Minutes for April 3, 1958

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 the Board of Governors of the Federal Reserve System

on Thursday, April 3, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Connell, Controller
Mr. Molony, Special Assistant to the Board
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Bass, Assistant Controller

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

Letter to the Federal Reserve Bank of Boston (with edited copies to the Presidents of all Federal Reserve Banks) regarding the authority of a national bank to exercise specific trust powers pursuant to grant of the so-called ninth or "general" power. (With the understanding that the text of the letter would be published in the Federal Register and the Federal Reserve Bulletin.)
Letter to The First National City Bank of New York authorizing the establishment of a branch in Asuncion, Paraguay. (For transmittal through the Federal Reserve Bank of New York)

Letter to the First Old State Bank, Elkhart, Indiana, granting an extension of time within which to establish a branch at 420 East Jackson Boulevard. (For transmittal through the Federal Reserve Bank of Chicago)

Letter to First Bank Stock Corporation, Minneapolis, Minnesota, granting an extension of time within which to comply with the provisions of section 4(a)(2) of the Bank Holding Company Act. (For transmittal through the Federal Reserve Bank of Minneapolis)

Letter to the Federal Reserve Bank of Kansas City regarding the pending application of The Kemper Investment Company, Kansas City, Missouri, for certification by the Board pursuant to section 1101(b) of the Internal Revenue Code of 1954.

Letter to the Greenfield State Bank, Greenfield, California, granting an extension of time within which to establish a branch in its existing quarters, incident to removal of its head office to Bakersfield, California. (For transmittal through the Federal Reserve Bank of San Francisco)

Messrs. Hostrup and Goodman then withdrew from the meeting.

Designation of Miami, Florida, as a reserve city. Pursuant to the understanding at the meeting on March 31, 1958, further consideration was given to possible deferment beyond May 15, 1958, of the effective date of the designation of Miami, Florida, as a reserve city in the light of information which had been received by Governor Vardaman and by the Division of Bank Operations to the effect that the member banks in Miami were considering a petition to the Board for an extension of time.
In response to a request by Chairman Martin for his views, Governor Vardaman said that for reasons which he had stated at the meeting on March 31, 1958, he would prefer not to participate in the decision on this matter. However, his general thinking was that a deferment of the effective date might do no harm to anyone. On the other hand, if the effective date were allowed to stand, the member banks in Miami would be subject to a substantial increase in reserve requirements at a time when the State of Florida had passed through a subnormal winter season because of adverse weather conditions and the economic outlook was uncertain. Furthermore, developments with respect to certain of the member banks in Miami contributed to an unsettled condition. It was his understanding that there was no legal question involved and that the question therefore was entirely one of policy.

Chairman Martin inquired whether it would not be advisable to defer consideration of the matter until such time as a petition was actually before the Board, so that the Board might have all available information at its disposal.

In reply, Governor Vardaman recalled that in a telephone conversation with Chairman Kimball of the First National Bank of Miami, he had suggested to Mr. Kimball holding up any such petition until he heard further from the Board. This suggestion was made in order that the Board might take the initiative if it so desired. However, after Governors
Mills and Robertson had made statements expressing concurrence in the view that the Board should not consider a deferment of the effective date without a petition before it, Governor Vardaman said that, if this was the consensus of the Board, he would see no objection to the matter being discussed further with Mr. Kimball on that basis.

Accordingly, it was agreed unanimously that Chairman Martin would call Mr. Kimball on the telephone and discuss the matter with him on such basis as he deemed appropriate in the light of the comments made at this meeting.

Messrs. Leonard, Masters, and Conkling then withdrew from the meeting.

Record of Federal Open Market Committee policy actions for 1957.

Under date of April 1, 1958, Mr. Riefler had distributed to the members of the Board copies of a revised draft of the record of policy actions taken by the Federal Open Market Committee in the year 1957. This draft reflected a number of suggestions which were received following distribution of earlier drafts to the members of the Federal Open Market Committee and the Presidents not currently serving on the Committee.

Mr. Riefler presented for the Board's consideration at this time certain additional suggestions which were not incorporated in the April 1 draft. Following review by the Board of each of these suggestions and agreement on changes in the draft to accommodate some of them, the record of policy actions was approved unanimously for inclusion in the Board's
Annual Report for 1957 pursuant to the requirement contained in the final paragraph of section 10 of the Federal Reserve Act.

Mr. Thomas then withdrew from the meeting.

Audit of the Board's accounts. Pursuant to the suggestion made at the meeting on March 17, 1958, the Office of the Controller had distributed to the members of the Board with a memorandum dated March 31, 1958, a statement showing the Board's 1957 income and expenses according to the Board's books and indicating how Price Waterhouse & Co. arrived at the figures set forth in their report. Another schedule distributed with the memorandum compared the balance sheet of the Board as of December 31, 1957, as prepared by the Office of the Controller and as contained in the Price Waterhouse report. The memorandum indicated that these schedules had been reviewed by a representative of Price Waterhouse and that no exceptions were noted. Also attached to the memorandum was a copy of a letter from Price Waterhouse dated March 28, 1958, concerning the "scope of examination".

Governors Mills and Balderston suggested, and the other members of the Board agreed, that it would be helpful if the Board could be furnished each year with a statement comparing the Board's assets and liabilities and also its income and expenditures over a period of several years. Accordingly, it was understood that comparative information of this kind would be prepared by the Controller.
Question then was raised about the Board's books being maintained in a form different from that suggested by the auditor's report, due to the changes in presentation made this year by Price Waterhouse & Co. The discussion brought out that it had been the Board's practice not to impose any restrictions whatsoever on its auditors, and doubt was expressed as to the propriety of making any suggestion to the auditing firm regarding the manner in which its reports should be presented. At the same time, it was pointed out, the rotation of auditors involved the possibility that each auditing firm might favor a somewhat different manner of presentation with respect to certain accounts. Therefore, if the Board should decide to make corresponding changes in its bookkeeping practices, it would be difficult to maintain continuity and to make analyses for comparative purposes over a period of years.

After further discussion of these points, agreement was expressed with the suggestion of Chairman Martin that questions of this nature be explored by the Board with the public accounting firm at the time arrangements were being made for the audit of the Board's accounts for 1958. It was also understood that the auditor's report and statement of scope of the audit would be sent to the Chairmen of the Senate and House Banking and Currency Committees.

Messrs. Connell and Bass then withdrew from the meeting.

Reserve requirement legislation. Chairman Martin stated that yesterday he and Mr. Young met in the morning with Chairman Fulbright
of the Senate Banking and Currency Committee and in the afternoon with Chairman Spence of the House Banking and Currency Committee, that Messrs. Fulbright and Spence were each handed a copy of the draft bill on member bank reserve requirements in the form approved by the Board, and that Messrs. Fulbright and Spence were going to introduce the bill today in the Senate and House, respectively. Both, however, expressed the view that the bill should be accompanied by a suitable explanatory statement. Accordingly, a four-page statement had been prepared by members of the staff yesterday afternoon, and copies were sent this morning to Messrs. Fulbright and Spence, who indicated in subsequent telephone conversations that they considered the statement adequate for the purpose.

Chairman Martin went on to say that Messrs. Fulbright and Spence anticipated some difficulty in getting the reserve requirement bill before their respective Committees because of the press of other business, but that they would have the matter taken up at the earliest opportunity.

The Chairman also said that Mr. Fulbright and Mr. Spence were handed copies of parts 1 and 2 of the Board’s small business financing study, that they indicated that the Board might be expected to testify regarding the findings of the study sometime after the Easter recess, and that they appeared to be pleased that the Board had met the deadline for submission of the report. He told them, Chairman Martin said, that the Board would be preparing to testify and that its staff was working on an evaluation of the findings of the study.
After some discussion of matters on the agenda of the House Banking and Currency Committee, including the Financial Institutions Act, Chairman Martin distributed to the other members of the Board copies of the explanatory memorandum to which he had referred.

Meetings of Reserve Bank Presidents. There was unanimous agreement with a suggestion by the Chairman that an invitation be extended to the Presidents of the Federal Reserve Banks to use the Board Room rather than Room 1202 for the meetings they planned to hold in the afternoon on days on which meetings of the Federal Open Market Committee are held.

Following a brief discussion of the program arranged beginning at noon today in recognition of members of the Board's staff having 25 years or more service with the Federal Reserve System, the meeting adjourned.

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

Telegram to the Federal Reserve Bank of Boston (attached Item No. 7) approving the designation of ten employees of the Bank as special assistant examiners for specified purposes.

Letter to the Federal Reserve Bank of Kansas City (attached Item No. 8) approving the appointment of Gordon K. Burton as an assistant examiner.
Mr. J. A. Erickson, President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts. 

Dear Mr. Erickson: 

This refers to the letter dated February 28, 1958, which 
Mr. Laurence H. Stone addressed to Mr. Howard H. Hackley, concern-
ing the scope of trust authority which has been granted by the 
Board to The Merchants National Bank of Manchester, Manchester, 
New Hampshire. 

Our records indicate that in 1925 this national bank was 
granted the right to act as trustee, registrar of stocks and bonds 
and in any other fiduciary capacity in which competing State banks 
and trust companies are permitted to act under the laws of the State 
of New Hampshire. The question has arisen as to whether under this 
authority the bank may act as executor, which is one of the eight 
powers enumerated in section 11(k) of the Federal Reserve Act, but 
which was not specifically granted the national bank in 1925. 

It is the Board's opinion that the so-called ninth or 
"general power" covers all fiduciary powers which competing State 
institutions are authorized to exercise, including any of the eight 
specific powers enumerated in section 11(k). Thus, a national 
bank that receives a permit covering the "general power" may, in 
practical effect, have full trust powers even though its permit 
fails to list some of the eight specific powers.

Very truly yours, 

(Signed) S. R. Carpenter 

S. R. Carpenter,  
Secretary.
April 3, 1958.

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

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Asuncion, Paraguay, and to operate and maintain such branch subject to the provisions of such Section; subject to (1) the approval of the Paraguayan authorities and (2) advice as to determination of the exact location of the proposed branch; upon condition that, unless the branch is actually established and opened for business on or before April 1, 1959, all rights granted hereby shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when establishment of the branch has been approved by the authorities in Paraguay and when the location of the branch has been determined. It is understood that upon the determination of the location of the branch, no change in location will be made without the prior approval of the Board of Governors.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
April 3, 1958

Board of Directors,
First Old State Bank,
Elkhart, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors extends to June 11, 1958, the time within which First Old State Bank, under the authority granted in the Board's letter of April 11, 1957, as amended by the Board's letter of October 23, 1957, may establish a branch at 420 East Jackson Boulevard, Elkhart, Indiana. It is noted this request for a further extension of time is due to construction difficulties, adverse weather conditions and delay in delivery of certain of the building materials.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
Mr. J. H. Colman, President,
First Bank Stock Corporation,
First National - Soo Line Building,
Minneapolis, Minnesota.

Dear Mr. Colman:

This refers to First Bank Stock Corporation's application for an extension, for one year from May 9, 1958, of the period within which it must comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extension. The Board desires to make clear that the granting of this extension does not constitute an opinion that retention of ownership or control by First Bank Stock Corporation of shares of certain nonbanking organizations, referred to in your letter of February 4, 1958, is permitted under the exemptive provisions of section 4(c) of the Act.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
Mr. D. W. Woolley, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Woolley:

This refers to the pending application of The Kemper Investment Company, Kansas City, Missouri, for certification by the Board of Governors pursuant to section 1101(b) of the Internal Revenue Code of 1954. For the reasons set forth in the Board's letter of March 7, 1958 relating to a similar application by Keystone Corporation, the Board is required also to certify that the bank holding company is a "qualified bank holding corporation" as defined in section 1103(b).

The Kemper plan is generally similar to that of Keystone, and therefore reference is made to the Board's letter of March 7 and its enclosures, which indicate the procedure to be followed.

Kemper's letter of February 25 requests certification that "the bank shares to be distributed . . . is all the property by reason of which Kemper Investment Company controlled (within the meaning of Section 2(a) of the Bank Holding Company Act of 1956) the banks above named whose shares are to be distributed." Under section 2(a)(1), however, control of a bank is based on ownership of at least 25 per cent of its voting shares, and it appears that Kemper owns 25 per cent of the stock of only six of the twelve banks whose shares it proposes to distribute. Accordingly, you are requested to inform Kemper that, unless each of the remaining six banks is controlled by Kemper in one or another of the three ways enumerated in section 2(a), the Board would not be in a position to certify that their shares are property by reason of which Kemper controls said banks. In the absence of such certification, the distribution of the stock of those banks to Kemper's shareholders would not be entitled to the tax relief provided by section 1101(b)(1).

Comparison of Kemper's letter of February 25, 1958 with its registration statement and annual report indicates that it acquired some shares of State Guaranty Bank, O'Keene, Oklahoma, after May 9, 1956.
Mr. D. W. Woolley

Kemper did not obtain the prior approval of the Board, pursuant to section 3(a)(2) of the Holding Company Act, with respect to acquisition of any shares of that bank. Accordingly, it would seem appropriate to determine the circumstances of such acquisition, in order to ascertain whether there may have been a violation of section 3(a).

The Board and its staff will be glad to assist in connection with any problems or questions that may arise.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
Board of Directors,
Greenfield State Bank,
Greenfield, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors extends to June 5, 1958, the time within which Greenfield State Bank may, under the authority granted in the Board's letter of January 10, 1958, establish a branch in the bank's existing quarters in Greenfield, California, simultaneously with removal of its head office operations from that location to 1530 Truxton Avenue, Bakersfield, California. It is noted this request for an extension of time is due to inclement weather which has caused a four-week delay in completing construction of the new head office.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.
April 3, 1958

GROOT - BOSTON

Relet March 28, 1958. Board approves designation of following employees of your bank as special assistant examiners for the Federal Reserve Bank of Boston for the purpose of participating in the examinations of Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; The Connecticut Bank and Trust Company, Hartford, Connecticut; and Rhode Island Hospital Trust Company, Providence, Rhode Island:

Mary E. Downey
Sarah G. Favuzza
Paul V. Hughes
Paul E. Larvey
Walter J. Mahoney

Rosemarie J. Mantia
Margaret F. Norwood
Jean M. Ross
Jean R. Shumway
Nicholas G. Tsimbidaros

Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners.

(Signed) S. R. Carpenter

CARPENTER
CONFIDENTIAL (F.R.)

Mr. D. W. Woolley, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Woolley:

In accordance with the request contained in your letter of March 28, 1958, the Board approves the appointment of Gordon K. Burton as an assistant examiner for the Federal Reserve Bank of Kansas City.

It is noted from the enclosures to your letter that Mr. Burton is indebted to Bank of New Mexico, Albuquerque, New Mexico, a nonmember bank, in the amount of $1,354, which will be paid off if he is accepted for employment, and that he owns an unspecified amount of stock of Transamerica Corporation, which will be sold if he is accepted for employment. Accordingly, the Board's approval is given with the understanding that the loan will be paid and the stock sold prior to Mr. Burton's appointment.

Please advise the Board as to the salary rate and effective date of the appointment.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.