

Minutes for January 7, 1959

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>W</u>	_____
Gov. Szymczak	x <u>MSS</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	_____	x <u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, January 7, 1959. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Marget, Director, Division of International
Finance
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Hill, Assistant to the Secretary

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 January 5, 1959, of the rates on discounts
and advances in its existing schedule.

Chairman Martin inquired of Governor Robertson whether his vote
was being cast on the same basis as his recent votes with respect to the
reestablishment of existing discount rates by other Federal Reserve Banks,
and Governor Robertson responded in the negative, his reason being that
the imminence of the Treasury's cash financing (scheduled for announcement
tomorrow) precluded action for the time being on a discount rate increase.

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

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respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Order and Statement in the matter of the application of The First Virginia Corporation to acquire shares of the Old Dominion Bank, Arlington, Virginia.	1, 2
Letter to the Presidents of all Federal Reserve Banks regarding participation of System personnel in the 1959 training course of the Center for Latin American Monetary Studies.	3

The action on Item No. 3 was taken with the understanding that nominations for candidates to attend the 1959 training course of the Center for Latin American Monetary Studies also would be requested from the divisions of the Board's staff.

Mr. Marget then withdrew from the meeting.

Matter of Old Kent Bank and Trust Company. With reference to the suit filed against the Board by Old Kent Bank and Trust Company, Grand Rapids, Michigan, Mr. O'Connell reported having been advised by the United States Attorney's office that counsel for the National Association of Supervisors of State Banks had expressed a desire to file an amicus curiae brief on behalf of that association. Counsel for the association had asked the United States Attorney's office for consent to the filing of the brief and was advised by that office that it would be necessary to obtain the consent of the Department of Justice and the Board of Governors. It had been tentatively agreed to have a discussion of the matter at a meeting attended by representatives of the United States Attorney's office, the Department of Justice, and the Board, which

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discussion could result either in a final decision on whether to consent or object to the filing of the brief or in deferment of the decision pending further consideration of the matter by the Justice Department and the Board. It was further understood that the Department of Justice, in accordance with its general approach to such matters, probably would not favor the filing of the amicus brief. If this were the decision, an answering brief would be filed by the Department on behalf of the Board, and the matter perhaps would be set down for oral argument, following which the court would decide whether to permit the amicus brief to be filed.

Mr. O'Connell was asked what arguments might be made against consenting to the filing of the brief and responded by citing several points, the first being that an amicus brief presumes there are areas of difficulty on which the court would wish to be advised with respect to a particular issue. In this case, Mr. O'Connell said, he found no suggestion of any issue that could not be argued by the parties to the case. In other words, he saw no area in this case where the court would have difficulty in reaching a decision on the basis of the arguments of the parties. The second point mentioned by Mr. O'Connell was that if the Michigan State Bank Commissioner had thought it necessary, he was free to enter the case; and there had been no indication that the association had been asked to represent him. The third point related to the standing of the association to come into the case as a representative

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of all of the State banking authorities. Due to variations in the banking laws of the respective States, Mr. O'Connell suggested that it would be difficult for any one association to hold itself out as representing all of the State authorities in this particular matter. Finally, he said that the courts are not prone to clutter up a proceeding by admitting briefs from more parties than necessary.

Question was then raised regarding the arguments that could be made for consenting to the filing of the brief, and Mr. Hackley stated that this was a case of novel impression regarding the authority of the Board under the law. The State Bank Commissioner of Michigan was primarily the authority interested in this case, but the matter had broader implications affecting all of the State supervisory authorities. Therefore, any views that an association representing those authorities wished to submit might be helpful to the court, and it might appear inappropriate for the Board, as defendant in the case, to refuse to consent to the filing of the brief.

Governor Robertson inquired whether there were any alternatives except to oppose or consent to the filing of the brief, and Mr. O'Connell replied that if no opposition were registered by the Justice Department and the Board, it might be presumed that the court would be more inclined to admit the amicus brief. He also commented that, the Board being the defendant in this case, any brief filed by the Department of Justice opposing the admission of the amicus brief would be filed in the name of

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the Board and probably would be attributed to the Board by the press.

Governor Robertson then stated that he did not think the Board should be in a position of opposing a presentation by any person if the court felt that the material would be helpful. On the other hand, he did not feel that the Board should tie the hands of the Department of Justice in handling the case. If the decision of that Department should be to oppose the filing of the amicus brief, such action on the part of that agency as the representative of the Board would not bother him. However, the Board might wish to take a neutral position. This was a case of first impression, the Board had made a decision in the exercise of its judgment and felt that the decision was right, and it wanted that side of the case presented as ably as possible. At the same time, there ought not to be any feeling against having the other side presented as well as possible and in such manner as the court deemed appropriate. Therefore, he suggested that the Board not take any formal position and that it leave the Justice Department a completely free hand to do anything it wished as counsel for the Board.

In further comments, Governor Robertson made it clear that under no circumstances would he give a consent to the filing of the brief. However, he had a feeling that opposition to the filing of the brief would indicate a lack of confidence on the part of the Board in its position and suggest that the Board was afraid to have the other side adequately presented. If the Board neither consented nor registered

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opposition, it would be up to the court to decide whether to accept the amicus brief.

On the side of opposing the introduction of the brief, it was stated that any other course might seem to acknowledge the State supervisory authorities as having parallel authority to the Board in a field where the Board had contended that it was acting within its authority under the statutes. Likewise, it was stated that the Board had handed down its decision in this matter, had concluded that the decision was right, and would not want to give the appearance that it lacked confidence in its ability to interpret the law. It was also pointed out that the Department of Justice appeared likely not to favor the introduction of the amicus brief and that the Board would not want to conflict with the agency handling the case for it unless there were strong reasons. Furthermore, the Board had a responsibility to support the Justice Department in bringing the case to as successful a conclusion as possible.

During the discussion, it was noted that there had been nothing to suggest that the brief would present any legal arguments other than those that would be presented by counsel for the plaintiff, nor that the brief would present additional facts. While it was recognized that a public relations problem was involved as well as a legal problem, the view was expressed that as long as the matter was in litigation the Board should proceed in accordance with legal principles. However, if it were possible to state, through the Justice Department, that the Board was

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opposed to the introduction of the brief because it would apparently introduce no new facts or no legal arguments beyond those to be made by plaintiff's counsel and because introduction of the brief would merely clutter up the record, it was felt that the public relations problem might be relieved.

The discussion revealed the consensus to be that the Board should support the Department of Justice if that Department was opposed to the introduction of the amicus curiae brief proposed be submitted by counsel for the National Association of Supervisors of State Banks, and it was understood that Mr. O'Connell would discuss the matter with representatives of the Justice Department in the light of this consensus. Governor Robertson expressed the hope that it might develop to be the best judgment of Mr. O'Connell and the Department of Justice, upon further consideration, that the filing of the brief should not be actively opposed.

Messrs. O'Connell and Nelson then withdrew from the meeting.

Appointment of Assistant Federal Reserve Agent at New York.

Governor Robertson reported having been advised informally by President Hayes of the Federal Reserve Bank of New York that the Bank proposed to transfer Mr. Piderit, Manager of the Bank Examinations Department, to another assignment under its development program and replace him with Mr. John Ringen, presently associated with the credit and discount function. In that connection the Bank would like to designate Mr. Ringen

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as Assistant Federal Reserve Agent while at the same time retaining the designation for Mr. John Kauderer. If the Board saw no objection to this concurrent designation of two persons, Mr. Hayes would like to present the matter at the next meeting of the Bank's Board of Directors.

Governor Robertson noted that concurrent designation existed at the Federal Reserve Bank of St. Louis and that, although at one time the Board indicated that it preferred to have only one Assistant Federal Reserve Agent at each Reserve Bank, the statute provides that "one or more" assistants may be designated.

In view of the circumstances described by Governor Robertson, he was authorized to advise Mr. Hayes informally that the Board tentatively saw no objection to the proposal, with the understanding that the usual information would be submitted for the Board's consideration in requesting formal approval of the designation of Mr. Ringen as an Assistant Federal Reserve Agent.

Circulation of newspaper article. Chairman Martin said that he was circulating to the other members of the Board for their information a syndicated article written by Mr. Robert S. Allen and carried in current papers which referred to investigation by a Senate Subcommittee of alleged leaks with respect to certain Board policy actions. With regard to that portion of the article which stated that he had been approached by brokers protesting an alleged leak of the action of the Board in increasing margin requirements on October 15, 1958, Chairman Martin noted that at the time he was out of the United States.

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Withdrawal and substitution rules. In response to an inquiry by Governor Robertson concerning the progress of the study of the withdrawal and substitution rules under the Board's margin regulations, it was stated that representatives of the New York Stock Exchange had met with members of the Board's staff in Washington and that members of the staff were to meet in New York tomorrow with representatives of the Stock Exchange, the New York Reserve Bank, and the Margin Clerks' Association.

Study of speculation in the Government securities market. At the meeting on November 26, 1958, the Board gave consideration to a memorandum from Mr. Keir, Acting Chief of the Government Finance Section in the Division of Research and Statistics, which suggested certain types of regulation to curb speculative excesses in the Government securities market. It was decided not to transmit that memorandum to the Treasury pending the availability of a memorandum on the same general subject which was being prepared by Mr. Yager, also of the Government Finance Section.

Governor Mills noted that Mr. Yager's memorandum had been distributed to the members of the Board with a memorandum from Mr. Young, Director of the Division of Research and Statistics, dated December 19, 1958. The question of sending copies of the two memoranda to the Treasury was then discussed in the light of the contents of those documents and it was decided to defer a decision pending further consideration at the meeting

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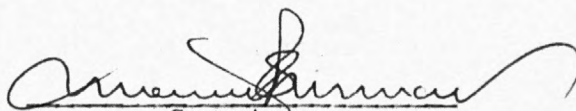
of the Board tomorrow. Governor Robertson stated that although he would not be present at tomorrow's meeting, he would review the memoranda and submit any views he might have.

The meeting then adjourned.

Secretary's Notes:

Acting in the absence of Governor Shepardson, Governor Robertson approved on behalf of the Board on January 6, 1959, a letter to Dr. Frederic D. Chapman, Washington, D. C., regarding the annual physical examination for all Board cafeteria employees. A copy is attached as Item No. 4.

Pursuant to the recommendation contained in a memorandum dated January 7, 1959, from the Division of Personnel Administration, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board a new 17-grade prevailing rate wage schedule for trades, crafts, and labor-type positions (attached Item No. 5) and increases in the basic annual salaries of Board employees affected by the new schedule (attached Item No. 6), effective January 11, 1959.


Secretary

Item No. 1
1/7/59

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

' In the Matter of the Application of '

' THE FIRST VIRGINIA CORPORATION '

' for prior approval of acquisition of '

' voting shares of Old Dominion Bank '

ORDER APPROVING APPLICATION FOR PRIOR
APPROVAL UNDER BANK HOLDING COMPANY ACT

There having come before the Board of Governors pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1843) and section 4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of The First Virginia Corporation, whose principal office is in Arlington, Virginia, for the Board's prior approval of the acquisition of from 51 to 92 per cent of the 40,500 outstanding voting shares of Old Dominion Bank, Arlington, Virginia; a Notice of Tentative Decision referring to a Tentative Statement on said application having been published in the Federal Register on December 9, 1958; the said Notice having provided interested persons an opportunity, before issuance of the Board's final order, to file objections or comments upon the facts stated and the reasons indicated in the Tentative Statement; and the time for filing such objections and comments having expired and no such objections or comments having been filed;

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application be and hereby is granted, and the acquisition by The First Virginia Corporation of from 51 to 92 per cent of the 40,500 outstanding voting shares of Old Dominion Bank, Arlington, Virginia, is hereby approved, provided that such acquisition is completed within three months from the date hereof.

Dated at Washington, D. C., this 7th day of January, 1959.

By order of the Board of Governors.

Voting for this action: Chairman Martin, Vice Chairman Balderston, and Governors Szymczak, Mills and Robertson.

Absent and not voting: Governor Shepardson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
1/7/59

APPLICATION BY THE FIRST VIRGINIA CORPORATION, ARLINGTON, VIRGINIA,
FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF
OLD DOMINION BANK, ARLINGTON, VIRGINIA

STATEMENT

The First Virginia Corporation, Arlington, Virginia, a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for this Board's prior approval of the acquisition of from 51 to 92 per cent of the 40,500 outstanding voting shares of Old Dominion Bank, Arlington, Virginia, a bank organized under the laws of Virginia.

As required by section 3(b) of the Act, the Commissioner of Banking for the State of Virginia was asked for his views and recommendations with respect to the application. The Commissioner interposed no objection to the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound

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banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - The applicant, The First Virginia Corporation, is a part of a holding company system that includes three banks in northeastern Virginia, near the District of Columbia: Old Dominion Bank, Arlington, Virginia, with deposits of \$37 million on June 23, 1958; Bank of Annandale, Annandale, Virginia, with deposits of \$4 million; and The National Bank of Manassas, Manassas, Virginia, with deposits of \$5 million.

At the present time, Old Dominion Bank is a bank holding company by virtue of its ownership of all of the stock of The First Virginia Corporation, which owns a majority of the stock of the Annandale and Manassas banks. The voting shares of Old Dominion Bank are publicly owned (with the exception of 5 per cent of Old Dominion stock presently owned by First Virginia).

First Virginia proposes to acquire up to 92 per cent of Old Dominion's outstanding voting shares by offering to exchange 30 shares of a new issue of First Virginia stock for each outstanding share of Old Dominion stock. If the proposal were fully consummated the stock of First Virginia would become publicly owned, and First Virginia would become the owner of 97 per cent of the voting stock of Old Dominion and would continue to hold a majority of the stock of the Annandale and Manassas banks. Old Dominion Bank would cease to be a bank holding company, since it would no longer own or control 25 per cent of the voting shares of First Virginia.

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The rapid growth of Old Dominion Bank and Bank of Annandale calls for substantial increases in their capital structures, and continued growth of all three banks in the group may, in the future, call for further increases in their capital structures through sale of additional stock. Since First Virginia owns a majority of the stock of the Annandale and Manassas banks, that holding company would be the natural purchaser of the greater part of any such additional issues of stock. Under the existing intercorporate arrangement of the system, however, with a commercial bank (Old Dominion Bank) as the top holding company and an intermediate holding company (First Virginia) that holds only the stock of two relatively small banks, First Virginia might find it somewhat awkward and costly to raise funds with which to purchase additional shares of its subsidiary banks. Financing of capital increases for all three banks probably would be facilitated if, as now proposed, First Virginia became the only holding company in the group and the relatively large Old Dominion Bank was included among its subsidiaries.

The financial history and condition of First Virginia are satisfactory, and the proposed transaction would enhance that corporation's financial strength. The financial history and condition of Old Dominion also are satisfactory. As stated above, its rapid growth calls for a substantial increase in its capital structure, and such an increase is contemplated by the general plan of which the pending application is a part. Both First Virginia and Old Dominion appear to be under good management.

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Inasmuch as the proposed acquisition involves, essentially, a rearrangement of the corporate units in the holding company system and involves no change in the number or character of banking facilities, the convenience, needs, and welfare of the communities and the area concerned will not be materially affected. Likewise, the proposed acquisition will not modify the existing competitive situation among the banks of the area or otherwise significantly affect competition in the field of banking. The contemplated strengthening of the capital structures of two of the banks in the group would contribute to the soundness of banking in the area and thereby to the public interest.

Conclusion. - The above views were incorporated in the Tentative Statement issued in connection with the Notice of Tentative Decision published in the Federal Register on December 9, 1958 (23 FR 9522), affording interested persons an opportunity to submit comments on or objections to the Board's proposed action. No such comments or objections were received within the 15-day period specified for their submission.

It is the judgment of the Board, in the light of the factors enumerated in section 3(c) of the Act and the general purposes of the Act, that the application should be approved. IT IS SO ORDERED.

January 7, 1959

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

Item No. 3
1/7/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 7, 1959.



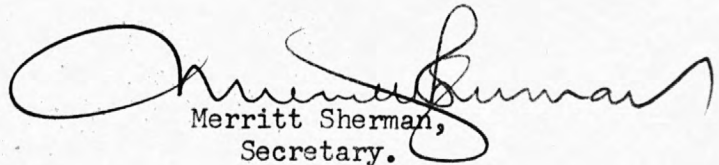
Dear Sir:

Reference is made to the Board's letter of January 13, 1958, and to previous correspondence cited therein regarding participation of System personnel in the training course given by the Center for Latin American Monetary Studies in Mexico City.

Nominations are now invited for possible candidates for the 1959 program which begins approximately the first of May and closes at the end of August. As previously indicated, nominees should have a sufficient command of the Spanish language to be able to participate effectively in the program of the Center and should be in a position to profit from the courses involved. The terms and conditions for this year's appointments will be the same as for last year, as outlined in the letter of January 13, 1958.

Nominations for the 1959 course should be submitted not later than January 31, 1959. Each one should be accompanied by a brief resume of the candidate's training and experience.

Very truly yours,


Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 4
1/7/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1959



Dr. Frederic D. Chapman,
1150 Connecticut Avenue, N. W.,
Washington, D. C.

Dear Dr. Chapman:

The annual physical examination for each employee in the cafeteria of the Board of Governors of the Federal Reserve System will be continued during 1959 on the same basis as set forth in our letter to you of December 22, 1958.

I have been advised by the Division of Personnel Administration that these arrangements have worked out satisfactorily and also that the fee of \$1.00 for the calendar year 1959 is agreeable with you. The number of examinations to be conducted will be substantially the same as in previous years. It is understood that the examinations will begin on May 6, 1959, and will be conducted in the Board's Health Service Unit each Wednesday morning from 9 to 10 until all cafeteria employees are examined.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 5
1/7/59

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

METROPOLITAN D. C. PREVAILING RATE WAGE SCHEDULE

BASIC ANNUAL PAY RATES

EFFECTIVE JANUARY 11, 1959

Note: For Trades, Crafts, and Labor-type positions - not applicable to Laundry or Food Service positions.

<u>Grade</u>	<u>Step 1</u>	<u>Step 2</u>	<u>Step 3</u>	<u>Grade</u>	<u>Step 1</u>	<u>Step 2</u>	<u>Step 3</u>
1	\$2,662	\$2,808	\$2,954	9	\$4,950	\$5,221	\$5,491
2	3,016	3,182	3,349	10	5,179	5,450	5,720
3	3,370	3,557	3,744	11	5,366	5,658	5,949
4	3,723	3,910	4,098	12	5,741	6,032	6,344
5	4,077	4,285	4,493	13	6,136	6,448	6,781
6	4,285	4,514	4,742	14	6,531	6,864	7,218
7	4,514	4,742	4,971	15	6,947	7,322	7,696
8	4,742	4,992	5,242	16	7,426	7,821	8,216
				17	7,925	8,341	8,757

"In Hiring" normally occurs in Step 1. Progression to Step 2 occurs after 26 weeks of satisfactory service in Step 1. Progression to Step 3 occurs after an additional 78 weeks of satisfactory service in Step 2.

Grades 1 through 4 represent the All-Industry or "Custodial" Schedule as used by GSA, VA, and HEW in the Metropolitan D. C. Inter-Agency Plan. Grades 12 through 17 have been adjusted to make them applicable for use with Supervisory positions in the Inter-Agency Plan. Grades 5 through 11 are Army-Air Force rates as used in the Inter-Agency Plan.

ATTACHMENT II

Budget Position Number	Employee & Position	Present Wage Board Grade and Step	Proposed Wage Board Grade and Step	Annual Salary		Amount of Increase
				Present	Proposed	
1	Young, Herbert W. Building Supt.	26 - 3	16 - 2*	7530	7821	291
2	Lindamood, C. D. Prin. Opr. Eng.	19 - 3	12 - 3	6011	6344	333
3	Myers, Arthur S. Elect. - Opr. Eng.	18 - 2	12 - 2	5533	6032	499
4	Blash, John Carp. Opr. Eng.	16 - 3	11 - 3	5533	5949	416
5	Osborne, John E. Steamfitter, Opr. Eng.	15 - 3	10 - 3	5408	5720	312
6	Steger, Karl J. Steamfitter, Opr. Eng.	15 - 3	10 - 3	5408	5720	312
7	Shipp, Arad B. Gen. Mech., Opr. Eng.	14 - 2	10 - 2	5054	5450	396
8	Hopkins, Glenn B. Painter	13 - 2	9 - 2	4950	5221	271
9	Rabbitt, Bruce L. Painter	12 - 2	9 - 2	4826	5221	395
10	Mayhew, Morris Gardener	6 - 3	6 - 3	4389	4742	353
11	Clanton, Saul Gardener	4 - 3	4 - 3	3910	4098	188
Total Annual Cost of Increase						\$3766
Average Percentage of Increase						6.43%

* This salary to remain in step 2 of Grade WB-16.