

Minutes for June 26, 1958

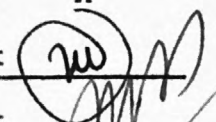
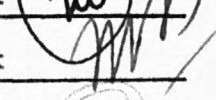

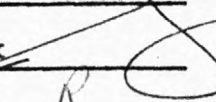
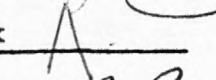
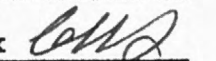
To: Members of the Board

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 <u></u>	_____
Gov. Szymczak	x <u></u>	_____
Gov. Vardaman	x <u></u>	_____
Gov. Mills	x <u></u>	_____
Gov. Robertson	x <u></u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u></u>	_____

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

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Thompson, Supervisory Review Examiner, Division of Examinations
Mr. Davis, Assistant Counsel

Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 Citizens Bank, Inc., of South Hill, South Hill, Virginia, approving an additional investment in bank premises. (For transmittal through the Federal Reserve Bank of Richmond)

1

Letter to Citizens Commercial & Savings Bank, Flint, Michigan, consenting to a consolidation of that bank and The Shiawassee County Bank, Durand, Michigan, and approving the establishment of a branch in Durand. (For transmittal through the Federal Reserve Bank of Chicago)

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Item No.

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Letter to American State Bank, Lansing, Michigan, approving the establishment of a branch in Lansing incident to the proposed consolidation of that bank with The Central Trust Company, also of Lansing, and granting American State Bank permission to exercise trust powers. (For transmittal through the Federal Reserve Bank of Chicago)

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of San Francisco approving the establishment without change by that Bank on June 25, 1958, of the rates on discounts and advances in its existing schedule.

Request from Congressman Sheehan. In accordance with the understanding following discussion at the Board meeting yesterday, there had been distributed to the members of the Board, with a memorandum from Mr. Hackley dated June 25, 1958, a revised draft of letter to Congressman Sheehan of Illinois relating to his request for the names and locations of companies that would be affected by a definition of bank holding companies based upon 25 per cent control of the stock of one or more banks. In contrast with the draft discussed yesterday, this letter would transmit to Mr. Sheehan the list of known companies which, as of December 31, 1954, would have been covered by such a one-bank definition. It would point out, however, that such information was furnished to the Senate Banking and Currency Committee in 1955 on a confidential basis, that the information was incomplete at the time, and that it would now be even more unreliable because of changed circumstances. The final sentence of the letter would state that if and when Congress should

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give active consideration to any amendment of present law to cover one-bank situations, it was expected that the Board would undertake to prepare for the information of Congress an up-to-date tabulation with respect to known companies that would be covered by such a definition. Mr. Hackley's transmittal memorandum suggested that if, on the other hand, the Board should decide upon a letter along the lines of the draft considered yesterday, a similar final sentence might be added to that letter.

Governor Mills said he had not changed his opinion that the requested information should not be supplied, for he felt that the furnishing of the information would constitute a breach of the Board's responsibility to preserve the confidentiality of matters relating to corporations and individuals that fall under the Board's supervision. Therefore, he would prefer a letter along the lines of the draft considered yesterday. He would have some reservations regarding the final sentence proposed in Mr. Hackley's memorandum because it seemed to him that this constituted a commitment for the future when it was not known at this time whether the Board actually would compile information of the kind described.

There followed a discussion of the question of the Board's responsibility to furnish the Congress information, particularly with respect to legislative recommendations submitted by the Board, and the distinctions which might be drawn between the furnishing of such information to individual members of the Congress and to appropriate committees.

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The discussion then turned to the sources of the data supplied to the Senate Banking and Currency Committee in 1955, and in the course of the comments made on this phase of the matter Governor Robertson suggested that all of the material contained in a report of examination is not necessarily confidential. He found it difficult to justify a refusal to provide the information requested by Congressman Sheehan merely because part of it happened to have been picked up by the Board's staff through reports of examinations. When asked by Governor Vardaman how he would deal with a possible request from Mr. Sheehan for a current compilation, Governor Robertson indicated that he would reply along the lines that the Board did not have such information available and did not feel warranted in undertaking a compilation unless requested by the Congress in connection with its consideration of legislation implementing the recommendation for a one-bank definition contained in the Board's report of May 7, 1958, concerning the Bank Holding Company Act.

Following further discussion of various aspects of the matter and alternative possibilities for dealing with the request, Chairman Martin said that this was a close question, that he was inclined in general toward full disclosure and toward supplying as much information to the Congress as might be reasonably appropriate, and that on the other hand he recognized the points made with respect to maintaining the confidentiality of certain classes of information. In all the circumstances, he said, he would not be averse to sending a reply along the lines of the draft considered

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by the Board yesterday, with the addition of a final sentence such as suggested in Mr. Hackley's memorandum.

After Governor Mills stated that he would be willing to go along with a reply of that kind, Governor Robertson again raised the question of what justification could be given for refusing to furnish the requested information since, as he had indicated earlier, he did not feel that a denial could be justified simply on the basis that some part of the information happened to have been drawn from reports of examination.

Governor Shepardson then commented that the strongest justification for denial might be found in the incompleteness and the current inaccuracy of the only information available to the Board.

Suggestions were made as to the form which a letter to Congressman Sheehan might take if the reasons stated by Governor Shepardson were used as the basis for denial of the request, and the staff was then requested to prepare for the Board's consideration a draft of letter phrased along those lines.

Report on H.R. 12785. As requested following discussion at the meeting yesterday, there had been distributed to the members of the Board under that date a further revised draft of letter to the Chairman of the House Committee on Government Operations concerning H.R. 12785, a bill which would amend the Employment Act of 1946.

After several changes in the latest draft had been suggested, it was agreed that the staff would prepare the letter in final form on the basis of those suggestions.

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Messrs. Thomas and Shay then withdrew from the meeting.

First National City Bank case. There had been distributed to the members of the Board copies of memoranda from the Division of Examinations and the Legal Division, dated June 24 and June 23, 1958, respectively, relating to the applications for prior approval to become bank holding companies which had been filed pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 by First New York Corporation, The First National City Bank of New York, and International Banking Corporation, all of New York, New York.

The memorandum from the Division of Examinations cited and summarized the views and recommendations of the respective supervisory authorities, the recommendation of the hearing examiner, and the views of the Department of Justice, and a supplemental memorandum dealt in more detail with these and other aspects of the case in the light of an analysis by the Division of the record made at the public hearing on the applications. For reasons set forth in the principal memorandum and the supplemental document, it was the recommendation of the Division of Examinations that the applications be denied.

The memorandum from the Legal Division dealt primarily with certain legal questions regarding the interpretation of the statutory factors set forth in section 3(c) of the Bank Holding Company Act as applied to the circumstances of the present case, together with four preliminary legal questions having a bearing upon the Board's consideration of the case. In an attachment there was submitted a summary of arguments

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for and against approval of the applications. As stated in the memorandum, it was the unanimous opinion of the Legal Division that in the present case there was no legal obstacle to considering the merits of the applications in the light of the five statutory factors and that the final decision rested entirely in the judgment of the Board. On the basis of the information relevant to the statutory factors as they were interpreted in the memorandum, it was the opinion of the Legal Division that (1) facts relating to the financial history and condition, prospects, and management of the proposed holding company and the banks involved, although not unfavorable, did not in themselves provide affirmative grounds for approval of the applications; (2) while the proposed transactions might tend in some measure to contribute to the convenience of the area served by County Trust Company there was no substantial evidence that reasonable banking needs of the community involved were not being met by existing banks in Westchester County; (3) whether or not the proposed transactions would violate the Clayton Act, they would expand the size and extent of the holding company system involved beyond limits consistent with the public interests and preservation of competition in the banking field; and (4) any resulting contribution to the convenience of the community would not be sufficient to outweigh the adverse effect of the transactions upon competition and the public interest. Therefore, it was the opinion of the Legal Division that the applications should be denied.

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There had also been distributed to the members of the Board, with a transmittal memorandum from Mr. Young dated February 27, 1958, a memorandum from Mr. Hald, Economist in the Division of Research and Statistics, analyzing the applications in the light of certain basic principles relating to the administration of the Bank Holding Company Act which Mr. Hald had suggested previously in a memorandum entitled "The Bank Holding Company Act of 1956 and the Preservation of Banking Competition." The recommendation of Mr. Hald was that the applications be denied.

In addition, at the suggestion of Governor Balderston there had been distributed to the members of the Board under date of June 25, 1958, a memorandum from Mr. Hackley relating to the question of the significance which might properly be attached by the Board to the fact that the proposed transactions in this case would result in the creation of a new bank holding company, as contrasted with cases relating to the acquisition of bank stock by existing holding companies. While it was not proposed that denial of the pending applications was necessarily suggested by the fact that they related to the organization of the new holding company, the view was expressed that in considering whether the proposed transactions would be consistent with the "public interest and preservation of competition", within the meaning of the fifth statutory factor, the Board might properly give some weight to the fact that the transactions would result in the formation of a new holding company of unprecedented size and financial importance.

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Copies of each of the staff memoranda have been placed in the Board's files.

At the request of the Board, Mr. Hackley summarized and amplified in certain respects the information and opinions set forth in the memorandum from the Legal Division. He also touched upon the points discussed in the memorandum which he had submitted at Governor Balderston's suggestion.

Mr. O'Connell said he had nothing to add to Mr. Hackley's statement except that, with respect to the point covered in Mr. Hackley's memorandum of June 25, he felt that the consideration of precedent should be minimized. It was his opinion that if the Board should decide to approve these applications, it would in no sense be barred from disapproving any similar applications in the future. If the point of precedent were made in an opinion of the Board, he felt that the Board might be subject to criticism because hearings held on applications under the Bank Holding Company Act presume an independent judgment by the Board on the basis of the record. In this case, for example, approval of the applications, if such should be the decision, might be premised on a finding by the Board that there was a lack of balance in the existing situation in New York City and Westchester County which would be remedied by the proposed transactions, but in a subsequent case it might be found that approval of the application would unduly disturb the then existing balance.

Mr. Hackley said he agreed with Mr. O'Connell in that he did not think that approval of these applications would necessarily preclude the Board from subsequently denying other similar applications. However, in

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view of the hearing record the Board might at least take into consideration the reasonable probability that there would be further applications from New York City banks to go into Westchester County in somewhat the same manner as the current applications contemplated.

Mr. Masters then outlined the reasoning which led to the recommendation of the Division of Examinations that the applications be denied, using as the basis of his remarks the material contained in the memorandum submitted by that Division.

After other members of the staff indicated that they did not wish to offer additional comments, it was agreed that the Board would meet in executive session at 2:15 p.m. for further discussion of the First National City Bank matter.

Surveys of consumer expectations. At the meeting on June 24, 1958, there was discussion, in connection with the assessment levied upon the Federal Reserve Banks to provide for the Board's estimated expenses for the second half of 1958, of the amount of \$50,000 provided in the analysis of estimated expenses to cover surveys of consumer expectations, including buying intentions. In view of that discussion, the Secretary was requested to review the pertinent minutes in order to verify the scope of the Board's authorization in connection with the proposed surveys.

The Secretary stated that the minutes of March 17, 1958, showed that, with Governor Mills dissenting, the Board had authorized negotiations with the Bureau of the Census and, if feasible, an agreement with that

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Bureau to make at least two surveys of consumer expectations, it being understood that quarterly surveys might involve direct costs of about \$100,000 per annum. The figure of \$50,000 contained in the Controller's analysis of estimated expenses for the second half of 1958 therefore reflected the possibility that during that period two such surveys might be made pursuant to the authorization given by the Board.

The meeting then adjourned.

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

Salary increases, effective June 29, 1958 1/

Joan V. Caulfield, from \$3,670 to \$3,805 per annum, with a change in title from Records Clerk to Senior Records Clerk in the Office of the Secretary.

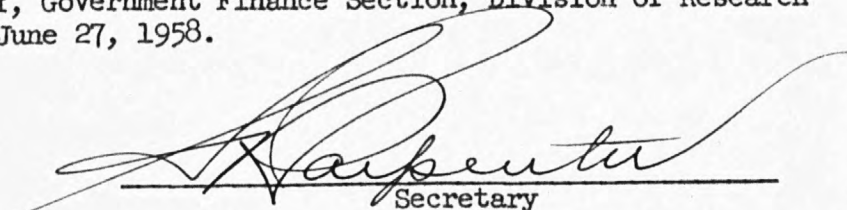
Helen E. Cook, from \$4,480 to \$4,620 per annum, with a change in title from Senior Records Clerk to Supervisor, Bank and Miscellaneous Records, in the Office of the Secretary.

Catherine Anne Wright, from \$3,755 to \$3,940 per annum, with a change in title from Statistical Clerk to Statistical Assistant in the Division of Research and Statistics.

Acceptance of resignations

Beverly Ann Housell, Clerk Stenographer, Division of Research and Statistics, effective June 23, 1958.

Donald C. Miller, Chief, Government Finance Section, Division of Research and Statistics, effective June 27, 1958.


Secretary

1/ Approved salaries subject to adjustment for the general pay increase approved by the Board.

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

Item No. 1
6/26/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1958

Board of Directors,
The Citizens Bank, Inc., of South Hill,
South Hill, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves an additional investment in bank premises by The Citizens Bank, Inc., of South Hill, of not to exceed \$120,000, including land and paving, for the purpose of constructing new banking quarters.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.



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

Item No. 2
6/26/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1958

Board of Directors,
Citizens Commercial & Savings Bank,
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System hereby gives its consent, under section 18(c) of the Federal Deposit Insurance Act, to the consolidation of Citizens Commercial & Savings Bank, Flint, Michigan, and The Shiawassee County Bank, Durand, Michigan, under the charter of the former bank, and approves the establishment of a branch at 201-203 Saginaw Street, Durand, Michigan, by Citizens Commercial & Savings Bank, provided

- (1) the consolidation is effected substantially in accordance with the Consolidation Agreement dated May 20, 1958,
- (2) shares of stock acquired from dissenting stockholders are disposed of within six months, and
- (3) the consolidation and establishment of the branch are effected within six months of the date of this letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 3
6/26/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 26, 1958

Board of Directors,
American State Bank,
Lansing, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by American State Bank, Lansing, Michigan, at 127 East Washtenaw Street, Lansing, Michigan, in connection with the proposed consolidation of American State Bank with The Central Trust Company, Lansing, Michigan, under the charter of the former bank, with a change in corporate title to American Bank and Trust Company. This approval is given provided:

- (1) the consolidation is effected substantially in accordance with the consolidation agreement dated May 15, 1958;
- (2) shares of stock acquired from dissenting stockholders are disposed of within six months;
- (3) the branch is established within six months from the date of this letter; and
- (4) consent to the consolidation is obtained from the Federal Deposit Insurance Corporation.

The Board of Governors also hereby grants permission to American State Bank to exercise trust powers now or hereafter authorized under the terms of its charter and the laws of the State of Michigan.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.