

Minutes for October 18, 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	<u><i>MS</i></u>	x <u><i>M</i></u>
Gov. Szymczak	x <u><i>MS</i></u>	_____
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	x <u><i>MS</i></u>	_____
Gov. Robertson	x <u><i>R</i></u>	_____
Gov. Balderston	x <u><i>CB</i></u>	_____
Gov. Shepardson	x <u><i>CS</i></u>	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 18, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Economic Adviser to the Board
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Hackley, General Counsel
 Mr. Masters, Director, Division of Examinations
 Mr. Solomon, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Benner, Assistant Director, Division of Examinations
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations

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.

Memorandum dated October 14, 1957, from Mr. Marget, Director, Division of International Finance, expressing his willingness, in the absence of objection on the part of the Board, to accept an invitation from the Staff Director of the House Subcommittee on Foreign Trade Policy to participate in a series of panel discussions scheduled for December 2-14, 1957.

1

10/18/57

-2-

Item No.

Memorandum dated October 8, 1957, from Mr. Young, Director, Division of Research and Statistics, recommending that Mr. Robinson, Adviser in that Division, be authorized to participate in a working group meeting on the measurement of saving arranged by the Conference of European Statisticians, and to be held in Geneva, Switzerland, November 11-15, 1957; and that Mr. Robinson also be authorized to visit the Bank of England.

2

Letter to Hempstead Bank, Hempstead, New York, approving the establishment of a branch in the Village of Baldwin. (For transmittal through the Federal Reserve Bank of New York)

3

Letter to the Federal Reserve Bank of Chicago extending the time within which City Bank, Detroit, Michigan, may establish a branch in the vicinity of Mack Avenue and Cadieux Road.

4

Letter to the Federal Reserve Bank of San Francisco regarding a question raised by the most recent examination of Fidelity Bank, Los Angeles (Mar Vista), California.

5

In a discussion preceding the approval of Item No. 5, Governor Mills pointed out that the report of examination seemed to indicate that the management of Fidelity Bank might be using the institution as a vehicle for providing funds to engage in mortgage operations. It was his impression, however, that as long as the quality of the bank's assets was satisfactory, not much more could be done from a supervisory standpoint than to offer advice and suggestions. After Mr. Masters had commented that the bank, of course, was engaged in regular banking activities as well as the functions mentioned by Governor Mills, the latter referred to the

10/18/57

-3-

possibility that the attractiveness of the fees obtained for servicing mortgages would be such as to induce the bank to lower the quality of its mortgage loans. Governor Robertson agreed that a bank engaged in this kind of operations must be watched very carefully. In this connection, it was pointed out that, as stated in the letter to be sent to the Federal Reserve Bank of San Francisco, an extension of the mortgage servicing business to the extent understood to be contemplated by the bank would undoubtedly constitute a change in the character of its business which would require the Board's prior consent.

Applications of First National City Bank and others. There had been circulated to the members of the Board proposed letters to the National Labor Relations Board and the United States Civil Service Commission which would advise that Mr. Charles W. Schneider, Hearing Examiner, had filed his report and recommended decision in the matter of the applications of First National City Bank of New York and others under the Bank Holding Company Act, that the Board did not now have pending before it any other proceedings for which it would require additional examiners, and that it did not appear at present that Mr. Schneider's services would be required after December 31, 1957, the date until which his detail was extended.

Governor Robertson noted that Mr. Schneider's recommended decision was based on the conclusion that the applications in question

10/18/57

-4-

could not be approved by the Board of Governors as long as the current New York State freeze statute on bank holding companies was in effect, and that the Hearing Examiner's report did not go into or make findings with respect to the merits of the applications in the light of the factors which the law requires the Board to consider in a case of this kind. In the circumstances, he inquired whether Mr. Schneider's services should be released until the Board had decided whether it would like to have him render a recommended decision on the merits of the applications.

Mr. Hackley responded that the Legal Division had considered such a possibility. If it developed that the Board disagreed with the Hearing Examiner's conclusion with respect to the law, it might, of course, be necessary to review the record of the case in the light of the five statutory factors, which could involve either remanding the matter to the Hearing Examiner for a further opinion or having the Board's staff analyze the record. However, he said, the letters now presented to the Board were drafted in the thought that the period of Mr. Schneider's loan to the Board would not expire until the end of 1957; they would serve to advise that for the time being Mr. Schneider had completed his work in connection with the applications under the Bank Holding Company Act and he could be used for other matters.

Mr. Hackley went on to say that it was the intention of the

10/18/57

-5-

legal staff to submit to the Board a memorandum with respect to the question of law on which the Hearing Examiner based his decision, with the thought that if the Board agreed with the Hearing Examiner, there would be no need to consider the matter at this time on the basis of the statutory factors. However, the Board might prefer to have the benefit of the Hearing Examiner's views and recommendation on the merits of the case irrespective of the legal point on which he had based his conclusion.

Governor Mills said he did not feel that the case could be considered properly without such a recommendation. If that was not available, he felt that he would be obliged to read all of the evidence that was given at the hearing.

Governor Balderston indicated that he was inclined to agree with the point of view expressed by Governor Mills. He observed that the Hearing Examiner's recommended decision appeared to have no relationship to the facts developed at the hearing concerning the merits of the case. It was his thought that the Board should have the benefit of the Hearing Examiner's analysis of those facts, for it might be that the Board would not agree with the Examiner's recommendation with respect to the legal question and would want to render a decision based on the merits of the applications.

Mr. Hackley recalled that last spring the question whether the hearing should be allowed to proceed was considered by the Board.

10/18/57

-6-

At that time it was agreed that the hearing should proceed, notwithstanding the State freeze statute, but the question of how the State law would affect the Board's decision in the case was left for consideration after the hearing had been concluded, all the evidence had been submitted, and the Board had the benefit of the Hearing Examiner's views along with those of counsel for the various parties to the proceeding. Hence, the Board now had before it the question of whether it was barred as a matter of law from approving the applications. The Legal Division, he said, hoped to have a memorandum on this phase of the case ready for the Board as soon as all briefs to be submitted by the parties to the proceeding were available and could be studied.

Governor Mills commented on the precedent-making character of the case and on the mass of evidence now fresh in the minds of those who attended the hearing. In the circumstances, he felt that it was the responsibility of the Board to have this information analyzed, even if the Board should subsequently decide that the Hearing Examiner was correct and that it was barred from rendering a decision based on the merits of the applications as long as the State freeze statute was in effect. He expressed doubt whether analysis of the evidence would necessitate remanding the case to the Hearing Examiner, who had already submitted a report and recommended decision. Rather, it seemed to him that this analysis of the evidence would be something that the Board might request from its staff for its own benefit.

10/18/57

-7-

Mr. Hackley then stated that it was a question of what the Board, in its judgment, considered the preferable procedure. Remanding the case to the Hearing Examiner would mean that he would have to submit another report. On the other hand, if the Board should request its staff to analyze the evidence presented at the hearing and then should issue a final opinion, the parties to the proceeding would not have had an opportunity to file exceptions to the proposed decision on the merits, while they would have such an opportunity if the Hearing Examiner submitted another report. An alternative possibility would be to make any decision of the Board on the merits effective after a period of 30 or 60 days, within which time the parties to the proceeding would be given an opportunity to file exceptions and argue the points.

After Governor Mills said that such a procedure would appeal to him, Governor Shepardson asked whether the Board's staff could be expected to prepare an analysis of the evidence as promptly as the Hearing Examiner. If not, he wondered whether it would not be logical to ask the Hearing Examiner to provide a recommendation based on the substantive facts as well as on the legal question.

Governor Mills expressed doubt whether a review of the record by the Hearing Examiner would remove the responsibility for staff review, and Mr. Hackley commented that an analysis by the Examiner would be of considerable help to the staff.

10/18/57

-8-

In further discussion, Governor Mills pointed out that a decision by the Board to remand the case to the Hearing Examiner for a report on the merits of the applications probably should be the subject of public notice, which might create a suspicion on the part of interested parties that the Board was not satisfied with the Examiner's report and might be influenced by a review based on the merits. To this, Mr. Hackley added that remanding of the case to the Examiner might be taken by the public as an indication that the Board was not in agreement with the Examiner's conclusions on the point of law involved.

Mr. Hackley then said that, without prejudging the case at all, if the Hearing Examiner was right on the question of whether the Board was barred legally from approving the applications at this time, the Examiner must also be right in thinking that the Board could not consider the case at this time in the light of the statutory factors required to be considered in a matter of this kind pursuant to the Bank Holding Company Act. Therefore, it would seem that the Board must first look at the legal question. He repeated that the Legal Division planned to submit to the Board a memorandum on the legal question very shortly after receipt of the briefs filed by the parties to the proceeding.

Governor Mills concluded this portion of the discussion by again stating that at some time, and particularly while the evidence

10/18/57

-9-

was fresh in people's minds, he felt that the evidence that had been given should be analyzed as a matter of academic interest if nothing more. He considered the legal problem inseparable from the problem of the public interest, and he felt that he could not accept the Hearing Examiner's current recommendation without inspection of the other parts of the hearing record.

Discussion then reverted to the letters proposed to be sent to the National Labor Relations Board and the United States Civil Service Commission. It was agreed unanimously not to send the letters, at least at this time, because it appeared that they might be premature in the light of the points developed at this meeting. Also, the sending of such letters did not appear to be essential and such action would constitute a precedent that the Board might not want to follow in other cases under the Bank Holding Company Act.

Extension of time for filing exceptions and briefs and granting of request for oral argument (Item No. 6). During the foregoing discussion of the applications of The First National City Bank of New York and others under the Bank Holding Company Act, Mr. Hackley reported receipt earlier this morning of a telegram from Counsel for First National City Bank requesting an extension of one week, that is, until Friday, October 25, of the time for the applicants and County Trust Company to file exceptions to the Report and Recommended Decision of the Hearing Examiner and briefs in support thereof. The telegram also requested the privilege of oral argument.

10/18/57

-10-

Following a statement by Mr. Hackley that he saw no objection to granting the requested extension of time and that, depending on developments, the applicants might not want to avail themselves of the privilege of oral argument, it was agreed unanimously to issue an Order granting the requests, with the understanding that copies would be sent to the appropriate parties. A copy of the Order is attached hereto as Item No. 6.

In the course of the preceding discussion, Mr. Thomas withdrew from the meeting.

Application of Carlen Realty Company for prior tax certification (Items 7 and 8). In a memorandum dated October 10, 1957, which had been distributed to the members of the Board, the Division of Examinations discussed the application of Carlen Realty Company, Tarpon Springs, Florida, for a prior tax certification pursuant to the Internal Revenue Code of 1954. The application reflected the desire of the company to distribute its shares in Central Baldwin Bank, Robertsdale, Alabama, in order to cease to be a bank holding company, and the prior tax certification would cover 6,000 such shares which were owned as of May 15, 1955. Based on the information submitted by the applicant and an investigation conducted by the Federal Reserve Bank of Atlanta, it was the opinion of the Division of Examinations that the proposed distribution of bank shares would be appropriate to effectuate the policies of the Bank Holding Company

10/18/57

-11-

Act. Accordingly, the Division recommended that a prior tax certification be issued in the form attached to the memorandum.

Following a brief discussion based on the memorandum and additional comments by Mr. Masters, it was agreed unanimously to issue the recommended certification, a copy of which is attached hereto as Item No. 7. Approval also was given to the letter to Carlen Realty Company of which a copy is attached as Item No. 8, for transmittal through the Federal Reserve Bank of Atlanta, and it was understood that a duplicate original of the certification would be sent to the Commissioner of Internal Revenue.

Mr. Thompson then withdrew from the meeting.

Application of Pascagoula-Moss Point Bank (Item No. 9).

Following discussion at the meeting on October 11, 1957, of the application of Pascagoula-Moss Point Bank, Moss Point, Mississippi, for membership in the Federal Reserve System, Mr. Masters got in touch with the Federal Reserve Bank of Atlanta to relate the various questions which had been raised by the Board and obtain the views of the Reserve Bank. The results of the discussion and the further views of the Division of Examinations concerning the application were presented in a memorandum from Mr. Masters dated October 17, 1957, copies of which had been distributed to the members of the Board. The memorandum is attached hereto as Item No. 9.

In commenting on developments in this matter, Mr. Masters said that the application had represented a rather perplexing problem for

10/18/57

-12-

the Division of Examinations. In the light of all the circumstances involved, he felt that the Board was now faced with the alternative of either accepting the bank into membership, with or without admonitory paragraphs such as suggested in his memorandum, or deciding that the application should be denied. While the bank exhibited many strong features, he said, it could not be considered a completely sound bank due to several unusual features, including the heavy investment in municipal securities, the substantial number of substandard issues among those holdings, concentration in one or two individual issues, and a low capital structure. He said that the Division of Examinations had tried to lean over backward to give as much weight as possible to the bank's good features in determining the need for capital, but that the bank still showed a capital deficiency in excess of \$400,000. If the bank were admitted to membership, even with the suggested admonitory paragraphs included in the letter of admission, it would almost immediately present supervisory problems that might test the ingenuity of the Atlanta Reserve Bank to some extent. On the other hand, it should not be forgotten that the Reserve Bank seemed optimistic about its ability to work with the management of the applicant bank once the bank was admitted to membership.

In addition, Mr. Masters said, the situation was complicated by the desire of the Reserve Bank to obtain member banks in this general area and the effect on the nonpar situation in the State of Mississippi.

10/18/57

-13-

In the final analysis, the decision seemed to turn on a question of judgment, and personally he would not be inclined to argue too strongly that the bank should be kept out of membership in the System. If the Board should be inclined to admit the bank, he would now suggest eliminating the proposed special condition of membership calling for additional capital and including the suggested paragraphs in the letter of admission which would call attention to the weaknesses in the bank's situation and urge the bank to follow a conservative dividend policy and retain earnings. He felt that the Board then could rely on good supervision on the part of the Atlanta Reserve Bank. Balancing all of these factors, it seemed to him that the Board could very possibly decide to approve the application on this basis.

In response to questions by Governor Balderston, Mr. Masters said that differences in asset structure must be kept in mind in comparing this bank with other situations involving a capital deficiency and that he was not wholly convinced by Atlanta Vice President Denmark's argument that there was a good market for the Moss Point Bank's municipal securities. The holdings, he brought out, included some issues of local municipalities which it might be difficult to sell.

Governor Mills said the situation appeared to be one where the Atlanta Reserve Bank might be embarrassed if the Board should disapprove the application for membership. Since there were several

10/18/57

-14-

marginal factors in the case and the bank would not be a serious problem at the outset, he would be inclined to approve the application, include the suggested admonitory paragraphs in the letter of admission, and not include any special condition of membership.

Governor Robertson stated that he would have to vote against the application, because it seemed to him that this kind of case was one that could lead to further problems. He could not go along with the view of the Atlanta Reserve Bank that it would be able to deal with the management effectively, for it had not been able to deal with the executive officer thus far and it would hardly follow that the Reserve Bank could work with him on a sound basis if the applicant bank were admitted to membership. Also, should there be a drain on the bank's deposits, it appeared that this drain would have to be met by selling United States Government securities rather than municipal obligations, for the bank's whole investment program was geared to municipal issues. Furthermore, he questioned the right of the System to admit banks to membership without adequate capital, and in this case he did not think the capital was adequate. For these reasons, he would tell the Reserve Bank to see what it could work out with the Moss Point Bank in the way of improvements that could be made within a reasonable length of time. If something could be worked out, the matter could be brought back to the Board; otherwise, he felt that the application should not be approved.

10/18/57

-15-

Governor Robertson concluded by saying that in making these remarks he was aware of, and could appreciate, the position of the Reserve Bank and also the possibility of a feeling on the part of the applicant bank that parties in Washington should not be telling it how to conduct its business.

Governor Shepardson said that although the arguments made by Governor Robertson were very persuasive, he was nevertheless inclined to go along with the point of view expressed by Governor Mills.

While the System would be accepting a problem situation that would have to be worked with and might be difficult to handle at times, he felt that the over-all situation justified taking the risk.

Governor Szymczak indicated that he would not want to approve the application under the present circumstances. He thought it likely that the Moss Point Bank would correct the situation, or agree to do so, if there was an indication of hesitancy on the part of the Board to admit the bank to membership. While the Reserve Bank was anxious to have the application approved, he doubted whether the Reserve Bank could work effectively with the management of the Moss Point Bank to accomplish correction of its existing problems if the bank should be admitted to membership before some agreement had been reached on corrective measures. In summary, he would like to see the bank in the System, but he thought that its problems should be corrected first, or an arrangement reached for corrective action.

10/18/57

-16-

Governor Robertson supplemented his previous comments by referring to a statement, attributed to Mr. Denmark, that the Moss Point Bank might seek a national charter if its application for membership were denied. He said that he had talked with the Office of the Comptroller of the Currency about the matter and had been advised informally that the Comptroller's Office would not be inclined to grant a national charter unless the bank supplied more capital.

Governor Balderston indicated that he agreed with Governor Szymczak's position although he had much sympathy with the Reserve Bank's desire to encourage System membership in the State of Mississippi. Since the Reserve Bank could not give assurance in advance of membership that the existing problems would be corrected, he had grave doubt about the Reserve Bank's ability to accomplish improvements after the bank was admitted to membership. Therefore, he would vote against approving the application in the present circumstances, but he would encourage the Atlanta Reserve Bank to reopen its discussions with the applicant bank.

Governor Robertson noted the absence of two members of the Board and observed that their presence might make a difference in the Board's decision. He suggested, therefore, that the Board might want to postpone acting on the application until the absent members returned and had been advised of the discussion at this meeting.

This suggestion was approved unanimously.

10/18/57

-17-

Discount rates. Telegrams to the following Federal Reserve Banks approving the establishment without change by those Banks on October 17, 1957, of the rates on discounts and advances in their existing schedules were approved unanimously:

New York
Philadelphia
Chicago
Minneapolis

At this point all of the members of the staff with the exception of Messrs. Carpenter and Johnson withdrew from the meeting.

Retirement case at St. Louis Reserve Bank. Reference was made to a memorandum from the Division of Personnel Administration under date of October 10, 1957, which had been circulated among the members of the Board, referring to a letter dated September 23, 1957, from Mr. Johns, President of the Federal Reserve Bank of St. Louis, in which he expressed the view that, as provided by Section 3, Subdivision 2(b) of the Rules and Regulations of the Retirement System of the Federal Reserve Banks, the St. Louis Bank should supplement the retirement allowance of Mr. Dwight Maxwell, Head of the Fiscal Agency-Credit Discount Department of the Little Rock Branch. Because of the excessive use of alcohol, Mr. Maxwell was to be retired involuntarily effective November 1, 1957, having reached age 55 after 25 years of service. The memorandum from the Division of Personnel Administration recommended that the Board interpose no objection to such action by

10/18/57

-18-

the Reserve Bank. While the file was in circulation, two members of the Board had noted thereon that they would not favor the proposed action.

During a statement by Mr. Johnson in which he amplified the circumstances surrounding the retirement of Mr. Maxwell and the reasons for the recommendation of the Division of Personnel Administration, it was brought out that if his retirement allowance is not supplemented as proposed, the Reserve Bank, in its discretion, could pay Mr. Maxwell a separation allowance in an amount not to exceed six months' salary.

Governor Mills concurred in the recommendation of the Division of Personnel Administration, stating that since Mr. Maxwell had been in the employ of the Bank for 25 years, during most of which time his services had been competent, it would be wrong to penalize him by refusing to supplement his retirement allowance.

Governor Robertson expressed the opinion that the proposed action of the St. Louis Bank should not be approved for the reason that it would establish an undesirable precedent which might result in a policy of supplementing retirement allowances in most, if not all, cases of misconduct. He felt that since, under existing authority, the Reserve Bank could give Mr. Maxwell a separation allowance of up to six months' salary, nothing further was called for in this case.

10/18/57

-19-

Governor Shepardson concurred in Governor Robertson's view, while Governor Szymczak expressed agreement with the position stated by Governor Mills.

Governor Balderston felt that misconduct was clearly involved in this case within the terms of the Board's letter of June 7, 1956, in which it was stated that under the Rules and Regulations of the Retirement System it was mandatory to provide an additional pension for an employee involuntarily retired after age 55 with 25 years of service, except that the employee shall not be entitled to the additional pension if the involuntary termination of his services is for reasons of dishonesty, misconduct, or insubordination. If the instant case is not to be regarded as misconduct, he said, it would be difficult to find a case that would be so regarded.

Governor Mills made the further comment that in his opinion the controlling factor was the length of time Mr. Maxwell had served the Bank and the fact that notwithstanding the fact that he had been drinking to excess for several years the Bank had continued his employment. In that situation, he said, a responsibility attached to the Bank because Mr. Maxwell's chances of finding other employment at his present age are not nearly as good as they would have been if his services had been terminated when the problem first arose.

After some further discussion of the extent to which excessive drinking should be regarded as a disease and the responsibility of

10/18/57

-20-

the individual for his own conduct, it appeared that a majority of the members of the Board present did not favor action by the St. Louis Bank to supplement Mr. Maxwell's retirement. Thereupon, there was agreement with the suggestion that since President Johns would be in Washington next week for a meeting of the Federal Open Market Committee, Governor Balderston should discuss the matter with him after which it would be considered by the Board again.

At this point Mr. Johnson withdrew from the meeting.

Appointment of director at Los Angeles Branch. Governor Mills referred to the action of the Board at the meeting on September 16, 1957, with reference to the appointment of a director of the Los Angeles Branch of the Federal Reserve Bank of San Francisco to succeed Mr. Edward W. Carter, who resigned. He said that Chairman Brawner had been away from San Francisco so that Chairman Martin had not been able to reach him before he left for vacation, and that at the request of the Chairman he (Governor Mills) had called Mr. Brawner, who subsequently replied by wire that he was in agreement with the proposed appointment of Messrs. Cannon, Thornton, and Atwood in that order of their availability but that he would like to discuss the matter with the other head office directors at the meeting next week. Governor Mills stated that it was his understanding that the purpose of the Board's inquiries to the Chairmen of the Reserve Banks in situations of this kind was to ascertain whether the Chairmen knew of any reason

10/18/57

-21-

why the Board should not appoint a particular individual as a director and that it was not expected that the matter would go beyond that.

The other members of the Board present concurred in that understanding, and it was agreed that Governor Mills would call Chairman Brawner and advise him accordingly and that the usual telegram would go forward to Mr. Brawner today asking him to ascertain whether Mr. Cannon would accept appointment, if tendered, as a director of the Los Angeles Branch for the unexpired portion of the term ending December 31, 1957.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated October 15, 1957, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Ruth W. Eschmeyer as Records Clerk in the Office of the Secretary, with basic annual salary at the rate of \$3,415, effective the date she assumes her duties.

Letter to the National Bureau of Economic Research concerning work to be performed by the Bureau as a part of the study on small business financing. A copy of the letter is attached hereto as Item No. 10.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
10/18/57

Date October 11, 1957

Office Correspondence

To Board of Governors

Subject: _____

From Arthur W. Marget

The appended letter from Mr. Loyle A. Morrison, Staff Director of the Subcommittee on Foreign Trade Policy of the House Committee on Ways and Means, inquires as to the possibility of my participating in a series of panel discussions scheduled by the Subcommittee for the period December 2-14.

I am willing to participate if the Board would see no objection to my doing so. My testimony before the same Subcommittee last year, to which Mr. Morrison's letter refers, may be said to provide a precedent; but of course I shall be guided entirely by the wishes of the Board in this matter.

Awm

Attachment

Office Correspondence

To Board of Governors

Subject: _____

From Ralph A. Young

The Conference of European Statisticians has scheduled a working group meeting on the measurement of saving in Geneva, Switzerland, November 11-15, 1957. While the measurement of saving is primarily a statistical problem, there is some pressure at the policy level to expedite the technical work now in progress since the need for saving is being felt in so many countries. International comparisons of saving are being made (we have made them here) but such comparisons are often inconclusive because of conceptual as well as data problems.

Preliminary working papers prepared for the plenary session last summer suggest that the savings concepts used or now being developed, while partly adhering to the OEEC "standardized system," vary considerably from country to country in Europe. Increase in consistency, where possible, is one of the goals of this working group. Even when not possible, an exchange of ideas should prove useful. The working papers appear to have been prepared by extraordinarily able and thoughtful economists. Some of the ideas developed by these other statisticians might be applicable to the developmental work on savings statistics being done by the Federal Reserve. The superior quality of the British, Norwegian, and Swedish working papers are examples.

The parent body of the Conference of European Statisticians is the Economic Commission for Europe. The United States is a member of the Economic Commission for Europe and is regularly represented at its plenary sessions, as well as at its working conferences. The Assistant Director of the Bureau of the Budget for Statistical Standards is the permanent United States representative at plenary sessions. His office generally arranges suitable representation at working conferences, though the power of appointment is formally exercised by the State Department.

In his letter of October 7, 1957 (attached), Mr. Bowman has suggested that it would be appropriate and desirable for the Federal Reserve Board to undertake to send a qualified person to represent the United States at the working group meeting November 11-15. Mr. Roland Robinson has been exercising general supervision over our work in the field of savings statistics, and I believe it would be appropriate for him to represent the United States at this meeting in accordance with Mr. Bowman's suggestion.

To: Board of Governors

-2-

It is recommended, therefore, that official travel be authorized for Mr. Robinson to Geneva, Switzerland, and return via London, England. It would be economical to take advantage of Mr. Robinson's presence in Europe to provide an opportunity for him to visit the Bank of England and meet and talk with persons familiar with recent developments in British economy and in the London money market. The total elapsed time involved would be approximately two weeks. A per diem in lieu of subsistence of \$15 per day is recommended for travel outside the United States, except that the standard allowance of \$6 per day shall apply while in flight.

Ray

Attachment

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

Item No. 3
10/18/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1957



Board of Directors,
Hempstead Bank,
Hempstead, 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 by the Hempstead Bank, Hempstead, New York, in the Baldwin Shopping Center on the east side of Grand Avenue, approximately 1,000 feet south of the intersection of Grand and Stanton Avenues, in the unincorporated Village of Baldwin, Nassau County, New York, provided the branch is established within a year from the date of this letter and approval of the State authorities is in effect as of the date the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

2932

Item No. 4
10/18/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1957

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

Reference is made to your letter of September 26, 1957, regarding the request of the City Bank, Detroit, Michigan, for an extension of time in which to establish a branch in the vicinity of the corner of Mack Avenue and Cadieux Road in Detroit, Michigan.

In view of the fact that the branch building will not be ready for occupancy by October 17, 1957, the present time limit prescribed, the Board concurs in your favorable recommendation and extends to December 17, 1957, the time within which the establishment of the branch, which was approved in the Board's letter of January 17, 1957, may be accomplished.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

2933

Item No. 5
10/18/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 18, 1957

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to the June 24, 1957, examination report of the Fidelity Bank, Los Angeles (Mar Vista), California, and to Mr. Galvin's letter of September 19, 1957, transmitting the report to the Board's Division of Examinations.

Mr. Galvin's letter requests the Board's views on the legality of member State banks purchasing outstanding stock of the Federal National Mortgage Association (FNMA) from customers of the bank. Mr. O'Kane's memorandum of July 26, 1957, notes that #7088 in the Federal Reserve Loose Leaf Service contains a statement that could be read as meaning that member State banks are not prohibited by Federal law from purchasing FNMA stock either from FNMA or on the open market. This, however, was not the intended meaning of that ruling, and the Board agrees with the Comptroller of the Currency (Digest of Opinions, Paragraph 515) that "The authorization [in section 303(f) of the FNMA charter act; 12 U.S.C. 1718 (F)] for a national bank [or member State bank] to acquire stock of the Association is limited to stock acquired as an incident to the sale of its own mortgages to the Association. A national bank [or member State bank] is not authorized to purchase such stock from bank customers."

It is noted that the bank is contemplating the acquisition of approximately \$160,000,000 of real estate mortgage servicing contracts. Should management decide to acquire these contracts, the Board's prior consent should be obtained for this would undoubtedly constitute a change in the character of the bank's business and consequently be a violation of condition of membership No. 1 if such consent were not obtained.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 6
10/18/57

<p>In the Matter of the Applications of FIRST NEW YORK CORPORATION, THE FIRST NATIONAL CITY BANK OF NEW YORK and INTERNATIONAL BANKING CORPORATION</p> <p>for prior approval of action to become bank holding companies under Section 3 of the Bank Holding Company Act of 1956</p>	<p>DOCKET NUMBERS BHC - 1 BHC - 2 BHC - 3</p>
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ORDER GRANTING REQUEST FOR EXTENSION OF TIME WITHIN
WHICH EXCEPTIONS AND BRIEFS MAY BE FILED, AND GRANT-
ING REQUEST FOR ORAL ARGUMENT

This matter coming on this day for consideration on the request of Applicants and County Trust Company for extension of the time within which exceptions and briefs may be filed, and for Oral Argument, it is ORDERED that:

1. The time within which Applicants and County Trust Company may file exceptions to the Report and Recommended Decision of the Hearing Examiner in this proceeding and briefs in support thereof is hereby extended to the close of business on Friday, October 25, 1957.
2. The request of Applicants and County Trust Company for Oral Argument is granted, said Oral Argument to be set down for such time and such place as shall hereafter be fixed by the Board.

This 18th day of October 1957.

By the Board.

(SEAL)

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 7
10/18/57

C E R T I F I C A T I O N

1. The Board of Governors of the Federal Reserve System has been informed by Carlen Realty Company, Tarpon Springs, Florida, that it proposes to distribute to its shareholder 6,000 shares of stock of Central Baldwin Bank, Robertsdale, Alabama.

2. Pursuant to the provisions of section 1101(b) and section 1103(b) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies that:

- (a) Carlen Realty Company satisfies the requirements of subsection (b) of section 1103 of the Internal Revenue Code of 1954 and therefore is a "qualified bank holding corporation" as defined in that subsection.
- (b) The 6,000 shares of stock of Central Baldwin Bank referred to in "1" above are part of the property by reason of which Carlen Realty Company controls (within the meaning of section 2(a) of the Bank Holding Company Act of 1956) said bank.
- (c) The proposed distribution of said 6,000 shares of stock of Central Baldwin Bank is appropriate to effectuate the policies of the Bank Holding Company Act of 1956.

Executed October 18, 1957, in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

(Signed) S. R. Carpenter
S. R. Carpenter, Secretary.

(SEAL)

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

Item No. 8
10/18/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1957

Carlen Realty Company,
Tarpon Springs, Florida.

Gentlemen:

Enclosed is a certification by the Board of Governors, pursuant to sections 1101(b) and 1103(b) of the Internal Revenue Code, with respect to the proposed distribution of shares of stock of Central Baldwin Bank, Robertsedale, Alabama. A duplicate original of this certification is being sent to the Commissioner of Internal Revenue. The certification is based on information obtained from several sources, including your application of August 19, 1957, as supplemented by your letter of September 16, 1957, and enclosures therewith.

In the application it was stated that your corporation would like to distribute 6,400 shares of Central Baldwin Bank on a tax-free basis, whereas your letter of September 16, 1957, proposed a distribution to your stockholder of 6,000 shares. It appears that 400 shares of the Central Baldwin Bank could not be made the subject of a distribution by your corporation that would come within the purview of section 1101(b) of the Internal Revenue Code. This follows from the provision of section 1101(c)(1) that section 1101(b) "shall not apply to any property acquired by the distributing corporation after May 15, 1955" (except in prescribed circumstances that do not appear to exist in this case). Since 400 of the 6,400 shares were acquired by your corporation after May 15, 1955, it seems apparent that a "tax-free" distribution thereof under section 1101(b) would not be possible.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosure

Item No. 9
10/18/57

October 17, 1957.

To: Board of Governors

Subject: Pascagoula-Moss Point Bank,
Moss Point, Mississippi -
Application for Membership.

From: R. C. Masters

Following Board consideration on October 11 of this application and of Mr. Bryan's October 7 letter, I phoned Vice President Denmark (Atlanta) to relate various questions which had been raised, including the desirability of Reserve Bank officials arranging a discussion with management of the applicant to determine its attitude and possible future plans regarding the present heavy investment in municipal securities and the effect of such investment on the bank's liquidity and capital position.

This memorandum reports the results of discussion of this matter among President Bryan, First Vice President Clark and Vice President Denmark on October 14. Mr. Denmark reports it to be the consensus of this group that nothing would be gained either for the Reserve Bank or the applicant by further discussion of these matters with its management. As a probable consequence of such discussions is cited the likelihood that the pending application would be withdrawn, following which the bank might apply for a national charter.

Reserve Bank officials feel that the membership examination was sufficiently comprehensive to bring out all features of importance concerning the bank's condition, the character of its management, and the history and future trends in the bank's affairs as well as the probable effect thereon of System supervisory efforts. Reserve Bank officials feel sincerely that this bank would be a better bank as a member than as a nonmember and indicate that it would be a better member bank than some present Sixth District State member banks. They call attention to the fact that the Mississippi State Banking Department regards this bank as one of its best; that the State Banking Department sees no problems of consequence in this institution, regards its management highly and has not seen fit to quarrel with its investment practices.

Turning to the matter of the bank's capital structure, Mr. Denmark indicated that this is not a disturbing feature to Reserve Bank officials, particularly in view of the bank's demonstrated good earning power, its low volume and relatively high quality of loans and the general character of its investment account. He referred to the fact that the municipal holdings were marketable with little or no difficulty and that in the event of need the bank could convert its municipal obligations or could pledge them on borrowings from correspondent banks or from the Reserve Bank under Section 10b. Mr. Denmark admitted on questioning however that a prospective run-off in public fund deposits would probably be met, in substantial part at least, by redemption or sale of Treasury bills and other short-term U. S. Government obligations rather than by sale of municipals.

With regard to the management of this bank and the Reserve Bank's ability to work successfully with it once the bank became a member, the

To: Board of Governors

-2-

Reserve Bank is quite optimistic. While stubborn traits in the bank's executive officer are recognized, it is felt that he is amenable to constructive suggestion both with respect to some future adjustment in his investment policies and with respect to the provision of additional capital funds at some future time when the need is more pointed, such as would be occasioned by a building program (in future prospect). At such a time the Reserve Bank anticipates no problem in the willingness or ability of this bank to raise additional capital.

The Reserve Bank still feels strongly that this application should be approved without special conditions in view of the generally sound condition of the bank and the quality of its management. In addition, the considerations relating to the influence of membership of this bank on other nonmember banks in Mississippi, and on the non-par situation in the general area were again stressed.

With regard to the legality under Section 9 FRA of the imposition of a special condition of membership requiring additional capital funds, the Legal Division has now advised as follows:

"If the Board is of the opinion that the capital structure of the applicant bank at the present time is inadequate, the Legal Division questions whether admission of the bank is permissible since section 9 of the Federal Reserve Act provides that no bank shall be admitted to membership unless it possesses capital stock and surplus which in the judgment of the Board are adequate in relation to the character and condition of its assets and prospective deposit liabilities and other corporate responsibilities. The imposition of the proposed condition would seem an admission by the Board that the capital is inadequate."

In view of this opinion, this Division withdraws its recommendation for imposition of a special condition of membership (numbered 3 in the draft letter to applicant) requiring additional capital in the amount of \$400,000 within one year following admission to membership. However, our computation of capital requirement in this case has been again reviewed with close attention to opportunities for adjustments therein which would give recognition to special features of the bank's assets and earning power on the most liberal basis possible consistent with principles of sound bank capitalization. This computation shows applicant with a capital deficiency between \$400,000 and \$450,000. We would, therefore, conclude that if this application is to be approved, admonitory paragraphs related to special features of the bank's investment account and capital position be added to the Board's letter of approval. This would be in keeping with one of the alternatives discussed with the Board on October 11. The following are suggested for this purpose:

"It is noted from the report of examination for membership made as of June 24, 1957, that it long has been the policy of your bank to invest a substantial portion of available funds

To: Board of Governors

-3-

"in State, county and municipal securities, and that the portfolio now includes a number of issues of Group 2 quality, several excess holdings of non-exempt issues, and heavy concentrations in issues of the same or closely related obligors. Although the Board has not prescribed a condition of membership requiring the elimination of ineligible issues or the reduction of excess holdings of non-exempt issues prior to admission, the bank's investment policies and portfolio should be reviewed frequently by the management and directors with a view to disposing of illegal issues and reducing excess holdings of non-exempt issues to conforming amounts at the first favorable opportunity, and consideration also should be given to the propriety of concentrating unduly large amounts of the bank's funds in securities of the same or closely related obligors.

"Although it is apparent that your bank has followed a conservative dividend policy and retained a major portion of net profits in capital accounts in recent years, the relationship between total capital accounts and total assets other than cash and U. S. Government obligations is below average at the present time. The capital position and liquidity of your bank would be improved materially through a reduction in the volume of risk assets and, until this is accomplished, it is expected that the present policy of retaining a major portion of earnings in capital accounts will be continued, and consideration will be given to other means of strengthening the capital structure of your bank."


However, if the Board feels that in all the circumstances this application should be denied, applicant should be afforded the opportunity through the Reserve Bank to withdraw its application.

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

Item No. 10
10/18/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1957



Mr. William J. Carson,
Executive Director,
National Bureau of Economic Research, Inc.,
261 Madison Avenue,
New York 16, New York.

Dear Mr. Carson:

The Board of Governors of the Federal Reserve System accepts the proposal set forth in your letter to Mr. Young dated September 17, 1957 for contract research to be performed by the National Bureau of Economic Research as part of the study on Small Business Financing. This research would include the preparation of the two reports described in your letter and the supplemental outline attached to the letter entitled "Risks and Returns in Small Business Financing," the first of these to be submitted prior to February 1, 1958, and the second to be submitted prior to December 31, 1958. It is understood that your estimate of the cost of this project, excluding salary of Mr. Thomas R. Atkinson is \$30,900, and you suggest that the contract include a provision that, if costs should exceed \$30,900, the National Bureau be reimbursed up to an amount equal to 10 per cent of the total or \$3,090. It is also understood that you reserve the right to submit new estimates of the costs of statistical tabulations of new data contemplated in the second report mentioned above, for which a figure of \$2,500 has been included in the estimate of \$30,900. This reservation is acceptable to the Board.

Your letter suggests that the arrangements proposed therein be made the basis for a contract, subject to the understanding that action by the Executive Committee of the National Bureau approving the terms of the contract would be necessary. Please let the Board know when this approval has been obtained.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.