Minutes for June 12, 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.

Chm. Martin
Gov. Szymczak
Gov. Vardaman
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

A

B

X

X

X

X

X

X
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 12, 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. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of Examinations
Mr. Williams, Assistant Director, Division of Research and Statistics
Mr. Dembitz, Assistant Director, Division of Research and Statistics

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No. 1

Letter to Bank of America, New York, New York, approving a change in the location of its branch in Duesseldorf, Germany. (For transmittal through the Federal Reserve Bank of New York.)
Letter to The First National City Bank of New York approving a temporary change in the location of its branch in Recife, Brazil. (For transmittal through the Federal Reserve Bank of New York.)

Letter to The First National City Bank of New York approving a change in the location of its branch in Cali, Colombia. (For transmittal through the Federal Reserve Bank of New York.)

Letter to The First National City Bank of New York approving a change in location of its branch in Medellin, Colombia. (For transmittal through the Federal Reserve Bank of New York.)

Letter to The First National City Bank of New York approving a change in the location of its branch in Lima, Peru. (For transmittal through the Federal Reserve Bank of New York.)

Letter to The First National City Bank of New York approving a change in the location of its branch in Singapore. (For transmittal through the Federal Reserve Bank of New York.)

Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of six branches in Staten Island incident to a proposed merger with Staten Island National Bank & Trust Company, Port Richmond, New York. (For transmittal through the Federal Reserve Bank of New York.)

Letter to Bank of Rockville Centre Trust Company, Rockville Centre, New York, approving the establishment of a branch in North Malverne, New York. (For transmittal through the Federal Reserve Bank of New York.)

Letter to National Newark & Essex Banking Company, Newark, New Jersey, responding to an inquiry as to how close the city of Newark came to qualifying for designation as a reserve city under the standard for classification of reserve cities. (With a copy to the Federal Reserve Bank of New York.)
Letter to the Federal Reserve Bank of Atlanta extending the time within which Citizens Bank of Hattiesburg, Hattiesburg, Mississippi, may establish a branch in the vicinity of 28th Avenue and Hardy Street.

Letter to the Presidents of all Federal Reserve Banks requesting advice of any amendments to the bylaws of a Reserve Bank or branch.

Foreign branches of American banks. In connection with approval of the foregoing items relating to the relocation of certain foreign branches of American banks, question was raised by Governor Vardaman concerning the possibility of changes in current procedures which would reduce the amount of paperwork required in such cases.

Accordingly, the Division of Examinations was requested to review the current procedures and make a report to the Board.

Use of form for analyzing bank capital (Item No. 12). There had been distributed to the members of the Board copies of a draft of letter to the Presidents of all Federal Reserve Banks which would suggest that, beginning not later than July 1, 1957, a form for analyzing bank capital which had been developed by the Board’s staff be prepared in connection with the examination of each State member bank for a period of one year, or until each such bank in every Federal Reserve District had been covered. This form would be sent to the Board in duplicate with the examination report in order to provide a body of data relevant to the study of bank capital adequacy.

Governor Mills stated that he was somewhat concerned about the possibility of a drift in the direction of using such an analysis form as a
mechanical guide to decisions on the adequacy of bank capital and thereby failing to give sufficient attention to factors that call for the exercise of judgment in the light of a bank's over-all situation. If used properly, however, he felt that the analysis form constituted an excellent supplement to the more general approach.

Mr. Masters responded that the Division had endeavored to avoid mechanical use of the form. While he felt that the form was the best tool now available for study of the bank capital situation, the Division did not stop at that point in arriving at a decision as to capital adequacy. The form, he said, had been used by the Reserve Banks for several months in problem cases in an effort to bolster their judgment on the bank's need for capital, and it was now felt that something more could be learned about the capital position of banks generally by applying the form for one year in connection with the examination of each State member bank. While this should produce useful and informative data, it would be evaluated along with other significant information.

Question was raised by Mr. Thomas whether it would be feasible to have the form prepared for national banks as well as State member banks, since the resulting data would then have greater value in appraising the national picture.

On the point raised by Governor Mills, Governor Robertson agreed that the use of the form as a rule of thumb should be avoided. At the same time, he felt that the procedure envisaged by the draft of letter would provide a body of useful information. As to the point mentioned
by Mr. Thomas, he said that although the application of the form to national banks would be helpful, it did not appear that the step could be accomplished at this time. However, when the forms had been prepared for State member banks over a one-year period, it would then be desirable to work with the Comptroller of the Currency to ascertain whether the use of the form could be broadened. To summarize, he would favor sending the proposed letter, with the understanding that the Division of Examinations should continue to emphasize to the Federal Reserve Banks that the form was not intended to be used as a rule of thumb to determine the adequacy of bank capital.

In response to an inquiry by Governor Balderston, Governor Robertson said that the Federal Deposit Insurance Corporation was aware of the form and its current use within the Federal Reserve System.

Thereupon, the letter to the Federal Reserve Banks was approved unanimously. A copy is attached to these minutes as Item No. 12.

Change in schedule to be used by State member banks in submitting reports on next call date. It was reported that a decision by the Comptroller of the Currency regarding the date of the next call upon national banks for reports of condition necessitated a slight change in one of the supplemental forms which would be required from State member banks. Accordingly, it was suggested that a telegram be sent to the Presidents of all Federal Reserve Banks stating that a duplicate shipment of the revised form would be forwarded and that the forms previously shipped should be destroyed.
This suggestion was approved unanimously.

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

Testimony before the Mills Subcommittee. There had been sent to the members of the Board copies of a preliminary draft of testimony to be given by Chairman Martin on Friday, June 14, before the Subcommittee on Fiscal Policy of the Joint Economic Committee.

In the course of discussion, suggestions were made for recasting of the testimony along lines that would seem most appropriate in the light of the study being made by the Subcommittee and the rather broad terms of reference used by the Chairman of the Subcommittee (Congressman Mills) in respect to the nature of the testimony desired from the Board.

At the conclusion of the discussion, it was agreed that a revised draft of testimony would be distributed to the members of the Board with a view to further discussion of the matter at the meeting of the Board tomorrow.

The meeting then adjourned.

Secretary's Note: On June 11, 1957, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions regarding the Board's staff:
Appointment

Nancy H. Teeters as Economist in the Division of Research and Statistics, with basic salary at the rate of $5,710 per annum, effective the date she assumes her duties.

Transfer and salary increase

George L. Spencer, Jr., from the position of Utility Clerk in the Division of Administrative Services to the position of Secretary to Governor Szymczak, with an increase in his basic salary from $4,210 to $5,105 per annum, effective June 24, 1957.

Acceptance of resignation

Timothy A. Durkin, Jr., Assistant Federal Reserve Examiner, Division of Examinations, effective June 6, 1957. (Leave without pay for Mr. Durkin for a period not to exceed 30 days beginning May 19, 1957, had been approved on behalf of the Board by Governor Shepardson on May 17, 1957.)

Letter to the Federal Reserve Bank of Chicago approving the designation of W. George Rickel as special assistant examiner. A copy of the letter is attached hereto as Item No. 13.

Governor Shepardson approved today on behalf of the Board the following actions regarding the Board's staff:

Appointment

James Jackson as Laborer, Division of Administrative Services, with basic salary at the rate of $2,745 per annum, effective the date he assumes his duties.

Transfer

Winifred J. Black, from the position of Special Assistant Federal Reserve Examiner, Division of Examinations, to the position of Secretary, Division of International Finance, effective June 2, 1957, with no change in her basic salary at the rate of $4,075 per annum.
Bank of America,
40 Wall Street,
New York, New York.

Gentlemen:

Pursuant to your request of May 14, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors approves the change in location of your Duesseldorf Branch from 6-8 Koenigsallee to 33 Koenigsallee, Duesseldorf, Germany.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
The First National City Bank of New York,
55 Wall Street,

Gentlemen:

Pursuant to your request of April 9, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors approves the temporary removal of your Recife, State of Pernambuco, Brazil, branch from No. 114, Avenida Earquez de Olinda to No. 213, Rua Vigario Tenorio Street on or about June 15, 1957, for a period of approximately two years, during the period of construction of a new building at the present site.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to its temporary quarters and later when it is moved back to the present address. It is understood, of course, that the locations approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
June 12, 1957

The First National City Bank of New York,
55 Wall Street,

Gentlemen:

Pursuant to your request of April 4, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors approves the change in location of your Cali, Colombia, branch from the Zaccour Building, Esquina Carrera 3 y Calle 11 to a new building on Calle 11, Nos. 3 to 48, Cali.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
The First National City Bank of New York,
55 Wall Street,

Gentlemen:

Pursuant to your letter of April 5, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors approves the change in location of your Medellin, Colombia, branch from Carrera 51, #1, in Edificio Henry to Calle Colombia between Carreras Bolivar and Carabobo.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
The First National City Bank of New York,
55 Wall Street,

Gentlemen:

Pursuant to your request of April 5, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors approves the change in location of your Lima, Peru, branch from the corner of Coca and Jesus Nazareno Streets to the Avenida Nicolas de Pierola between Lampa and Contumaza Streets, Lima.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
The First National City Bank of New York,
55 Wall Street,

Gentlemen:

Pursuant to your request of April 5, 1957, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors approves the change in location of your Singapore, Colony of Singapore, branch from the Union Building on Collyer Quay to No. 12 Raffles Quay, Singapore.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is moved to the new location and opened for business. It is understood, of course, that the new location approved will not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by The Chase Manhattan Bank, New York, New York, of a branch at each of the following locations in the Borough of Richmond, Staten Island, New York:

26 Richmond Avenue, Port Richmond
200 New Dorp Lane, New Dorp
56 Bay Street, St. George
47 Central Avenue, St. George
179 Main Street, Tottenville
288 Broadway, West New Brighton

in the quarters now occupied by the main and branch offices of the Staten Island National Bank & Trust Company, Port Richmond, New York, provided that (a) the merger of the Staten Island National Bank & Trust Company into The Chase Manhattan Bank is effected substantially in accordance with the Plan of Merger dated May 15, 1957, as presented through the Federal Reserve Bank of New York, and (b) the merger and establishment of the branches are accomplished within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,
Bank of Rockville Centre Trust Company,
Rockville Centre, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch of the Bank of Rockville Centre Trust Company, Rockville Centre, New York, at 684 Dogwood Avenue, Store #1, Unit C, Morton Estates Shopping Center, in the unincorporated area of North Malverne, Nassau County, New York, provided the branch is established within six months from the date of this letter and the approval of the State authorities is effective at the time of its establishment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. John N. Page, Vice President,
National Newark & Essex Banking Company,
744 Broad Street,
Newark 1, New Jersey.

Dear Mr. Page:

This refers to your letter of May 29 inquiring how close the city of Newark, New Jersey, came to qualifying for designation as a reserve city under the standard for classification of reserve cities.

The standard is quoted in full on pages 86-87 of the Board's 1947 annual report. Briefly stated, Newark would have qualified as a reserve city when the last determination was made on March 1, 1957, if, on the basis of official call reports of condition in the two years ended June 30, 1956, member banks in the city had then held demand deposits due to other banks equal, on the average, to either:

(A) .33-1/3 of 1 per cent or more of the aggregate amount of such deposits reported by all member banks of the Federal Reserve System, or

(B) .25 of 1 per cent or more of the aggregate amount of such deposits reported by all member banks, and also equal to 33-1/3 per cent or more of the aggregate amount of all demand deposits held by member banks in Newark.

Official call reports of condition during the period October 7, 1954, through June 30, 1956, indicate that Newark member bank demand deposits due to banks averaged .30 of 1 per cent of the total of such deposits of all member banks in the United States. This was less than the prescribed minimum under (A), .33-1/3 of 1 per cent. With respect to the optional standard under (B), Newark member bank demand deposits due to banks averaged 5.1 per cent of their total demand deposits during the two-year period. This was much below the prescribed minimum of 33-1/3 per cent. Thus,
Newark did not quite qualify as a reserve city under provision (A), and the ratio of Newark member bank demand deposits due to banks to their total demand deposits fell far below the percentage that would have been necessary in order to qualify under the second part of provision (B).

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

cc: Mr. Alfred Hayes, President,
Federal Reserve Bank of New York.
Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the recommendation contained in your letter of May 29, 1957, the Board of Governors extends to January 18, 1958, the time within which Citizens Bank of Hattiesburg, Hattiesburg, Mississippi, may establish a branch in the vicinity of the intersection of 28th Avenue and Hardy Street in Hattiesburg, under the approval given by the Board in its letter of January 18, 1957.

It is noted the management has leased land at the southeast corner of 28th Avenue and Hardy Street and that architects are now drawing up plans for a building to house the branch, whereas it was stated in the original application that the branch would lease quarters in an existing building. In this connection, it is assumed consideration has been given to the provisions of Section 24A of the Federal Reserve Act relating to investments in bank premises.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Dear Sir:

The Board would appreciate receiving prompt advice of any action amending the bylaws of a Federal Reserve Bank and, as soon as available, a copy of such amendment or, if reprinted, a copy of the complete bylaws. The letter of advice should contain an explanation of the changes and, unless obvious, the reasons therefor.

As you know, it is not necessary for a Federal Reserve Bank to obtain the approval of the Board of Governors for bylaws issued pursuant to section 5 of the regulations covering branches of Federal Reserve Banks, nor is it necessary to obtain Board approval for amendments to such bylaws (F.R.L.S. #2780). However, the Board would like to be advised promptly of any action amending the branch bylaws, together with a letter explaining the changes. A copy of such amendment or a copy of reprinted branch bylaws also should be furnished the Board as soon as available.

This letter replaces the Board's letter of January 26, 1939 (S-143, F.R.L.S. #3075).

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

To THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
Dear Sir:

At the recent meetings of the Representatives of Bank Examination Departments of Federal Reserve Banks in Washington, it was mentioned that the Board was interested in data relevant to the study of bank capital adequacy. One possible body of such data could be accumulated through the employment of the form for analyzing bank capital. Accordingly, it was suggested that at one examination of each member State bank the field examiner prepare a copy of the capital form. This would be sent to the Board in duplicate with the examination report for a period of one year, or until each member State bank in every district had been covered.

It was contemplated that the field examiner would prepare the forms, inasmuch as he would have immediately available all the necessary information and would be able to make required adjustments on the basis of his intimate knowledge of the bank's condition. For the purpose of providing a uniform product, it was considered advisable that some individual in the office of the bank examination department in each Reserve Bank be responsible for checking each form.

The instructions for the use of the form are found on its reverse side. In addition, a full discussion of the form is provided in the mimeographed statement entitled "Appraising the Adequacy of a Bank's Capital," a supply of which is being sent under separate cover along with a supply of the forms. Other instructions are as follows:

(1) The gross amount of unearned discount should be deducted from loans before computing the capital requirement for this asset.

(2) "Hypothecated" savings accounts or balances in savings accounts that represent payments on account of loans should be used to reduce the loan totals before computing capital requirement.
(3) Analysis of "other asset" accounts should be made to assign appropriate capital percentages where amounts are significant.

(4) Bond trading accounts should be broken down into various types of securities so proper percentages may be applied.

The accuracy of the individual analyses will be greatly improved, if a special effort is made to include any "allowances for special factors" that may be appropriate, as provided in line (8) and also in the liquidity calculation. As indicated on the reverse of the form, the basis for such allowances should be indicated on the analysis form or on an attached page.

The employment of the form for analyzing capital as the basis for the accumulation of data relevant to the study of bank capital adequacy will, it is believed, produce information of value to the System. The results of the study will be supplied to you when available. It is suggested that your examiners start using the forms whenever convenient, but, if possible, not later than July 1, 1957.

Your cooperation in providing the requested information will be greatly appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
Mr. W. R. Diercks, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of June 5, 1957, the Board approves the designation of W. George Rickel as a special assistant examiner for the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.