Minutes for December 9, 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	x [initials]	
Gov. Szymczak	x [initials]	
Gov. Vardaman	x [initials]	
Gov. Mills	x [initials]	
Gov. Robertson	x [initials]	
Gov. Balderston	x [initials]	
Gov. Shepardson	x [initials]	

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

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hackley, General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel

Action taken by Retirement Committee. Subdivision (3) of section 5 of the amended Rules and Regulations of the Retirement System of the Federal Reserve Banks states that any member may elect, with the approval of the Retirement Committee, to make additional contributions to the Retirement System either in the form of a rate per centum of basic salary or in the form of a lump sum contribution, at such rates and within such minimum and maximum limits as shall be established by the Retirement Committee. At a meeting on October 14-15, 1957, the Committee reviewed the present limitations on the maximum amount of additional annual annuity which may be provided through such contributions and voted to increase the present limitations by 50 per cent, to become effective immediately. Pursuant to this action, additional contributions must not

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appear at the time when made, or at the time they commence in the case of percentage payments, to be more than sufficient to provide an additional annuity of $2,700 per annum at the time of service retirement at age 65, while members retiring prior to age 65 on special service or disability retirement would be permitted to provide an additional annuity up to $1,800 per annum or the actuarial equivalent (at the member's attained age) of $2,700 at age 65, whichever is greater.

While it is within the discretion of the Retirement Committee to establish the maximum limitations on such additional contributions without approval of the Board of Governors, the Committee felt that it would like any comments that the Board might have before notifying the membership of the Retirement System concerning the raising of the limitations. In a memorandum from the Division of Personnel Administration dated November 20, 1957, which had been circulated to the members of the Board, it was recommended that a letter be sent to the Chairman of the Retirement Committee advising that the Board would have no objection to the action taken by the Committee.

In a discussion of the matter, Governor Mills asked whether he was correct in believing that this action would not involve any additional contribution to the Retirement System on the part of the Federal Reserve Banks and that the only obligation would be to provide the presently stipulated 3 per cent rate of interest on voluntary contributions.

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In response, Mr. Johnson said he had been assured by Mr. Sprecher, who was absent today on account of illness, that there would be no additional expense to the Federal Reserve Banks except in regard to the service of the Retirement Committee and the 3 per cent rate of interest mentioned by Governor Mills.

Governor Robertson then asked why, if this were true, there should be any maximum limitations whatever. He referred to the fact that under the Civil Service Retirement System, and the Board Plan as well, voluntary contributions are limited to 10 per cent of the total basic salary received by a member, and he inquired concerning the philosophy which governed this 10 per cent limitation and the limitations now established by the Retirement Committee. If there was additional cost involved, he questioned whether the action of the Retirement Committee was justifiable, while if there was no additional cost involved he saw no justification for maximum limitations.

In the course of comments by members of the Board relative to the points mentioned by Governor Robertson, Governor Vardaman said he wanted the record to show that he had not taken any part in this discussion because he was opposed in principle to the maintenance of the Federal Reserve Retirement System on the basis that it was borderline as to legality and compounded administrative problems of the Board.

It was then agreed, at the suggestion of Chairman Martin, to defer action on advising the Retirement Committee of the Board's views

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until additional information had been obtained by the Division of Personnel Administration bearing on the questions raised by Governor Robertson.

Rate of salary for nonclerical position at Chicago Bank (Item No. 1). Unanimous approval was given to a letter to the Federal Reserve Bank of Chicago, which had been circulated to the members of the Board, approving the payment of salary effective October 1, 1957, for the position at the Bank designated as "marble man" at the rate proposed in the Bank's letter dated November 21, 1957. A copy of the approved letter to the Reserve Bank is attached hereto as Item No. 1.

Mr. Johnson then withdrew from the meeting.

Applications of First New York Corporation and others under the Bank Holding Company Act (Item No. 2). There had been circulated to the members of the Board copies of a memorandum from Mr. Hackley dated December 3, 1957, suggesting alternative courses of action open to the Board in connection with the applications of First New York Corporation and others, including The First National City Bank of New York, under the Bank Holding Company Act. As the memorandum pointed out, this case was complicated by the fact that the Hearing Examiner, instead of making a Report and Recommended Decision on the merits, had concluded that the Board was legally precluded from approving the applications at this time because in his opinion (1) section 7 of the Act requires the Board to follow Article III-B of the New York Banking Law which prohibits the

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proposed transactions, and (2) consolidation of County Trust Company with County Trust Company National Bank, an essential step in the program, would be forbidden by provisions of Federal law relating to the consolidation of a State bank with a national bank.

The memorandum stated that the Legal Division was unanimously of the opinion that, contrary to the Hearing Examiner's conclusion, the Board was not precluded by law from approving the applications and that it had authority to exercise its discretion in determining whether to approve or disapprove the applications on the basis of the record of the public hearing and in the light of the five factors set forth in section 3(c) of the Bank Holding Company Act. A legal memorandum in support of this opinion was attached.

In commenting on the matter, Mr. Hackley said that except for the first alternative mentioned in his memorandum, which was to adopt the conclusion of the Hearing Examiner that the Board was legally barred from approving the applications, the decision on the course of action to follow related largely to a question of policy. Because of the time and trouble which had been involved in the case, his impulse would be to lean to the seventh alternative, as follows:

> The Board could take the position that it is sufficiently familiar with the facts of this case, including those contained in the hearing record, to make its decision on the merits, and proceed at this time to approve or deny the applications, without referring the case either to the Hearing Examiner or to the Board's staff. As a variation, the Board on the basis of the record could make a tentative decision on the merits at this time, but ask the

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staff to review the hearing record to determine whether it contains anything clearly contrary to the proposed tentative decision. In any event, it is assumed that under its present practice the Board would wish to have the staff prepare an opinion in support of its decision, whether for approval or denial; and in the preparation of that opinion the staff would be obliged to review the record and the Board would have a further opportunity to consider the record when it adopts the opinion and renders its final decision.

However, he said, the most logical course might be to follow the second alternative listed in his memorandum, while perhaps a more practical course would be to follow alternative number three. These alternatives were set forth in the memorandum as follows:

(2) The Board might at this time reject the Hearing Examiner's legal conclusion and refer the case back to the Hearing Examiner for his report and recommendation on the merits, at the same time making a public announcement of the Board's conclusion on the legal question and its reasons therefor.

(3) The Board might remand the case to the Examiner for his recommendations on the merits, but without at this time announcing any conclusion or views of the Board as to the legal effect of section 7 of the Act and the New York statute. Although such a remand to the Examiner might seem to suggest that the Board disagrees with his conclusion on the legal question, this would not necessarily be the case. The Board conceivably might, upon a review of the case on the merits, decide to deny the applications for other reasons, in which event a decision by the Board as to whether section 7 of the Act makes the New York statute a bar to the approval of the applications might be avoided.

In further comments Mr. Hackley said that when the Hearing Examiner stated that the Board was legally precluded from approving the applications, he apparently meant that in his opinion the Board

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was also precluded from denying the applications except on the grounds indicated in the Recommended Decision. He also pointed out that if the Board should decide to remand the case to the Hearing Examiner it would be necessary to take up with the National Labor Relations Board the question of extending the Examiner's period of service, which was to expire December 31, 1957, under the present arrangement.

Messrs. Fauver, Assistant Secretary, and Molony, Special Assistant to the Board, entered the room at this point.

After saying that Messrs. Solomon, Hexter, and O'Connell joined in what he had said about the legal question but that he was not sure about their preference among the suggested alternative courses of action, Mr. Hackley noted that there might be still other alternatives, including denial of the applications on the ground that the New York statute prohibits consummation of the transactions at this time and that approval of the applications therefore would be a "vain" thing. This denial would be without prejudice to later reopening the case if the circumstances should change. While he thought there was considerable merit in such a position, on the other hand he could not help but feel that, logically speaking, this was quite close to the position taken by the Hearing Examiner.

In response to a question by the Chairman, Mr. Hackley confirmed that his preference would be for the second alternative, with an announcement of the Board's conclusion on the legal question and an

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indication in the order remanding the matter to the Hearing Examiner that the Board felt it was not precluded from considering the applications on their merits.

Mr. Solomon said he agreed completely with what had been said as far as the legal point was concerned, with the possible exception of perhaps not feeling quite as strongly that if the Board referred the matter back to the Hearing Examiner it should make a decision at this time on the legal question presented by the Examiner. It seemed to him that the Board might take the position that it would not answer that question at this time but would decide it later. As to the alternatives set forth in the memorandum, he saw a great deal of practical advantage, if the Board felt familiar enough with the record, in following the seventh alternative. If the Board did not want to dispose of the matter now, however, there were several alternatives that seemed almost to blend into each other. If the Board desired a temporary disposition of the matter, it seemed to him that to base the action on the factual value of the New York State statute would have a slight advantage, and he would therefore be inclined to favor the sixth alternative, which was set forth in Mr. Hackley's memorandum as follows:

> It is conceivable that, with or without a statement at this time of the Board's views on the legal question raised by the Examiner, the Board might now decide that the New York statute and the circumstances surrounding its enactment clearly evidence the policy of the State

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> and raise a strong presumption that the proposed transaction would be inconsistent with the "public interest" under the fifth statutory factor; and that, therefore, the applications should be denied at this time unless there are strongly countervailing favorable considerations relevant to the first four statutory factors. The Board might then refer the case to its staff for a review of the record merely to determine whether any such strongly favorable considerations are present. This would simplify and expedite the staff's task in analyzing the record on the merits. If the Board should then deny the applications, on the ground here suggested, but without prejudice to renewal of the applications under changed circumstances, the practical effect would be much the same as postponing a decision, but it would preclude the possibility of charges of "unreasonable delay."

Chairman Martin commented that it could be said that the New York statute was one of the factors in the case but not the controlling one, and Mr. Hackley observed that public policy, as evidenced by the statute, might be given weight but that a review on the merits might also disclose strong reasons for denial of the applications. By basing action on the sixth alternative solely, consideration of the applications on other grounds would tend to be excluded. For that reason, if the case was going to be decided on the merits, he wondered if the seventh alternative would not be more appropriate.

Governor Balderston asked concerning the effect of the sixth and seventh alternatives on the applicants' rights of appeal, and Mr. Hackley replied that these two alternatives contemplated first a tentative decision within the Board which would not be announced. On the other hand, the Board, when it reached its "semi-final" decision,

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could refer to it as a tentative decision and give the applicants or other parties a period, say 30 days, to examine the decision and file exceptions before the decision was made final.

Governor Balderston commented that he was thinking of the fact that the applicants had had a chance to file exceptions to the Hearing Examiner's Recommended Decision but not a similar opportunity to file exceptions to a Recommended Decision on the merits.

Governor Vardaman asked whether, if the Board published a tentative decision, the only effect would be to delay court action for 30 days, and Mr. Hackley stated that this might put the Board in a better position if the matter went to the courts eventually.

Governor Vardaman then asked whether, if the Board "took the bull by the horns" and decided the case on the basis of an analysis of the record by its staff, it would not be subjecting itself to the charge of capricious and arbitrary action and create a dangerous precedent. He suggested that it was the role of the Hearing Examiner to make a recommendation on the basis of the testimony, which would give the parties a chance to analyze the recommendation and file exceptions with the Board, and thus result in a more complete revealing of all of the facets of the case.

Mr. Solomon, in reply to a further request for his views as to a choice among the various alternatives, said that he thought much would depend on whether the Board felt that it was willing to decide

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the matter on the basis of the information now in the record. If so, alternative seven would be the most expeditious way to handle the matter, it being understood that this procedure would involve the issuance of a tentative decision from which the parties would have a chance to take exceptions. If the Board did not wish, however, to decide the matter on the basis of the information now in the record, he thought that logic -- and the usual procedure in cases of this kind -- would point to the second alternative. If the Board wished to dispose of the matter on a preliminary basis, he would be inclined to favor the sixth alternative.

Governor Vardaman then inquired whether it was contemplated procedurally under the second alternative that the Board would first declare its belief that it had the authority to decide the case on its merits regardless of the New York statute and then would refer the case back to the Hearing Examiner with instructions to provide a recommended decision on the basis of the facts revealed by the record.

Mr. Hackley confirmed this statement and suggested that under that approach it would also be appropriate to note the fact that the transactions were prohibited by State law, that this was a factor in the case, but that it was only one of the factors to be considered.

Mr. Hexter said that he thought the second or third alternatives would be preferable and that between those two he would not have much preference. He felt that the sixth and seventh alternatives would

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provide a less strong record than the course of referring the case back to the Hearing Examiner for the benefit of his views, which would be the usual procedure contemplated by the Administrative Procedure Act. Personally, he said, he had some doubt whether the Board was justified in holding that the enactment of the New York statute sufficiently established the public interest under the Bank Holding Company Act to justify turning down the applications on that ground alone. However, that went more to the merits of the case than the question now before the Board.

Mr. O'Connell said that he agreed with everything that Mr. Hackley had stated, that his preference was for the second alternative, and that this preference perhaps was influenced to a certain extent by personal knowledge that the Hearing Examiner had already gone some way toward the preparation of a basic recommended decision on the merits of the case. Therefore, to follow the second alternative might not involve undue delay. Also, however, he felt that all of the facts considered and all of the requirements of the law pointed to remanding the case to the Examiner as the most desirable course. The usual reason for referring a case like this back to the Hearing Examiner would be to get his recommendation and determination based on his knowledge of the witnesses, and these factors were not so much involved here because the most important components of the case were in the record. Nevertheless, he would favor this course of action.

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Mr. Hostrup said that the Division of Examinations would prefer either the second or third alternatives, with a leaning toward the second alternative, if the Board decided to follow the Legal Division on the legal question. If the case were remanded to the Hearing Examiner, he said, the Division of Examinations would contemplate going forward and looking fully into the hearing record so that it would not be influenced by the views of the Examiner and in making a recommendation to the Board would not necessarily adopt the Examiner's conclusions. The Division, he commented, would like to be able to check its independent conclusions against those of the Examiner.

Mr. Hostrup also said that he and Mr. Masters had discussed the matter before the memorandum from the Legal Division was available. From these discussions, and those with respect to other cases under the Bank Holding Company Act, he believed that Mr. Masters would have concluded in favor of the second alternative.

Mr. Carpenter said it seemed to him that if a matter of this kind were to come before a court for review in the light of the record, and if the applications involved proposed transactions which another statute prohibited, the court might well say that consideration of the record and approval of the applications would be a "vain" thing and, therefore, would refuse to consider the matter. In this case, if the Board should go through the task of deciding the matter on the merits, the applicants would still be prohibited from consummating the transactions. Therefore, he felt that the Board would be thoroughly justified in saying that,

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since the applicants could not carry out the transactions, there was no purpose in making a decision on the merits. This would be with the understanding that if the New York State law was clarified, the applicants as a matter of course could reopen the matter. Also, if the case was considered on the merits in the face of the New York statute, he felt that the Board would put itself in the posture of going ahead with the case contrary to the announced policy of the State, which might conceivably put the Board in a bad light from a public relations standpoint.

Mr. Hackley commented on Mr. Carpenter's statement by saying that it seemed clear from section 11 of the Bank Holding Company Act that the Board was not to be concerned with whether proposed transactions would violate other statutes and that the laws would take care of themselves. If the Board must look at all other statutes, that might possibly imply that the Board would have to go into such laws as the tax statutes. Also, as the applicants likewise argued, it was not necessarily clear that approval of the applications would be a "vain" thing since the New York law might be changed in a way that would permit the transactions to be carried out within the terms of the Board's order.

The members of the Board then stated their tentative views beginning with Governor Vardaman, who said that in his opinion Mr. Hackley had satisfactorily answered Mr. Carpenter's points except that he did not emphasize as strongly as he might have one factor which seemed important, namely, the temporary nature of the New York law. If the Board approved the applications, if the matter proceeded in the normal way, and even

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if the State did not renew the legislation, the legislation might have expired before the normal course of events would permit the whole plan to be carried through. In any event, however, he felt that these considerations were beside the point. It was his view that the Board should perform its duty at the national level and not look into the statutes of all of the States.

Governor Vardaman then referred to an informal office memorandum that he had dictated prior to the date of oral argument in which he had expressed the view that the Board should consider the case on the merits on the basis of the record, that if the Board determined that the applications should not be approved it should state that the disapproval was based on an opinion arrived at after study of the record and not on the basis of a temporarily restrictive State statute, and that it was imperative that the Board dispose of the question of its right to proceed in this case regardless of the State statute. If the Board should decide that the applications should be approved, the order should state that the decision was on the basis of the record of the case and the Board's concept of its duties under the Act. The order should probably contain a phrase to the effect that the approval was given subject to the applicants being able to consummate the proposed transactions.

Governor Vardaman said that at present he favored the second alternative very strongly. He went on to say that his first thought was to go ahead and get the Division of Examinations to review the record,

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following which the Board would make its decision. In view, however, of the legal points involved and the matter of the public interest, he now felt that the Board should remand the case to the Hearing Examiner with instructions to present a recommended decision based on the hearing record. Since there was no contest regarding the content of the hearing record, the importance of having the Examiner making the review seemed not to be so great as it might otherwise be. Nevertheless, to build the case up as a precedent he felt that the Board should have the Examiner's own reactions on the record. At the same time, he agreed that simultaneously the Division of Examinations, with such help as needed from the Legal Division, should analyze the record and make a report of that analysis for the Board's internal use. Then, when the Examiner came back with his recommended decision the Board would have a report also from the Division of Examinations and could know whether the Division's findings agreed with the conclusions of the Hearing Examiner. In concluding, he said that he would declare the right of the Board to decide the case on the merits and remand the matter to the Hearing Examiner.

Governor Mills expressed the view that the Hearing Examiner, in his own conscience and judgment, had in effect closed the case from his own standpoint. That being the state of the hearing and with the Hearing Examiner an instrument of the Board rather than an independent judicial officer, it seemed to him that it would be inappropriate to

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remand the case to the Examiner for consideration on the merits in the light of the five factors set forth in the statute. He thought that it would be preferable to ask the Division of Examinations, with its broader base of experience in matters of this kind, to review the merits of the case and, on the strength of the findings, to make a recommendation to the Board. Accordingly, he would tend to favor the general procedure envisaged by the seventh alternative. He contemplated that upon the submission of the findings and recommendation of the Division of Examinations, the Board would reach a tentative decision which the parties at interest could challenge or accede to in their discretion. The issuance of a final decision would then await the completion of that whole process.

Governor Robertson said that he thought the Board had to assume the validity of the New York statute and that it should avoid wherever possible acting according to purely legal rules. Consequently, he would not be in favor of issuing an opinion which was purely legal in nature. In this connection, he suggested that the Hearing Examiner had made a mistake in putting the matter in terms that the Board could not act rather than to say that the Board should not act. His first recommendation, somewhat in line with that of the New York State Banking Department, was that since the proposed transactions could not be legally consummated under the present New York law the Board should deny the applications now and avoid taking a "vain" step. It

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should, however, qualify its denial by stating that the action was taken subject to reopening the proceeding after the New York situation was clarified. He pointed out that one could not tell at this time whether the New York statute would be made permanent, whether it would be changed, and, if it were changed, what the effect would be from the standpoint of consummating the proposed transactions. The course of action he preferred would be along the lines of Mr. Carpenter's suggestion except that he would not want to issue any ruling at this time regarding the legal point raised by the Hearing Examiner.

Governor Robertson went on to say that if the Board did not go along with this suggestion, then he would prefer to take parts of the second and third alternatives which would be consistent with what he had just said. He would refer the matter back to the Hearing Examiner on the basis that the Examiner knew the record better than anyone else. Then, in considering the case on the merits he would take into consideration the existence of the State statute. In this connection, he felt that the Board was not limited to consideration of the five statutory factors in reviewing this case. He suggested that it would be better to refer the matter back to the Hearing Examiner than to ask the Division of Examinations to review the record and make a recommendation, because the Examiner had sat throughout the hearing and was entirely familiar with what had transpired. To put it another way, he felt that it would be unfair to the Examiner and to the Board not to have the benefit of the views of the Hearing Examiner.

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Governor Shepardson recalled that when this whole question first came up concerning the New York State law, he was one of those who thought that the hearing should not proceed under the existing circumstances. However, it did proceed and he now held a view somewhat similar to that which had been expressed by most of those present at this meeting, particularly Governor Vardaman. As to the New York law, he did not consider that this law was clearly an indication of the position of the State of New York on this matter but rather that it was definitely a piece of holding legislation which did not commit the State to a permanent position one way or the other. In this connection, he pointed to the fact that the present law has a definite terminal date. On the question whether it would be a vain act if the Board's decision should be to approve the applications within a period of, say, six months, he suggested again that the State statute was definitely in the nature of holding legislation and not a statement of position over time. For that reason, he did not think that the Board should go along with the Hearing Examiner's recommendation that it was precluded from acting on the applications on their merits. Since the hearing had been held, he believed that there was a definite advantage in looking at the entire case on its merits and that it was significant to do this when it was not known what the legislative situation in New York would be after the terminal date of the current "freeze" statute. He did not think it appropriate to defer action because of doubt as to what legislation

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might be enacted in New York State in the future, and in this connection he brought out that the Board had no knowledge of any other existing law that would affect the case. Governor Shepardson then said that the combination of the second and third alternatives suggested by Governor Robertson would tend to meet his own views and that he would remand the case to the Examiner for his analysis on the merits. He also said that he did not think it was necessary for the Board to make a decision on the legal question at this time.

Governor Szymczak stated that his first inclination would be to go along with the position suggested initially by Governor Robertson. Even though the New York law was temporary, he said, it was still a law. All laws can be changed, whether or not they have a terminal date, and this law might be extended for a long period of time. However, he felt that the Board would have to go into the issues involved, including the issue raised by the New York law. It was his view, therefore, that it would be better for everyone, including the Board and the applicants, for the Board to remand the case to the Hearing Examiner without having taken a position on the legal position and simply say to the Examiner that it wanted him to address himself to the record. To expedite the matter, he would favor having the staff likewise review the record, so that at some time in the future the Board would have not only the recommendation of the Hearing Examiner but also the views of its staff. Eventually, he said, the Board would have to take into account not

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only the five factors set forth in the statute but also other factors involved in the case, including the law of the State of New York.

Governor Balderston expressed the view that the Board should follow the course of action outlined in the third alternative, but with the procedural amendment suggested by Governor Szymczak. It seemed to him that it would be inadvisable to announce the Board's verdict on the Examiner's recommendation with respect to the legal issue unless the Board had before it an analysis of the merits of the applications. Therefore, he would remand the case to the Hearing Examiner for analysis of the merits of the case, which would permit the parties to file exceptions to the Examiner's report and recommended decision based on the merits. That would mean that at the time the Board reached a decision and announced it publicly, it would have available two analyses from the Examiner, one on the legal aspects and one on the merits. To decide one before the other, he suggested, would tend to be confusing to the public. In all the circumstances, he would favor the third alternative, with the modifications suggested by Governor Szymczak and others. Also, he would want to have available to the Board, along with the Hearing Examiner's analysis and comments, separate recommendations from the Division of Examinations, the Legal Division, and the Division of Research and Statistics.

There ensued a further discussion of whether, if the case should be remanded to the Hearing Examiner for a report and recommendation on the merits, it would be advisable to make at the same time an announcement

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of the Board's views with respect to the legal question. During this discussion Mr. Hackley suggested that remanding the case might in itself be regarded as tantamount to saying that the Board did not agree with the legal conclusion of the Hearing Examiner. Nevertheless, it would be possible to follow the third alternative and, when the Board made its final decision, to express a view on the legal question if the decision was favorable. If the Board, on the other hand, should decide to deny the applications, it was possible that the denial might be on some other ground and it would therefore not be imperative to express any view on the legal issue. However, he said, the mere fact of consideration on the merits would seem in itself rather inconsistent with the Examiner's legal conclusion.

Later in the discussion of this point, Governor Vardaman said he had now become convinced that it would be appropriate simply to remand the case to the Hearing Examiner. This would mean that when the Board made its final decision on the merits - whether to approve or disapprove - it could take care of the legal question in that decision.

Governor Mills then said that the legal problem ranked equally in his judgment with the moral and financial aspects of a bank holding company expansion proposal. He felt that there should be an announcement, whatever action was taken at this meeting, to indicate that in the light of the unanimous opinion of the Legal Division the Board considered that it had the right to examine and find on the merits of

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the case. The advantage of an announcement, he said, was that it would allow those differing with the Board's position to prepare their arguments and thinking against the day when the Board handed down its decision. He felt that the public was entitled to know the Board's attitude toward the New York statute. It was his position that the Board was administering a Federal law and should declare its position regarding it.

Governor Vardaman asked Governor Mills if he would not regard a remanding of the case as constructive notice that the Board was proceeding without regard to the New York statute, to which the latter responded that he thought the public was entitled to know that the Board did not consider the State statute controlling, that it was an element that should enter into the final decision, but that its existence would not bar examination of the record.

Mr. Hackley then stated that one possible advantage, if the matter was referred back to the Hearing Examiner, to announcing at this time the Board's feeling that it was not barred from considering the merits would be to avoid any misinterpretation of the order to remand. Otherwise, the public might form the opinion that the Board proposed to ignore the New York law entirely.

Governor Szymczak said that he thought Mr. Hackley had made a good point and that there should be some appropriate way for the Board to say that at this moment it did not feel precluded from going back to the Examiner and asking for his views on the merits of the case.

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In further discussion Mr. Hackley suggested possible language for inclusion in the order to remand which Governors Vardaman and Mills indicated was along the lines of their thoughts on how the matter should be handled.

Chairman Martin said that personally he would be willing to pass on the legal question now and that he would be inclined toward the second alternative. However, since it appeared that the majority of the Board did not want to pass on the legal question at this time, he felt that the problem was one of making the best possible announcement. The mere fact of remanding the case seemed to him constructive notice of the Board's attitude on the Hearing Examiner's legal conclusion. Most of the public, he believed, would feel that the Board had "crossed the bridge" on the legal question.

After additional discussion, during which Governor Szymczak stated that if a vote were to be taken now on the legal question he would vote to sustain the conclusion of the Hearing Examiner, Chairman Martin suggested that the Legal Division be asked to prepare for the Board's consideration this afternoon a draft of order remanding the case to the Hearing Examiner for review and recommendation on the merits.

Agreement was expressed with this suggestion, and further comments related to the desirability of checking with the National Labor Relations Board regarding an extension of the Hearing Examiner's assignment to this case. A copy of a letter unanimously approved in this connection is attached as Item No. 2.

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Reference also was made to the procedures which a decision to issue an order remanding the case would contemplate. It was stated that the order would be published in the Federal Register, that a press statement releasing the order would be issued, and that copies of the order would be sent to the parties to the proceeding as well as to Congressman Multer.

Majority opinion in the Baystate case (Item No. 3). In accordance with the request at the meeting of the Board on December 3, 1957, there had been sent to the members of the Board, with a memorandum from Mr. Hackley dated December 4, 1957, a revised draft of a statement on behalf of the majority members of the Board in support of the Board's Order of November 7, 1957, approving the application of Baystate Corporation under the Bank Holding Company Act to acquire stock of the Union Trust Company of Springfield, Springfield, Massachusetts. The memorandum stated that if the revised statement were approved it was contemplated that it would be followed in order by the text of the dissenting opinion and the text of the Board's Order of November 7, and that it would be released to the press with a brief explanatory statement such as that submitted with Mr. Hackley's memorandum of November 29, 1957, presenting an earlier draft of majority statement.

After the members comprising the majority in the Baystate case had stated that they were entirely satisfied with the statement in its revised form and Governor Robertson had suggested a minor change in

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the text of the dissenting opinion, with which the other members of the minority agreed, it was agreed to release the two statements.

> Secretary's Note: Following the afternoon session of the Board meeting today, there was staff discussion concerning the release dates of the Baystate opinions and the order agreed upon by the Board during the afternoon session in connection with the matter of the applications of The First New York Corporation and others. It was suggested that it would be desirable to release the Baystate opinions the day following the other release, that is, on December 11, 1957. The Secretary reported this suggestion at the Board meeting on December 10 and agreement was expressed. A copy of the press statement released on December 11 pursuant to this agreement, and of the majority and minority statements, is attached as Item No. 3.

Mr. Hexter then withdrew from the meeting.

Petition of Northwest Bancorporation (Item No. 4). On November 5, 1957, the Board issued a Statement and Order denying the application of Northwest Bancorporation under the Bank Holding Company Act of 1956 for approval of its acquisition of shares of the proposed Northwestern State Bank, Rochester, Minnesota. There had now been filed with the Board under date of December 2, 1957, a petition from Northwest Bancorporation that the matter be reconsidered because it was believed that the Board's decision was not in accordance with the intent with which Congress enacted the Bank Holding Company Act and that the Board had misconstrued the factors which Congress had said should govern the acquisition of a new bank by a bank holding company. Beside asking for reconsideration of the application for reasons developed in the

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petition, Northwest Bancorporation requested (1) that there be made available to it for examination and copying all documents and other data considered by the Board in making its Order of November 5, 1957, and (2) that the Order be vacated or suspended pending reconsideration of the matter so that Northwest Bancorporation's right to review under section 9 of the Bank Holding Company Act would not be prejudiced. Copies of the petition had been sent to the members of the Board before this meeting.

Chairman Martin stated that representatives of Northwest Bancorporation had visited the Board's offices recently and discussed the matter with him, Governor Robertson, and Mr. Hackley. There was nothing in the visit, he said, which would indicate that Northwest Bancorporation had any new facts to offer, and accordingly there would seem to be a question whether any purpose would be served by giving the Bancorporation an opportunity to argue orally a case that had already been decided by the Board. He suggested that the elements of time and precedent were involved, and that the situation of course would be different in a case where there were new facts to present.

At the request of the Chairman, Mr. Hackley then commented on the matter, stating that it would be possible for the Board merely to decide not to consider the petition. If, on the other hand, the Board wished to reconsider the application and issue an order to such effect, this would stop the passage of the 60-day period within which

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the Board's Order of November 5 could be appealed. He then said that personally he saw no need to reconsider the matter, but that apparently Northwest Bancorporation was aware of instances where bank holding companies had been given an opportunity to submit further views and comments, either orally or in writing, before the Board made its final decision on an application submitted under the Bank Holding Company Act.

Governor Vardaman asked what weight might be given to this petition if an appeal should be taken to the courts, and Mr. Hackley responded that in his opinion it would not be likely to have any effect.

Mr. O'Connell supplemented Mr. Hackley's comment by saying that if the petition was not considered by the Board and the Board's Order should be appealed to the courts, it could possibly be held that the Board was arbitrary and capricious in not giving the petitioner the advantage of a hearing before the Board. He then suggested that, as an alternative procedure, the Board might grant the petition to reconsider without having the petitioner appear before the Board. The Board could then reconsider its previous decision and reaffirm its decision if it so desired. One effect of such a procedure would be that the 60 days allowed for appeal to the courts from the Board's decision would begin to run anew. He went on to say that the majority of administrative agencies probably would not issue an order, at the time such a petition was filed, saying that they would reconsider the

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matter. Rather, an order issued would state that the agency had received and reconsidered the petition and that its previous order was confirmed. In the absence of new factual evidence, he felt that the Board would be required only to review the material which it had had before it previously. This again would allow Northwest Bancorporation an additional 60 days from the date of the confirming order in which to file an appeal with the courts.

Governor Vardaman then inquired whether there would be any basis for reversal of the Board's Order by a court of appeals in the event of refusal to hear the petitioner, and Mr. O'Connell replied that he did not think there would be any basis for reversal if an order was issued in which it was stated that the petition had been received, the matter had been reconsidered, and the previous order had been confirmed.

Question was raised whether the Federal Reserve Bank of Minneapolis should be brought into the matter in the light of the petition which had been received, and the view was stated that this did not seem necessary in the present circumstances.

Governor Balderston inquired what harm would be done by permitting the petitioner to present any additional evidence in support of the application, since he did not see that there would be any injury to the community from the delay involved. It seemed to him that giving an opportunity to submit comments in writing would be preferable to

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granting a hearing, as the hearing might merely consist of a recital of what had already been placed before the Board. On the other hand, if the petitioner had some new facts to present, the Board might well want to take them into account.

Governor Robertson commented that the petition itself contained no new facts and that there did not appear to be any disagreement with the facts already developed. He felt that Northwest Bancorporation was clearly entitled to ask the Board to reconsider the matter, but if there were no new facts and the views of the members of the Board had not changed since the Order was issued, he did not know what purpose would be served by reconsideration. If this practice were started, he said, the Board might put itself in a position where it would have to do the same thing in numerous cases. Moreover, the granting of an initial request for consideration might lead to additional requests to reconsider the same matter. Since there was no contest about the facts of the case and the Board had already acted, he would be inclined to turn down the petition on the ground that there was no basis for reconsideration. In doing so, however, he would follow a procedure such as suggested by Mr. O'Connell.

Following a statement by Chairman Martin that this seemed to be a clean-cut way of handling the matter, the Order attached hereto as Item No. 4 was approved unanimously, with the understanding that the Order would be published in the Federal Register, that copies

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would be sent to appropriate parties, and that a press statement giving the text of the Order would be issued.

All of the members of the staff except Messrs. Carpenter and Fauver then withdrew from the meeting.

Director appointments. In accordance with the understanding reached at its meeting on November 5, the Board resumed consideration of the appointment of directors of the Federal Reserve Banks and branches and of the designation of Chairmen and Federal Reserve Agents and the appointment of Deputy Chairmen. Prior to the meeting of the Board, memoranda had been distributed by Mr. Fauver dated November 14 and December 6 (two) containing biographical information with respect to possible appointments. Members of the Board had also discussed the vacancies to be filled with the Chairmen of the Federal Reserve Banks during the Conference of Chairmen on December 5 and 6.

After discussion it was voted unanimously:

(1) To ascertain whether Mr. Nils Wessell, President, Tufts College, Medford, Massachusetts, is eligible for and would accept appointment, if tendered, as a Class C director of the Federal Reserve Bank of Boston for the unexpired portion of a term ending December 31, 1959, and to make the appointment if he is eligible and will accept. It was noted that Dr. James R. Killian, Jr., President, Massachusetts Institute of Technology, had tendered his resignation for this position on November 12, 1957.

(2) To ascertain whether Mr. Daniel M. Dalrymple, Lockport, New York, is eligible and willing to accept appointment, if tendered, as a director of the Buffalo Branch of the Federal Reserve Bank of New York for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept.

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(3) To ascertain whether Mr. Clifford J. Backstrand, President, Armstrong Cork Company, Lancaster, Pennsylvania, is eligible and willing to accept appointment, if tendered, as a Class C director of the Federal Reserve Bank of Philadelphia for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept. It was agreed, however, that before any action was taken on this appointment Vice Chairman Balderston would discuss the matter with Mr. Supplee, the incoming Chairman of the Federal Reserve Bank of Philadelphia.

(4) To ascertain whether Mr. Aubrey J. Brown, Head of the Department of Agricultural Economics, University of Kentucky, Lexington, Kentucky, is eligible for and would accept appointment, if tendered, as a Class C director of the Federal Reserve Bank of Cleveland for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept. It was noted that Dr. Frank J. Welch, President of the University of Kentucky, had declined to accept the reappointment contemplated by the Board's action on November 5, 1957.

(5) To ascertain whether Mr. George H. Aull, Head, Department of Agricultural Economics and Rural Sociology, Clemson College, Clemson, South Carolina, is eligible and willing to accept appointment, if tendered, as a director of the Charlotte Branch of the Federal Reserve Bank of Richmond for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept.

(6) To ascertain whether Mr. Frank A. Godchaux, III, Vice President, Louisiana State Rice Milling Company, Abbeville, Louisiana, is eligible and willing to accept appointment, if tendered, as a director of the New Orleans Branch of the Federal Reserve Bank of Atlanta for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept.

(7) It was agreed that Chairman Martin would discuss with Mr. McBride, Chairman of the Federal Reserve Bank of St. Louis, the possibility of moving one of the branch directors of the St. Louis Bank to the head office board, with the understanding that Mr. Jesse D. Wooten, Executive

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Vice President, Mid-South Chemical Corporation, Memphis, Tennessee, would be considered eligible for the Memphis Branch board if a vacancy resulted from such promotion. It was also agreed unanimously that, if no appointment to the St. Louis board resulted from this action, steps would be taken in the usual way to ascertain whether Mr. Wooten is eligible and willing to accept appointment, if tendered, as a Class C director of the Federal Reserve Bank of St. Louis for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept.

(8) To ascertain whether Mr. Robert H. Alexander, Scott, Arkansas, is eligible and willing to accept appointment, if tendered, as a director of the Little Rock Branch of the Federal Reserve Bank of St. Louis for a term of three years beginning January 1, 1958, and to make the appointment if he is eligible and will accept.

(9) To ascertain whether Mr. John M. Otten, Lewistown, Montana, is eligible and willing to accept appointment, if tendered, as a director of the Helena Branch of the Federal Reserve Bank of Minneapolis for a term of two years beginning January 1, 1958, and to make the appointment if he is eligible and will accept. It was agreed, however, that before any action was taken on this appointment, a further check would be made with Chairman Perrin of the Minneapolis Bank.

The following persons were appointed as Deputy Chairmen of the Federal Reserve Banks indicated for the year 1958:

Name	Bank
Harvey P. Hood	Boston
Lester V. Chandler	Philadelphia

In connection with Mr. Hood's appointment, it was noted that Dr. James R. Killian, who had resigned on November 12, 1957, was unable to accept the appointment for this position contemplated by the Board's action on November 5, 1957.

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With respect to the suggestions under consideration for appointment to the Seattle Branch board, it was understood that Governor Mills would obtain the views of Chairman Brawner of the Federal Reserve Bank of San Francisco with regard to these candidates and obtain any other suggestions he might have.

The meeting then recessed and reconvened in the Board Room at 2:30 p.m. with all of the members of the Board except Chairman Martin present. Messrs. Carpenter, Kenyon, Hackley, Molony, Hostrup, Solomon, and O'Connell of the Board's staff also were present.

Proposed order in connection with applications of First New York Corporation and others under the Bank Holding Company Act. Pursuant to the understanding at the conclusion of the discussion this morning, there had been prepared by the Legal Division a draft of order which would remand to the Hearing Examiner for submission of a further report and recommended decision on the basis of the hearing record the applications of First New York Corporation and others under the Bank Holding Company Act. Copies of the draft of order had been distributed just prior to this meeting.

Mr. Hackley said that the Legal Division had endeavored to work into the order the idea that the Board wanted the Hearing Examiner to give the Board his views on the merits of the applications in the light of not only the factors required to be considered by the statute in a case of this kind but also all of the other circumstances of this

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case. This had been done, he said, lest the Examiner receive the false impression that he could say that the New York statute was sufficient to require denial of the applications. In other words, the effort had been to make it clear in the order that the Board wanted the Examiner's views on all of the relevant circumstances.

Mr. Hackley then suggested certain changes that might be made in the draft of order and his comments were followed by a lengthy discussion of the form which the order should take.

In the course of this discussion, during which Chairman Martin joined the meeting, Mr. Solomon reported having learned from the Chief Examiner for the National Labor Relations Board that the Hearing Examiner assigned to this case had suffered a heart attack. It was understood, however, that the attack was not severe and that the Examiner probably would return to duty within a week or two, at which time the Chief Examiner for the National Labor Relations Board would endeavor to make arrangements so that the Examiner could give priority to this case. In view of the circumstances reported by Mr. Solomon, it was agreed that the order to remand the case should be worded so as to provide for submission of the further report and recommended decision as soon as feasible but not more than 45 days from the day of the order, rather than not later than 30 days from the date of the order as stipulated in the draft.

After various suggestions had been made for changes in the language of the order, Mr. Hackley read a text of the order reflecting

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these changes. It was then agreed that a revised draft would be prepared for final review by the Board and that the order then would be issued and released, probably tomorrow, with the exact timing of the press release left for decision by Mr. Molony after consultation with other members of the staff.

Governor Vardaman stated that he would like to compliment the Legal Division on the excellence of its presentation of this matter and Chairman Martin indicated that this comment reflected the view of the Board as a whole.

Reserve requirements. Governor Mills made a statement concerning work being carried on within the System with a view to proposing a revised formula of reserve requirements for member banks. The objective, he said, was to develop a formula that would be complete and of a lasting nature which might be submitted to the Congress and to affected parties for consideration. In endeavoring to find such a formula, studies were under way concerning a variety of proposals which had been made, including the proposal submitted by the Economic Policy Commission of the American Bankers Association. He then referred to a recent conversation which he and Governor Balderston had had with representatives of the Association and said it appeared to be the feeling of that group that, having submitted their proposal at the instance of the System some time ago, the banks would like to have an understanding about a formula that all could agree upon and which could be presented to the

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Congress for consideration. They were fearful, he said, that if economic conditions several months or a year from now should be such as to require a policy of credit restraint, any interval of slackness in the economy would have been lost as an opportunity to introduce a revised formula of reserve requirements during a period when the revision would have less impact on the monetary mechanism.

Governor Mills suggested that a positive procedure would be to ask the Board's staff under the direction of Mr. Thomas to do its utmost within the System to arrive at a formula with which all elements of the System could agree. Such a formula could then be reviewed by the Board and, if approved, matched up with the proposal of the American Bankers Association, or at least the banking community's ideas on a reserve formula. He said there was no doubt but that the commercial banking fraternity had been aggressively sold on the formula proposed by the American Bankers Association and that the bankers were at a loss to know what difficulties had been found by the Federal Reserve System that would deter the plan's acceptance by the System.

Messrs. Riefler, Assistant to the Chairman, and Thomas, Economic Adviser to the Board, entered the room at this point.

Chairman Martin said that he thought the Board should do everything possible to develop the best possible plan of reserve requirements. He suggested that the staff be asked to go forward with analyzing all of the principal proposed plans as quickly as possible and that January 31, 1958, be set as a target date for completion of such analysis and consideration of the subject by the Board.

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Mr. Thomas stated that there was not much more analysis to be made of the plan submitted by the American Bankers Association on the basis of information now available. The next step would be to decide whether it was worthwhile to go ahead and develop additional information concerning that plan which would require obtaining data on individual banks about problems that might cause difficulty.

Governor Vardaman then inquired whether it was the intention to join the American Bankers Association in the presentation of a proposal or whether it was intended to submit a recommendation for legislation by the Federal Reserve Board, to which Chairman Martin replied that any recommendation for legislation would be a recommendation by the Board. He felt that the Board should make an effort to get the American Bankers Association to agree with whatever plan the Board favored. However, if agreement could not be achieved, he believed that the Board should act on its own.

Governor Vardaman indicated that he agreed with such an approach.

In response to a question by Chairman Martin about the feasibility of the suggested target date, Mr. Thomas said that it would be possible to provide the Board something by that date although it would not be feasible to make as much analysis of the "velocity" plan suggested by Mr. Riefler as would be desirable if the Board should decide to recommend such a formula. He then described the nature of the data which would be needed to make such an analysis.

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Governor Vardaman expressed the opinion that it seemed important to deal with the problem of vault cash and asked whether it would be considered advisable to submit a separate proposal for legislation permitting vault cash to be counted against required reserves as soon as Congress convened. He said that obviously any more comprehensive plan was going to entail extensive hearings and that there probably would be a considerable delay in obtaining legislation of that kind.

Governor Robertson said that he would not recommend at this moment making a proposal which would permit vault cash to be counted as reserves and that he thought much would depend on what came out of Board consideration of the current studies by the System staff. If vault cash legislation were obtained, he felt that this would almost preclude the possibility of further reserve requirement legislation for some time since much of the pressure for legislation would have been removed. It was his feeling, he said, that any legislation that might be obtained on reserve requirements was likely to be of a type which would leave only a narrow range within which the Board could raise or lower the percentages, with the result that the Board could not use the instrument effectively in a time of real recession or real inflation.

Governor Balderston said that the representatives of the American Bankers Association (Messrs. Jesse Tapp and Daniel Bell) who visited with him and Governor Mills had indicated very clearly that the

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Association favored a "single package" of reserve requirement legislation, since it was felt that if the vault cash matter was taken up separately there would be no possibility of getting the whole problem solved. They also made the point, he said, that the Association had been waiting patiently for word from the Board as a result of feeling that during a period of strong inflationary pressures it would not be appropriate to press for legislation. They suggested, however, that the System had now given a signal that the situation had changed, and if a move was not made in such circumstances it might be expected that the Board later would again say that inflationary pressures of the moment precluded action. He added that as he walked with the visitors to the elevator Mr. Tapp indicated some concern that the country banks, desiring a solution to the vault cash matter, might exert pressure on the Congress for legislation before the Federal Reserve was ready to submit a recommendation.

In further comments, Governor Balderston stated that if the System should delay too long in making a proposal, it might run the risk of losing the support of the American Bankers Association for any plan and that there would then be some risk of legislation being offered which the Board would have to oppose. His feeling was that it might be better to try to work out as promptly as possible a recommendation to the Congress that would not do violence to the freedom of action of the Federal Reserve System and would not injure this potent

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instrument of monetary policy, even though the compromise might not be as sound theoretically as something else which the Board might otherwise prefer. While there might be some question about the range of authority provided under the plan of the Association, it seemed to him that it would perhaps be wiser for the Federal Reserve to be in the position of recommending such changes in that plan as seemed necessary for proper implementation of monetary policy than to go on giving the answer to the Association that the Board was continuing to study the matter.

Governor Szymczak suggested that if the Board went before the Congress on the matter of reserve requirements, that question would be likely to lead to broad discussions of the Federal Reserve System and monetary policy. Such developments, he noted, might progress in a way which would render a great disservice to the banking system as a whole. An alternative, he said, might be that the Association would want to go to the Congress itself with a plan, which would be a different picture from the Board suggesting legislation. He concluded his comments by pointing out that the possibility of a national monetary commission and further consideration of the Financial Institutions Act were still in the offing.

Mr. Thomas recalled and discussed the System study in the early 1930s which represented an effort to work out a more equitable and rational basis for reserve requirements and brought forth a proposal

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that still maintained differentials between classes of banks and classes of deposits, but on a basis which was theoretically more defensible. Subsequently, the Board reconsidered the problem in the 1940s and came up with a proposal which likewise maintained differentials between types of deposits while doing away with differentials between classes of banks. He went on to say that the plan of the American Bankers Association represented a radical change from either of those proposals since it came out with uniformity among classes of banks, with differentials based on interbank deposits. It was, he pointed out, a very different kind of proposal in its philosophy from anything that the Board had supported to date. Therefore, he felt that the Board might leave itself open to some difficulties if it supported such a plan without having made a careful study of it.

After Governor Szymczak referred to the apparent usefulness of reserve requirements as an instrument of monetary policy in a time of national emergency, Chairman Martin said that he felt the Board should come to a conclusion on the very points mentioned at this meeting. It might be that the Board would then want to do nothing, but there ought to be a record which would indicate that the Board had not been dilatory. It seemed to him that by January 31 the staff should be able to prepare enough material to permit the Board to review the whole subject and come to some definite conclusions on how it wanted to move. He thought that nothing would happen in the Congress by January 31 which would

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affect this matter in any important way. However, if the Board did not reach a decision until April it would be too late to obtain any action at the forthcoming Congressional session.

Governor Vardaman said that the comments of Governor Szymczak and Mr. Thomas reflected his own thinking. If the Board went up with the proposal of the American Bankers Association, he felt that it could expect nothing except the most exhaustive kind of discussion of Federal Reserve policy. If the Board really wanted to help the little banks, he felt that it should not buy a package, because that was not going to be practical. Rather, he thought the Board should go ahead and push for vault cash legislation and let the American Bankers Association and others submit their own plans. If the Board could join in the support of such a plan, so much the better.

Chairman Martin then stated again that he thought January 31 would be a good date to aim for to review the problem and try to come to a conclusion as to what, if anything, the Board wanted to do in the next session of Congress.

Governor Robertson said he had the feeling that whatever proposal the Board came up with, that plan would not have the support of the commercial bankers. This was because he did not think that the bankers were willing to compromise to the extent necessary. That, however, did not relieve the Board from the necessity to decide what it wanted, if anything.

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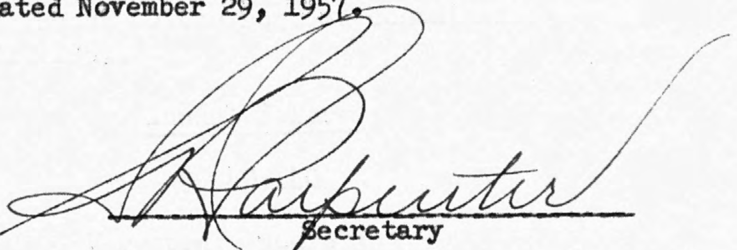
Governor Balderston said that this was his feeling also.

Accordingly, the discussion concluded with the understanding that January 31, 1958, would be the target date for the submission of material by the staff and for Board review of the subject.

The meeting then adjourned.

Secretary's Note: On December 3, 1957, Governor Shepardson approved on behalf of the Board acceptance by Catherine B. Davian, Secretary in the Division of International Finance, of a position as sales clerk with a local department store during evening hours from December 2 through December 23, 1957. This action was in accord with the recommendation contained in a memorandum from Mr. Marget dated November 29, 1957.



Secretary

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

Item No. 1
12/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1957

CONFIDENTIAL (FR)

Mr. H. J. Newman,
Vice President,
Federal Reserve Bank
of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

The Board approves the payment of salary to the incumbent of the position listed below at the rate indicated effective October 1, 1957, pursuant to the request contained in your letter of November 21, 1957.

Title	Annual Salary
Marble Man	$5,405.40

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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Federal Reserve Bank of St. Louis

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

Item No. 2
12/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1957

National Labor Relations Board,
Washington 25, D. C.

Attention: Mr. Arthur H. Lang

Gentlemen:

Reference is made to the detail to the Board of Governors of Mr. Charles W. Schneider, Hearing Examiner, GS-15, previously agreed to by you under letter dated December 10, 1956, and extended by your letter of June 20, 1957.

Under the terms of Mr. Schneider's detail, he was made available to this Board for a 6-month period beginning January 1, 1957, to preside at one or more hearings ordered to be held under the Bank Holding Company Act of 1956. It was agreed that the National Labor Relations Board would be reimbursed for Mr. Schneider's salary at the rate of $12,690 per annum, and for any travel expenses involved, salary reimbursement to be made only for the time in which Mr. Schneider was actually engaged in connection with the said hearings. Under the extension of Mr. Schneider's detail he was made available to this Board for an additional six-month period beginning July 1, 1957.

It now appears that Mr. Schneider's services will be required for an additional period of time. It is difficult at this time to predict the precise additional time which will be required, but it is believed that an additional period of six months would reasonably cover such need.

Therefore, the Board of Governors requests that the National Labor Relations Board extend Mr. Schneider's detail for an additional period of six months beginning January 1, 1958, on the same basis as the original detail as set forth in a letter from this office, dated December 7, 1956.

It will be appreciated if you will confirm this extension of the reimbursable detail in order that the necessary arrangements can be made with the Civil Service Commission in connection with confirmation of the extension of Mr. Schneider's services.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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Item No. 3
12/9/57

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release. December 11, 1957.

As previously announced, the Board of Governors of the Federal Reserve System on November 7, 1957, issued an Order approving an application by Baystate Corporation, Boston, Massachusetts, under the Bank Holding Company Act of 1956 to acquire voting shares of Union Trust Company of Springfield, Springfield, Massachusetts. Attached is a copy of the statement of the majority members of the Board who voted for approval, together with a copy of the statement of the members who dissented from this action. A copy of the Board's Order of November 7, 1957, is also attached.

Attachments

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UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of

The Application of
BAYSTATE CORPORATION
for Approval of Acquisition
of Voting Shares of
UNION TRUST COMPANY
SPRINGFIELD

STATEMENT

Pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (hereinafter referred to as the Act), an application was filed with the Board by Baystate Corporation, Boston, Massachusetts, a bank holding company under the Act, for prior approval by the Board of the acquisition by Baystate of up to 60 per cent of the voting shares of Union Trust Company of Springfield, Springfield, Massachusetts. As required by section 3(b) of the Act, the Board gave notice of the application to the Commissioner of Banks for the State of Massachusetts and requested his views and recommendations, and the Commissioner of Banks responded with a statement to the effect that in his opinion the application should be approved.

Under section 3(c) of the Act, in determining whether or not to approve an application the Board is required to take into consideration five stated factors: "(1) the financial history and condition of the company or companies and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking."

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In the light of these statutory standards, consideration has been given to all the relevant facts and circumstances of the present case, including the fact that the proposed acquisition of stock of Union Trust Company is to be followed by a merger of that institution with Springfield National Bank, an existing subsidiary of the applicant; that the resulting institution, because of its larger size, will be in a position, in the circumstances of this case, to furnish somewhat expanded services to the community, particularly in making loans of the size needed by the larger firms in the locality; that, despite this merger, the resulting institution will not be dominant in the area but will be of approximately the same size as what is now the largest bank in the area; that mutual savings banks in the Springfield area compete actively in certain fields with commercial banks; and that, after the proposed transaction, residents of the area would continue to have adequate freedom of choice among banking facilities.

On the basis of the facts of this case and in the light of the statutory factors, it is the judgment of the majority of the members of the Board that the proposed transaction would not be inconsistent with the apparent general intent of those factors or with the underlying purposes of the Act.

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Dissenting Statement by
Governors Szymczak, Robertson, and Shepardson

In our judgment, the application of Baystate Corporation to acquire shares of Union Trust Company of Springfield should be denied.

A principal objective of the Bank Holding Company Act was to prevent expansion of bank holding company systems where such expansion would be inimical to "the preservation of competition in the field of banking". In this case, Baystate already controls one of the four larger banks in Springfield; it proposes to purchase a majority of the stock of another and to merge the two into an institution that will be the largest in the city and in Western Massachusetts. Approval of the acquisition will enable this holding company (1) to terminate the existence of a successful independent bank that now competes with its own bank, and (2) to increase the size and extent of its holding company system to a very substantial degree. One of the two major purposes of the Bank Holding Company Act is to combat this tendency of holding companies to grow constantly larger and more powerful by buying up control of competing banks.

In this case the applicant claims that the proposed acquisition and merger will permit better service to Springfield and stronger local competition between two dominant banks in the field of large business loans, and a determination to this effect has been made by the Massachusetts Board of Bank Incorporation. But a claim of this nature can be made with some plausibility whenever a holding company proposes to buy and absorb

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3528

a competing bank. If Congress had intended that all acquisitions for merger purposes - short of monopoly - should be permitted, it would not have directed this Board to go through the motions of deciding such cases on the basis of the factors enumerated in section 3(c) of the Act.

In our view, where the number of competing banks will be substantially reduced and the existence of one of the holding company bank's chief competitors will be terminated by its absorption into the holding company system, the proposed transaction should be approved only if there is convincing evidence of prospective benefits that definitely outweigh this patently adverse effect upon competition in the field of banking. The record before the Board does not add up to a convincing case on that point.

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UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 4
12/9/57

In the Matter of

the Application of
NORTHWEST BANCORPORATION
for Approval of Acquisition
of Voting Shares of Proposed
NORTHWESTERN STATE BANK,
ROCHESTER, MINNESOTA

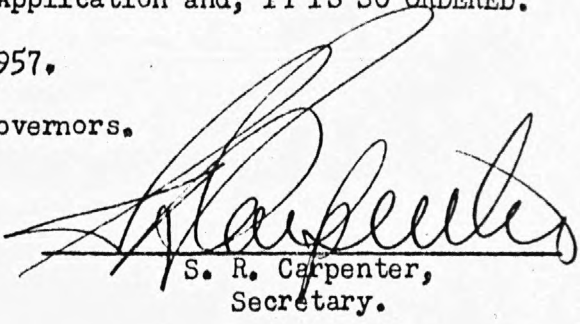
ORDER

This matter comes before the Board of Governors on a petition by Northwest Bancorporation, Minneapolis, Minnesota, that the Board reconsider the application of Northwest Bancorporation filed pursuant to the provisions of section 3(a) of the Bank Holding Company Act of 1956, for the Board's prior approval of acquisition of direct ownership by Northwest Bancorporation of 1450 voting shares of the Northwestern State Bank, Rochester, Minnesota, which application was denied by Order of the Board, dated November 5, 1957.

Upon analysis of the facts and arguments set forth in the said petition, and upon review of the reasons underlying the Board's previous Order, it appears that petitioner has failed to set forth any material facts or arguments not heretofore fully considered by the Board; and, therefore, the Board reaffirms its original decision herein and denies the Petition for Reconsideration of the Application and, IT IS SO ORDERED.

This 9th day of December 1957.

By order of the Board of Governors.



(Seal)

S. R. Carpenter,
Secretary.

Washington, D. C.
December 9, 1957.

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