To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Vardaman
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 4, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Masters, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

Application of Pascagoula-Moss Point Bank for System membership (Item No. 1). At the meeting on October 18, 1957, when the Board last considered the application of Pascagoula-Moss Point Bank, Moss Point, Mississippi, for membership in the Federal Reserve System, there was a difference of opinion with regard to the action which should be taken. Accordingly, it was decided to defer action on the application pending further consideration with all of the members of the Board present.
At the suggestion of Governor Robertson, Mr. Benner reported a subsequent telephone conversation between Mr. Nelson, Assistant Director of the Division of Examinations, and Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta, in which Mr. Clark stated that the President of the Pascagoula-Moss Point Bank, Mr. W. B. Herring, had called on the telephone to inquire about the status of the application and had asked whether there were any objections to it. After Mr. Clark discussed the heavy investments by the bank in municipal securities and the appearance that the bank's capital position was not as strong as it could be, Mr. Herring volunteered to go to Atlanta to discuss the issues with the Reserve Bank or to go to Washington for discussion of them with the Board. Mr. Clark responded, however, in terms that he doubted whether anything could be accomplished by a visit to Atlanta at this time, while the question of a visit to Washington was left open.

On the basis of this development, consideration was given to whether it would be desirable to extend an invitation to Mr. Herring to come to Washington for discussion or, as an alternative, to arrange a meeting in Atlanta at which the Board's Division of Examinations would be represented.

Governor Vardaman expressed doubt whether anything that Mr. Herring might say during discussions in Washington would be sufficient to change the position of those who felt that the membership application
should be denied, for he did not think that the situation of the Moss Point bank could be changed immediately. He stated that one of the secrets of Mr. Herring's success had grown out of his support of the obligations of municipalities located in the bank's area, that the bank could not dispose immediately of its holdings of such securities, that the institution's capital position was acknowledged by Mr. Herring to be on the weak side, and that Mr. Herring reportedly had in mind steps to improve the bank's capital structure. If Mr. Herring should come to Washington and if it should nevertheless be the decision of the Board to deny the application for membership, he felt that the situation might only have been aggravated.

Governor Robertson observed that if it were the disposition of the majority of the Board to approve the application at this time, it would seem questionable whether there was a need for discussion with Mr. Herring. He pointed out that if such a discussion was not productive, the position of the Board would then only have been made more difficult.

Following further comments, it was decided to proceed to a determination of the matter on the basis of the facts as now presented to the Board.

Governor Vardaman stated that, all things considered, he would be inclined to admit the bank to System membership pursuant to the recommendation of the Atlanta Reserve Bank, his thoughts being influenced somewhat by broad policy considerations and public relations
aspects. In view of his personal knowledge of the character and good intentions of the management and in the light of the history of the bank, he would favor admitting the bank to membership and relying on the Federal Reserve Bank of Atlanta to work with the bank on its problems.

Chairman Martin stated that although he had read President Bryan's letter of October 7, 1957, in support of the application, he had not discussed the matter personally with Mr. Bryan. On the basis of the file concerning the application, including Mr. Bryan's letter, he found the case a difficult one to resolve. Quite a good argument admittedly could be made for turning down the application on the basis that if adjustments were not made prior to admission of a bank to membership, such adjustments were not likely to be achieved subsequently. However, he felt that the attitude toward the System prevalent in parts of the country was a factor which also must be considered. The Federal Reserve Bank of Atlanta, he said, had been working hard over the years to bring about a better feeling toward the System, and for this reason he would hesitate to go against the Reserve Bank's favorable recommendation on this application. Furthermore, although certain difficulties might be created by admitting the bank to membership, the public interest as such would not be involved in the decision and the points of issue tended to resolve themselves largely into matters of judgment.

In the light of the Chairman's comment concerning the bank's condition, Mr. Masters observed that the Atlanta Reserve Bank, which of course was much closer to the local situation than the Board, felt that
over the course of time it could work effectively with the management of the Moss Point bank to bring about improvement in the capital account, investment policies, and other matters. He also noted that the Division of Examinations had modified its position somewhat since the application was first received and would suggest, if it should be the disposition of the Board to favor the application on policy grounds, that the applicant bank be admitted without special conditions of membership but with paragraphs included in the letter of admission which would call attention to the bank's problems incident to its investment policies and capital structure. He said that although the bank would represent a challenge in some respects from the bank supervisory standpoint, it did have a number of strong points and would not be the worst bank in the System.

Governor Robertson expressed the view that if the application was to be approved, it would be well to do everything possible in order to reach an understanding with the bank regarding its intentions for the future. By approving the application, he pointed out, the Board would in effect be saying that the bank was adequately capitalized, and in his opinion such was not the case. On the other hand, as he had indicated earlier, if the Board was disposed to approve the application whether or not any understandings for the future were obtained, there would appear to be no real purpose in entering into discussions with the management in advance of acting on the application, for the question would already have been decided.
Governor Balderston recalled that, in previous discussions of the matter by the Board, he had indicated that he was inclined to question the application in the present circumstances but that he would like to encourage the Atlanta Bank to talk further with the applicant in order to clarify points such as Governor Robertson had mentioned. Personally, he said, he was disappointed to learn from Mr. Benner’s report that the Atlanta Bank had not accepted Mr. Herring’s offer to enter into further conversations prior to action on the application. He now sensed that it was the view of the majority of the Board that the bank should be admitted to membership, and the only question therefore appeared to be whether anything of substance would be accomplished by deferring a vote on the application until the Atlanta Bank had explored the issues further with the Moss Point bank.

Governor Shepardson expressed the view that it would be desirable to vote on the matter. As Governor Robertson had pointed out, if additional discussions with the applicant did not develop intentions along lines that would improve the bank’s situation, the holding of such discussions might only create further difficulties. At the present time, Governor Shepardson noted, the Board had available a very complete report from the Atlanta Bank on the attitude and intentions of the management of the applicant bank as expressed thus far. In voting to admit the bank, he recognized that the Board would
be accepting certain risks, but the over-all situation, including
the public relations aspects of it, led him to think that the best
course would be to admit the bank and then attempt to work with the
management to bring about changes which were considered desirable.

A vote then was taken on the application of the Pascagoula-
Moss Point Bank, with the understanding that the letter to the bank,
if the application were approved, would include no special conditions
of membership but would include the two admonitory paragraphs suggested
by the Division of Examinations and referred to by Mr. Masters earlier
during this meeting.

The vote resulted in the application being approved, Messrs.
Martin, Balderston, Vardaman, Mills, and Shepardson voting "aye"
and Messrs. Szymczak and Robertson voting "no". In casting his vote,
Governor Balderston again mentioned his disappointment that the Federal
Reserve Bank of Atlanta had not accepted the offer of the applicant
to talk further about the matter in an effort to reach certain agree-
ments before the bank came into the Federal Reserve System.

A copy of the letter sent to the Pascagoula-Moss Point Bank
through the Federal Reserve Bank of Atlanta pursuant to this action
is attached to these minutes as Item No. 1.

At this point Mr. O'Connell, Assistant General Counsel, and
Mr. Davis, Assistant Counsel, entered the room.
Application of Baystate Corporation. Following previous discussion of the application of Baystate Corporation, Boston, Massachusetts, under the Bank Holding Company Act for prior approval of the acquisition of up to 60 per cent of the voting shares of Union Trust Company of Springfield, Springfield, Massachusetts, the Board decided to await the decision of the Massachusetts State Board of Bank Incorporation under the State’s Bank Holding Company Act and then consider the matter again at a time when all of the members of the Board were present. Advice had now been received of favorable action by the Board of Bank Incorporation, and pertinent papers in that connection had been distributed to the Board with a memorandum from the Division of Examinations and the Legal Division dated October 23, 1957, and a memorandum from the Division of Examinations dated October 31, 1957. It was reported that the State hearing had developed no representations in opposition to the application.

After a statement by Mr. Masters summarizing these developments in the matter, Chairman Martin directed certain questions to Mr. Solomon concerning the effect of a favorable decision by the Board on this application from the standpoint of precedent in relation to other applications submitted pursuant to the Bank Holding Company Act. To what extent, he asked, would the Board bind itself by its decision in this case and to what extent would the Board still be left free to approach other cases on an ad hoc basis.
Mr. Solomon responded that all cases of this kind under the Act permitted a broad area of discretion, this having been particularly true when the Board began to administer the Act and had no precedents for guidance. There was a very wide field, he said, within which the Board had to gradually work out a pattern and that was why the Legal Division, in its memoranda pertaining to the cases involved, had frequently pointed out that the law did not require either approval or disapproval and that a question of discretion was involved. This was the Legal Division's view on the Baystate application and it might continue to be the view in future cases, except that the Board, by making decisions, would gradually come to have more precedent for its guidance. In any event, however, he doubted whether the factual situation from one application to another would become indistinguishable, that is, that the mass of facts in the respective cases would ever be exactly the same. Therefore, although the Board's area of discretion might narrow somewhat, he felt that it would still be very broad.

In response to a further question, Mr. Solomon said that in the cases coming before the Board there were likely to be differences of degree and judgment such that the situation in any given case would not fall within a principle built up by previous cases. In the minds of observers the differences might seem to be very slight, but it seemed probable to him that there would always be some differences of fact. Theoretically, of course, it could happen that different cases were so
similar as to fall clearly within a principle established by a previous decision, but he was inclined to think that there were enough matters of degree and variation involved as to make it unlikely that different cases could be considered identical.

At the conclusion of Mr. Solomon's comments, Chairman Martin referred to the service rendered the Board by the Division of Examinations through its complete analysis of the Baystate application and said that he realized fully the importance of establishing benchmarks. In the light of the legislative history and the purposes of the Bank Holding Company Act, he considered it essential that the Board face up to the problem of the benchmarks it created by its decisions. In this case, however, he was inclined not to accept the adverse recommendation of the Division. Very much in his mind, he said, was the fact that the Federal Reserve Bank of Boston and the Massachusetts State authorities had construed approval of the application as being in the public interest, and he was hesitant to take a position which would overrule those opinions. He went on to say that the importance of this case from the standpoint of constituting a benchmark would appear to involve one's appraisal of the functions of mutual savings banks in competition with the commercial banks of the area. Whether the role of the mutual savings banks was the key point in the determination of the competitive situation seemed a little questionable to him, and if the Reserve Bank and the State authorities had taken a position against
approving the application he might have been inclined to go along with them, even having in mind the position of Governor Mills that the Board had within itself the authority to make decisions under the Bank Holding Company Act regardless of State laws. Nevertheless, he felt that the problem of States' rights and local wishes must have consideration. In substance, and with this background in mind, he could not see that any disservice would be done to the public interest by the proposed acquisition of stock and the subsequent merger that was contemplated.

Governor Robertson suggested that in considering what was in the public interest the Board could obtain the best guidance from the Bank Holding Company Act itself, wherein the Board is enjoined from authorizing the expansion of bank holding companies if such expansion, in the light of the standards set forth in the Act, is not in accord with the public interest. In this case, he said, the Board had only a statement — which, though not challenged, was not necessarily true — that the public interest would be served by virtue of the fact that the institution emerging out of the proposed transactions would be able to make some of the loans now participated out to banks in Boston and New York City. The brief submitted by the applicant at the State hearing cited a number of such loans, but of those the majority could have been taken care of within the lending limits of the existing banks in Springfield. After reviewing those lending limits, he said the evidence submitted did not lead him to believe that there was any large volume of loans in the Springfield area that could not be taken care of by the
present banks. Furthermore, it must be kept in mind that the proposed transactions would result in the elimination of an independent bank, and that the merger could of course be carried out without authority under the Bank Holding Company Act except for the desire of the applicant holding company not to lose control of the continuing institution. It therefore appeared to him that, looking at the matter in the light of the standards set forth in the Act, the public interest might more likely be jeopardized than improved by creating one merged institution with a larger loan limit. In further comments, he pointed out that in an area like the Springfield area the large corporations located there were not going to be satisfied to do all of their borrowing locally, for it was important to them to maintain relationships with banks in the larger cities. All things considered, he could not see that approval of the application would benefit particularly anyone except the applicant bank holding company. He felt that the Board would be following a dangerous course in approving the application because there no doubt would be other applications which would involve the same underlying principles. A favorable decision in this case, he thought, would in effect establish a precedent that a bank holding company, having obtained a foothold in a community, could expand without limit provided there continued to be competition of the intensive variety.

Governor Balderston said that he found his position different here from his position on the application of Northwest Bancorporation to
acquire control of a proposed bank in Rochester, Minnesota. In the Northwest case, he said, he was fearful that the dominant position of two holding companies in the area would contrive to make the establishment of a new independent bank very unlikely. In the Baystate case, however, he found a different set of controlling factors. He agreed with Governor Robertson, and contrary to the argument of the Boston Reserve Bank, that the factor of convenience, needs, and welfare had little relevance to this case, although he would admit that a larger institution doubtless would be a convenience to some of the larger industrial borrowers.

His thinking, then, turned on the fifth factor required by the Bank Holding Company Act to be considered in a case of this kind. Looking at the application in the light of this factor, he first came to the conclusion that the degree of control exercised by Baystate, which had already been operating for many years in Springfield through its subsidiary Springfield National Bank, would not be increased through the proposed stock acquisition and merger to such an extent as to do violence to the principles of the preservation of competition and sound banking. After citing the relative percentage of deposits that would be controlled by Baystate in Springfield and contiguous communities, he said that he did not regard the Board as compelled or instructed by the statute to disapprove an application of this kind merely because of the size of the institution that would emerge. As to the elimination of Union Trust Company, he felt that this would still leave potential
borrowers and depositors in Springfield and its environs with sufficient freedom of choice. While the number of commercial banks would be reduced from five to four, there would still be seven banks if one included the mutual savings banks, which have a wide scope of activities in the State of Massachusetts. Within a radius of 15 miles from Springfield there would remain 15 commercial banks, and a total of 33 banks if mutual savings banks were taken into consideration. For a community the size of Springfield, he thought that the number of remaining banks would provide adequate freedom of choice. Therefore, he would favor approval of the Baystate application.

When Governor Robertson mentioned that one of the remaining banks would be a very small institution, Governor Balderston acknowledged this fact but referred again to the mutual savings banks and pointed out that the aggregate deposits of such banks in the Springfield area were larger than those of the commercial banks. He said that although the savings banks do not make industrial loans or hold demand deposits, they do serve the community in a way that would not be possible in a great many States because of the powers given to them in Massachusetts.

Continuing the discussion of the role of mutual savings banks, Mr. Masters said it was true that in Massachusetts, particularly, the savings banks are very competitive with the commercial banks in the field of savings accounts and mortgage loans. At the same time, he said, savings and loan associations and life insurance companies also
compete with commercial banks in many respects. As he saw it, the principal question was how far to go, in appraising an application under the Bank Holding Company Act, in giving weight to the competition afforded by the savings banks.

With regard to the size of the area to be considered as the area of competition in the case of the Baystate application, Mr. Masters recalled that the applicant had used a 15-mile area surrounding the city of Springfield but that the Division of Examinations had preferred to use an area comprising the city of Springfield and contiguous communities. The Division’s statistics, he said, indicated that only a very unimportant percentage of deposits and loans in the Springfield banks originated beyond the city and its contiguous communities. The fairly large banks in Holyoke and Westfield seemed to be serving those communities adequately. Also, it had not been strongly demonstrated to the Division that the Springfield banks were finding it difficult to meet the demand for loans.

It seemed to the Division that the smaller area was more significant for use in this connection, and the Division was led to conclude that the advantages arising out of the proposed stock acquisition and merger would be principally those of a larger bank and its ability to extend services to a broader area.

Governor Robertson observed at this point that one of the arguments made in support of the application was that the consolidated bank would be large enough to make applications for branches in other areas which the existing banks felt they could not afford.
Governor Shepardson stated that he had given a great deal of study to this application and that there had been points brought out which seemed to him to indicate favorable action. What bothered him principally, however, related to the matter of precedent. If the Board was going to start anywhere at all to restrain the continued growth of holding companies, it seemed to him that here was a situation where adverse action was indicated. He did not see that there was a strongly demonstrated need for the proposed transactions, and the elimination of a reasonably strong independent bank of relatively large size would appear to be a move in the direction of dominance not contemplated by the Bank Holding Company Act. He then referred to developments in the dairy industry where the encroachment of a few large companies had resulted in their dominance being extended over substantial areas. At some stage, he suggested, the Board would have to reach a point where it must hold out against steps toward further dominance on the part of bank holding companies. While it disturbed him somewhat that the Baystate application had the unanimous endorsement of the Boston Reserve Bank and the State authorities, with no opposition expressed at the public hearing, it occurred to him that this was an application that should not be approved, primarily because of the elimination of a strong independent bank and the size of the resulting bank in comparison with its remaining competitors.
Chairman Martin said that he was almost persuaded by this line of reasoning, but that to him the whole question hinged on whether the Bank Holding Company Act intended to limit the expansion of bank holding companies in a specific way where judgments were concerned in respect to competition. He could not persuade himself, he said, that the Act was specific enough in that case. It would be possible, of course, to take a position that the expansion of bank holding companies was not going to be permitted and such a position might make a good deal of sense. However, when it came to establishing a benchmark in this case in the face of the positions taken by the Reserve Bank and the State authorities, he found it difficult to believe that this was a good case on which to take a stand. The general situation, he said, was one that should be developed at some length by the Board in future testimony on bank holding company legislation.

Mr. Masters remarked that Counsel for Baystate Corporation, in petitioning the State Board of Bank Incorporation, had indicated that perhaps the greatest single advantage flowing out of the proposal would be the resultant ability of the consolidated bank to make substantially larger lines of credit available to the business community. He said it did not appear to the Division of Examinations that this advantage, even when coupled with the other benefits which naturally flow from any consolidation, was of sufficient weight to override considerations bearing upon the question of whether the bank holding company should be permitted to expand further.
Chairman Martin responded that here again a matter of judgment was involved and that he would have a question whether he should set himself up as a judge to determine whether the applicant's contention was valid. Going on, he said that it was a moot question whether the Bank Holding Company Act as such actually gave the Board any benchmark at all with respect to the expansion of bank holding companies. No matter how this case was decided, he felt that when the Board went before the Congress again in regard to the Act it should make reference to this application and the record of votes cast on it to point out the difficult nature of the problems involved. If the Congress wanted the Board really to limit the expansion of bank holding companies, he felt that the legislation should be much more precise.

In further discussion, Governor Mills called attention to the question of intensive as opposed to extensive expansion. The first, he suggested, held the advantage of better service to the community while the other form of expansion operated in an entirely different way, one which was suspect under the law. When Governor Robertson commented that to take this point of view might permit a holding company, once having gotten a foothold in a community, to expand until it had the largest bank in the community, Governor Mills said that this was a very broad statement. All of the Bank Holding Company Act applications, he suggested, must be analyzed according to the particular circumstances involved.
Governor Balderston then commented with respect to the
apparent objectives of the Bank Holding Company Act in the light of
its legislative history and the standards enumerated in the Act. He
inquired of Mr. Solomon whether he was right in feeling that the
legislation was not intended to constitute a freeze on the expansion
of bank holding companies.

Mr. Solomon's response was in terms that the Act certainly was
not an over-all freeze. This interpretation, he said, would not be
inconsistent with the fact that the Board might find some cases where
it did not feel that expansion should be permitted.

Governor Robertson commented that the Board had already
indicated that the Act was not a freeze statute by approving the
application of Wisconsin Bankshares Corporation to acquire control of
a proposed new bank in the Southgate area of Milwaukee. Adverse
action on the Baystate application, he pointed out, would not reflect
such an opinion, but rather that the expansion contemplated by the
application was not warranted.

Governor Balderston then said that his question went to the
matter of whether approval of this application would set a precedent
which would make it difficult for the Board to "hold the line" in other
cases, to which Governor Robertson replied that in operating under the
Act it was necessary to keep in mind the attitudes expressed in connection
with the consideration and passage of the legislation. If it was not the
Purpose of the Act to prevent unwarranted expansion of bank holding companies, then he saw no point to the legislation. He continued by saying that approval in this case would create in his opinion very real difficulties in differentiating between it and other cases where holding companies were endeavoring to build up their holdings in a community to a point of dominance. This was very different, he said, from a situation where a holding company was trying to take care of banking needs in a community in which there was a real need for such services.

Governor Vardaman said that in this case he had no trouble at all along the lines mentioned by Governor Robertson, for in his view the purpose of the Act was to permit the warranted and controlled expansion of bank holding companies. He saw nothing in the Congressional debate or in the law to indicate that it was undesirable for a holding company to expand where the facts and conditions warranted. The question whether the expansion was warranted was a matter for the Board to determine in its discretion in the light of the five factors written into the Act by the Congress, and he found no reason why the decision in this case should be binding in instances where the facts were different. He felt that the Board could not adopt the attitude that it was not going to permit the logical and warranted expansion of bank holding companies in a community, for if it did so it must check its actions with respect to branch banking systems.
In further discussion, Governor Szymczak stated that he agreed with the views of Governors Robertson and Shepardson and the Division of Examinations.

It was then agreed, at the suggestion of Chairman Martin, to defer a vote on the application of Baystate Corporation until the meeting of the Board tomorrow.

At this point Mr. Thurston, Assistant to the Board, was called into the room.

Application of Northwest Bancorporation. At the meeting on November 1, 1957, the Board discussed procedures which might be followed in implementing its adverse decision on the application of Northwest Bancorporation, Minneapolis, Minnesota, to acquire stock of the proposed Northwestern State Bank, Rochester, Minnesota, but a final determination of these questions was deferred. In preparation for this meeting, there had been distributed to the members of the Board copies of a memorandum from Mr. Solomon dated November 1 outlining possible alternative procedures, including those which might be followed if it should be decided to disclose the action publicly and those which might be followed if it should be decided not to make public disclosure of the action. Submitted for consideration with the memorandum were drafts of a statement and order, a separate order, and a simple notice of the action. In addition, the memorandum discussed several questions relating to the manner in which votes of the individual members of the Board might be noted.
After Governor Balderston had reviewed, particularly for the benefit of Chairman Martin and Governor Mills, the procedural questions which the Board considered last week, Mr. Solomon said that the Board's decision on the matter of disclosure must be resolved almost entirely on policy grounds. He then brought out two somewhat conflicting considerations, first, the general direction of the Administrative Procedure Act toward public disclosure and, second, the fact that in the past the Board had followed a policy of not disclosing publicly adverse decisions in the bank supervisory area such as denials of branch applications. With reference to applications under the Bank Holding Company Act, he noted that it had been decided by the Board in the past to publish orders of approval and that in such cases the question of stating reasons had not arisen. However, the Board also had reached a tentative decision that orders of disapproval would not be published, and since then there had not been occasion to make a formal unfavorable decision until the application of Northwest Bancorporation came into the picture.

Chairman Martin inquired of Mr. Solomon whether any stigma would attach to parties by publishing the disapproval of applications, and the latter replied that this possibility appeared to have been one of the reasons that impelled the Board to decide against disclosure in the bank supervisory area. The disapproval might reflect unfavorable aspects of management and the Board did not want to make such a matter
the subject of discussion. This might apply to a lesser extent in
the case of bank holding companies, but it would still be an element
present.

Governor Robertson said that he thought the tentative decision
not to publish orders of disapproval of applications under the Bank
Holding Company Act reflected a feeling that public disclosure might
do irreparable harm if the decision was made on the basis of unsatis-
factory management. However, he said, he was inclined to the view at
this moment that the problem could be met by the exception in the
Administrative Procedure Act giving the right to refrain from disclosure
in certain cases. Another possibility might be to frame the Board's
statement of reasons in such a way as not to cast a reflection on any
party whose application was turned down. On balance, he would be
inclined at present toward the fullest possible amount of public dis-
closure.

Governor Balderston suggested the difficulty in always being
able to cast into the form of a single statement the views of all of
the members of the Board who voted for a particular action, and Governor
Robertson stated that the solution might be to apply as nearly as
practicable the rules of procedure followed by the courts. He envisaged
that the statement would set forth as nearly as possible the reasons for
the majority view but that any member would have the privilege of adding
to that statement as he saw fit to explain his own position.
Governor Vardaman expressed himself as favoring Governor Robertson's position and said he felt strongly that dissenting votes and a notation of absences should be included in the Board's statement. If he thought the case sufficiently important, he said, he would write a dissenting opinion, but in the case of the Northwest Bancorporation application he did not wish to go any further than to have his dissenting vote noted.

In further discussion, Mr. Thurston responded to a question by saying that, like Governor Robertson, he would favor a general policy of the fullest possible disclosure, with exceptions in certain cases. Such a general policy, he thought, would be in the public interest. In this connection, he said that he considered the Board's record in the past to be quite good in this respect and that there had been no attempt at undue concealment.

After additional discussion, it developed that the sentiment of the Board favored a general policy of full disclosure in regard to actions taken on applications under the Bank Holding Company Act. Accordingly, the discussion then turned to the question of what would be published in the Federal Register and Mr. Solomon commented that the Register would publish either an order or a simple notice of Board action, but that it would not publish a statement in support of the order. This led to agreement on the part of the Board that an order containing reference to votes cast and absences should be published in the Federal Register. With regard to the manner in which
the votes and absences should be shown, Chairman Martin requested Messrs. Thurston and Solomon to consider the matter in the light of the comments at this meeting.

At the conclusion of the discussion, question was raised whether the Board wished to afford Northwest Bancorporation an opportunity to submit additional evidence concerning the Rochester application in view of the fact that this had been done in certain other cases under the Bank Holding Company Act where doubts had arisen.

In this connection, Governor Robertson commented that another application of Northwest Bancorporation (to acquire stock of the proposed Airport Northwestern National Bank in Minneapolis) was being held in abeyance at the applicant's request. He suggested that the same type of request might be made in this instance and he therefore felt that the Board should go forward and implement its action on this application. There would always be the possibility, he pointed out, of reopening the matter for further consideration upon the applicant's request.

Concurrence was expressed by the other members of the Board in the views stated by Governor Robertson.

Messrs. Masters, Hexter, Benner, Hostrup, O'Connell, Thompson, and Davis then withdrew from the meeting.

Topics for discussion with Federal Advisory Council (Item No. 2).
There had been distributed to the members of the Board copies of a draft of letter to the Assistant Secretary of the Federal Advisory Council
which would present topics proposed for discussion by the Council at its meeting on November 17, 1957, and at the joint meeting of the Board and the Council on November 19. Also submitted for consideration was a possible additional topic which would refer to certain recent rulings by the Comptroller of the Currency regarding repurchase agreements by banks with dealers in Government securities. The Council would be asked whether it felt that these rulings would interfere with the availability of funds for financing dealers and with the performance of the market for Government securities.

Mr. Young presented for consideration another possible topic under which the Council would be asked whether there was any concern at bank management levels about the current volume of repossessions in instalment financing of new automobiles and also whether, from the standpoint of soundness in this type of financing, undue emphasis was being placed on the stability of values in the used car markets.

In explaining the background of the topic which he had suggested, Mr. Young said it appeared from available statistics that at the present time one out of every 20 new cars financed was being repossessed, which of course was quite a high ratio. No unusual losses were being sustained by the industry because the repossessed cars were immediately offered on the used car market. While no particularly great risk was involved as long as the used car market remained strong, there would of course be a good deal of risk if the situation should change.
After certain questions had been raised with regard to the accuracy of the statistics available to the Board in this financing area, Mr. Young said that one reason for putting the subject on the Council's agenda would be to cause the Council members to start asking questions of the managers of their consumer credit departments.

When Governor Vardaman asked whether it would be appropriate to put a question of this kind to the operating heads of finance companies, Mr. Young replied that the question had been raised with one company on the basis of the manner in which its statistics should be reported, it being thought that this approach was more appropriate.

Thereupon, it being agreed that the two additional topics should be proposed to the Council for discussion, unanimous approval was given to a letter to the Assistant Secretary of the Council in the form attached hereto as Item No. 2.

Reserve requirements of central reserve and reserve city banks. In a letter dated October 24, 1957, addressed to Chairman Martin, Congressman Multer of New York urged the Board to equalize reserve requirements of member banks in central reserve and reserve cities. A draft of suggested reply had been distributed to the members of the Board prior to this meeting.

Several suggestions were made with respect to the content of the proposed reply, following which it was understood that a revised draft would be submitted to the Board for consideration.
The meeting then adjourned.

[Signature]

Secretary
Board of Directors,
Pascagoula-Moss Point Bank,
Moss Point, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Pascagoula-Moss Point Bank, Moss Point, Mississippi, for stock in the Federal Reserve Bank of Atlanta, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, as amended effective September 1, 1952, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

The Board of Governors also approves the retention of the branches which are at present operated by the bank at Pascagoula, Ocean Springs, and Kreole, Mississippi.
Pascagoula-Moss Point Bank

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 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.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the
Pascagoula-Moss Point Bank

Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosure
Mr. William J. Korsvik,
Assistant Secretary,
Federal Advisory Council,
38 South Dearborn Street,
Chicago 90, Illinois.

Dear Mr. Korsvik:

The Board would like to propose the following topics for discussion by the Federal Advisory Council at its meeting on November 17, 1957 and at the joint meeting of the Council and the Board on November 19.

1. What are the views of the Council regarding the business situation during the remainder of this year and approximately the first six months of 1958? The Council's judgment as to the current psychology of the business community and of the general public and of the impact of their psychology on capital expenditures, business inventories, and consumer expenditures will be appreciated.

2. How are current demands for credit shaping up and what is the prospective demand for bank loans during the remainder of this year and during approximately the first half of 1958? What is the explanation for the unusually sharp decline in business loans during October? To what extent might it be attributed to more restrictive lending policies by banks and to what extent to a slackening in borrowing demands by business?

3. (a) Is there any concern at bank management levels about the current volume of repossessions in instalment financing of new automobiles? (b) For soundness in this type of financing, is undue emphasis being placed on stability of values in the used car market?

4. The Comptroller of the Currency has recently made certain rulings regarding repurchase agreements by banks with dealers in Government securities. Does the Council think that these rulings will interfere with the availability of funds for financing dealers and with the performance of the market for Government securities?

5. At its meeting in September, the Council expressed the unanimous view that the degree of credit restraint which the System had maintained in recent months should be continued unchanged for the present. As of November, what are the views of the Council with respect to System credit policies?
Mr. William J. Korsvik

6. Further comments with respect to the Bank Holding Company Act of 1956 will be welcomed by the Board.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

cc: Mr. Fleming