Robertson, and that he felt the forthcoming hearings should be private because of the nature of the matters involved and the views expressed by the respective holding companies. However, there might be other cases where a public hearing would be justified. He commented that if the Board should order these hearings to be public, it

would be almost committed to make public all hearings under the Bank Holding Company Act.

Governor Vardaman added to his previous comments by saying that he did not think the Board should be governed by the views of the applicants in a matter of this kind and that he had some doubt as to the advisability of even requesting their opinions. He felt that the Board's decision should be made on the basis of the public interest, and personally he would prefer that the Board order all hearings to be public, with the understanding that the hearing examiner would be cautious and seal any testimony which might involve the internal affairs of the applicants. He went on to say, however, that he would go along with whatever decision was reached in the cases under consideration, his general position having been made clear.

Governor Shepardson said that while he thought there was some merit to the general argument for open hearings, it appeared to him that it would be best to proceed in these cases according to the Board's rules of procedure, which provide that hearings will be private except upon request of the parties concerned or where the Board determines that an open hearing should be held because of circumstances peculiar to a particular case.

At the conclusion of the discussion, it was agreed unanimously that the hearings on the applications of General Contract Corporation and Transamerica Corporation should go forward as private hearings, with the understanding that this did

not constitute a precedent which would preclude the Board from ordering a public hearing in connection with any application under the Bank Holding Company Act where it appeared to the Board, from the circumstances involved, that such action would be appropriate.

Governor Balderston reported that the Investment Bankers Association had inquired whether its Executive Committee might come to the Federal Reserve Building at 2:30 p.m. on Tuesday, February 26, for an economic presentation by the Board's staff and a discussion with the Board. He said that according to the Division of Research and Statistics it would be possible to accommodate this request without undue difficulty because the Division would be working on the visual-auditory presentation to be given for the Federal Open Market Committee in March.

The request was discussed on the basis of the desirability of complying with it, the necessity for members of the Board to attend the economic presentation, and the burden that would be imposed on the staff.

At the conclusion of the discussion, it was agreed that Governor Balderston would discuss the matter with Mr. Young, Director, Division of Research and Statistics, and that, while the response to the Investment Bankers Association would be favorable insofar as the visit was concerned, the nature of the program to be offered would be predicated upon the extent to which the preparation of the

visual-auditory presentation would fit in with the subsequent presentation for the Federal Open Market Committee.

During the foregoing discussion reference was made to the current series of visits to Washington by officers of State bankers associations under the auspices of the American Bankers Association. It was noted that the number of State groups participating in the program was increasing from year to year and the suggestion was made that the matter be discussed with the American Bankers Association on the basis of whether some plan could be worked out to combine the visits of several groups.

Agreement was expressed with this suggestion.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Personnel Administration dated February 6, 1957, recommending that those employees who could be spared be excused without charge to annual leave for not to exceed one hour on February 19, 1957, in order to participate in a program to be given in the auditorium of the Department of the Interior at 2:30 p.m. in observance of Brotherhood Week.

Secretary