# Minutes for May 26, 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	B
Chm. Martin	-	x (m)
Gov. Szymczak	x ////	
Gov. Vardaman	x	
Gov. Mills		X
Gov. Robertson	× K	
Gov. Balderston		* CCB
Gov. Shepardson	x Cell	

Minutes of the Board of Governors of the Federal Reserve System on Monday, May 26, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman

Mr. Vardaman Mr. Robertson Mr. Shepardson

Mr. Kenyon, Assistant Secretary

Mr. Fauver, Assistant Secretary Mr. Riefler, Assistant to the Chairman

Mr. Thomas, Economic Adviser to the Board

Messrs. Young, Noyes, and Robinson, Miss Burr, and Messrs. Koch, Williams, Dembitz, Brill, Eckert, Gehman, Jones, Miller, Trueblood, Wernick, Wood, and Yager of the Division of Research and Statistics

Messrs. Marget, Furth, Hersey, Sammons, Bangs, Reynolds, Wood, and Goldstein of the Division of International Finance

Economic review. The summary by the Division of International Finance brought out that United States exports had picked up somewhat in March. Considering, however, the sawtooth pattern exhibited by exports in recent months, it did not seem safe to say that there had been an end to the decline which carried exports in February and March of this year to a level roughly 20 per cent lower than the corresponding months of 1957. On the other hand, imports were as high as a year ago, although slightly below the level at the end of last year. The latest available information indicated that foreign dollar holdings were rising despite gold sales totaling over \$1,100 million since the first of this year. While evidence on the foreign side, over all, was not consistent with the thesis that a general saucering-out was about to be witnessed, there were no signs of disruption of the international financial payments

The report on domestic developments by the Division of Research and Statistics revealed a levelling off of the recession in activity.

Certain indicators, including the index of industrial production, appeared to have stopped receding or to have risen slightly. However, the available evidence failed to afford grounds for the expectation that recovery from the recession, if indeed it was at hand, would be quick or sharp.

At the conclusion of the economic review Governor Vardaman inquired about the possibility of obtaining data on truckloadings, stating that he questioned somewhat the sufficiency of data on freight-carloadings as an economic guide.

Mr. Young replied that the research staff was now processing a memorandum on the subject. He added that a long-run objective of the staff was to develop an index of transportation services to parallel the index of industrial production but that, although gradual progress was being made, the project was not moving along too fast.

All of the members of the staff except Messrs. Kenyon and Fauver then withdrew from the meeting and Messrs. Masters, Director, Division of Examinations, Hackley, General Counsel, and Solomon, Assistant General Counsel. entered the room.

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.
Letter to the Federal Reserve Bank of Dallas disapproving the request of The Farmers State Bank of Clarendon, Clarendon, Texas, for permission to transfer a valuation reserve on investment securities to undivided profits.	1
Letter to American Trust Company, San Francisco, California, extending the time within which it may establish a branch in Antioch, California. (For transmittal through the Federal Reserve Bank of San Francisco)	2

Assignment of hearing examiner to certain hearings. In a memorandum dated May 23, 1958, copies of which had been distributed to the members of the Board, Mr. Solomon referred to the assignment of Mr. Arthur Leff to conduct hearings on applications of Bank Shares Incorporated and Northwest Bancorporation for determinations pursuant to section 4(c)(6) of the Bank Holding Company Act and reported that Mr. Leff's current assignment for the Securities and Exchange Commission Would preclude starting the two Bank Holding Company Act hearings according to the schedule which had been contemplated. The situation had been discussed with the Chief Trial Examiner for the National Labor Relations Board and it was recommended that the two assignments be transferred from Mr. Leff to Mr. Charles Schneider.

In view of certain questions raised by Governor Vardaman, it was decided to defer a decision on the matter pending further consideration at another meeting of the Board. Mr. Solomon was requested, in the meantime, to check on the possible availability of other examiners to conduct the two hearings in question.

At this point Messrs. Nelson, Assistant Director, Division of Examinations, and Hooff, Assistant Counsel, entered the room along with Messrs. Carl H. Morgenstern, President of the Old Kent Bank and Michigan Trust Company, Grand Rapids, Michigan; William H. Schuiling, President of the Peoples National Bank of Grand Rapids; Siegel W. Judd, Counsel for the Old Kent Bank; and John B. Martin, Counsel for the Peoples National Bank.

Proposed merger of banks in Grand Rapids. On Friday, May 23, the Board voted to deny the application of Old Kent Bank and Michigan Trust Company, Grand Rapids, Michigan, for permission to establish branches at various locations in Grand Rapids and Wyoming Township in connection with a proposed merger of that bank and the Peoples National Bank of Grand Rapids. Advice of the Board's action was transmitted informally to the Federal Reserve Bank of Chicago and in turn by that Bank to the applicant institution, following which the latter requested an opportunity to meet with the Board in order to make further representations concerning the matter. Accordingly, the meeting today had been arranged.

In opening comments, Mr. Morgenstern stated that the two Grand Rapids banks were surprised to hear of the Board's decision and therefore desired to supply additional information in any areas where the information previously furnished might have been insufficient.

Governor Vardaman then informed the bankers that he had not been present when the Board's action was taken. He said that he therefore

Would be particularly interested in obtaining any information supplemental to the written record on the matter and in hearing any arguments that the bankers might care to submit at this time.

Accordingly, Mr. Schuiling made a statement in which he referred first to the background of the proposed transaction, stating that on December 31, 1956, the Michigan Trust Company merged with the Old Kent Bank and that this represented the passing of the only independent trust company in Grand Rapids, one which had been in existence for some 65 Years. The Peoples National Bank, he said, had developed close relations With the Michigan Trust Company, four directors of the national bank also being directors of the trust company. They had placed their personal affairs with the trust company and had influenced their friends to do likewise. Consequently, following the merger he was asked to look into the possibility of establishing additional trust facilities in Grand Rapids, but on the basis of this investigation he reported to his directors that the establishment of a trust department by a bank the Size of the Peoples National Bank would not be advisable. In the meantime, Mr. Schuiling said, individuals connected with the Michigan National Bank of Lansing submitted to the Chairman of the Board of the Peoples Bank a proposal whereby they would acquire at least 51 per cent of the stock of the Peoples National Bank.

Mr. Schuiling went on to discuss the differences in operating Methods between his bank and the Michigan National Bank and said that

in view of these differences it was decided to contact the Old Kent
Bank with a view to becoming a part of an institution which was
respected and with which those in the Peoples National Bank would like
to be identified. Therefore, while the application to the Board was
from the Old Kent Bank, it actually might be regarded as an application
from the Peoples National Bank.

Mr. Schuiling said that the Old Kent Bank and the Peoples National Bank complemented each other and that there was not the active type of competition between them that there was with the Michigan National Bank. The philosophy of the two banks was the same and the directors and officers thought of banking in the same way. He then cited certain figures, such as the percentage of capital accounts to deposits and the percentage of loans to deposits, which indicated that the percentage ratios were substantially the same for the two institutions. For many years, he said, the Peoples National Bank had had much in common with the Old Kent Bank With regard to philosophy of operations so it was natural that they leaned toward joining forces. On the other hand, these banks were competing against the type of advertising and other practices followed by the Michigan National Bank. In this connection, he exhibited a newspaper advertisement by the Michigan National Bank which portrayed the total resources of that institution rather than those of its branch in Grand Rapids. This meant, he said, that the banks in Grand Rapids were confronted with the necessity of competing with the total resources of

the Michigan National Bank and the impact of that bank's total capital account. In further comments, he noted that the Michigan National Bank had a parking and drive-in facility within half a block of the Peoples National Bank. He said that the Old Kent Bank has a fine branch organization so that there would be many benefits derived from his bank becoming associated with that institution. The board of directors was unanimous in this view, the shareholders had voted 93 per cent of the stock in favor of the merger, with no dissenting votes, the public had received the proposal well, and the State Bank Commissioner had approved the proposed merger on April 29.

Mr. Morgenstern stated that the proposed merger had been under discussion for a period of about six years and thus was not anything that developed rapidly. The relationships between the two banks had been very good and their philosophy and whole approach to banking in the Grand Rapids area had been along the same lines.

Governor Vardaman inquired whether there had been any objection formally or informally to the State Bank Commissioner, to which Mr.

Morgenstern replied that there was no record or knowledge of objections from local competitors or from individuals. Public notice had been given of the intention to merge and, although no public hearing was held, appropriate files were submitted to the State authorities.

Mr. Martin said that the public had known of the proposal for some months. He went on to say that as Counsel for the Peoples National

Bank he was aware of the provisions in the statutes relating to approval of branches, but that as far as he had been able to determine there had never been a refusal on the basis of competitive factors to approve an application for branches which originated out of a merger proposal. Therefore, it had not occurred to him or his associates that an unfavorable decision was even a possibility. On that assumption, there had been conferences between the two institutions and confidential information had been exchanged in working out the details of the proposed merger. It could be said, of course, that this should not have been done until the Board of Governors had acted, but in the light of past experience it did not appear that the application would be refused. Although the statutes, including the Bank Holding Company Act, had been studied, no indication was found that an application of this kind was likely to be refused on the grounds of a lessening of competition. Hence, when the Board's decision was received, the question arose whether it had to do with one or more of the branches to be established because it was understood that this was a matter within the jurisdiction of the Board. It would have been Possible, of course, to proceed in such a way as to eliminate the branches and thus avoid having to come to the Board for approval, but the banks Were trying to provide maximum service.

Mr. Martin said that this was a very serious matter for the Peoples National Bank because, if the Board's decision became known, its stock would drop in value and it would become difficult for the stock-holders not to accept offers made by those associated with the Michigan

National Bank. If those offers were accepted, that would tend to lessen competition in the Grand Rapids area by making the Peoples National Bank a part of a much larger operation.

In response to a question by Governor Vardaman, Mr. Schuiling said that interests associated with the Michigan National Bank did not now hold any of the stock of this bank, but that those parties had talked With some of the major shareholders and had made a written offer of \$32 a share, following which they had indicated a willingness to increase the offer to as much as \$35 or \$37. He then went on to discuss situations elsewhere in Michigan where a similar procedure had been followed by people who influence and control the banks in the Michigan National In additional comments, he said that the present proposal was group. not the result of a few major shareholders of his bank attempting to put a deal across, but rather that all of those associated with the bank Wanted to move into the merged organization and continue to hold stock in the new bank. The point mentioned by Mr. Martin was the real one as far as he was concerned, for while those connected with the Michigan National Bank might say that the present management would continue if they gained control, it was well known that this was not likely. With reference to the competitive situation in Grand Rapids, Mr. Schuiling cited the trend of deposits of the several banks in the city during the Period 1948 through 1957, which showed a decline percentagewise for the Peoples National Bank and the Old Kent Bank as contrasted with an increase for the Michigan National Bank and one other institution. The proposed merger, he suggested, therefore would result in more effective competition.

Bank of Chicago had recommended against approval of the application for branches and asked whether the bankers had appeared before the Reserve Bank. He added that the Board, of course, does not always follow a Reserve Bank's recommendations but that this is one of the things given serious consideration by the Board.

In response, Mr. Martin said that his group had not appeared before the Reserve Bank after the Bank made its recommendation but that they did discuss the matter with the Reserve Bank when the application was filed. While there was an indication given at that time by the Reserve Bank that the applicants might have a hard time in getting approval, the reaction after the picture had been fully explained made it seem that the Reserve Bank's viewpoint had perhaps changed. Thereafter, the Reserve Bank was also furnished a substantial amount of economic data, including data outlining the situation in Grand Rapids following the merger which showed that there would be more banking offices per unit of population than in any other city in the State.

Mr. Masters pointed out that the division of total bank deposits in Grand Rapids which had been supplied at this meeting varied somewhat from figures previously received by the Division of Examinations. From a discussion which followed, it developed that the figures presented at this meeting by the Grand Rapids delegation were prepared on the basis of

including over-all statistics for the Michigan National Bank. This had been done, it was said, because the Michigan National Bank has large resources which can be used in any market and in the light of the fact that Michigan National advertises in the Grand Rapids area on a consolidated basis. It was pointed out that the consolidated figures provide the basis for extending lines of credit.

After further discussion of this point and of various aspects of the operations in the State of Michigan by the Michigan National Bank and individuals associated with it, Mr. Schuiling presented figures which he said indicated that if control of the Peoples National Bank should be acquired in some way by Michigan National interests, about 65 per cent of the deposits in Grand Rapids would fall under the direct or indirect control of that institution. Furthermore, two small banks in near-by communities were said to be dominated by that institution.

In response to a question, Mr. Judd said that when the aforesaid offer from an individual connected with the Michigan National Bank to buy shares of the Peoples National Bank was received, such shares were selling at \$25 each and had a slightly lower book value.

The bankers then withdrew from the room in order that the Board might discuss the situation further.

Governor Vardaman said that from his reading of the file on the matter it did not seem to him that the report of the Chicago Reserve

Bank hit at the real facts involved in this case. He noted that the operations of the Michigan National Bank and affiliated individuals had

been a subject of discussion for a good many years and said that similar practices in acquiring stock of independent banks were being followed by institutions in other states, including the State of Georgia, apparently in anticipation of changes in State law which would permit the conversion of these holdings into branch organizations. After expressing concern that a denial of the application of the Old Kent Bank would defeat the objective of the Board in the long rum, he suggested that the Board ought to advise the bankers to go to the Reserve Bank and present their case to President Allen personally. He said that the Board could then ask Mr. Allen to come back with his recommendation. To this, he added that he would not want to overrule Mr. Allen without first having the benefit of such a recommendation.

Governor Robertson responded that Mr. Allen was acquainted with the whole story of the matter and had talked about it with the staff of the Reserve Bank. As Governor Robertson saw it, the talk about the Michigan National Bank constituted "throwing up a straw man", and he stated that the attempt to bring the total deposits of the Michigan National Bank into the picture was inappropriate. In this connection, he pointed out that the Michigan National Bank under present State law can not establish additional branches in the Grand Rapids area. The actual situation was that the merged institution would control 66 per cent of the banking offices in Grand Rapids and even if the Michigan National Bank interests acquired control of the Peoples National Bank,

the Old Kent Bank would provide strong competition. Actually, the other banks in the city were the ones that were going to suffer. The Board's job, he said, is to represent the public interest and to see that competitive factors are preserved in any given community. If the Board permitted these two institutions to merge and obtain a dominant Position as to deposits and banking offices in Grand Rapids, he felt that it would be making a grave mistake.

Governor Vardaman then said that he would have to go on record as opposing the Board's decision strongly. He would recommend that the matter be referred back to the Chicago Reserve Bank and that the applicants be requested to go back to the Reserve Bank.

There followed a discussion regarding the appropriateness of making known to the interested parties in a case of this kind what recommendation the Reserve Bank had made to the Board. The discussion included the statement that it had never been the practice of the Board to divulge information of that kind. Governor Vardaman, however, stated that he was not aware of any policy to such effect. If there was such a policy, he said, he would like to have a discussion of it by the Board.

Mr. Masters stated that the meeting with the bankers this morning had failed to produce any information of consequence which was not previously known to President Allen and to the Division of Examinations.

The bankers were then called back into the room and were advised that the Board would consider the matter further. After the bankers had

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Washington tomorrow for a meeting of the Federal Open Market Committee, an opportunity would be provided for the Board to discuss with him any questions that the members might wish to raise. In this connection, it was noted that an informal meeting with Mr. Allen to discuss certain personnel matters at the Chicago Bank had already been arranged for 2:00 p.m.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board letters to the Federal Reserve Bank of Philadelphia (attached Items 3 and 4) approving the appointment of Samuel J. Culbert, Jr., as examiner and William N. Bagley as assistant examiner.

In accordance with the recommendation contained in a memorandum dated May 12, 1958, from Mr. Masters, Director, Division of Examinations, Governor Shepardson also approved today on behalf of the Board an increase in the basic annual salary of William E. Rumbarger, Assistant Federal Reserve Examiner, from \$5,200 to \$5,440, effective June 1, 1958.

Assistant Secretary



### BOARD OF GOVERNORS

OF THE

## FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1 5/26/58

ADDRESS OFFICIAL CORRESPONDENCE

May 26, 1958

Mr. L. G. Pondrom, Vice President, Federal Reserve Pank of Dallas, Dallas 2, Texas.

Dear Mr. Pondrom:

Reference is made to your letter of May 9, 1958, submitting the request of The Farmers State Bank of Clarendon, Clarendon, Texas, for permission to transfer the \$10,275 valuation reserve on investment securities to undivided profits. The Board of Governors, after having given careful consideration to all available information, has concluded that it would not be justified in approving this request. It is an established policy of the Board that a bank's investment account should not be written up by addition of the difference between (a) the price paid for securities and (b) their current market value or face value. Profits received from such sources should be taken into account only when the bonds are sold or redeemed and a profit actually realized.

This valuation reserve was originally established as investment securities acquired from the First National Eank, Clarendon, Texas, incident to the absorption of that bank, had been placed on the books of The Farmers State Eank of Clarendon at approximately \$10,275 in excess of their fair market value. It is entirely possible that certain of the bonds acquired from the First National Eank have either been sold or have matured, and the Board would, of course, have no objection to transferring from valuation reserve to undivided profits a sum representing the amounts originally allocated to such securities. Furthermore, as the balance of these obligations are either sold or mature, appropriate amounts may be transferred from the valuation reserve to undivided profits.

Very truly yours, (Signed) S. R. Carpenter



### BOARD OF GOVERNORS

OF THE

# FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2 5/26/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1958

Board of Directors, American Trust Company, San Francisco, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors extends to August 1, 1958, the time within which American Trust Company may establish a branch in the vicinity of 18th and A Streets, Antioch, California, under the authority contained in the Board's letter of July 11, 1956.

Very truly yours,

(Signed) S. R. Carpenter

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# BOARD OF GOVERNORS

# FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3 5/26/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 26, 1958

Mr. E. C. Hill, Vice President, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pennsylvania.

Dear Mr. Hill:

In accordance with the request contained in your letter of May 20, 1958, the Board approves the appointment of Samuel J. Culbert, Jr. as an examiner for the Federal Reserve Bank of Philadelphia. Please advise as to the date upon which the appointment is made effective.

Very truly yours,

(Signed) S. R. Carpenter

# BOARD OF GOVERNORS

OF THE

# FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 4 5/26/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE SOARD

May 26, 1958

# CONFIDENTIAL (F.R.)

Mr. E. C. Hill, Vice President, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pennsylvania.

Dear Mr. Hill:

In accordance with the request contained in your letter of May 20, 1958, the Board approves the appointment of William N. Bagley as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise as to the date upon which the appointment is made effective.

It is noted that Mr. Bagley is indebted to The Conestoga National Bank of Lancaster, Lancaster, Pennsylvania, in the amount of \$120 which will be liquidated by June 30, 1958, and that he is also indebted to The Athens National Bank, Athens, Pennsylvania, in the amount of \$600 which will be eliminated through the payment of \$400 and the transfer of \$200 to an insurance company. Accordingly, the Board's approval is given with the understanding that Mr. Bagley will not participate in any examinations of these banks until his indebtedness has been liquidated.

Very truly yours,

(Signed) S. R. Carpenter