

Minutes for February 14, 1957

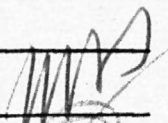
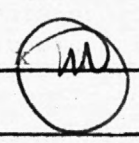
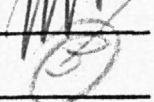
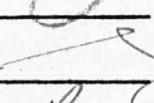
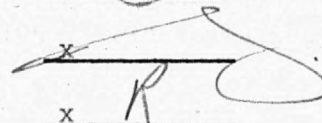
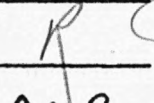
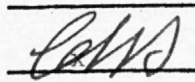
To: Members of the Board

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 |  |  |
| Gov. Szymczak | x  | |
| Gov. Vardaman | x  | |
| Gov. Mills | x  | |
| Gov. Robertson | x  | |
| Gov. Balderston | x CCB | |
| Gov. Shepardson | |  |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 14, 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. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Masters, Associate 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. Phelan, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the recommendation contained in your letter of February 1, 1957, the Board of Governors extends to August 9, 1957, the time within which First Bank & Trust Company of Utica, Utica, New York, may establish a branch in the North Utica Shopping Center on the southerly side of Auert Avenue, approximately 300 feet east of North Genesee Street, Utica, New York, under the approval given by the Board in its letter of August 29, 1956. Please advise the trust company accordingly.

Approved unanimously.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

Reference is made to your letter of February 1, 1957, transmitting the request of the Progressive Bank and Trust Company, New Orleans, for a further extension of time in

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which to establish a branch on Gentilly Road at Burma Road in the Gentilly Section of New Orleans, Louisiana. You state, due to circumstances over which the trust company has no control, the Super Market building in which the branch is to be located will not be completed until late in 1957, and, therefore, recommend that the time within which the branch may be established be extended to January 1, 1958.

After considering the information you have submitted, the Board concurs in your recommendation and extends to January 1, 1958, the time within which the Progressive Bank and Trust Company may establish the above described branch under the approval given in its letter of February 27, 1956. Please advise the trust company accordingly.

Approved unanimously.

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

Reference is made to your letter of February 4, 1957, submitting the request of The Detroit Bank and Trust Company, Detroit, Michigan, for an extension of time within which to establish a branch on Grand River Avenue near Middlebelt Road in an unincorporated community known as Clarenceville in Farmington Township, Oakland County, Michigan, due to delays encountered in completing the branch building program.

After consideration of the information submitted and your favorable recommendation, the Board extends to August 15, 1957, the time within which the establishment of the branch, which was approved in the Board's letter of August 15, 1956, may be accomplished.

Approved unanimously.

Letter to the Board of Directors, Peoples National Bank of Bay City, Bay City, Michigan, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers in connection with the proposed merger of the Bay Trust Company, Bay City, Michigan, with your bank. The Board grants you authority, effective if and when the proposed merger is consummated and you commence business

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under the title of Peoples National Bank & Trust Company of Bay City, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Michigan. The exercise of all such rights shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

This letter will serve as authority for the Peoples National Bank & Trust Company of Bay City to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you after the merger becomes effective.

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

There had been sent to the members of the Board copies of the following draft of letter for the signature of Vice Chairman Balderston to The Honorable J. W. Fulbright, Chairman of the Committee on Banking and Currency, United States Senate:

This is in reply to your letter of January 24, 1957, requesting the opinion of the Board of Governors on Senate bill S.775. Under present banking laws, member banks are not permitted to own stock issued by investment companies. Senate bill S.775 would amend the existing law, in particular Section 5136 of the Revised Statutes, to permit unlimited investment by member banks in stock issued by those investment companies whose assets are almost entirely securities exempt from Federal income taxation. Through this device, it is hoped to encourage member bank purchase of school bonds and other obligations issued by State and local governments.

While the Board favors sound proposals to increase the volume of funds made available for school construction, it

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is doubtful that this objective would be realized by S.775. Moreover, by removing the safeguard against imprudent bank investment previously erected by the Congress, the bill might permit deterioration in the quality of bank assets.

Commercial banks now hold large amounts of State and local government obligations, more than are held by any other type of financial institution. Whether S.775 would provide incentive to add more rapidly to their holdings of these obligations would depend on many factors, including the relative returns offered by investment companies as compared with the returns available from direct purchases of State and local government bonds. Under conditions of strong over-all credit demands, purchase of investment company stock might well represent a diversion of funds from direct bond purchases rather than any net addition to the supply of funds made available for school and other local government construction.

In order to offer returns competitive with those available to banks through direct purchases, and also to cover management and other costs, investment companies of the type contemplated in S.775 might find it necessary to acquire bonds of lower quality rating which customarily offer higher yields. Thus, member banks purchasing the stock of such investment companies might be investing indirectly in assets below the standards prescribed by bank supervisory agencies for direct investment. Currently, member banks are permitted to invest in State and local obligations not backed by the full faith and credit of the issuer only to an amount equal to 10 per cent of the bank's capital and surplus, and then only in issues which comply with terms of regulations established by the Comptroller of the Currency for such investments. This limitation, which enforces diversification of risk in bank assets, would be removed under the proposed legislation. Thus, the bill would permit both increased risk and undue concentration of risk in bank investments.

For these reasons, we do not feel that passage of S.775 is desirable.

Following a discussion,
the letter was approved unanimously.

At this point Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, Young, Director, Division of Research

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and Statistics, and Molony, Special Assistant to the Board, entered the room.

Consideration then was given to the following draft of letter to Mr. Kroner, Vice President, Federal Reserve Bank of St. Louis, copies of which had been sent to the members of the Board:

This refers to your letter of January 17, 1957, enclosing a letter from Mr. Robert O. McNearney, Counsel for General Contract Corporation, concerning a proposed acquisition of a Credit Life Insurance Company by a subsidiary of General Contract Corporation.

Mr. McNearney states that the Credit Life Insurance Company "has been in existence only a short time and will not be able to furnish other than pro-forma financial statements, etc." He inquires as to the procedure for seeking a determination with respect to this company under section 4(c)(6) of the Bank Holding Company Act of 1956.

Section 4(a) of the Bank Holding Company Act contains a general prohibition against a bank holding company acquiring or retaining shares of non-banking companies. Section 4(c)(6) of the Act exempts -

" . . . shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act;" (under-scoring supplied)

In the circumstances, Mr. McNearney's letter seems to raise questions as to (1) whether a bank holding company may legally acquire shares of a non-banking company after May 9, 1956 (the date of enactment of the Bank Holding Company Act) even if the Board should make a determination with respect thereto under section 4(c)(6); and (2) whether the Board would

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have legal authority to make a determination under section 4(c)(6) with respect to a company which has little or no "activities". It will be appreciated if you will advise Mr. McNearney that the Board has not yet expressed an opinion on these questions, and that before doing so it would be glad to receive in writing any views or arguments that General Contract Corporation or its Counsel may wish to present.

During a discussion of the questions raised by General Contract Corporation in the light of pertinent provisions of the Bank Holding Company Act, Mr. Vest stated that these provisions of the Act presented difficult problems, that the letter from General Contract Corporation appeared to have been written in a rather offhand manner, and that he thought the questions deserved serious consideration before the Board took a position. Therefore, he said, the Legal Division deemed it advisable to request additional information from General Contract Corporation. He went on to point out that if the first question was answered in the negative, the second question would not have to be answered. However, if the first question was answered in the affirmative, the second question would become very pertinent.

At the conclusion of the discussion, the letter to Vice President Kroner was approved unanimously.

The next item to be considered was a draft of proposed letter to Mr. Hayes, President of the Federal Reserve Bank of New York, concerning certain aspects of the current hearing on applications of The First National City Bank of New York and others to form a bank holding company. As set forth in the draft of letter, copies of which had been sent to the

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members of the Board, the hearing was in recess until February 27, 1957, at which time it would reconvene unless other arrangements were made in the interim. While a review of the record of testimony already taken had not been completed, it appeared that certain additional information would be desirable in order to make the record as complete as possible on the question whether the size or extent of the bank holding company system which would be established would go "beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking". Accordingly, a list of questions, proposed to be enclosed with the letter, had been prepared by the Board's staff. These questions would be submitted to the New York Reserve Bank for general consideration, but the Reserve Bank would not be asked at this time to compile any data because it seemed possible that at least some of the information that the questions were designed to bring out would be provided by The First National City Bank in response to questions posed by the Department of Justice. The letter of that Department was of record in the proceeding, and it was understood that The First National City Bank contemplated introduction of its reply into the hearing record. The draft of letter to Mr. Hayes would therefore state that the Board's Counsel would be in touch with the staff of the Reserve Bank as soon as it was known definitely which questions would need to be covered.

In response to an inquiry by Governor Vardaman concerning the origin of the proposed letter, Governor Robertson outlined the background

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of the matter, as stated above, and indicated why the Board's staff considered it desirable to put information of the kind called for by the proposed questions into the record of the hearing. It was thought, he said, that the New York Reserve Bank should have the benefit of the questions at this time so that the answers might be expedited if it developed that they were needed.

Governor Vardaman then raised certain points with regard to the sufficiency of one group of the proposed questions, having to do with the deposits of the applicants and certain of their branches at the end of the years 1950-1955 in relation to total deposits in the State of New York and designated sections thereof. He suggested that the questions be expanded to include requests for information on deposits in the New York metropolitan area, in addition to New York City, New York State, and Westchester County.

After Mr. O'Connell had outlined the reasons for requesting the information on deposits, agreement was expressed that the additional questions suggested by Governor Vardaman would be appropriate.

Governor Vardaman then turned to the necessity of obtaining for the record the information calculated to be brought out by certain of the proposed inquiries, pointing out that compilation of the data would require a considerable amount of work and that it might not be feasible to obtain some of the information.

With regard to these points, Governor Robertson stated that one of the reasons for submitting the questions to the Reserve Bank at this

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time was to permit the Bank to express its views on the desirability of placing the information in the hearing record and problems that might be encountered in compiling the data. He then suggested how the draft of letter to President Hayes might be reworded in order to clarify the fact that no statistical work on the part of the Bank was required for the present and that the Bank's views regarding the questions would be appreciated.

In a further discussion, Mr. O'Connell stated that, with the approval of the Board, he would like to make certain changes in the list of questions in the interest of technical accuracy and eliminating duplications.

At the conclusion of the discussion, it was agreed that the draft of letter to President Hayes would be revised in accordance with the suggestions made at this meeting, that additional questions would be included to meet the points mentioned by Governor Vardaman, and that Mr. O'Connell would make the technical changes in the list of questions to which he had referred.

During the foregoing discussion Mr. Hald, Economist, Division of Research and Statistics, entered the room and at its conclusion he and Mr. O'Connell withdrew from the meeting.

There had been distributed to the members of the Board copies of a memorandum from Mr. Solomon dated February 12, 1957, submitting for consideration draft replies to the third and final group of questions contained

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in a questionnaire from the House Committee on Government Operations regarding administrative procedure. Replies to the first two sections of the questionnaire were sent to the Committee on December 17, 1956, and January 16, 1957, respectively.

Following a discussion, during which reference was made to the amount of work involved in compiling the replies to the questionnaire, unanimous approval was given to a letter for the signature of Vice Chairman Balderston to The Honorable William L. Dawson, Chairman, Committee on Government Operations, House of Representatives, reading as follows:

As requested in your letter of November 19, 1956, which enclosed a Questionnaire on Administrative Organization, Procedure and Practice, there are attached 12 copies of the Board's reply to Sections III through IX, the concluding sections of the Questionnaire.

Messrs. Vest and Solomon then withdrew from the meeting.

With reference to the discussion at the meeting on February 11, 1957, concerning a proposed visit by the Executive Committee of the Investment Bankers Association to the Board's offices on February 26, 1957, Governor Balderston said he had now ascertained that the members of the Committee would like to come at 2:15 p.m. to discuss recent changes in the capital markets and the meaning of such changes with available members of the Board and appropriate members of the Board's staff. He also said that he had sent a memorandum on the matter to each of the other members of the Board.

It was agreed unanimously that the arrangements mentioned

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by Governor Balderston would
be appropriate.

Under date of January 31, 1957, Governor Vardaman circulated to the other members of the Board a memorandum to which was attached a copy of the American Banker for January 30, 1957, which contained an advertisement of three Florida banks in the "Usina chain" featuring a combined statement of assets and liabilities. Also attached was a memorandum prepared at Governor Vardaman's request by the Division of Examinations showing the interlocking nature of the officers and directors of the three banks. In his memorandum Governor Vardaman suggested referring to the Comptroller of the Currency and the Federal Reserve Bank of Atlanta the question whether or not this group of banks should be requested to stop this form of advertising.

At this meeting Governor Vardaman called attention to an advertisement appearing in the Miami (Florida) Sunday News for January 20, 1957, sent to him by Governor Balderston, which showed a combined statement of condition of seven banks in the "Sottile Banking Division", another Florida chain banking system. After commenting on this practice and on the clearing operations which he had mentioned at the Board meeting yesterday, Governor Vardaman expressed the opinion that the Board should initiate some form of joint action by the bank supervisory authorities concerned.

On the matter of combined statement advertising, Governor Robertson suggested that letters be prepared to the Comptroller of the Currency

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and the Federal Deposit Insurance Corporation asking them to review the use of this practice by the chain banking systems in Florida and give the Board the benefit of their views regarding the feasibility of joint action to request discontinuance of the practice.

In this connection, it was pointed out that simultaneous examinations of the banks in the Sottile chain were made as of a recent date and that a conference of representatives of the three Federal bank supervisory authorities to discuss the results of the examinations was to be held tomorrow. It was expected that this conference would cover, among other things, the practice of combined statement advertising. Mr. Sloan indicated that the Division of Examinations expected to have a report on the conference from the Federal Reserve Bank of Atlanta within the next few days.

At the conclusion of a further discussion of chain banking problems and the possibility of recommending regulatory legislation in that field, it was understood that the Division of Examinations would report to the Board when it had received advice from the Federal Reserve Bank of Atlanta concerning the interagency conference to be held tomorrow so that the Board might consider what steps would be appropriate. It was also understood that letters with regard to the problem of combined statements would be sent to Comptroller of the Currency and the Federal Deposit Insurance Corporation when in a form satisfactory to Governor Robertson.

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Mr. Young referred to the discussion by the Board earlier in this meeting of the letter to the Senate Banking and Currency Committee concerning Senate bill S. 775. He said that the subject of marketing small municipal issues, particularly school bonds, was one of considerable current interest in the Congress and that he thought there was something to be said for the establishment of investment-type institutions that would serve as an intermediary in the marketing of such issues and whose shares would be available for investment by banks. It would be possible, he said, to add to the letter to the Committee a statement to the effect that the Board had instructed its staff to study limitations and safeguards which might be set up to make it possible for banks to hold the stock of such institutions; or the letter could be held up until the staff could explore the matter further, following which a letter might be written with regard to S. 775 along the lines that, while this bill was too broadly formulated, a bill with appropriate safeguards and limitations might be appropriate legislation.

Mr. Riefler commented on meetings that he had attended at the Council of Economic Advisers several years ago at which data were presented indicating that in many instances the rate of interest was high on smaller municipal issues. He suggested that in view of the interest shown in the subject, it might be in order to determine the factual situation.

In a further discussion of the matter, Governor Mills expressed the opinion that small communities had ample access to credit through

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local banks and investment houses. He felt that the letter to the Senate Banking and Currency Committee should be sent as written, for a failure to put the Board's views on record forcibly with regard to S.775 might enhance the possibility of such legislation being enacted. Since facts were not available to the Board to prove the existence of a serious problem, he felt that the Board should confine its comments to the current bill. Then, if information should be accumulated indicating the existence of a situation that should be corrected, the Board could take such steps as it saw fit.

The other members of the Board having expressed agreement with the views stated by Governor Mills, it was agreed that the previous decision with regard to the letter to the Banking and Currency Committee should not be changed. It was pointed out that the development of factual information regarding the financing of small municipalities would be an appropriate field of inquiry for the Federal Reserve Banks, that a meeting of the Federal Open Market Committee was scheduled for March 5, 1957, and that a possible course of action would be to request the Reserve Bank Presidents to develop information which might be discussed at that time.

Agreement having been expressed with the suggested procedure, it was understood that a letter to the Presidents of the Federal Reserve Banks would be prepared for the Board's consideration.

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The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Division of Examinations dated February 12, 1957, Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board payment to Chief Federal Reserve Examiner A. H. Lang of the usual per diem allowance for the periods January 16-31 and February 1-10, 1957, inclusive, during which periods Mr. Lang was on sick leave.

Governor Balderston also approved on behalf of the Board the following letter to Mr. Stetzberger, Vice President, Federal Reserve Bank of Cleveland:

In accordance with the request contained in your letter of February 8, 1957, the Board approves the designation of J. H. Campbell, Frank Carrell, and J. L. Craig, Jr. as special assistant examiners for the Federal Reserve Bank of Cleveland.

The Board also approves the designation of R. H. Keller, A. R. Schwede, and W. A. Thorn as special assistant examiners for the Federal Reserve Bank of Cleveland for the specific purpose of rendering assistance in examinations of The Cleveland Trust Company, Cleveland, Ohio.

The authorizations heretofore given your bank to designate A. R. Schwede and Frank Carrell as special assistant examiners are hereby cancelled. The name of E. C. Lindeman has been deleted from the list of special assistant examiners.


Secretary