

Minutes for December 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>	_____
Gov. Szymczak	x <u>ms</u>	_____
Gov. Mills	x <u>ms</u>	_____
Gov. Robertson	x <u>K</u>	_____
Gov. Balderston	_____	x <u>CCB</u>
Gov. Shepardson	x <u>CS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System on
Monday, December 15, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Molony, Special Assistant to the Board
Messrs. Young, Noyes, Dembitz, Brill, Eckert,
Gehman, Keir, Weiner, Manookian, Wernick,
and Wood and Miss Dingle of the Division
of Research and Statistics
Messrs. Marget, Furth, Hersey, Sammons,
Irvine, Katz, Wood, and Reynolds of the
Division of International Finance

Economic review. In summarizing the review of international developments presented by the Division of International Finance, Mr. Sammons said that in many industrial countries there were increasing signs of renewed economic strength, although in a number of places the upward trend was not yet apparent in the available statistics. The United States balance of payments appeared to have strengthened a bit in November and December but this development, if true, might reflect mostly seasonal factors. There were as yet no clear signs of substantial improvement in foreign buying of American goods.

The domestic review by the Division of Research and Statistics revealed additional evidence of the trend of economic activity toward higher levels. The index of industrial production had risen three points

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in November to 141, with a further increase in December anticipated, the level of construction activity continued to rise, further improvement was seen in the labor market and in hourly and weekly earnings, unemployment figures had improved more than might be expected on a seasonal basis, and it was estimated that the gross national product for the fourth quarter would be at an annual rate of about \$452 million, which would represent a new high in terms of current dollars. In November, personal income advanced to an annual rate of \$360 billion, representing a new high both in terms of dollars and in terms of real purchasing power. Inventory liquidation appeared to have about ended at the manufacturing level, while commercial bank credit had expanded recently after showing little change in the third quarter.

All of the members of the staff except Messrs. Sherman, Kenyon, Riefler, and Molony then withdrew from the meeting. Messrs. Hostrup and Nelson, Assistant Directors, Division of Examinations, entered the room at this point.

Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas approving the establishment without change by those Banks on December 11, 1958, of the rates on discounts and advances in their existing schedules.

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are

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attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Dallas in response to questions raised regarding the proposed Gateway National Bank, Beaumont, Texas.	1
Letter to the Federal Deposit Insurance Corporation expressing the Board's attitude toward the giving of premiums to depositors who establish new, or augment existing, savings accounts.	2

Application of The Northern New York Trust Company (Item No. 3).

At the meeting of the Board on December 11, 1958, it was decided to defer action on the application of The Northern New York Trust Company, Watertown, New York, to establish a branch in Saranac Lake incident to a proposed merger with the Adirondack National Bank and Trust Company of Saranac Lake in order that Mr. Molony might have an opportunity to give appropriate information to an individual in Saranac Lake who had inquired by telephone regarding the application.

Mr. Molony stated that he had gotten in touch with the individual concerned, supplied him with appropriate information, and told him that the application appeared likely to come before the Board for decision early this week.

Thereupon, the application of The Northern New York Trust Company was approved unanimously. A copy of the letter sent to the member bank through the Federal Reserve Bank of New York is attached as Item No. 3.

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Messrs. Riefler and Molony then withdrew from the meeting and Messrs. Hackley, General Counsel, Solomon, Assistant General Counsel, and Hooff, Assistant Counsel, entered the room.

Application of Union Trust Company. At the meeting on Thursday, December 11, the Board decided to defer action on the application of the Union Trust Company of Maryland, Baltimore, Maryland, for permission to establish a branch at York and Timonium Roads in Baltimore County pending receipt of additional information from the Federal Reserve Bank of Richmond in the light of the protest made by the Towson National Bank because of the proximity of the site of the proposed branch to an existing branch of the Towson bank.

Mr. Nelson read portions of a telegram received from the Richmond Reserve Bank which indicated that the President of the Towson National Bank had died recently, that steps had been instituted to merge the bank with the Mercantile-Safe Deposit and Trust Company of Baltimore, but that stockholders' meetings to vote on the proposed merger would not be held until January. The telegram also advised that the Maryland State banking authorities had stated in a letter to the Union Trust Company that, although they proposed to take favorable action on the branch application, formal approval would not be given until the stockholders' meetings of the two banks proposing to merge had been held.

In view of the information contained in the telegram from the Richmond Bank, it was agreed to defer further consideration of the

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application of the Union Trust Company until receipt of advice that the State banking authorities had taken formal action on the branch application.

Messrs. Nelson and Hooff then withdrew from the meeting.

Request from the Small Business Administration (Item No. 4). There were distributed at this meeting copies of a letter addressed to Chairman Martin under date of December 9, 1958, by the Administrator of the Small Business Administration in which the latter referred to the Administration's responsibility for licensing small business investment companies under the Small Business Investment Act and for screening the proposed owners and managers of those companies. He inquired whether, if the Administration identified certain applicants, it would be possible for the Federal Reserve to furnish data pertinent to their screening.

Chairman Martin suggested that the reply be in terms that the Board would be glad to be helpful in any way that it could, although it seemed doubtful whether the Board was in possession of any considerable information that would be of value and could be made available. The Chairman noted that this appeared to be a form letter sent by the Small Business Administration to various agencies of the Government.

There was unanimous agreement that a reply along the lines suggested by Chairman Martin should be prepared and sent. A copy of the letter sent to the Small Business Administration pursuant to this action is attached as Item No. 4.

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Request of Mrs. Hoffman. With reference to the request of Mrs. Claire Giannini Hoffman to appear before the Board in connection with the Firstamerica Corporation matter, Governor Szymczak said that President Mangels of the Federal Reserve Bank of San Francisco had advised Mr. Sherman by telephone that, upon being contacted, Mrs. Hoffman had declined to appear before the Board except at a private meeting. He then turned to Mr. Sherman, who commented that Mr. O'Kane, General Counsel for the San Francisco Reserve Bank, was reported by Mr. Mangels to feel that it would be desirable for the Board to send a letter to Mrs. Hoffman recounting that she had been given an opportunity to appear in response to her telephone request and that it was understood she had declined. Mr. Sherman said that he had discussed with Mr. Hackley the advisability of sending such a letter.

Mr. Hackley said he presumed Mr. O'Kane felt that in the event Mrs. Hoffman should say that she had not been given an opportunity to appear, the letter would constitute a record that she had been afforded such an opportunity provided representatives of Firstamerica also were present. He went on to say that he was not sure whether such a letter was necessary, particularly since Mrs. Hoffman had not made any request in writing to appear before the Board, and suggested that a memorandum placed in the Board's files might constitute a sufficient record.

After some discussion, it was agreed that the matter would be handled on the basis suggested by Mr. Hackley.

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Legislative matters. Chairman Martin reported having received inquiries from Chairman Spence of the House Banking and Currency Committee with regard to what the Board considered most important in the way of legislation at the next session of the Congress. In other words, Mr. Spence would like to know what items the Board thought should be given priority in order that he might go to the leadership of the House and try to obtain clearance to take the items up in the order suggested. Chairman Martin said that he had told Mr. Spence that he would discuss the matter with the Board and talk with him further before the end of the week.

In discussion, reference was made to the Financial Institutions Act, legislation on reserve requirements, and the proposed amendments to the Bank Holding Company Act. On the first, and also the third, of these items, the point was made that certain provisions were of an urgent and important nature while others were not. It was then suggested that it might be helpful if the Legal Division would prepare a memorandum indicating, in its judgment, the order of importance of provisions contained in the Financial Institutions Act and the Bank Holding Company Act.

At the conclusion of the discussion, it was understood that this procedure would be followed.

Visit to El Salvador. Consideration was given to the oral recommendation made earlier at this meeting by Mr. Marget, Director, Division of International Finance, that Mr. Sammons, Associate Adviser in that Division, be authorized to go to El Salvador to represent the Board

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of Governors at ceremonies incident to the opening of new quarters by the central bank of that country on December 20, 1958. The recommendation contemplated that Mr. Sammons would leave tomorrow and would return on Sunday, December 21. Mr. Marget, who returned recently from a visit to El Salvador and certain other Latin American countries, reported that he made this recommendation not only because the presence of a Board representative at the ceremonies would be welcomed but also because he had been impressed by the role of the central bank in dealing with current problems relating to the economy of El Salvador. In discussions with public officials, he said, he had endeavored to support the position of the central bank, and it was his opinion that statements by Mr. Sammons in a similar vein would be helpful.

After some discussion as to the need for the visit, the Board approved the recommendation of Mr. Marget, with the understanding that Mr. Sammons would be reimbursed on the basis of actual travel expenses upon submission of an appropriate voucher.

The meeting then adjourned.

Secretary's Notes: On December 11, 1958, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of San Francisco (attached Item No. 5) approving the appointment of Thomas F. Holt as assistant examiner.

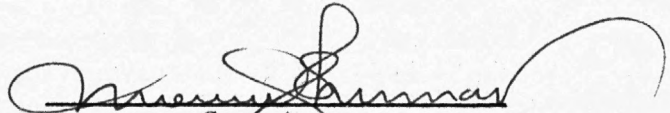
Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on December 12, 1958, a letter to the

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Federal Reserve Bank of Philadelphia (attached Item No. 6) approving the appointment of Donald B. Whitney, Jr., as assistant examiner.

Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Chicago (attached Item No. 7) approving the reappointment of John P. Muench as examiner.



Secretary

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

Item No. 1
12/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1958

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

Dear Mr. Pondrom:

Reference is made to your letter of November 19, 1958, and enclosures relating to the proposed Gateway National Bank, Beaumont, Texas, and to two questions arising in connection with it, namely, (1) whether interlocking directors and officers between it and the First National Bank, Beaumont, Texas, will be permissible under section 8 of the Clayton Act and (2) whether any holding company affiliate relationship between the two banks will be created if the proposal is carried out.

Your counsel has reached the conclusion (1) that interlocking directors and officers will be permissible under the Clayton Act and (2) that no holding company affiliate relationship would be created. The Board sees no reason to differ with either of these conclusions.

The proposal is as follows: five individuals who are stockholders in the First National Bank will own 26 per cent of the shares of Gateway National Bank. Certain individuals who own 35 per cent of the stock of the First National Bank (including the five individuals mentioned above) will own all of the stock of a corporation which will own 35 per cent of the shares of the Gateway National Bank. Other stockholders of the First National Bank (not included in the above group) owning 16 per cent of the shares of the First National Bank will also own shares in the Gateway National Bank.

Mr. Pondrom

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Accordingly, with respect to the Clayton Act question, it appears that individuals who own directly 51 per cent of the stock of the First National Bank will own (some directly, and some indirectly) more than 50 per cent of the stock of the Gateway National Bank, this bringing the case within the exception stated in subsection 4 of section 8 of the Act.

With respect to the holding company affiliate question, there does not appear to be any corporate entity involved which will control, directly or indirectly, a majority of the stock of either national bank. (Of course, if in any particular election less than 70 per cent of the stock of Gateway National Bank is voted, the 35 per cent of Gateway National Bank stock to be owned by the proposed corporation would amount to more than 50 per centum of the number of shares voted for the election of directors of the national bank, and a holding company affiliate relationship would result.) As your counsel indicated, the facts in this case differ considerably from those in the Republic National Bank case. In that case, the holding company affiliate relationship existed because of a trusteeship whereby the Republic National Bank indirectly controlled the subsidiary banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
12/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1958



Mr. G. J. Opegard,
Assistant General Counsel,
Federal Deposit Insurance Corporation,
Washington 25, D.C.

Dear Mr. Opegard:

This refers to your letter of November 25, 1958, addressed to Mr. Hackley, requesting a formal expression concerning the Board's attitude toward the giving of premiums to depositors who establish new or augment existing savings accounts.

As you know, the Board has recently stated that where premiums are given by a member bank to new depositors at the time of the opening of new accounts and not on a recurring basis, and the premium has only a nominal value, the Board regards the practice as an advertising or promotional medium rather than an indirect payment of interest. The Board would apply the same principle to premiums given to existing savings depositors during the period of a drive to promote savings accounts, provided such drives are not repeated frequently. Of course, no depositor should receive more than one premium during the period of the drive.

With these qualifications, the Board is in agreement with the policy expressed in the proposed letter to the State Bank of Jacksonville, Florida, wherein it is stated that the question whether or not the premium paid to a depositor constitutes interest will depend on the factual situation in each case, but if the gift is given merely as an incentive to promote goodwill and encourage thrift, is nonrecurring, and is not done with the intention of providing

Mr. G. J. Oppegard

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financial compensation to the customer for the use of his funds,
it may be considered as an advertising expense and not an indirect
payment of interest.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
12/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1958

Board of Directors,
The Northern New York Trust Company,
Watertown, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 72 Main Street, Saranac Lake, New York, by The Northern New York Trust Company, Watertown, New York, provided:

1. The proposed merger with Adirondack National Bank and Trust Company of Saranac Lake, Saranac Lake, New York, is effected substantially in accordance with the Plan of Merger dated September 15, 1958;
2. The branch is established within six months from the date of this letter; and
3. Formal approval of the State authorities is obtained.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.





BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
12/15/58

OFFICE OF THE CHAIRMAN

December 15, 1958

The Honorable Wendell B. Barnes,
Administrator,
Small Business Administration,
Washington 25, D. C.

Dear Mr. Barnes:

This is in reply to your letter of December 9, 1958, inquiring whether the Board of Governors might have access to information that would be valuable to your Administration for the purpose of screening proposed owners and managers of small business investment companies in connection with the licensing of such companies under the Small Business Act of 1958.

It is doubtful whether the Board has available to it any considerable information that would be of value to you for the purposes indicated. However, in connection with its exercise of certain regulatory authority with respect to State member banks and bank holding companies, the Board has in its records certain information, largely of a confidential character, relating to such banks and companies; and, in any case in which you might be considering applicants in this field, the Board will be glad to cooperate as far as possible in furnishing pertinent data regarding such institutions, with the understanding that such data would be furnished on a confidential basis and would be carefully restricted to duly authorized personnel.

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. 5
12/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1958

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

In accordance with the request contained in your letter of December 4, 1958, the Board approves the appointment of Thomas F. Holt as an assistant examiner for the Federal Reserve Bank of San Francisco.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

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Item No. 6
12/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1958

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of December 10, 1958, the Board approves the appointment of Donald B. Whitney, Jr., as an assistant examiner for the Federal Reserve Bank of Philadelphia, effective December 22, 1958.

It is noted that Mr. Whitney owns 11 shares of stock of The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, a State member bank, and that he has agreed to dispose of such stock within six months. It is also noted that the proposed appointee is the son of a vice president of The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania. Accordingly, the Board's approval of the appointment of Mr. Whitney is given with the understanding that he will not participate in any examination of The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, until he has disposed of his holdings of stock in the bank or as long as his father is an officer of the institution.

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. 7
12/15/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1958

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of December 10, 1958, the Board approves the reappointment of John P. Muench as an examiner for the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.