Minutes for April 18, 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.

		A	В
Chm.	Martin	* (yw)	
Gov.	Szymczak	* AND	
Gov.	Vardaman 1/	-	<u>x</u>
Gov.	Mills		
Gov.	Robertson	×	
Gov.	Balderston	•	xCCB
Gov.	Shepardson	× 10H)	

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

Minutes of the Board of Governors of the Federal Reserve System on Friday, April 18, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/

Mr. Szymczak Mr. Mills Mr. Robertson

Mr. Shepardson

Mr. Carpenter, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board Mr. Riefler, Assistant to the Chairman

Mr. Thomas, Economic Adviser to the Board

Mr. Young, Director, Division of Research and Statistics

Mr. Hackley, General Counsel

Mr. Molony, Special Assistant to the Board

Mr. Koch, Associate Adviser, Division of Research and Statistics

Mr. Williams, Associate Adviser, Division of Research and Statistics

Mr. Solomon, Assistant General Counsel

Mr. Hostrup, Assistant Director, Division of Examinations

Mr. Nelson, Assistant Director, Division of Examinations

Mr. Solomon, Economist, Division of Research and Statistics

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

Item No.

1

Letter to Bankers Trust Company, New York, approving the establishment of a branch at 1148 Third Avenue. (For transmittal through the Federal Reserve Bank of New York)

	Item No.
Letter to The Chase Manhattan Bank, New York, approving the establishment of a branch in Bayamon, Puerto Rico, in temporary quarters pending the completion of permanent quarters. (For transmittal through the Federal Reserve Bank of New York and with a copy to the Secretary of the Treasury of the Common-Wealth of Puerto Rico)	2
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, extending the time within which it may establish a branch at 2510 Cheltenham Avenue. (For transmittal through the Federal Reserve Bank of Philadelphia)	3
Letter to the Commonwealth Trust Company of Pittsburgh, Pittsburgh, Pennsylvania, extending the time within Which it may establish a branch on Banksville Road. (For transmittal through the Federal Reserve Bank of Cleveland)	4
Letter to the Federal Reserve Bank of Cleveland approving the modification of a condition imposed in connection with the establishment of a branch in Vandergrift, Pennsylvania, by Peoples Union Bank and Trust Company, McKeesport, Pennsylvania, incident to its absorption of the Vandergrift Savings & Trust Company.	5
Letter to the Federal Reserve Bank of Richmond approving an agreement between the International Finance Corporation and the Reserve Bank relating to the storage of certain microfilm records of the Corporation.	6
Letter to The Southwest Bank, Inglewood, California, extending the time within which it may establish a branch near Rodeo Road and La Cienega Boulevard in Los Angeles. (For transmittal through the Federal Reserve Bank of San Francisco)	7
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Columbus, Nebraska. (With a copy to the Federal Reserve Bank of Kansas City)	8

Item No.

Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Chesterton, Indiana. (With a copy to the Federal Reserve Bank of Chicago)

9

Mr. Nelson withdrew from the meeting at this point.

Testimony on small business finance. In accordance with the understanding following discussion of a preliminary draft at the meeting on April 16, 1958, there had been sent to the members of the Board a revised draft of statement on small business finance for use by Chairman Martin in testifying before the Small Business Subcommittee of the Senate Banking and Currency Committee on April 21, 1958. The statement would outline the main principles for a Government small business financing program in the light of findings of the Board's small business study.

The revised draft was discussed and agreement was reached on certain changes of an editorial nature. In addition, Chairman Martin made the suggestion that the draft be reviewed for the purpose of determining whether the statement could be sharpened up and shortened somewhat. Several suggestions in line with the Chairman's comment were made at this meeting and it was understood that the staff would study the draft further with these objectives in mind.

Mr. Young reported having been informed by Mr. Shay, the Board's Legislative Counsel, that the Banking and Currency Committee staff had indicated that there would be an interest in obtaining an expression of preference as among the legislative approaches to the small business financing problem contained in the several bills already introduced, as

well as in obtaining a definite reaction to the Committee Print which had been prepared by the Committee staff but not yet introduced.

Agreement was expressed with the view that matters of this kind could be developed satisfactorily in oral testimony, if necessary, rather than in the prepared statement.

Governor Shepardson then inquired whether the findings of the Board's small business financing study would not justify a more positive reference in the statement concerning the existence of a gap in the structure of financing facilities available to small business in the area of longer-term debt and equity financing.

It was agreed that the statement could be cast along more positive lines in this respect, with the understanding, however, that it would be made clear that the question remained whether there was an economic gap; that is, one that could be filled on a self-sustaining basis.

At the conclusion of the discussion, it was <u>agreed</u> that the revised draft of statement would be reviewed further in the light of the comments and suggestions which had been made and that the statement would be presented in a final form satisfactory to Chairman Martin.

Testimony before Senate Finance Committee. There had been distributed to the members of the Board, with a memorandum from Mr. Young dated April 17, 1958, a draft of statement to be presented by Chairman Martin in testifying before the Senate Finance Committee on April 22, 1958. The statement summarized economic developments over the past several months and discussed the role of monetary policy in the light of those developments. There had also been distributed to the Board a

draft of supplementary statement dealing with the current economic problem which, it was suggested, might be used for briefing purposes, as a supplement to the main statement if the occasion should arise, or possibly as an opening statement on the second day of testimony.

The draft of main statement was reviewed and the approach taken therein was regarded as generally satisfactory. Most of the suggestions, therefore, related to editing and clarification.

Following the review, it was <u>agreed</u> that the statement would be edited on the basis of the comments which had been made and that it would then be presented in a final form satisfactory to Chairman Martin.

Consideration also was given to the supplementary statement and there were likewise a number of suggestions of an editorial and technical nature. The principal comments of substance related to the portion of the document dealing with recent price behavior, particularly the degree of emphasis which should be given to the effects of failure to adjust prices in a period of recession.

At the conclusion of the discussion, it was <u>understood</u> that the supplementary statement would be revised to the extent indicated by the comments which had been made but that it would be held in reserve and not used unless some need for it developed in the course of the hearings.

During the foregoing discussion Messrs. Hexter and O'Connell, Assistant General Counsel, joined the meeting and at its conclusion Messrs. Riefler, Thomas, Young, Molony, Koch, Williams, and Robert Solomon withdrew.

Amendments to Bank Holding Company Act. Pursuant to the understanding at yesterday's meeting, further consideration was given to amendments to the Bank Holding Company Act to be recommended by the Board in connection with its forthcoming report to the Congress concerning its administration of the Act.

At Governor Robertson's request, additional consideration was given to item 31 among those submitted with Mr. Hackley's memorandum of March 31, 1958, relating to the extraterritorial effect of the Bank Holding Company Act. It was proposed to add a paragraph at the end of section 2 of the Act which would state that except as otherwise provided by the Act, the application of the statute, including the application of section 6 to transactions by a bank as defined in section 2(c), would not be affected by the fact that a particular transaction takes place Wholly or partly outside the United States or the fact that a particular company is organized or operates outside the United States. At the end of section 4, there would be added a paragraph stating that the prohibitions of that section would not apply to shares of any company which is organized under the laws of a foreign country and does not do any business within the United States, provided such shares are held or acquired by a bank holding company which is principally engaged in the banking business outside the United States.

Governor Robertson stated that even though he recognized the Problem of enforcement, he had some doubt about the advisability of recommending amendment of the Act in such a way as to limit its extraterritorial effect. He asked whether it might not be better for the Department of Justice or affected parties to make any such recommendations than for the Board to take the initiative.

There followed a discussion during which reference was made, among other things, to the problem of interpretation of the existing statutory provisions, the possibility of suggesting to the Congress the desirability of clarification rather than making a recommendation, the characteristics of the banking business in other countries, the difficulties involved in applying the provisions of the Bank Holding Company Act when extraterritorial considerations are present, and the possibility that inclusive provisions of the Act would lead to the adoption of reciprocal measures by foreign countries which would affect adversely the foreign operations of United States financial institutions.

At the conclusion of the discussion, Governor Robertson indicated that he did not wish to press his questions further. Accordingly, it was agreed to include in the Board's report a recommendation for amendments to the Bank Holding Company Act such as suggested in Mr. Hackley's memorandum.

Discussion then turned to item 14 of those submitted with the memorandum, having to do with the fact that section 3(a) of the Act requires Board approval before a bank holding company may acquire bank stock, either directly or indirectly, and also before a holding company or any of its subsidiaries "other than a bank" may acquire directly or

indirectly "all or substantially all of the assets of a bank". This, it was pointed out, allows a bank in a holding company system to absorb another bank without the prior approval of the Board, and it could be argued that this seriously weakens the Act from the standpoint of control of the expansion of bank holding companies. Therefore, it would be recommended that absorption of an independent bank by a bank in a holding company system, whether by merger or otherwise, be made subject to the provisions of section 3 of the Act.

Mendation to section 3(d), the so-called "Douglas amendment", which has the effect of preventing a holding company from expanding outside its "home" State by purchase of bank stock or acquisition of the assets of additional banks. However, by virtue of the exception in section 3(a)(3), if a holding company owned one or more banks in a particular State on May 9, 1958, it may absorb additional banks in that State through merger or purchase of assets to the extent permitted by State law or the National Bank Act, whichever is applicable.

Governor Robertson suggested that the amendment proposed by the staff would involve some inconsistency unless the Board were to go further and recommend repeal or change of the "Douglas amendment" since, if the suggested amendment were adopted, it would appear to permit a bank in a holding company system located outside the holding company's "home" State, with approval of the Board, to acquire another bank in that State through

merger or purchase of assets. The Douglas amendment, however, would not permit the Board to approve an application for such an acquisition.

After some discussion of the matter, in the course of which Chairman Martin withdrew from the meeting, Governor Robertson said that he would be willing to go along with the suggested amendment if the discussion of it in the Board's submission to the Congress recognized the inconsistency to which he had referred.

At the conclusion of the discussion, it was <u>agreed</u> to include the suggested amendment to the Act in the Board's report, with the understanding that the comments concerning it in the report would point out the inconsistency Governor Robertson had mentioned and would indicate that the amendment was being recommended despite this apparent inconsistency because the Board saw no need for the Douglas amendment as applied to mergers, which are subject to supervisory approval.

The Board then considered item 16 in Mr. Hackley's memorandum, relating to the possibility of clarifying the standards required to be considered by the Act in passing upon applications for approval of the acquisition of bank stock. One approach, it was suggested, would be to introduce specific exceptions to the general standards, while another would be to shift emphasis on the different aspects of the standards. Any such changes, of course, presented important questions of policy.

 $$\operatorname{\textsc{Mr}}_{ullet}$$ hackley pointed out that specific recommendations had not been made in this connection and that the problem involved difficult

questions. An alternative, he said, would be not to make definite recommendations but to bring the problem to the attention of the Congress in the section of the Board's report dealing with difficulties encountered in carrying out the purposes of the Bank Holding Company Act.

In the alternative approach, it being felt that the Board would be in a better position to make any necessary recommendations after further experience with the administration of the statute and that at the moment any action to modify the current standards preferably should be initiated by the Congress. Governor Shepardson felt that the Board Ought to have the benefit of more adequate statutory guidance in administering the law. In expressing this view, he said that he was not taking a position on the degree of severity with which holding company expansion should be restrained and that he was only concerned about having clarification of the intent of the law.

Item 17 in Mr. Hackley's memorandum related to the question of clarifying the relationship of the Bank Holding Company Act to State statutes.

Pursuant to a suggestion by Mr. Hackley, it was <u>agreed</u> after discussion not to make any recommendation on this subject but to point out the problem in the section of the report dealing with difficulties encountered in carrying out the purposes of the Act.

This concluded the discussion of the suggested amendments to the Bank Holding Company Act submitted with Mr. Hackley's memorandum. However, the memorandum also listed 18 other possible amendments which had been received from various sources but which were not recommended by the staff.

The Board expressed agreement with the conclusion of the staff concerning this additional group of possible amendments. Governor Robertson indicated that he saw some merit in one of them (X-12), which would exempt from the provisions of section 4(c) an activity engaged in by a bank holding company if such activity is exempted when engaged in by a subsidiary company. However, he did not feel that such an amendment need be recommended at this time.

The meeting then adjourned.

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

Appointment

Thethonia D. Feild as Cafeteria Helper, Division of Administrative Services, on a half-time basis, with basic annual salary at the rate of \$1,413, effective the date she assumes her duties.

Change in status of appointment

Nina L. Marcey, Cafeteria Helper, Division of Administrative Services, from a half-time to a regular basis, with basic annual salary at the rate of \$2,600, effective April 20, 1958.

Transfer

Catherine Gallagher, from the position of Cafeteria Helper, Division of Administrative Services, to the position of Charwoman in that Division, with no change in her basic annual salary at the rate of \$3,050, effective the date she assumes her new duties.

Transfer and salary increase

W. Lucius Thalley, from the position of Messenger, Division of Administrative Services, to the position of Clerk, Division of Bank Operations, With an increase in his basic annual salary from \$3,285 to \$3,385, effective the date he assumes his new duties.

Salary increase

Gladys D. Bosben, from \$3,685 to \$3,840 per annum, with a change in title from Draftsman to Draftsman-Illustrator, Division of Research and Statistics, effective April 20, 1958.

Acceptance of resignation

Charles E. Francis, Assistant Federal Reserve Examiner, Division of Examinations, effective April 5, 1958.



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1958

Board of Directors, Bankers Trust Company, New York 15, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 1148 Third Avenue, New York, New York, by the Bankers Trust Company, provided the branch is established within six months from the date of this letter, and the approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) S. R. Carpenter



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1958

Mr. Charles Cain, Jr., Executive Vice President, The Chase Manhattan Bank, Eighteen Pine Street, New York 15, New York.

Dear Mr. Cain:

Reference is made to your letter of April 2, 1958, requesting, with respect to the authority granted in the Board's letter of February 17, 1958, to establish a branch in the municipality of Bayamon, Puerto Rico, that your bank be authorized to establish a branch in temporary quarters at the corner of Dr. Veve and Marti Streets, Bayamon, pending completion of quarters at the permanent location at the intersection of Highway #2 and Comerio Avenue (State Highway #167), Bayamon. It is noted that the premises at the permanent location are not expected to be completed before December 1958 or perhaps January 1959.

The Board of Governors authorizes The Chase Manhattan Bank to Marti Streets, Bayamon, Puerto Rico, with the understanding that the branch will be moved to the permanent location at the intersection of the Board's letter of February 17, 1958, upon completion of the banking quarters.

It is requested that you advise the Board of Governors in Writing, through the Federal Reserve Bank of New York, when the branch also when it is moved to the permanent location.

Very truly yours,

(Signed) S. R. Carpenter



FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE

April 18, 1958

Board of Directors, The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System extends to October 23, 1958, the time within which The First Pennsylvania Banking and Trust Company may establish a branch at 2510 Cheltenham Avenue, Philadelphia, Pennsylvania, under the authorization contained in the Board's letter dated October 23, 1957.

Very truly yours,

(Signed) S. R. Carpenter



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 4 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE 8DARD

April 18, 1958

Board of Directors, Commonwealth Trust Company of Pittsburgh, Pittsburgh, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System extends until July 1, 1958, the time within which the Commonwealth Trust Company of Pittsburgh may, under the authority granted in the Board's letter of October 3, 1957, establish a branch at 3095 Banksville Road, Pittsburgh, Pennsylvania.

Very truly yours,

(Signed) S. R. Carpenter



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25. D. C.

Item No. 5 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1958

Mr. Paul C. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

Reference is made to your letter of April 9, 1958, to Mr. Masters recommending a modification of a condition imposed in connection with the establishment of a branch at Vandergrift, Pennsylvania McKeesport, sylvania, by the Peoples Union Bank and Trust Company, McKeesport, Pennsylvania, incident to the purchase of assets and assumption of liabilities. The liabilities of the Vandergrift Savings and Trust Company. The Board's approval of the establishment of the branch provided, among other to approval of the establishment of the branch provided, among other things, that investment securities acquired from the Vandergrift Savings and Trust Company should not be placed upon the books of the Davings and Trust Company should not be placed upon the books of the Peoples Union Bank and Trust Company in amounts in excess of the manual of the securities the market value. You state that the market value of the securities to be to be acquired is about \$70,000 less than the value at which they are common and Trust Comm are carried on the books of the Vandergrift Savings and Trust Company and that and that in order to obtain a tax advantage the member bank has requested in order to obtain a tax advantage the member bank has requested permission to take over the securities at book values and establishments. establish a specific reserve of \$75,000 to cover the depreciation.

The proposal of the member bank to establish a reserve securities are carried on the books of the Vandergrift Savings and acceptable, provided such reserves are treated as specific valuation reserves.

Very truly yours,

(Signed) S. R. Carpenter



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 6 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1958

Mr. Edward A. Wayne, First Vice President, Federal Reserve Bank of Richmond, Richmond 13, Virginia.

Dear Mr. Wayne:

with which was enclosed a proposed agreement, dated April 2, 1958, between the International Finance Corporation and the Federal Reserve Bank of Richmond relating to the storage of certain microfilm records of the International Finance Corporation. This is to advise you that the acceptance by your Bank of the proposal made by the International Finance Corporation meets with the approval of the Board of Governors.

Both the original and the copy of the proposed agreement returned herewith.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter, Secretary

Enclosures



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 7 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE SUARD

April 18, 1958

Board of Directors, The Southwest Bank, Inglewood, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors extends to October 23, 1958, the time within which The Southwest Bank, Inglewood, California, may, under the authority granted in the Board's letter of October 23, 1957, establish a branch in the vicinity of the intersection of Rodeo Road and La Cienega Boulevard, Los Angeles, California. It is noted that construction of the building will start no later then May 15, 1958, and completion by October 1, 1958, is anticipated.

Very truly yours,

(Signed) S. R. Carpenter



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 8 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1958

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

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated bebruary 10, 1958, enclosing copies of an application to organize a national bank at Columbus, Nebraska, and requesting a recommendation as to whether or not the application should be approved.

examiner for the Federal Reserve Bank of Kansas City indicates that the proposed capital structure of the bank would be adequate for the first few years of operation and that the proposed managing officers are experienced and capable bankers. However, the motives of these officers, who were formerly connected with an existing bank, in attempting to organize another bank are open to question. Moreover, there does not appear to be sufficient need for the bank in the community at this time and the future earning prospects of the institution are not favorable. In view of these unfavorable factors, the Board of Governors does not feel justified in recommending approval of the application.

Cuss any aspects of this case with representatives of your office you so desire.

Very truly yours,

(Signed) S. R. Carpenter



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 9 4/18/58

ADDRESS OFFICIAL CORRESPONDENCE

April 18, 1958.

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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated a national bank at Chesterton, Indiana, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an the proposed capital structure of the bank would be adequate and that a competent and experienced managing officer has been selected. However, some question exists as to the sponsorship of the bank inamuch as a majority of the organizers are nonresidents of Chesterton and a number are interested in an enterprise which is promoting the construction of a new shopping center in which the bank would be located. On the basis of the information available, there does not appear to be sufficient need for the bank at this time and its earn-Governors recommends disapproval of the application.

Cuss any aspects of this case with representatives of your office you so desire.

Very truly yours,

(Signed) S. R. Carpenter