Minutes for August 14, 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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 15. Increase in discount rate at Federal Reserve Bank of San Francisco.

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 Wm	
Gov. Szymczak		x MSS
Gov. Vardaman	x	
Gov. Mills		x
Gov. Robertson		x R
Gov. Balderston	x CCB	
Gov. Shepardson	x CNS	

Minutes of the Board of Governors of the Federal Reserve System on Thursday, August 14, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman
Mr. Shepardson

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
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. Shay, Legislative Counsel
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations

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 Peoples Bank of Cuba, Cuba, Missouri, approving an investment in bank premises. (For transmittal through the Federal Reserve Bank of St. Louis.)	1
Letter to the Citizens Bank of Stuart, Stuart, Florida, approving the application for fiduciary powers submitted on behalf of the First National Bank of Stuart, into which the State bank is to be converted. (For transmittal through the Federal Reserve Bank of Atlanta)	2

	Item No.
Letter to the Zeeland State Bank, Zeeland, Michigan, approving an extension of time in which to establish a branch in Hamilton, Michigan. (For transmittal through the Federal Reserve Bank of Chicago)	3
Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank at Pocatello, Idaho. (With a copy to the Federal Reserve Bank of San Francisco)	4
Memorandum from Mr. Hexter recommending that no action be taken regarding a question which was raised concerning the status of the South St. Louis Investment Company as a bank holding company.	5

Prior tax certification -- General Contract Corporation (Item No. 6). Prior to the meeting there had been distributed memoranda dated August 11, 1958, from the Division of Examinations and from Mr. Hexter relating to a request from the General Contract Corporation of St. Louis, Missouri, for a prior tax certification in connection with its proposed transfer of certain nonbanking subsidiaries to a new corporation, the stock of which would be distributed to General Contract stockholders. The transfer is necessitated by the fact that General Contract is a holding company with nonbanking interests that must be divorced from its banking interests by May 9, 1959. General Contract stockholders will then have the same interests that they now possess, but such interests will be represented by shares in two corporations instead of one.

In order to relieve its stockholders of additional income taxes that otherwise might accrue on account of their receiving the stock of the new corporation, General Contract proposes to carry out the distribution in accordance with Section 1101(a)(2)(A)(i) of the Internal Revenue Code. That tax relief provision, however, would not be applicable without certification by the Board that such distribution of shares of the new corporation was required under Section 4 of the Bank Holding Company Act.

Mr. Hexter's memorandum pointed out that this was the first case in which the Board had been asked for a certification regarding a spin-off of nonbanking interests. In prior cases the holding company had effected the required divorcement by divesting itself of bank shares, thereby ceasing to be a bank holding company. The memorandum of the Division of Examinations expressed the opinion that although General Contract's plan of divestment would reduce its financial strength to some extent, the result would not jeopardize the continued soundness of the holding company system or its subsidiary banks. The Division therefore recommended that the required certification be issued. Copies of both memoranda have been placed in the Board's files.

Following a discussion of the matter, the Board unanimously agreed to the issuance of a prior tax certification for the General Contract Corporation in connection with the divestment of its nonbanking interests in the form attached to these minutes as Item No. 6 with the understanding that a duplicate original would be sent to the Commissioner of Internal Revenue.

Effects of Alaska Statehood Act (Item No. 7). Prior to the meeting there had been distributed to the Board a memorandum from Mr. Solomon dated August 12, 1958, to which was attached a proposed letter to the Bureau of the Budget in reply to its request of August 4, 1958, on the subject of "Effects of Alaska Statehood." The request, which was in the form of a bulletin for general distribution within the Government, directed that certain studies be made regarding the effects of Alaska statehood on the functions of each agency and also directed that certain reports be made to the Budget Bureau, including a report by August 15, 1958, identifying the officer supervising the review directed by the bulletin.

Mr. Solomon's memorandum pointed out that while there was some doubt that the Budget Bureau's request applied to the Board, the Board could take the steps mentioned in the bulletin to the extent it deemed reasonable as a matter of cooperation without specifically referring to the applicability of the request to the Board.

The proposed reply suggested designating Mr. Hackley as the officer responsible for supervising the review of the effects of Alaska statehood and pointed out that Section 19 of the Alaska Statehood Act provides for membership of national banks in Alaska in the Federal Reserve System. The reply would state that the Board had initiated a study of its regulations to determine what amendments, if any, would be desirable in view of Alaska's new status. It also indicated that consideration was being given to the relative advantages and disadvantages of creating an additional Federal Reserve district, which would require new legislation, but added that inasmuch as that matter was also related to the status of Hawaii, the Board would probably defer any definite conclusion on the subject until it became more clear what action Congress would take with regard to Hawaii.

There was a brief discussion during which Governor Balderston suggested some improvements in the phrasing of the third paragraph of the letter which were accepted. Thereupon it was unanimously agreed to send the letter attached to these minutes as Item No. 7 to the Director of the Bureau of the Budget.

Incident at Jacksonville Branch. At the Chairman's request, Mr. Leonard reported to the Board about an incident involving the handling of currency at the Jacksonville Branch which had been called to the attention of the Board initially by an apparently anonymous telegram addressed to Governor Robertson. The telegram alleged that there had been an abuse of privileges by an employee of the Jacksonville Branch who had access to vault currency. Upon receipt of the telegram, Mr. Leonard had contacted President Bryan of the Federal Reserve Bank of Atlanta who was already in Jacksonville investigating the matter. Although a complete report of the incident had not been received, Mr. Leonard said it appeared that the following had happened: A new shipment of currency had been received by the Branch and in checking the numbers of the "bricks" an employee had discovered that one of the bricks contained a new bill with a serial number for which a substantial prize was being offered on a local television program. When this brick was transferred to a teller's cash supply, the employee arranged to swap his own one dollar bill for the new bill with the desired serial number. The bill was then turned over to his wife who entered it in the contest and ultimately won the prize.

There followed a discussion of various aspects of the matter, after which it was agreed to await receipt of further information about the incident from the Federal Reserve Bank of Atlanta.

At this point Messrs. Allen, President of the Federal Reserve Bank of Chicago, Molony, Special Assistant to the Board, and Allison, Special Consultant to the Board, joined the meeting and Mr. Hostrup withdrew from the meeting.

Report on Operation Alert 1958. Mr. Leonard had distributed to the members of the Board prior to the meeting a draft of evaluation report for Operation Alert 1958 in the form requested by the Office of Defense and Civilian Mobilization. The report covered organizational arrangements and operational assignments, operational readiness, resources, financial and economic stabilization, domestic security, information, training, and a review of all documents issued for the exercise, as well as recommendations for improving readiness plans and for future Alerts.

Mr. Leonard reviewed the report in detail for the Board, pointing out that basically the position taken was similar to that in reports made by the Board in evaluating prior Alerts. He explained that the full report, along with those of other agencies, would be reviewed and evaluated by a number of study teams pointing toward Phase III of the Alert scheduled for mid-September. This was the evaluation phase in which heads of agencies would participate.

The report concluded with the following specific recommendations:

1. Development of agreed upon policies to serve as a common basis for economic planning.

2. Development of the specific preattack Federal Government measures required to make effective the assurances as to underwriting the solvency and liquidity of the Nation's monetary and credit system contained in the Standards for Operation Alert 1958.

3. Development of a program for providing necessary postattack flexibility in regulations and orders issued preattack.

4. Development of a program for preattack dissemination of information, instructions, and guidelines to all banks, accompanied by publicity to reach other agencies, State, and local Governments.

5. Development of a program for preattack public announcement of Federal Government plans and measures for dealing with the effects of massive attack damage on banks, other financial institutions, and the Nation's monetary system.

6. Intensified program for Federal, State, and local cooperation in emergency planning and preparedness measures.

7. Development of a program for greater participation of nongovernmental groups in emergency planning and preparedness measures.

In the discussion that followed, Governor Balderston commented that a great deal of time had passed since the Board presented its recommendations a year ago but that not very much progress seemed to have been made toward the adoption of those recommendations. There still was a conflict between the Treasury and the Federal Reserve over basic legal authority for the emergency documents; the recommendation that an additional supply of one dollar bills be printed had not been implemented; and little or no progress had been made in getting currency to places where it would be accessible in a time of emergency. The latter objective might be easier of attainment, he felt, if legislation had been obtained to permit including vault cash as a part of required reserves.

Governor Vardaman commented that the vault cash item had been submitted to the Congress as part of a larger program for the revision of reserve requirements. He thought that if the System felt the vault cash proposal was essential from the standpoint of meeting defense needs, it would be worth while to pursue it as an emergency program with the highest priority.

Mr. Leonard observed that while he agreed in principle with the comments of Governor Balderston, he also felt that some definite signs of progress were at hand. There was now a change in the Treasury's attitude toward emergency planning, especially since the advent of the new Secretary, and he felt the new, changed attitude was seeping down through the staff to some extent. He also felt that the combination of the Federal Civil Defense Administration and the Office of Defense Mobilization into a single agency, with a vigorous administrator, would lead to a resolution of previous conflicts in responsibilities. In other words, he said, there were reasons to expect in the relatively near future some flowering of a great deal of work that had gone on to date. The evaluation session in mid-September would afford an opportunity for the heads of agencies and Government departments to face up to some of the major issues.

Thereupon the Board agreed unanimously to send the report to the Office of Defense and Civilian Mobilization in the form presented by Mr. Leonard, with the understanding that the staff was authorized to make minor editorial changes. A copy of the report, as transmitted, has been placed in the Board's files for reference.

Messrs. Allison and Robinson then withdrew from the meeting.

Letter to Congressman Multer (Items 8 and 9). In accordance with the decision of the Board at its meeting on August 7, 1958, to request the Federal Reserve Banks of New York and Richmond to terminate their arrangements for the occupancy of space by the New York State Bankers Association and the Maryland Bankers Association, respectively, there had been circulated prior to this meeting drafts of a suggested reply to Congressman Multer's letter of June 30 and a letter to the Reserve Bank Presidents which would advise them of the Board's position in this matter.

Governor Balderston commented that the draft of letter to Congressman Multer seemed to express clearly the Board's position, and agreement was expressed with that comment. There was brief discussion about alternate wording in the letter to the Reserve Bank Presidents which would have pointed out that while the Board recognized that some reasons could be offered in support of such arrangements with bankers' organizations, the Board was convinced that those reasons were outweighed by the importance of avoiding any actual or apparent undesirable relationships between supervised institutions and supervising authorities. This suggestion was not accepted, however, on the grounds that the letter to Congressman Multer spoke for itself and that providing the Bank Presidents with copies of the exchange of correspondence with the Congressman would afford them sufficient explanation of the Board's views.

In response to Chairman Martin's invitation, President Allen commented that he agreed with the Board's view in this matter. He said that the Illinois Bankers Association had inquired recently whether it would be possible to lease space in the enlarged premises of the Chicago Bank when those areas were completed, and that he had turned them down without any knowledge of the current discussions with the New York and Richmond Banks.

Thereupon it was unanimously agreed to send the letter attached to these minutes as Item No. 8 to Congressman Multer and to advise the Presidents of the Federal Reserve Banks by means of a letter in the form attached to these minutes as Item No. 9.

At this point Messrs. Riefler, Leonard, Young, Molony, and Shay withdrew from the meeting.

The Michigan Bank, membership condition. Governor Vardaman reported to the Board that again on Tuesday afternoon, August 12, Mr. James B. Alley, counsel for The Michigan Bank, had called his office, presumably to discuss the third condition applied to this bank at the time of its admission to membership. He said that Mr. Alley had been unsuccessful in reaching him, but that it appeared the bank had decided to hold the matter in abeyance for the time being.

The Michigan Bank, approval of branches. At its meeting on August 11, 1958, the Board had reached an understanding concerning certain branch applications of The Michigan Bank which would have resulted in referral of the applications back to the Federal Reserve Bank of Chicago for further consideration. Prior to this meeting there had been distributed to the Board copies of a proposed letter to the Reserve Bank which would have effected this referral.

The draft pointed out that it was a generally accepted policy that banks should be capitalized with common stock and that the sale of preferred stock should be resorted to only in emergency situations.

The letter also stated that it was believed there were sound reasons supporting the continuation of this policy. It suggested that if the Federal Reserve Bank of Chicago deemed it advisable or necessary, further discussion of the problem might be arranged with the management of the applicant bank and/or the Commissioner of Banking for Michigan. Based on the results of such a reconsideration, it requested submission of an unqualified recommendation on the point.

The presence of President Allen of the Chicago Bank in Washington for other purposes also afforded an opportunity for a discussion of this problem. Governor Vardaman reviewed for President Allen the Board's previous discussion of the matter in the light of the recommendation of the Chicago Bank, and at Governor Balderston's request Mr. Solomon reviewed the question of the legal authority of the Board with regard to the issuance of preferred stock. The specific question was whether the Board had authority to tell a State member bank that it could not add preferred stock to its capital structure. Mr. Solomon said that the answer to this question was probably a negative one. He added, however, that he thought the Board did have authority to go into this matter under its general supervisory powers to determine the adequacy of capital. There was little doubt that the nature of a capital structure -- that is, its division between preferred and capital stock -- had a bearing on the adequacy of capital and in that way the System could take into account the propriety of the issuance of preferred stock.

Governor Balderston said that his concern was with how the courts would view an effort by the Board to use its authority with respect to branches to accomplish some other end. This was the question, he said, in the Old Kent case where the Board was using its authority regarding branches to express objection to a proposed merger. In The Michigan Bank matter, the Board would be doing substantially the same thing and he wondered how far it would be advisable to go in risking judicial disapproval of this approach.

Governor Vardaman said his approach was somewhat different. He would favor approving the branches but only on the condition that the bank have adequate capital. Then, when a plan for increasing capital was developed, he would specify that it must be on a sound basis. He recognized that the latter process might involve the risk of judicial review and if it developed that the courts denied the Board's authority in this regard, then the System would be in a position to carry the matter to Congress. His concern, he said, was for the broad principle of maintaining a wide distribution of common voting shares and encouraging stockholder interest in the management of individual commercial banks. The position of a preferred stockholder was not such as to encourage his following management developments closely. He stated that he would prefer not to predicate the turndown of the branch applications on the basis of the preferred stock as such but on the grounds of insufficient capital.

At the Chairman's invitation, President Allen commented that he sympathized with the Board's point of view although he was highly skeptical of the Reserve Bank's ability to convince the management of The Michigan Bank that it ought to change the proposed method of financing. He said Mr. Stoddard is undoubtedly convinced that he is moving forward with this plan on a legally sound basis. He reiterated however that the Chicago Bank would be pleased to do whatever it could through discussion of the matter with representatives of the member bank and with the Michigan Commissioner of Banks, but he felt he could not promise much support from the latter source.

At this point Mr. Masters suggested that an alternative approach might be to approve the applications for the new branches with the specific provision that the bank increase its capital not less than $1,000,000 through the issuance of additional common stock.

After further discussion, it was unanimously agreed not to send the proposed letter to the Federal Reserve Bank of Chicago and instead to ask the staff to prepare for the Board's consideration a new letter to the Board of Directors of The Michigan Bank for transmittal through the Federal Reserve Bank of Chicago on the basis of Mr. Masters' suggestion.

Governor Shepardson asked whether it would not be desirable, as a first step, to ask the Chicago Bank to reconsider its recommendation. President Allen said he would be glad to have his Bank do so, and that his own view would be to recommend approving the branches on the condition that The Michigan Bank would sell at least $1,000,000 of additional common stock prior to the establishment of the branches.

All of the members of the staff except Mr. Kenyon then withdrew and the Board went into executive session.

Change in discount rate at San Francisco. At the request of the Chairman, Mr. Kenyon read a telegram received at 5:11 p.m. yesterday from the Federal Reserve Bank of San Francisco which stated that the directors of the Bank had established, subject to the approval of the Board of Governors, a rate of 2 per cent (rather than 1-3/4 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, a rate of 2-1/2 per cent (rather than 2-1/4 per cent) on advances to member banks under section 10(b), and a rate of 3-3/4 per cent (rather than 3-1/2 per cent) on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13. Other rates in the Bank's existing schedule were established by the directors without change. As reasons for the action taken, the telegram stated: "In view of increasing evidence of business recovery, of recent price increases, especially in industrial commodities, and of the strengthening of Treasury bill rates and other short-term money rates, this action was taken to contribute to the continuance of sound monetary conditions essential to a sustainable recovery."

Chairman Martin stated that he would be inclined to approve the rate increase at the first reasonable opportunity. In this connection, he inquired whether it would be the desire of the Board to defer any action until after the meeting of the Federal Open Market Committee next Tuesday, August 19. Such a deferral, he noted, would be without prejudice to the position of any member of the Board.

The Chairman observed that the Treasury bill rate had now risen to a level around 1-1/2 per cent. He then referred also to the fact that the index of industrial production rose in July to 133 per cent of the 1947-49 average. This figure, scheduled for release tomorrow, would represent a gain of two points from June, on a seasonally adjusted basis, and a gain of seven points from the low of 126 established in April. The Chairman noted that private housing starts rose again in July to a seasonally adjusted annual rate of nearly 1.2 million units, 14 per cent above a year earlier. On the other hand, he said, it must be recognized that announcement of a discount rate increase would put additional pressure on the Government bond market.

The discussion that ensued indicated a disposition on the part of the other members of the Board to question the necessity or desirability of deferring action on the San Francisco rate. Points which might be made in favor of awaiting the discussion at the Open Market meeting were weighed against the advantages of more prompt action, and it was then agreed that the Board would meet again at 4:00 p.m. this afternoon.

The meeting then recessed and reconvened at 4:00 p.m. with Chairman Martin and Governors Balderston, Vardaman, and Shepardson present. Messrs. Kenyon and Molony also were present.

Chairman Martin stated that informal discussion of the matter since the morning session had disclosed that the Treasury would be agreeable to a decision, if that should be the Board's conclusion, to approve and announce today the higher discount rate at the San Francisco Bank. He also commented that during the regular morning open market telephone call at 11:00 a.m. today, it was reported that rumors were circulating of a possible discount rate change. He said President Mangels had advised him that knowledge of the action taken by the San Francisco directors was restricted very closely within the Reserve Bank.

There followed a further discussion of various aspects of the proposed rate change, after which it was voted unanimously to advise the San Francisco Bank that the Board approved the rates established by the directors, effective August 15, 1958. This contemplated that a press release would be issued today in the usual form at 4:30 p.m. EDST, that advice of the action would be sent by telegram to all Federal Reserve Banks and branches, and that a notice would be sent to the Federal Register for publication.

Unanimous approval also was given to telegrams to the following Federal Reserve Banks approving the establishment without change by those Banks today of the rates on discounts and advances in their existing schedules:

New York
Cleveland
Richmond
St. Louis
Minneapolis
Kansas City
Dallas

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum dated August 7, 1958, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Shepardson yesterday approved on behalf of the Board acceptance of the resignation of Florence G. Moffett, Statistical Clerk in that Division, effective August 27, 1958.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated August 12, 1958, from Mr. Kern, Chief, Office Services, Division of Administrative Services, recommending an increase in the basic annual salary of William E. Becker from $3,920 to $4,040, with a change in title from Guard to Sergeant, Guard Force, effective August 24, 1958.

Memorandum dated August 11, 1958, from Mr. Masters, Director, Division of Examinations, recommending that John Lovejoy, Assistant Federal Reserve Examiner in that Division, be granted leave without pay for the period August 20 to September 18, 1958, in order to take a refresher course in accounting and auditing preparatory to taking the CPA examination.

Kenneth A. Kenyon
Assistant Secretary

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

Item No. 1
8/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1958

Board of Directors,
Peoples Bank of Cuba,
Cuba, Missouri.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment by the Peoples Bank of Cuba of $50,500 in bank premises.

It is understood that proceeds from sale of existing bank premises will be applied against book value of bank premises, and that depreciation will be taken in accord with Federal Income Tax allowables.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
8/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1958

Board of Directors,
Citizens Bank of Stuart,
Stuart, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made by you on behalf of the First National Bank of Stuart, Stuart, Florida, the national bank into which the Citizens Bank of Stuart, Stuart, Florida, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Florida. The exercise of all such rights shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

After the conversion of the Citizens Bank of Stuart into the First National Bank of Stuart becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Atlanta for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
8/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1958

Board of Directors,
Zeeland State Bank,
Zeeland, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors extends until January 2, 1959, the time within which the Zeeland State Bank may establish a branch on West Washington Street, Hamilton, Michigan, under authority contained in the Board's letter of March 21, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 4
8/14/58

August 14, 1958

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

Attention Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated May 5, 1958, enclosing copies of an application to organize a national bank at Pocatello, Idaho, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco discloses that the organizers have agreed to provide a minimum capital structure of $400,000 for the bank, provided the investment in fixed assets does not exceed $100,000 and that the capital funds would be increased on a graduated scale to $500,000 in the event the fixed asset investment amounted to more than $200,000. This arrangement for capital would appear to be adequate. The future earnings prospects of the bank and the general character of the management appear to be satisfactory. While it is reported that there is no acute need for additional banking services in Pocatello, it is probable that the establishment of another banking office would stimulate competition and therefore serve a useful purpose. On the basis of the generally favorable findings with respect to the foregoing factors, the Board of Governors recommends approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
8/14/58

Office Correspondence

Date August 6, 1958

To Board of Governors

From Mr. Hexter

Subject: Ownership of bank stock of South St. Louis Investment Co.

Attached are memoranda dated July 28 and July 29, relating to the question whether the above-named Company had become a bank holding company in violation of the Holding Company Act. Also attached is a letter of August 1 from the St. Louis Reserve Bank, enclosing a letter from Counsel for the Company and stating that the Reserve Bank is not disposed to do anything further in this connection.

The information presented indicates that the Company probably has not been a "bank holding company" at any time and that it certainly is not a bank holding company at present. Although it is remotely possible that the Company was a bank holding company for a short time, the Company has demonstrated its good faith by its voluntary disclosure of the matter and by taking action to eliminate any possibility of holding company status.

In the circumstances I agree with the Reserve Bank's position, and no further action will be taken unless the Board gives other instructions.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
8/14/58

CERTIFICATION

1. The Board of Governors of the Federal Reserve System has been informed by General Contract Corporation, St. Louis, Missouri (hereinafter referred to as "the bank holding company"), that it proposes to take the following actions prior to May 9, 1959:

(a) to change its name from "General Contract Corporation" to "General Bancshares Corporation";

(b) to exchange the shares of stock enumerated hereinafter for all of the stock of a new corporation organized for the purpose of receiving such property; the shares of stock referred to are as follows:

Name of Company	Shares outstanding*	Shares to be transferred*
Securities Investment Company of St. Louis	297,840	297,213
Washington Fire & Marine Insurance Company	15,000	15,000
Midwestern Fire and Marine Insurance Co.	200,000	100,000
Industrial Loan Company	1,000	1,000
Industrial Finance Company of Wellston	250	250
Baden Loan Company	150	150
General Contract Loan Company (Mo.)	250	250

* Common stock unless otherwise stated.

Name of Company	Shares outstanding*	Shares to be transferred*
General Contract Loan Company, Inc. (La.)	3,125	3,125
Quincy Union Finance Company	3,375	3,375
Springfield Union Finance Co.	3,375	3,375
S.I.C. Loan Company	300	300
General Contract Loan Brokers, Inc.	101	101
Apex Insurance Agency, Inc.	10	10
St. Louis-Washington Insurance Agency, Inc.	10	10
Springfield Insurance Agency, Inc.	10	10
Quincy Insurance Agency, Inc.	20	20
Pulaski County Insurance Agency, Inc.	20	20
Texarkana Insurance Agency, Inc.	20	20
Northwestern Insurance Agency, Inc.	10	10
Reid-Kruse, Inc.	10	10
Sterick Insurance Agency, Inc.	20	20
Jefferson-Gravois Insurance Agency, Inc.	10	10
Washington Fire & Marine Insurance Company	5,000 (Class A preferred stock)	5,000
Washington Fire & Marine Insurance Company	2,000 (Class B preferred stock);	2,000

(c) immediately after the exchange described in (b), to distribute (in accordance with section 1101(a)(2)(A)(i) of the Internal Revenue Code of 1954) all of the stock of the new

* Common stock unless otherwise stated.

corporation to the stockholders of the bank holding company without the surrender by such stockholders of any stock of the bank holding company.

The bank holding company has also informed the Board of Governors

(d) that, as a result of said exchange and distribution, the new corporation will also acquire indirect control of additional shares of stock;

(e) that neither the property to be changed for the stock of the new corporation nor the shares of stock referred to in (d) will include any property described in section 1101(b)(1)(B)(i) of the Internal Revenue Code of 1954.

2. Pursuant to the provisions of section 1101(c)(2) and section 1103(b) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies that:

(a) The bank holding company satisfies the requirements of subsection (b) of section 1103 of the Internal Revenue Code of 1954 and therefore is a "qualified bank holding corporation" as defined in that subsection.

(b) The shares of stock enumerated in 1(b) above include property which, under section 1101(a)(1) of the Internal Revenue Code of 1954, the bank holding company could distribute directly to its shareholders without the recognition of gain to such shareholders.

(c) The proposed exchange and distribution (referred to in 1 above) are appropriate to effectuate section 4 of the Bank Holding Company Act of 1956.

Executed in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

(Signed) Kenneth A. Kenyon
Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Date: August 14, 1958

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
8/14/58

OFFICE OF THE CHAIRMAN

August 14, 1958

The Honorable
Maurice H. Stans, Director,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Stans:

To the limited extent that the Board's functions would be affected by the admission of Alaska to statehood, the Board has instituted a review of the kind described in paragraph 2 of your Bulletin No. 59-1 of August 4, 1958, regarding "Effects of Alaska statehood". The Board's General Counsel, Mr. Howard H. Hackley, is supervising this review.

Section 19 of the Alaska statehood Act provides for membership of national banks in Alaska in the Federal Reserve System and thus covers the aspect of the matter which would be of principal interest to this Board. The Board has initiated a study of its regulations to determine what amendments, if any, to those regulations would be desirable in view of Alaska statehood. It is believed that the functions of the Board in connection with such statehood would not require any additional legislation, executive orders or proclamations.

Consideration is being given to the relative advantages and disadvantages either of creating an additional Federal Reserve district, which would require new legislation, or of including Alaska in an existing Federal Reserve district, which is authorized under the Alaska statehood Act. However, the Board probably will defer any definite conclusion until it becomes clearer what action the Congress decides to take regarding the pending Hawaii statehood measure.

The Board does not expect to have any further information of the kinds contemplated by the September 15, 1958 and November 15, 1958 reports mentioned in your Bulletin.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
8/14/58

OFFICE OF THE CHAIRMAN

August 14, 1958

The Honorable Abraham J. Multer,
House of Representatives,
Washington 25, D. C.

Dear Mr. Multer:

This is in further reference to your letter of June 30 regarding rental of space in Federal Reserve Bank buildings to bankers associations. As you were advised in my letter of July 8, the Board's views would be communicated to you as soon as a review of the matter had been completed.

The facts are these. The New York State Bankers Association has been a tenant of the Federal Reserve Bank of New York since 1930. The Association was accepted as a tenant because the Reserve Bank felt that discussion of matters of mutual interest to the Reserve Bank and commercial banks would be facilitated by such an arrangement.

The Board recognizes the reasons which prompted the Federal Reserve Bank to enter into the arrangement, but after review has come to the conclusion that it should be discontinued.

The situation at the Baltimore Branch is quite different. The use of space there arises solely from the fact that the present executive manager of the Baltimore Clearing House also serves as secretary of the Maryland Bankers Association and is permitted by the Clearing House to perform his Bankers Association duties in the quarters which the Clearing House rents from the Baltimore Branch. The Branch has no lease or other direct arrangement with the Bankers Association.

In this case also, the Board has come to the conclusion that the arrangement whereby the Bankers Association occupies space in the Federal Reserve Branch building should be discontinued.

Accordingly, the Board has initiated steps to terminate the arrangements as soon as that can reasonably be done.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 9
8/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 14, 1958.

Dear Sir:

Enclosed is a copy of a letter dated June 30 from Congressman Multer regarding rental of space in Federal Reserve Bank buildings to bankers associations and a copy of the Board's reply.

The request that the arrangements under which the Bankers Associations occupy space in the Federal Reserve Bank of New York and the Baltimore Branch of the Federal Reserve Bank of Richmond be terminated has already been made to the Presidents of those Banks, and a copy of the Board's letter to Congressman Multer is forwarded to you for your information and guidance.

According to the Board's records, the only space in a Federal Reserve Bank or Branch building rented to a bankers association is that at New York. It will be appreciated if you will advise the Board whether bankers associations occupy space in any of your buildings, either under lease or under any other arrangement.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS