

Minutes for September 20, 1957

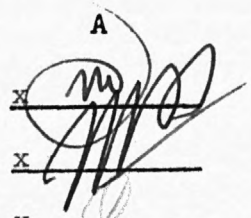
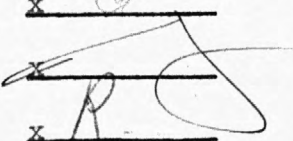
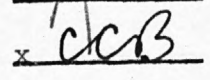
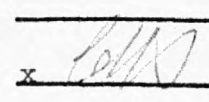
To: Members of the Board

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"/> 	_____
Gov. Szymczak	<input checked="" type="checkbox"/> _____	_____
Gov. Vardaman	<input checked="" type="checkbox"/> _____	_____
Gov. Mills	<input checked="" type="checkbox"/> 	_____
Gov. Robertson	<input checked="" type="checkbox"/> _____	_____
Gov. Balderston	<input checked="" type="checkbox"/> 	_____
Gov. Shepardson	_____	<input checked="" type="checkbox"/> 

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 20, 1957. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Johnson, Controller, and Director, Division of Personnel Administration  
 Mr. Hackley, General Counsel  
 Mr. Molony, Special Assistant to the Board  
 Mr. Hostrup, Assistant Director, Division of Examinations  
 Mr. Koch, Assistant Director, Division of Research and Statistics  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Solomon, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations

Discount rates. Telegrams to the following Federal Reserve Banks approving the establishment without change by the respective Banks on September 19, 1957, of the rates of discount and purchase in their existing schedules were approved unanimously:

New York  
 Philadelphia  
 Chicago  
 Minneapolis

1/ Entered meeting at point indicated in minutes.

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Major medical insurance. There had been distributed to the members of the Board memoranda from the Division of Personnel Administration relating to the proposed program of major medical insurance covering the Board's staff. It was agreed, at the suggestion of Chairman Martin, to postpone consideration of this matter until a meeting when Governor Shepardson was present.

Mr. Sprecher then withdrew from the meeting.

Application to organize a national bank at Lake Charles, Louisiana (Item No. 1). There had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank in Lake Charles, Louisiana.

The letter, of which a copy is attached hereto as Item No. 1, was approved unanimously.

Motion of Continental Bank and Trust Company for production of documents (Item No. 2). Pursuant to the action decided upon at the meeting of the Board yesterday, appropriate members of the Legal Division had prepared a Statement and Order denying the motion of Counsel for The Continental Bank and Trust Company, Salt Lake City, Utah, for the production of certain documents in connection with the current proceeding against that bank under section 9 of the Federal Reserve Act.

Following a brief discussion, during which it developed that some of the members of the Board had not yet had an opportunity to

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review the Statement and Order thoroughly, the suggestion was made that the Order be approved for execution and transmittal at 1:00 p.m. today unless by that time questions were raised by members of the Board.

This suggestion was approved unanimously, with the understanding that copies of the Statement and Order would be sent to the appropriate parties and also to the Federal Register for publication. A copy is attached as Item No. 2.

Secretary's Note: No questions having been raised, the Order was executed and transmitted later in the day.

Mr. Shay then withdrew from the meeting.

Designation of Puerto Rico as being in or of the Second Federal Reserve District for collection purposes (Items 3 through 7). In accordance with the discussion at yesterday's meeting of the Board, there had been distributed drafts of letters to the President of the Puerto Rico Bankers Association, the Secretary of the Treasury of Puerto Rico, and the Presidents of the Federal Reserve Banks of New York and Atlanta advising of the designation of Puerto Rico as being in or of the Second Federal Reserve District, effective January 1, 1958, for the purposes of the Board's Regulation J, Check Clearing and Collection, and Regulation G, Collection of Noncash Items.

It was suggested that in addition an appropriate telegram of advice be sent to all of the Federal Reserve Banks except New York and Atlanta for their information.



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Chairman Martin stated that he had not been able to reach President Bryan of the Atlanta Reserve Bank by telephone yesterday, but that Mr. Leonard, Director of the Division of Bank Operations, had talked with Mr. Shaw, Vice President in charge of the New Orleans Branch and a member of the Federal Reserve mission to Puerto Rico, who expressed agreement with the action to attach Puerto Rico to the New York Reserve District.

Governor Balderston inquired concerning the schedule for consideration of the establishment of a Federal Reserve agency in Puerto Rico, and Mr. Carpenter responded that it was proposed to present this question for consideration when the report of the Federal Reserve Study Group was available. He understood that the report probably would be ready next week.

Thereupon, by unanimous vote, Puerto Rico was designated as being in or of the Second Federal Reserve District for the purposes of Regulations J and G, effective January 1, 1958, with the understanding that formal announcement of the designation would be deferred pending receipt by the Federal Reserve Bank of New York of the usual agreements filed with a Federal Reserve Bank in such circumstances. Copies of the four letters and the telegram which were approved in connection with this action are attached hereto as Items 3 through 7, inclusive.

During the foregoing discussion Mr. Leonard entered the room.

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Study of small business financing. In a memorandum dated September 18, 1957, copies of which had been distributed to the members of the Board, Mr. Young discussed plans for initial work on the study of small business financing. To expedite the work, it had been decided to divide the project into three parts, each headed by a sub-project director. Director of the first part, the review and analysis of existing materials, would be Vice President Roosa of the Federal Reserve Bank of New York; director of the second part, the survey of lenders, would be Vice President Mitchell of the Federal Reserve Bank of Chicago; and director of the third part, the survey of borrowers, would be Mr. Brill, Chief of the Business Finance and Capital Markets Section in the Board's Division of Research and Statistics. Miss Burr and Mr. Koch, Assistant Directors of the Division of Research and Statistics, would have joint over-all responsibilities for the project. In the absence of ability at this time to estimate likely over-all costs, it was suggested that the Board approve partial cost estimates for the project. In a letter dated September 13, 1957, attached to the memorandum, Mr. Roosa had submitted an estimate of \$44,100 for the first part of the project, and it was recommended in Mr. Young's memorandum that the Board authorize an expenditure up to \$50,000 since the estimate for the work of the National Bureau of Economic Research in this part of the project was a minimum one and might be raised shortly.

The memorandum also stated that the addition to the project of a business loan survey had added another item of expense that it was

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not possible to estimate at this time, although the out-of-pocket cost to the Board should not exceed \$20,000. At the present time, authorization was requested to spend up to \$1,500 for the purchase of the forms for the survey.

Following comments by Mr. Young, Governor Vardaman stated that he was still concerned about getting the project cleared with the interested members of the Congress. He said that he would not like to see the Board progress too far on the project until some definite opinions could be obtained.

Chairman Martin then inquired of Mr. Young whether the proposals outlined in his memorandum represented the minimum of planning at this time, to which Mr. Young replied in the affirmative. He pointed out that if the planning for the survey was delayed until Congress returned there would be no possibility of producing any parts of the study for use in connection with the consideration of small business legislation at the next session.

Governor Vardaman stated that he would have no objection to going ahead on the business loan survey and that he was anxious to proceed with all the fundamental work on the small business financing study. However, he doubted whether the Board should carry the small business project beyond recall before the Chairman was able to reach a better understanding with those Senators primarily interested in the subject.

Chairman Martin noted that the questions which were raised by the Senators related merely to timing, to which Governor Vardaman replied that he interpreted Senator Clark's letter as taking the position that

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the need for the study was doubtful if it could not be completed by the first of next March. On this point, Governor Robertson expressed the view that the Board would be subject to criticism if it did not go forward with the project and be in a position to give the Congress as much information as could be made available by the first of March.

Mr. Young then reviewed contacts with others at the staff level, stating first that the Director of the Small Business Administration had expressed orally great interest in the study and had given assurances of full cooperation. In response to a suggestion by Governor Vardaman, he said that a memorandum of the conversation would be placed in the Board's files, as well as a memorandum of a meeting in which Under Secretary Williams and Assistant Secretary Mueller of the Commerce Department expressed interest and general sympathy with the undertaking, gave assurances of cooperation, and set up channels through which the Board's staff might work with the Department.

Mr. Young also reported a discussion with the staff of the House Select Committee to Conduct a Study and Investigation of the Problems of Small Business, saying that the staff exhibited considerable interest and a desire to cooperate in the small business financing project. Also, he said, the problems which he reported to the Board yesterday with respect to the business loan survey had now been completely resolved.

Mr. Young went on to say that another discussion, with staff members of the Senate Select Committee on Small Business, succeeded in



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clarifying certain misunderstandings regarding the nature of the program, particularly the survey of borrowers. The staff members appreciated the difficulties after they were explained and seemed satisfied that the survey of borrowers could not be completed by the first of next March. A discussion with the chief of the staff of the Joint Economic Committee elicited an expression of interest in the Board's undertaking the study, and a meeting was to be held today with the Chairman of the Council of Economic Advisers.

Following a statement by Governor Vardaman that the staff appeared to have done a fine piece of work in carrying out these discussions, Governor Balderston asked whether the relatively small out-of-pocket expenses anticipated in connection with the business loan survey reflected a smaller sample of reporting banks than in 1955. Mr. Young replied that the sample would be somewhat smaller and that tabulation procedures whereby much of the work would be done at the Federal Reserve Banks rather than at the Board's offices also contributed to the lower estimate.

Thereupon, the aforementioned recommendations contained in Mr. Young's memorandum were approved unanimously. No action was taken on the suggestion in the memorandum that the Board might wish to designate one of its members to authorize specific expenditures of funds in connection with the small business financing project, within broad authorizations which would be approved periodically by the Board as a whole.

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During the foregoing discussion Governor Szymczak joined the meeting. At its conclusion Messrs. Sherman, Riefler, Leonard, Young, Johnson, and Koch withdrew and Mr. Davis, Assistant Counsel, entered the room.

Application of Baystate Corporation under the Bank Holding Company Act. An application had been filed by Baystate Corporation, Boston, Massachusetts, pursuant to section 3(a) of the Bank Holding Company Act for the Board's prior approval of the acquisition of up to 60 per cent of the voting shares of Union Trust Company of Springfield, Springfield, Massachusetts, a State member bank. It was Baystate's intention, if the application should be approved, to merge its present subsidiary bank in Springfield (Springfield National Bank) into Union Trust Company under the title of The Valley Bank & Trust Company, and an application had been filed with the Board with respect to the proposed merger.

In a memorandum from the Division of Examinations dated September 9, 1957, copies of which had been distributed to the members of the Board, it was reported that the Commissioner of Banks for the State of Massachusetts favored approval of the application under the Bank Holding Company Act and that the Federal Reserve Bank of Boston recommended favorably. After thorough analysis, however, the Division of Examinations felt that the considerations as to convenience, needs, and welfare of the area fell short of counterbalancing the considerations involved in permitting the applicant bank holding company to strengthen its competitive

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position in the area to the extent that would result from approval of the application. Therefore, the Division recommended that the application be denied. In a memorandum dated September 12, 1957, which also had been distributed to the members of the Board, the Legal Division expressed the view that a decision either to deny or approve the application probably would be upheld by a reviewing court. It was thought desirable, if the Board was disposed to deny the application, to offer the applicant an opportunity to submit its views and comments. If the Board should decide to approve the application, it was presumed that the Board's order would be issued on the condition that no action would be taken which would have the effect of eliminating either Springfield National Bank or Union Trust Company as a separate functioning bank up to 60 days following the date of the Board's order so as to avoid the possibility of impairing the effectiveness of any aggrieved party's right under section 9 of the Bank Holding Company Act to seek judicial review of the Board's order.

After commenting on the factual situation, Mr. Hostrup said that no problem was presented from the standpoint of the first three factors required to be considered in an application of this kind. With respect to the convenience, needs, and welfare of the community and the area concerned, it seemed probable that some benefits would flow from the merger of the two banks, these being of the same nature as those usually derived from making a larger bank from two smaller ones. These benefits, it was pointed out, would not appear to depend

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on whether the bank holding company had control of the continuing institution; they would flow solely from the merger of the two banks. Therefore, so far as this application was concerned, the case was not felt to be strong. With respect to the fifth factor required to be considered, the Federal Reserve Bank was of the opinion that banking facilities in Springfield were now adequate, and it did not appear to the Division of Examinations that approval of the application was necessary in order to provide adequate banking services. On the other hand, there was no indication that approval of the application would introduce any unsound elements into the banking situation in the area. As to the effect on the public interest and preservation of competition in the field of banking, a principal question had to do with the area to be considered as the area of immediate competition. The applicant and the Federal Reserve Bank had considered an area within a radius of 15 miles of the center of Springfield, and if the application were approved Baystate would control in this area 32 per cent of the commercial banking offices and 28 per cent of the deposits of commercial banks. From available information, however, the Division of Examinations had concluded that the proper area to be considered for this purpose was the city of Springfield and communities contiguous to it. In that area Baystate would control 55 per cent of the commercial banking offices, and within the city itself Baystate would control 64 per cent of such offices. In the city of Springfield and contiguous communities, it would



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control 41 per cent of the deposits of commercial banks. The controlled institution would be the largest bank in the area and, although intensive competition might result between this institution and the existing Third National Bank of Springfield, competition between Union Trust Company and Springfield National Bank would of course be eliminated. While Baystate would not be dominant as to deposits, it would have quite a large percentage and the potential ability to obtain a percentage of deposits comparable to its percentage of offices.

In these circumstances, Mr. Hostrup said, it was the feeling of the Division of Examinations that considerations relating to convenience, needs, and welfare fell very far short of counterbalancing the considerations of public interest and preservation of competition in the field of banking.

Governor Vardaman said that he was very much in favor of approving the application, that he saw no soundness in the position of the Division of Examinations, and that this position seemed to him entirely fallacious and almost presumptuous. He would be inclined to go along with the State Commissioner of Banks and the Federal Reserve Bank of Boston, since he saw nothing in the picture that would be damaging to the communities concerned or to anyone else. Although, in principle, he disliked transactions of this kind, in this case he felt that the results would be advantageous.

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Chairman Martin commented that he also leaned in the direction of approving the application but that he felt the Board should weigh carefully the purposes of the bank holding company legislation, to which Governor Vardaman responded that he saw nothing in the situation that would do violence to the letter or spirit of the Bank Holding Company Act.

Governor Mills then read the following statement:

Having reviewed the memorandum regarding the application of the Baystate Corporation for prior approval of acquisition of voting shares of the Union Trust Company of Springfield, the writer concurs in the positions of the Federal Reserve Bank of Boston and of the Commissioner of Banks of Massachusetts that approval of the application is in order. It is not believed that the contrary position of the Division of Examinations is sustained by the facts presented.

The question at issue is whether a merger of the Springfield National Bank, presently controlled by the Baystate Corporation, with the Union Trust Company on a basis that would give the Baystate Corporation control over the merged institution -- to be entitled "The Valley Bank and Trust Company" -- is contrary to the spirit of the Bank Holding Company Act as respects the creation of a resulting bank beyond limits consistent with sound banking, the public interest, and the preservation of competition in the banking field.

Springfield has a population of 166,000, and taking in its contiguous communities, 283,600. The presently constituted Springfield National Bank and Union Trust Company are of moderate size and, in the writer's opinion, of inadequate financial ability to cater to a community of the size and importance of Springfield. Consequently, a merger of the two banks under discussion would produce an institution better able to serve the community's needs. The fact that the merged institution, together with the competing Third National Bank, would control a high percentage of Springfield's banking offices and commercial bank deposits is not felt to represent a concentration of commercial bank

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resources of sufficient amount to lessen undesirably competition or otherwise be contrary to the public interest. That position is strengthened by the fact that Springfield and the contiguous communities contain a number of large mutual savings banks that at least compete with the commercial banks in the mortgage loan field and definitely in the way of attracting deposits that can serve as a source of credit for the Springfield metropolitan area. In fact, the merger proposed, by resulting in a larger commercial bank, should be in a position to attract a rising volume of deposits with a related enhancement of ability to render credit services.

Local savings and loan associations are a further important source of credit competition in the Springfield area that serves to modify whatever evil is believed to reside in a further concentration of commercial banking resources in Springfield. All told, there are grounds for believing that the larger commercial bank that would be created by the merger would improve Springfield's financial facilities without the detriment of any substantial lessening of competition. For that matter, the remaining commercial banks in Springfield, if alertly and capably managed, should be in a position to grow with the community and in competition with their larger neighbors. Moreover, if the merger were approved, any further expansion of the new Valley Bank and Trust Company, at least as regards the establishment of branches, falls within the powers of the Federal Reserve Board to control if such expansion should be considered contrary to the public interest.

It is brought out in the memorandum that a merger of the two subject institutions can be accomplished without resulting in control passing to the Baystate Corporation. Even though that is the case, it is understandable that the Baystate Corporation would be unwilling to engage in the merger through a substantial investment without in result enjoying complete control of the merged institutions.

In the writer's opinion, the most compelling argument in favor of the merger is the size both of Springfield proper and its metropolitan area, being such as to require commercial banks large enough through their credit-granting facilities and branch facilities fully to cater to the present community and at the same time be in a position, through an enlarged size, to grow in pace with whatever growth the entire community may enjoy.



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Considering the Baystate application in relation to somewhat similar applications received from other bank holding companies wishing to expand their holdings within a single community, the writer continues to be of the opinion that the Board's decision should not devolve entirely on the concentration of banking resources within the community in question but, instead, on whatever concentration of banking resources results in the entire area that the bank holding company serves. Inasmuch as a bank holding company engages in statewide banking activities, a decision as to whether the expansion of its commercial bank interests should be allowed, in the writer's opinion should rest finally on an analysis of the concentration resulting in the entire area served rather than in a segment of that area, such as a single community. The present means of communication and transportation are such that commercial banking activities deserve to be surveyed from a distant rather than a near point of view when considering expansion problems. In any event, a different weight should always be placed on an application of a bank holding company to expand within a community as compared to an application providing for expansion into an entirely new community already enjoying banking services, and with the probability that the latter type of expansion should be prohibited as being contrary to the spirit of the Bank Holding Company Act of 1956.

Governor Vardaman added to his earlier comments by saying that he had thought very seriously about this matter and in so doing had contacted two close personal acquaintances in the area, one a certified public accountant and the other a manufacturer. He was told, he said, that there was a need for a larger bank in the Springfield area, the manufacturer having stated that he had his banking connections outside the city of Springfield because no adequate line of credit was available for him in that city. Governor Vardaman agreed with the Division of



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Examinations that the same benefits might be derived through a merger, if adequate management was available, but he doubted whether the "talent and approach" were to be found in Springfield. To derive the full benefits, he felt that it might be necessary to inject outside influence and thinking. So far as the analysis of controlled deposits was concerned, he thought that the Division of Examinations had wisely made this analysis in view of the policy of the Board, but he questioned the meaningfulness of such figures in the absence of information about the ownership of the deposits. From his knowledge of the Springfield area, he thought it likely that a large percentage of the deposits came from outside the city and that there was little connection between the percentage of deposits and actual control of the situation.

Governor Robertson expressed the opinion that the Division of Examinations had not been presumptuous in its approach and that it had done exactly what it should do in presenting a matter of this kind to the Board. He then pointed out that technically the application under the Bank Holding Company Act was only to acquire the Union Trust Company and must be considered separately from the proposed merger. Therefore, the views which might be held on an application involving a merger of Union and Springfield would not necessarily apply to the application now before the Board - in fact, an approval of this application would not necessarily be followed by a merger. He did not deem it necessary to go into the facts of the case at this time because of the memorandum from the Division of Examinations and Mr. Hostrup's summary at this meeting, but on the basis of those facts his views were as set forth in the following statement which he read:

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Springfield, the third largest city in Massachusetts and the largest city in the western half of that State, is now served by four substantial commercial banks. Baystate Corporation controls the third largest of these (Springfield National Bank), and the Board has been asked to authorize it to acquire the second largest (Union Trust Company). Baystate informs us that it plans to merge the two banks; this would give it the largest bank in the area, with a lending limit more than double that of its nearest competitor.

As in other cases, we encounter here the contention that, after this proposed acquisition and merger, banking in Springfield will be served by two large banks that will compete vigorously with each other, and therefore competition will not be lessened. If the Board accepts this argument, it means in effect that whenever a holding company gains a foothold in a city it may acquire its competitors until it has the largest bank in the city.

It seems clear to me that the proposed acquisition would expand the holding company system "beyond limits consistent with . . . the preservation of competition in the field of banking", within the meaning of that provision of the Holding Company Act. Consequently, the Board would be justified in approving the acquisition only if the favorable aspects, under the other factors enumerated in section 3(c), were sufficient to outweigh the adverse "preservation of competition" factor. After studying the detailed memorandum of the Division of Examinations, I agree with its conclusion that the very limited favorable factors "fall short of counterbalancing the considerations involved in permitting the applicant bank holding company to strengthen its competitive position in the area to the extent that would result from approval of the application." Accordingly the application should be denied.

Governor Szymczak commented that one of the problems in a matter of this kind is the absence of a yardstick, which would appear to mean that the only way to provide a yardstick was to take positions in cases as they developed. He subscribed wholeheartedly in this case to the position taken by the Division of Examinations and by Governor Robertson.

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Governor Balderston said that, like Governor Mills, he was impressed by the fact that in communities like Springfield the growth of industries calls for banks with greater lending power. After citing the lending limits of the existing banks in Springfield, he said that his doubts and concerns about the questions being discussed centered around a point mentioned by Governor Mills in his statement; namely, the distinction between intensive competition within a particular geographical area and extensive competition. It seemed to him that here the Board was dealing with the first of these situations, and although he recognized the value of the points raised by Governor Robertson having to do with the number of active competitors - that is, the danger of getting the number too small - he also felt that the tides sweeping the industrial scene were moving in a direction that would make Governor Mills' proposition the only one that established a guide for the long-term future. He said that he would like to see all of the existing banks in the country remain in existence and be healthy, but that he did not think this would happen because of the forces which are at work. In these circumstances, he would favor approving the application of Baystate Corporation.

Chairman Martin said that he found this a very difficult case and that nothing had transpired to alter his original judgment. His emotions and sympathies, he said, were on the side of the position of the Division of Examinations, but his head ran the other way. He would like to see



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unit banking supported, and this was one of the difficult problems in the area of bank holding company legislation and the whole field of bank supervision. It appeared to him that no adequate legal distinctions had been provided, the Board's Clayton Act proceeding against Transamerica Corporation being a case in point. As the result of that case, he was convinced that there was no practical way of establishing the matter of a lessening of competition. In this case, he would hesitate very much to go against the recommendation of the Reserve Bank, certainly unless the Reserve Bank was given an opportunity to have its representatives meet with the Board to present their side of the case. He said that he regarded this as a very important application because the Board was getting deeper and deeper into this kind of problem and he did not know where the end was. He therefore regretted the absence of Governor Shepardson; he was wondering whether the Board should hold this application in abeyance until Governor Shepardson could be present and also until representatives of the Boston Bank could meet with the Board.

Chairman Martin then inquired as to the element of timing, and Mr. Hostrup said that Baystate was anxious to accomplish this transaction, particularly since the news had leaked in Springfield some time ago. In addition, as pointed out by the Legal Division in its memorandum, there would have to be an additional waiting period of 60 days before accomplishment of the merger if the Board approved the application under the



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Bank Holding Company Act. There had been repeated inquiries by the Boston Reserve Bank, he said, and it was understood that Baystate had been pressing the Reserve Bank. However, in this case there were no options or similar arrangements with specific deadlines.

In response to a question by Chairman Martin, Mr. Hackley said that from a strictly legal viewpoint it was the opinion of the Legal Division that a decision either way on this application could be upheld. From a personal standpoint, however, he felt that the objectives of the holding company legislation must be borne in mind; these objectives are not to improve banking facilities but to regulate bank holding companies. In this case a large independent bank would be eliminated in a large community, and it appeared that there was a serious question about the area of competition that should be taken into consideration in applying the factors required to be considered by the Bank Holding Company Act. While this was undoubtedly a close case, nevertheless it seemed to him that it came quite close to the kind of transaction that the Congress may have intended to prevent. He repeated that the purposes of the Act, particularly as indicated by the fifth factor required to be considered in a matter of this kind, are not to improve banking facilities but to regulate the expansion of bank holding companies in the interest of maintaining as many independent banks as possible.

Governor Vardaman asked what weight, if any, should be given to the opinion in the Transamerica case with reference to the arbitrary

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outlining of the area of competition, and Mr. Hackley responded in terms of the differences between the statutes involved; that is, between the Clayton Act and the Bank Holding Company Act. In the Baystate case, it could of course be argued that the degree of expansion would not be enough to result in undue concentration, but it could likewise be argued that approval of the application would be contrary to the intent of the Congress.

Governor Mills commented that it would be hard to believe that the Congress, in passing the Bank Holding Company Act, had in mind the preservation of competition when such preservation would create the possibility of stifling or handicapping the growth of the area in which the competition existed. Mr. Hackley said that he would agree with that statement.

There followed a discussion of the lending limits of the existing banks in Springfield as compared with the lending limit of the institution that would result from the proposed merger. In view of the existing limits, Governor Robertson expressed doubt about the inability of the manufacturer mentioned by Governor Vardaman to obtain adequate credit from the local banks, and Governor Vardaman acknowledged that there might be a number of factors involved other than the lending limitation itself.

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At the request of the Chairman, Mr. Hostrup then reviewed telephone conversations between the Board's staff and the Boston Reserve Bank on this matter and brought out that it had not been considered appropriate to advise the Reserve Bank of the Division's recommendation prior to presenting the application to the Board for consideration. He said the Boston Bank had been reminded of the difficult problems presented by a case of this kind and had been assured that the Board's staff was proceeding as rapidly as careful analysis of the application would permit.

Chairman Martin then expressed the opinion that this case was of too much importance, and the questions too close, to make a decision on a split vote of the Board without having the views and opinions of all concerned. Therefore, regardless of the element of timing, he felt that the Board should invite representatives of the Boston Reserve Bank to meet with the Board and express their views. In making this statement, Chairman Martin explained that at this point he was reserving his own vote. This meant that if he should vote to deny the application, there would be no majority opinion among the members of the Board present.

Accordingly, it was agreed that the Reserve Bank should be invited to have its representatives meet with the Board on Wednesday, September 25, if possible, this being a date on which all of the members of the Board would be available.

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Governor Vardaman then made a further explanation of the views which he had expressed at previous meetings and earlier at this meeting regarding the use of figures giving the percentage of controlled deposits in an area in presenting an application of this nature for the Board's consideration. He again expressed the opinion that such figures are not meaningful without an analysis of the ownership of the deposits, and he questioned whether the record should appear to indicate that any application was being judged on that basis.

In a discussion of this point, Chairman Martin expressed the view that it was important for the Board to have these percentages, along with other material, for use in analyzing a given case, recognizing that their value was limited to some extent.

Governor Vardaman then suggested that it might be desirable as a matter of record to indicate in material prepared by the Division of Examinations that these percentages were being presented without information on the ownership on the deposits.

Question was raised at this point whether the memoranda from the Division of Examinations and the Legal Division on the Baystate application should be furnished to the Federal Reserve Bank of Boston for study prior to the proposed meeting with the Board, and it was agreed that copies of the memoranda should be sent to the Bank.

The meeting then adjourned.



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Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals, Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board the following items affecting the Board's staff:

Appointment

Ava Mae Landes as Records Clerk, Office of the Secretary, with basic annual salary at the rate of \$3,415, effective the date she assumes her duties.

Transfer and salary increase

Patricia L. Gannon, from the position of Minutes Clerk in the Office of the Secretary to the position of Secretary on the Defense Planning staff, with an increase in her basic salary from \$3,805 to \$4,080 per annum, effective September 22, 1957.

Pursuant to the recommendation contained in a memorandum dated September 18, 1957, from Mr. Hackley, General Counsel, Governor Mills, acting in the absence of Governor Shepardson, today approved on behalf of the Board an increase in the basic annual salary of Sara M. Viglucci from \$3,670 to \$3,805, with a change in title from Stenographer to Secretary in the Legal Division, effective September 22, 1957.

Pursuant to the recommendation contained in a memorandum dated September 20, 1957, from Mr. Marget, Director, Division of International Finance, the available members of the Board today approved a two-week extension of the trip to the Far East now being made by Reed Irvine, Economist in that Division.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1  
9/20/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1957

Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention Mr. W. M. Taylor,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

This will acknowledge your letter of March 7, 1957, enclosing copy of an application to organize a national bank at Lake Charles, Louisiana, requesting a recommendation whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner of the Federal Reserve Bank of Atlanta discloses generally favorable findings with respect to the adequacy of the capital structure of the proposed bank, its future earnings prospects, and the needs for its services in the community. It is indicated that the volume of capital funds available for the bank has been revised on several occasions and now totals \$750,000. The examiner has also approved the general character of the bank's management, but it seems desirable to make some qualifying comment in this connection. It is believed that the proposed directors are capable of supervising the affairs of the bank, but there is a possible lack of maturity and seasoned banking experience in respect to the proposed chief executive officer, Mr. Tom A. Flannagan, Jr. However, on the basis of the information available, the Board of Governors would recommend approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.

UNITED STATES OF AMERICA

Item No. 2

9/20/57

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of

THE CONTINENTAL BANK  
AND TRUST COMPANY  
Salt Lake City, Utah.STATEMENT AND ORDER ON RESPONDENT'S  
MOTION TO PRODUCE DOCUMENTS

Under date of September 17, 1957, the Examiner in this matter certified to the Board of Governors, pursuant to Rule III (f) of the Board's Rules of Practice for Formal Hearings, the following for consideration and disposition:

1. Motion of Respondent to produce documents.
2. Respondent's memorandum in support of motion to produce documents.
3. Response of special counsel to the Board to Respondent's motion to produce documents and memorandum in support thereof.

## I

Part I of Respondent's motion requests certain documents which it describes as "constituting the source materials for Exhibits 141 to 146, 160 to 163, 165 to 168 for each individual bank in the 19-bank group making up the study shown on such Exhibits ...." With respect to each of these 19 banks the motion requests seven different classes of documents, including such things as earnings and dividends reports, operating ratio work sheets, reports of condition, Forms 416 and 416a, and certain pages from reports of examination.

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One item requested is "FDIC Call No. 7". As the name implies, this is a report submitted to the Federal Deposit Insurance Corporation. These reports are not under the control of the Board of Governors of the Federal Reserve System, and the Board is not in a position to produce them. Accordingly, regardless of whatever arguments might exist for the disclosure or nondisclosure of these reports, the motion must be denied as to their production. It may also be noted, however, that information from this report was not used in any way in the preparation of the exhibits referred to in Respondent's motion.

Another item referred to in Respondent's motion is "Reports of Condition". These reports include both published and unpublished information. The published portion of this information is already available to Respondent in the newspapers in which the banks were required to publish their reports pursuant to law and regulations. Much of the same information is also available to Respondent through other sources, such as bankers directories. Notwithstanding the availability of this information to Respondent from other sources, the Board would have been disposed to supply it to Respondent as a matter of convenience if there had been a timely request. It may be recalled that the Board by its Order of October 8, 1956 supplied Respondent with compilations of certain other published information. However, in view of the failure of Respondent to request the present published information until this time, which would necessarily involve needless delay if the Board compiled this material at this stage, the Board will not compile this published information for Respondent.



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All the other information requested by Respondent in this part of its motion is unpublished information of the Board which is subject to section 8(a) through 8(d) of the Board's Rules of Organization (12 CFR 261.3(a) - 261.3(d)), the effect of which is to forbid disclosure by any person of any unpublished information of the Board to anyone, with stated exceptions, unless authorized by the Board. As indicated in the Statement and Order issued by the Board on October 8, 1956, with respect to a somewhat similar request of Respondent, in connection with all such requests the Board has a two-fold consideration. It must consider the interest of the parties in obtaining a hearing conducted without sacrifice of substantive or procedural rights. On the other hand, the Board must give consideration to the interests of nonparties, including other banking establishments and the public, both of which will be affected by the manner in which a proceeding of this kind is conducted.

As more fully explained in the Statement and Order of October 8, 1956, section 8(d) of the Board's Rules of Organization sets forth reasons for nondisclosure of unpublished information, including harmful results which may flow from improper disclosure of such information. Production of the materials requested by Respondent would, in the opinion of the Board, tend to bring about such harmful results. This conclusion is sufficient basis for denial of the requests.

The Board, however, is fully mindful of the interest of Respondent in having available to it all relevant material reasonably calculated to assist in the conduct of its case. The Board gives great

weight to this consideration, together with the interests of non-parties, including other banking establishments and the public, in this question. Accordingly, the Board has not merely considered the factors which point toward nondisclosure of the information requested, but has also given careful consideration to the reasons urged by Respondent for the production of the documents.

When the views urged by Respondent are considered in the light of the references given by Respondent to the record, the Board is unable to agree with Respondent's contentions as to the importance or the relevancy of the information requested. Special counsel to the Board has stated in his response to Respondent's motion that the information presented with respect to the 19 banks in question has been for a "very limited purpose in the overall aspects of the record of the case", and the portions of the record to which the Board has been referred by Respondent do not conflict with that statement. It also appears that Respondent has been supplied with what, in effect, were the work sheets (Exhibits 264 through 270) used by Board witnesses in compiling the comparative exhibits of the 19-bank group. The figures in the work sheets were scrambled so that it is impossible to identify figures with respect to any one of the 19 banks. It may be noted also that, as in the case of "FDIC Call No. 7", there was no use made of requested "Form 416 and 416a" in preparation of the exhibits referred to in Respondent's motion.

Respondent states in Part III of its motion that the information to be supplied "should exclude the names of the banks involved, the names of any persons and contain such other editing as will preserve the anonymity of the banks involved without impairing their usefulness." In view of the limited purposes of the 19-bank data, it is not apparent from Respondent's motion or memorandum in support thereof how the information already supplied fails to meet reasonable needs of Respondent. Neither does it seem possible to "preserve the anonymity of the banks involved" if the further unpublished information requested by Respondent were supplied. In the circumstances, and in the light of the limited purposes for which the 19-bank data were introduced in evidence, production of the unpublished information requested by Respondent does not appear to be justified on the basis of the facts thus far presented to the Board.

For the foregoing reasons, Part I of Respondent's motion will be denied.

While, for the reasons indicated, it appears that Respondent has failed to demonstrate any justification for the disclosure of this unpublished information, at the same time the Board does not wish to preclude Respondent from presenting its contentions with respect to this point to the Examiner at the conclusion of the introduction of all evidence, or to the Board after the Examiner has submitted his report,

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if the Respondent is in a position to show by reason of subsequent developments or testimony in the hearing or otherwise a reasonable necessity for further consideration of this matter.

Accordingly, the denial of Part I of Respondent's motion is without prejudice to the right at a later date of the Respondent to present, and the Examiner to consider, on the basis of the whole record in this proceeding, any further arguments which Respondent may wish to present in favor of the production of these documents or as to limitations, if any, which Respondent may believe should apply to the use of the 19-bank data as a consequence of the denial of the present motion.

## II

Part II of Respondent's motion requests information substantially similar to that requested in Part I, except that it relates to a group of 25 commercial banks, "or such lesser number as is available", which meet certain tests specified by Respondent. It may be noted that there are only 8 banks that meet the tests, and 5 of these are included in the 19-bank group referred to in Part I of Respondent's motion.

Parts III and IV of Respondent's motion are so closely related to Parts I, II and V that they need not be discussed separately.

Part V of Respondent's motion renews its request for the documents and records specified in numbered paragraphs 1, 2, and 3 of its Supplemental Motion for Production of Records and Documents, filed



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September 21, 1956, which, in brief, requested (1) lists of all banks the capital of which has been considered inadequate by the Board or a Federal Reserve Bank, and (2) detailed information with respect to each such bank. That Supplemental Motion was dealt with in the Board's Statement and Order of October 8, 1956, mentioned above. Part V also requests such additional information as may be necessary to prepare a Board Form of Analysis as to each such bank and to determine the secondary risk asset ratio for each bank and otherwise analyze said banks and the standards of capital adequacy applied thereto by the Board, including the documents specified in Parts I and II of Respondent's present motion with respect to the 19- and 25-bank groups.

These requests are subject to considerations similar to those discussed in connection with Part I of Respondent's motion. In addition, the smaller number of banks in Part II would not only make it relatively easy to identify individual banks, but would render the group less useful for comparative purposes than the larger 19-bank group already in the record. Respondent has not referred the Board to any portions of the record in this proceeding which would render information relating to the banks described in Part V of Respondent's motion relevant to the proceeding.

For the reasons indicated, the requests in Parts II and V of Respondent's motion will be denied.

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As in the case of Part I of Respondent's motion, the Board does not wish to preclude Respondent from presenting its contentions with respect to Parts II and V of its motion to the Examiner at the conclusion of the introduction of all other evidence, or to the Board after the Examiner has submitted his report, if the Respondent is in a position to show by reason of subsequent developments or testimony in the hearing or otherwise a reasonable necessity for further consideration of this matter.

Accordingly, the denial of Parts II and V of Respondent's motion is without prejudice to the right at a later date of the Respondent to present, and the Examiner to consider, on the basis of the whole record in this proceeding, any further arguments which Respondent may wish to present in favor of the production of these documents.

ORDER

For the reasons set forth in the foregoing statement,

IT IS ORDERED,

That all parts of Respondent's Motion To Produce Documents be and the same hereby are denied.

This 19th day of September 1957.

By order of the Board of Governors.

(SEAL)

Washington, D. C.  
September 19, 1957.

(Signed) S. R. Carpenter

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S. R. Carpenter,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 3  
9/20/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1957.



AIR MAIL

Mr. A. F. Armstrong, President,  
Puerto Rico Bankers Association,  
P. O. Box 3989,  
San Juan, Puerto Rico.

Dear Mr. Armstrong:

The Board of Governors is pleased to learn from your letter of September 11, 1957, to Mr. Leonard, Director of the Board's Division of Bank Operations, that by unanimous decision of the Puerto Rico Bankers Association all Puerto Rican banks have agreed to go on par clearance January 1, 1958.

In view of that decision, the Board of Governors has designated Puerto Rico as being in or of the Second Federal Reserve District (New York), effective January 1, 1958, for the purposes of the Board's Regulations J and G, which pertain to check clearing and collection and collection of noncash items, respectively. This is a necessary technical step in order to permit such items payable at nonmember banks outside the continental United States to be collected through the Federal Reserve collection system.

Formal announcement by the Board of such designation will be deferred pending receipt by the Federal Reserve Bank of New York of the usual agreements filed with a Federal Reserve Bank in such circumstances. This timing should permit the announcement by the banks in Puerto Rico of their decision in accordance with the program referred to in your letter.

The Federal Reserve Bank of New York will in a short time furnish the Puerto Rican banks with the information you request as to the procedures to be followed in the handling of the cash letters that will be forwarded by the Federal Reserve Bank of New York to banks in Puerto Rico.

You are correct that a routing symbol is assigned each par-remitting bank, and that this symbol imprinted on a check indicates that it is collectible at par through Federal Reserve Banks. (Of

Mr. A. F. Armstrong

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course, the check may also be collectible through other banking channels.) The symbol also indicates the particular Federal Reserve Bank or branch through which the check is collectible. These symbols are assigned by the respective Federal Reserve Banks. Accordingly, the Federal Reserve Bank of New York will advise the Puerto Rican banks of the new symbols.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25. D. C.

Item No. 4  
9/20/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1957.

Dr. Rafael Pico,  
Secretary of the Treasury,  
Commonwealth of Puerto Rico,  
Department of the Treasury,  
San Juan, Puerto Rico.

Dear Dr. Pico:

The Board is pleased to learn that the banks in Puerto Rico have agreed to go on par clearance January 1, 1958. In order to bring Puerto Rico within the scope of the Federal Reserve Bank collection system, the Board has designated Puerto Rico as being in or of the Second Federal Reserve District (New York), effective January 1, 1958, for the purposes of the Board's Regulations J and G, which pertain to check clearing and collection and collection of noncash items, respectively.

Enclosed are a copy of the letter dated September 11 from Mr. Armstrong, President of the Puerto Rico Bankers Association, advising of the decision of the members of the Association, and of the Board's reply of today's date. You will note from the Board's letter that announcement by the Board of the designation of Puerto Rico as being attached to the Second Federal Reserve District will be deferred pending the developments referred to in Mr. Armstrong's letter.

The report of the Federal Reserve Study Group on its recent visit to Puerto Rico is ready for duplication and should be in your hands before long.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Enclosures 2

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 5  
9/20/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1957



Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Hayes:

Mr. Armstrong, President of the Puerto Rico Bankers Association, has advised the Board that the banks in Puerto Rico have decided to go on par clearance January 1, 1958. In view of this decision, the Board has designated Puerto Rico as being in or of the Second Federal Reserve District for the purposes of the Board's Regulations J and G, effective January 1, 1958.

Enclosed for your information are copies of Mr. Armstrong's letter of September 11 and the Board's reply of today's date. Formal advice of the designation in the form that it will appear in the Federal Register will be sent you at the same time it is sent to that publication.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Enclosures 2

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 6  
9/20/57

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1957

Mr. Malcolm Bryan, President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Bryan:

The Board has been advised that the banks in Puerto Rico have decided to go on par clearance effective January 1, 1958, and the Board has designated Puerto Rico as being in or of the Second Federal Reserve District, effective January 1, 1958, for the purposes of the Board's Regulations J and G.

Enclosed for your information are copies of a letter dated September 11 from Mr. Armstrong, President of the Puerto Rico Bankers Association, and of the Board's reply. Enclosed also is a copy of the memorandum dated September 17, 1957, from Mr. Leonard to the Board regarding the matter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Enclosures 3

T E L E G R A M  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTONItem No. 7  
9/20/57

September 20, 1957

To: The Presidents of all Federal Reserve Banks  
except New York and Atlanta

For your information Board had designated Puerto Rico as being in or of Second Federal Reserve District effective January 1, 1958 for purposes of Regulations J and G. No public announcement by the Board of these designations will be made pending receipt by the New York Bank of usual agreements filed in such circumstances. Advice of changes in footnote 1 of Regulations J and G will be sent to you later.

(Signed) S. R. Carpenter

Carpenter