

Minutes for August 15, 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>MM</u>	<u> </u>
Gov. Szymczak	<u> </u>	x <u>MS</u>
Gov. Vardaman	x <u>VD</u>	<u> </u>
Gov. Mills	<u> </u>	x <u> </u>
Gov. Robertson	<u> </u>	x <u>R</u>
Gov. Balderston	x <u>CCB</u>	<u> </u>
Gov. Shepardson	x <u>BS</u>	<u> </u>

Minutes of the Board of Governors of the Federal Reserve System
on Friday, August 15, 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. Hackley, General Counsel
Mr. Masters, Director, Division of
Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Smith, Assistant Director, Division
of Examinations
Mr. Holahan, Supervisory Review Examiner,
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:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of St. Louis expressing the view that the proposed establish- ment of a drive-in facility by Lindell Trust Company, St. Louis, Missouri, would not involve the establishment of a branch.	1
Letter to the Comptroller of the Currency recom- mending unfavorably with regard to an application to organize a national bank at Farmers Branch, Texas. (With a copy to the Federal Reserve Bank of Dallas)	2

Proposed simultaneous examination of Continental Bank and Trust
Company and its affiliated banks. Prior to the meeting there had been
distributed memoranda from the Division of Examinations and the Legal

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Division dated August 13, 1958, relating to a proposed simultaneous examination of The Continental Bank and Trust Company, Salt Lake City, Utah, and 10 small banks throughout the States of Utah, California, Colorado, Nevada, and Wyoming which are affiliated with it. The Division of Examinations recommended that the Board approve a simultaneous examination of all such banks at the time of the next regular examination of Continental and reported that the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation also favored such action. One national bank and three nonmember insured banks would be examined by representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, respectively, while the four State member banks and the three nonmember noninsured banks, all of which are in the Twelfth Federal Reserve District, would be examined by representatives of the Federal Reserve Bank of San Francisco. The State banking departments would be invited to participate in the examinations of all of the State banks.

Although it was not customary for the Board to approve in advance simultaneous examinations of affiliated banks, the Board was being advised of the proposed action for its consideration and approval because there appeared to be no precedent for examination of noninsured banks by Federal Reserve Bank examiners and also because the last simultaneous examination of this chain in 1953 had advance approval by the Board. The memorandum pointed out that at the time of the examination in 1953 there were no noninsured banks affiliated with Continental.

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The memorandum of the Legal Division pointed out that paragraph 23, section 9, of the Federal Reserve Act specifically authorizes the Board to examine to the extent and for the purposes described therein any banking corporation (including a nonmember noninsured bank) that is related to a member bank in any of the ways that under section 2(b) of the Banking Act of 1933 gives rise to "affiliate" status. Paragraph 23 of section 9 states:

"In connection with examinations of State member banks, examiners selected or approved by the Board of Governors of the Federal Reserve System shall make such examinations of the affairs of all affiliates of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations upon the affairs of such banks."

In opening the discussion Mr. Masters expressed the view that simultaneous examinations of this kind should be made at least every two or three years, whereas it was now five years since a simultaneous examination of Continental and its affiliated banks had been conducted. He said that the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation were completely familiar with the proposal for simultaneous examination and in fact urged that such an examination be made. He said the purpose of the examination would be to determine interrelated activities of the 11 banks.

Mr. Hackley stated that he felt there was no doubt about the Board's authority under the law to examine nonmember noninsured banks wherever it was clear that they had an affiliate relationship with a member bank. In a sense, he said, the language of the law would seem to

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make it obligatory or mandatory that the Board conduct such examinations to determine the interrelationships between member and nonmember banks.

There followed considerable discussion about the lack of precedent for simultaneous examinations involving nonmember noninsured banks and about the Board's authority in the Federal Reserve Act, as amended by the Banking Act of 1933. Governor Vardaman stated that he had serious reservations about the propriety of, and the precedent that would be set by, examiners entering nonmember noninsured banks. He felt it might seriously impair System relations with the so-called independent banks and would open up a virtual Pandora's box of troubles. One solution, he thought, might be for the System to ask permission of nonmember banks to conduct such examinations.

Chairman Martin stated that in his view it was the public interest in banking about which the System was most concerned and that if the public interest were likely to be damaged by failure to examine nonmember noninsured affiliated banks, then he agreed that the System would be justified in attempting to examine such banks.

Governor Vardaman then said he would like an opportunity to study further with both the Legal and Examinations Divisions the legal authority of the System to examine affiliated business corporations, including banking corporations.

In view of this, Chairman Martin suggested that the matter be tabled pending an opportunity for such further study, and agreement was expressed with the Chairman's suggestion.

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At this point Messrs. Solomon, Hexter, and Holahan withdrew from the meeting.

Reports of examination of the Federal Reserve Banks of Richmond and Philadelphia. At the Chairman's request, Mr. Smith reviewed the reports covering examinations of the Federal Reserve Banks of Richmond and Philadelphia made as of February 26, 1958, and March 24, 1958, respectively. The reports had been circulated to the members of the Board prior to the meeting.

He pointed out, in discussing the examination of the Federal Reserve Bank of Richmond, that the examiners had discovered certain security weaknesses with regard to the currency verification and destruction function. The matter had been called to the attention of the management of the Bank, which had taken immediate steps to effect correction. He said that a review of expenditures at the Bank had not uncovered any items of sufficient importance to warrant their being mentioned specifically in the report. In the view of the examiners, he said, the management development program of this Bank, which had now been in operation over a period of several years, was beginning to bear substantial fruit in terms of depth and quality of staff. He mentioned also that the addition to the Baltimore Branch had been completed at a cost less than the amount originally approved for this project.

Turning to the report on the Federal Reserve Bank of Philadelphia, Mr. Smith stated that there were no material exceptions or criticisms noted. The industrial loan function, which in earlier years had been the

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most active among the Reserve Banks, was down to only one outstanding loan at the time of the examination. Since the preceding examination, both the President and First Vice President had retired, but inasmuch as their successors had been selected well in advance, the transition had been made smoothly. There had been a number of other changes at the officer level but again advance planning had helped to make these changes readily accepted.

Call for condition reports from State member banks. Mr. Kenyon reported that advice had been received from the Comptroller of the Currency of his intention to issue a call this fall for reports of condition from national banks. On the basis of this information and in accordance with the usual procedure, a telegram was sent to the Reserve Banks yesterday advising them that the Board likewise contemplated making a fall call for condition reports from State member banks.

The action taken in sending the telegram was ratified by unanimous vote.

Examination reports of Federal Reserve Banks. Referring to the discussion earlier in the meeting about the examination reports of the Federal Reserve Banks, Governor Shepardson advised the Board that steps were under consideration to simplify the reports in those instances where the examiners were well satisfied with a particular function or operation and where there were actually no important developments about which to comment.

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He said Mr. Smith had raised the question whether absence of comments might create the feeling on the part of the Board that the examiners were not performing their work adequately. His own view, Governor Shepardson said, was that it ought not to be necessary to pad a report to convey the idea of a job well done.

Governor Vardaman made the point that it would be undesirable for examiners to enter upon the review of a Bank's work with the idea that they must find something in order to be doing their job. He suggested that the fact that examiners often find little to comment upon would in itself afford evidence that the Board's examining staff has been doing its job efficiently and effectively over the years.

California Bank matter. In line with the discussion at the Board meeting on August 12 relating to the proposed acquisition of stock of the California Bank by Firstamerica Corporation and the subsequent merger of that bank with the First Western Bank and Trust Company, Mr. Masters reported that the application had now been received at the Board's offices. The papers had been forwarded by the Federal Reserve Bank of San Francisco but the Reserve Bank had not yet had an opportunity to prepare its own recommendation on this matter. He said that the Board's staff would begin its study of the application at once.

River Oaks State Bank, Houston, Texas. Mr. Masters also reported a further development in connection with the ownership and management of the River Oaks State Bank. He recalled that the bank had made

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application to withdraw from membership in the System following acquisition of a major portion of its stock by the American Health Studios, Inc. However, the former management had now reacquired control and he therefore anticipated that the bank might elect to remain in the System.

At this point Mr. Smith left the meeting.

Renovation of the Board Room. Governor Shepardson reported that pursuant to the Board's action on July 24, 1958, preliminary steps were completed and it was now possible to move forward with a renovation of the Board Room designed primarily to improve its acoustical qualities. He said the start of the work had been delayed slightly by modifications in the original plan but he felt these modifications would bring about distinct improvement in the final result and the charges would still be in line with the amount authorized originally by the Board. If the Board was agreeable, it was proposed that this would be the last meeting in the Board Room until the work was completed. The actual work would start on Monday, he said, and take about six weeks.

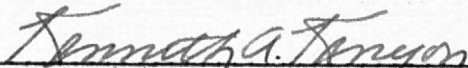
On the basis of Governor Shepardson's report, it was understood that until further notice meetings of the Open Market Committee and Board meetings requiring substantial staff attendance would be held in Room 1202, while regular meetings of the Board would be held in the Special Library.

Thereupon the meeting adjourned.

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Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond approving the designation of five persons as special assistant examiners. A copy of the letter is attached as Item No. 3.


Assistant Secretary

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

Item No. 1
8/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1958

Mr. George E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 3, Missouri.

Dear Mr. Kroner:

This refers to your letter of July 25, 1958, with respect to the proposed establishment of a drive-in facility by Lindell Trust Company, St. Louis, Missouri, adjacent to its present banking house.

In cases of this nature, the question whether a branch is being established, within the purview of applicable Federal statutes, depends upon the attendant circumstances. It is understood that the proposed "auto bank" is to be located on property only 72 feet from the present banking house, to which it will be connected by a tunnel providing passageway for bank personnel. In view of the short distance and physical connection, it is the Board's opinion that the proposed drive-in facility would, in effect, constitute a part of the present banking quarters, and that, consequently, its operation would not involve the establishment of a branch.

It will be appreciated if you will advise the applicant of the Board's views in this matter.

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
8/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1958

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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated June 6, 1958, enclosing copies of an application to organize a national bank at Farmers Branch, Texas, 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 Dallas indicates favorable findings with respect to the proposed capital structure and management of the bank. However, the prospects for profitable operations of the bank are rather poor and there does not appear to be a sufficient need for the bank in the area at this time. In view of these circumstances, the Board of Governors does not feel justified in recommending 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
WASHINGTON 25, D. C.

Item No. 3
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1958



Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of August 11, 1958, the Board approves the designation of the following employees of your bank as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in the examination of State member banks except the bank indicated immediately above their names:

The Bank of Virginia,
Richmond, Virginia

J. Carl Cook
William H. Gentry, Jr.
Geo. E. Thompson, Jr.
James J. Akers

Southern Bank and Trust Company,
Richmond, Virginia

Everett G. Melton

State-Planters Bank of Commerce and Trusts
Richmond, Virginia

James J. Akers

The authorizations heretofore given your bank to designate the above individuals as special assistant examiners are hereby cancelled.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.