Minutes for January 20, 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	
Gov. Szymczak	x	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	

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Minutes of the Board of Governors of the Federal Reserve System on Tuesday, January 20, 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. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Hill, Assistant to the Secretary
Mr. Fisher, Economist, Division of Research and Statistics
Mr. Hooff, Assistant Counsel
Mr. Holahan, Supervisory Review Examiner, Division of Examinations

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of Atlanta approving the establishment without change by that Bank on January 19, 1959, of rates on discounts and advances in its existing schedule.

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Items circulated or distributed to the Board. The following items, which had been circulated or distributed to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to Bank of America, New York, New York, approving establishment of an agency in Guatemala City, Guatemala. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to Chemical International Finance, Ltd., New York, New York, approving an amendment to Article Fifth of its Articles of Association. (For transmittal through the Federal Reserve Bank of New York)	2
Letter to the Saddle Brook State Bank, Saddle Brook, New Jersey, consenting to a proposed merger with Lodi Trust Company, Lodi, New Jersey, under the title of The Bank of Saddle Brook & Lodi, and approving the establishment of a branch in Lodi. (For transmittal through the Federal Reserve Bank of New York)	3
Letter to the Federal Reserve Bank of Chicago regarding the applicability of section 4(c)(4) of the Bank Holding Company Act to shares of First Central Company held by trustees for the benefit of shareholders of a banking subsidiary of Wisconsin Bankshares Corporation.	4
Letter to the Iowa State Bank, Algona, Iowa, approving its request for permission to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Chicago)	5

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	Item No.
Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank at Alvin, Texas. (With a copy to the Federal Reserve Bank of Dallas)	6
Telegram to the Federal Reserve Agent at San Francisco authorizing the issuance of a limited voting permit to the City Commerce Corporation, Anchorage, Alaska, covering shares owned or controlled of the City National Bank of Anchorage.	7
Letter to Cleary, Gottlieb, Friendly & Hamilton, New York, New York, concerning the status of Valores Comerciales e Industriales C. A., Caracas, Venezuela, as a holding company affiliate. (For transmittal through the Federal Reserve Bank of New York)	8

During a brief discussion of Item No. 6, reference was made to the fact that a land company operated by one of the organizers of the proposed bank was just short of being a bank holding company, as defined in the Bank Holding Company Act, and that some of the proponents seemed more promotionally minded than of the stable financial type. It was brought out, however, that nothing detrimental to the character of any of the organizers had been developed during the investigation of the application. Considering all of the factors involved, it was the view of the Board that a favorable recommendation was warranted.

With respect to Item No. 7, the Chairman noted that the Federal Reserve Bank of San Francisco had made no recommendation. Mr. Hostrup responded that, while no specific recommendation was made, the tone of the Bank's letter transmitting the voting permit application was

ASER

entirely favorable. He added that more information was being developed looking toward the possibility of a section 301 determination; meanwhile, however, the annual shareholders' meeting should be covered by a limited voting permit.

Messrs. Nelson, Goodman, and Hooff then withdrew from the meeting.

Mortgage insurance programs (Item No. 9). A revised draft of letter to the Bureau of the Budget regarding proposed legislation on mortgage insurance for nursing homes and neighborhood development programs, being considered for inclusion in the "Housing Act of 1959", had been distributed to the Board pursuant to the understanding at the meeting on Monday, January 19.

After a review of the changes in the draft that had been made in the light of the previous discussion, Governor Balderston again expressed the view that the Federal Government should not assume the risks inherent in the financing of raw land and suggested the deletion from the letter of any language tending to qualify that position.

There being no indication of any strong view against making the deletion suggested by Governor Balderston, unanimous approval was given to a letter in the form attached hereto as Item No. 9.

Messrs. Thomas, Young, Noyes, and Fisher withdrew from the meeting at this point.

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Application of Northwest Bancorporation (Items 10 and 11).

A memorandum from the Legal Division dated January 19, 1959, submitting a proposed Order and Statement approving the application of Northwest Bancorporation to acquire shares of The First National Bank at Eveleth, Eveleth, Minnesota, had been distributed to the Board before this meeting. The 15-day period stipulated for filing of comments or exceptions with regard to the Board's Notice of Tentative Decision had expired on January 7, 1959, and the only comments filed were those contained in a letter dated December 23, 1958, from Mr. Ben DuBois, Secretary of the Independent Bankers Association, to President Deming of the Federal Reserve Bank of Minneapolis. While it was not entirely clear whether the letter from Mr. DuBois was intended to be a personal communication or an official communication from the Association, an analysis of his comments was made by the Division of Examinations and set forth in a memorandum dated January 16, 1959, which had been distributed to the Board prior to this meeting.

In response to a question raised by Governor Szymczak regarding the letter from Mr. DuBois, Mr. Hostrup said that Mr. Deming was inclined to regard it as a personal communication. However, Mr. Hostrup saw no objection to the Legal Division's position that this might be regarded as technically a "letter of comment" and that an acknowledgment of it would be appropriate. In addition, the Board's Order would state that

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comments received following publication of the Notice of Tentative Decision had been duly considered.

There being no further questions, the Board approved unanimously the Order and Statement of which copies are attached to these minutes as Items 10 and 11, respectively.

During the foregoing discussion Messrs. Chase and Sammons entered the meeting.

Technical assistance mission to the Central Bank of Venezuela (Item No. 12). In a letter dated January 15, 1959, the Federal Reserve Bank of New York advised the Board that it had received a request from Banco Central de Venezuela, Caracas, Venezuela, for assistance in the establishment of a Government securities market in Venezuela in which the Central Bank might conduct open market operations. The directors of the New York Bank felt that it was desirable to cooperate and had approved arrangements for making available the services of two members of the Bank's staff (Messrs. Sanford and Schott) for a period of approximately four to six weeks, beginning on or about January 26, for the purpose of undertaking a preliminary survey. Their salaries would continue to be paid by the New York Bank and the cost of travel, subsistence, and incidental expenses for them and Mr. Sanford's wife would be borne by Banco Central de Venezuela.

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A memorandum from Mr. Sammons dated January 19, 1959, which had been distributed prior to this meeting, recommended favorably.

Following comments by Mr. Sammons, a letter to the Federal Reserve Bank of New York stating that the Board interposed no objection to the proposed arrangements was approved unanimously. A copy of the letter is attached as Item No. 12.

Mr. Sammons then withdrew from the meeting.

Pan American Bank of Miami (Item No. 13). Pursuant to the understanding resulting from the Board's discussion following its meeting yesterday with Mr. James Sottile, Jr., President of the Pan American Bank of Miami, Miami, Florida, and his associates, Messrs. Sedlacek and Wood, there had been distributed to the Board prior to this meeting a draft of letter to Mr. Sottile stating that a minimum of $3 million should be injected into the capital funds of the bank at an early date. The proposed letter would express no opinion with respect to the appropriateness of the suggested means by which the new capital would be added, would indicate that the Board expected to be informed within 90 days as to whether the additional capital would be forthcoming, and would state that the Board, upon being given such assurance, would consent to withdrawal of the commitment pursuant to which South Dade Farms, Inc., had agreed to take out of the bank within specified times a specified amount of the bank's classified assets.

ASER

Governor Robertson made the following statement:

Pursuant to the Board's direction, I telephoned President Bryan of the Atlanta Federal Reserve Bank and reported to him the tentative conclusion of the Board to agree to the injection of $3 million of new capital into this bank and a release of South Dade Farms from its commitment to take out over a period of two or more years classified assets up to the amount of $2 million.

Mr. Bryan stated that although he did not feel this was an ideal solution, it was the best that he could think of for the moment. He agreed that this was not a solution of all the difficulties, but that he would rather have $3 million of new money than $1 million plus the agreement of South Dade Farms, and that I was authorized to report to the Board for him that he concurred in this solution.

Governor Robertson then reviewed the letter to Mr. Sottile that had been drafted for the Board's consideration following receipt of the views of President Bryan.

Governor Robertson also stated that at the time the letter was given to Mr. Sottile or his associates, he would like to express certain personal views. First, he would state that there were people within the Federal Reserve organization who felt that the stock proposal was merely a delaying action, that promises had been made in the past which were not kept, and that this was merely a means of attempting to obtain a further delay. He would also state that if these apprehensions proved to be well founded, it would be his intention to recommend that the Board of Governors immediately begin whatever actions were necessary to obtain correction of the member bank's condition.

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In further comments, Governor Robertson expressed confidence in the intentions of Messrs. Wood and Sedlacek, with the reservation that he did not know whether they were being given a free hand in attempting to resolve the problems of the Pan American Bank. On the encouraging side, he observed that the bank had not put loans on its books in the past year which were subject to classification.

There ensued discussion concerning the ability of the bank to correct its situation, the comparatively lenient attitude of the State banking authorities, and the continued deterioration of older loans on the bank's books.

With respect to the draft of letter to Mr. Sottile, a change was suggested to specify more definitely the nature of the assurances that the Board would expect to receive within 90 days. With that change, the letter was approved unanimously, with the understanding that it would be written up in final form for transmittal to Mr. Sottile, or to Messrs. Sedlacek and Wood if Mr. Sottile was not present.

Question was raised as to the method of transmittal, and after some discussion it was agreed that it would be desirable for all of the members of the Board to be present when the letter was submitted. It was understood that at such time Governor Robertson would express personal views along the lines he had mentioned.

FRASER

Messrs. Hexter, Hostrup, and Hill then withdrew from the meeting and Messrs. Sedlacek and Wood entered the room. It was explained that Mr. Sottile was not able to be present this morning.

At Chairman Martin's request, the Secretary read the letter to Mr. Sottile that the Board had approved, the original of which was then handed to General Wood. A copy is attached to these minutes as Item No. 13.

Chairman Martin then informed Messrs. Wood and Sedlacek of Governor Robertson's intention to express certain personal views, and General Wood said he would like to mention two things before Governor Robertson spoke. First, with reference to the letter from Glore, Forgan & Co. dated January 9, 1959, which was referred to at the meeting yesterday afternoon, General Wood said that following the meeting Mr. Sottile had expressed his intention to obtain a revised letter from Glore, Forgan which would specify that $4 million, rather than $2 million, of the money to be raised through the proposed stock issue of South Dade Farms would be set aside for the subsidiary banks. It was not contemplated that any other change would be made in the letter. The second point made by General Wood was that he had been elected to the position of Assistant to the President of the Pan American Bank and made a director of the bank. Previously, he had confined his activities quite largely to the business of South Dade Farms, but now he was entering actively into the management of the Pan American Bank.

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Governor Robertson stated that the purpose of his comments would be to clear the atmosphere as far as he was concerned personally, and that he would be just as frank as possible. He then said that he considered the Pan American Bank a real problem case, not an institution that had just recently become a problem but an old problem bank. The weaker assets were those that had been in the institution for a long time, and he was pleased to note that the loans made in the past year appeared to be good. There were people in the Federal Reserve System, he said, who felt that the situation had not been dealt with on a straightforward basis in the past, and promises for correction had been made which were not fulfilled. Personally, he was satisfied that the present proposal constituted a bona fide effort to improve the bank's condition, but if it were by any stretch of the imagination turned into a delaying tactic it would be his intent to recommend to the Board that it go just as far as necessary along any avenue that might bring about correction. He was satisfied in his own mind that General Wood was a man of integrity who was interested in bringing about correction of the bank's problems, and he knew Mr. Sedlacek well. They had worked together to resolve successfully many problem bank cases. Although the Pan American Bank's situation was a problem that would require a lot of work, he felt that concentrated action could bring the institution to the point where it was a good bank. The first thing to do was to obtain

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additional capital and the next thing to do was to clear up the old weak assets. He felt that these things could be done, but many times in the past there had been an effort to cover up weaknesses. It was his hope that every one of the bad assets would be gone over and that someone would be put on the job who could collect them and get them off of the bank's books. It had been mentioned that representatives of the bank would like to discuss various assets deemed to have been criticized unjustly, but it would seem much better to let the report of examination stand without contention and have the management of the bank prove that the criticized loans could be collected. Another step might be to submit to the Federal Reserve Bank each month a report showing what had been done with respect to the criticized assets and the progress made in collecting them. If necessary in order to collect the criticized loans, additional personnel should be obtained. While some of the assets might require putting in a little more money to get out the whole amount, that ought to be done with good judgment. These were not matters which could be decided around this table or by any examiner going into the bank; they were things that the bank itself must do. Personally, he would attempt to do everything in his power to aid in correcting the problems of the institution with a view to removing the bank from the problem list a year from now and he felt that such an objective was fully within reach if the effort were made.

FRASER

In response to a question by General Wood about the willingness of the Board to have South Dade Farms withdraw from its commitment to remove criticized assets from the Pan American Bank, Governor Robertson said the Board was willing to have the commitment withdrawn so as not to interfere with the proposed sale of stock when the Pan American interests were in a position to assure the Board that arrangements had reached a stage where it was just a question of carrying out detailed procedures to sell the stock.

Messrs. Wood and Sedlacek indicated that they were agreeable to such a procedure. In response to a question by Governor Shepardson, General Wood explained that it was now Mr. Sottile's intention to allocate $4 million of the money obtained from the proposed stock issue to the Sottile banks, $5 million to retire miscellaneous obligations of South Dade Farms, and $3 million to the company's working capital. Of the $4 million to be allocated to subsidiary banks, it was intended that $3 million would be set aside for the Pan American Bank.

In further comments General Wood said that he realized the very serious problem involved, that he and Mr. Sedlacek were working on the bank's problems to the exclusion of everything else, and that they had been doing so on a full-time basis for the past two months. They were working on things that should have been done two years ago but had no alternative except to take the situation as they found it and go to work.

FRASER

Mr. Sedlacek inquired whether it would be possible for him and Mr. Wood to see the letter from the Atlanta Reserve Bank to the Pan American Bank transmitting the most recent report of examination, and the response was in the affirmative. Mr. Sedlacek then said that the Board had done exactly what he hoped it would do; insofar as he was concerned, it had done what was honest and fair. Given a year's time, he felt it would be hard to recognize the Pan American Bank. The situation needed constructive work and that was being given now.

In conclusion, Messrs. Wood and Sedlacek both stated that they were entirely satisfied with the results of this meeting.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated January 15, 1959, from Mr. Sherman, Secretary of the Board, recommending the transfer of Margaret Diane Quick from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Minutes Clerk in the Office of the Secretary, with no change in her basic annual salary at the rate of $3,755, effective the date of entrance upon her new duties.

Memorandum dated January 19, 1959, from Mr. Harris, Coordinator of Defense Planning, recommending the appointment of Charles F. G. Raikes as intermittent Consultant to work on certain aspects of the defense planning program, with compensation at the rate of $25 for each day worked plus $12 per diem and transportation from New York City and return. It was understood that any expense in connection with the services of Mr. Raikes as Consultant would be charged to the budget of the Office of Defense Planning.

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Letter to the Federal Reserve Bank of San Francisco (attached Item No. 14) approving the appointment of Donald R. Maas as assistant examiner.

Secretary

FRASER

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

Item No. 1
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Bank of America,
40 Wall Street,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes Bank of America, New York, New York, pursuant to the provisions of Section 25(a) of the Federal Reserve Act and the Board's Regulation K, to establish an agency, to be located at 7th Avenue #7-34, Zone 4, Guatemala City, Republic of Guatemala, and to operate and maintain such agency subject to the provisions of such section and regulation; upon condition that, unless the agency is actually established and opened for business on or before February 1, 1960, all rights hereby granted shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date. This authorization is made with the understanding that the approval of the appropriate Guatemalan authorities will be obtained prior to the establishment of the agency. It is further understood that the agency will accept deposits, pay checks, and handle transfers and exchange transactions but will not extend credit.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the agency is established and opened for business. It is understood that no change will be made in the location of such agency without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Chemical International Finance, Ltd.,
165 Broadway,
New York, New York.

Dear Sirs:

Reference is made to a letter dated January 2, 1959, from Mr. Allen H. Merrill of Cravath, Swaine & Moore, counsel for your Corporation, addressed to the Federal Reserve Bank of New York, advising that it was expected that at the Annual Meeting of the Stockholders of the Corporation to be held January 7, 1959, a resolution would be adopted to amend Article Fifth of the Articles of Association of your Corporation to read as follows:

> "FIFTH: The Board of Directors shall consist of not less than eight and not more than eleven members, as fixed in the By-laws of the Corporation."

In accordance with the request of your counsel and pursuant to the provisions of Section 3(d) of Regulation K, as revised effective January 15, 1957, the Board of Governors grants its approval to your Corporation to amend the Articles of Association as proposed.

Upon the amendment of the Articles of Association, it will be appreciated if you will send to the Board of Governors, through the Federal Reserve Bank of New York, two copies of the amendment duly certified by an officer of your Corporation.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Board of Directors,
Saddle Brook State Bank,
Saddle Brook, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Lodi Trust Company, Lodi, New Jersey, with and into Saddle Brook State Bank, Saddle Brook, New Jersey, to form The Bank of Saddle Brook & Lodi, Saddle Brook, New Jersey, and approves establishment of a branch at 80 Main Street, Borough of Lodi, New Jersey, incident to the merger. This consent is given provided:

(a) the merger is effected substantially in accordance with the terms of the Agreement of Merger as submitted;

(b) shares of stock acquired from dissenting shareholders are disposed of within six months after date of acquisition;

(c) the branch is established within six months from the date of this letter; and

(d) formal approval of State authorities is effective at the time of the merger and establishment of the branch.

RASER

It is noted that Saddle Brook State Bank plans to sell 10,000 additional shares for $330,000 in connection with this merger.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

RASER

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

Item No. 4
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Mr. C. P. VanZante, Assistant Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. VanZante:

This refers to your letter of December 29, 1958, relating to the applicability of section 4(c)(4) of the Bank Holding Company Act of 1956 to shares of First Central Company which are held by trustees for the benefit of shareholders of The First National Bank of Madison, Madison, Wisconsin, a banking subsidiary of Wisconsin Bankshares Corporation.

In its letter of November 7, 1958 to Mr. Diercks, the Board stated that it had expressed the opinion that by virtue of that part of section 4(c)(4) of the Holding Company Act relating to the exemption of shares eligible for investment by national banks under section 5136 of the Revised Statutes, shares held or acquired under section 24A of the Federal Reserve Act are exempt from the divestment requirements of the Holding Company Act; that if investment by a national bank in shares of First Central Company were permissible under section 24A of the Federal Reserve Act, the Board would consider such shares as falling within the exemption of section 4(c)(4).

It is noted from your letter, and its enclosures, that under date of December 16, 1958, Mr. W. M. Taylor, Deputy Comptroller of the Currency, advised Mr. Orth I. Dains, Vice President, Wisconsin Bankshares Corporation, that in his opinion investment by The First National Bank of Madison in shares of First Central Company is permitted by section 24A of the Federal Reserve Act. Accordingly, in the Board's opinion, the exemption of section 4(c)(4) of the Bank Holding Company Act is applicable to shares of First Central Company which are held by trustees for the benefit of shareholders of The First National Bank of Madison.

It will be appreciated if you will transmit to Wisconsin Bankshares Corporation the substance of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

ASER

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

Item No. 5
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Board of Directors,
Iowa State Bank,
Algona, Iowa.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Iowa State Bank to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Iowa.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

ASER

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

Item No. 6
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

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 August 12, 1958, enclosing copies of an application to organize a national bank in Alvin, Texas, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates satisfactory findings with respect to the proposed capital structure of the bank, its earnings prospects, and management. It is reported that the need for additional banking facilities in Alvin is not pressing at this time, but that this growing area can support a second bank which would provide a convenient service to residents now banking elsewhere as well as give a convenient choice of facilities to newcomers to the area. The Board of Governors recommends favorable consideration 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.

ASER

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
1/20/59

January 20, 1959.

BRAWNER - SAN FRANCISCO

KECEA

A. City Commerce Corporation, Anchorage, Alaska.

B. City National Bank of Anchorage, Anchorage, Alaska.

C. None.

D. At any time prior to April 1, 1959, at the annual meeting of shareholders of such bank or any adjournments thereof, (1) to elect directors, and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank; (2)(a) to approve loans, if any, to officers of the bank, (b) to amend the rules and regulations of the bank governing checking and savings accounts, (c) to provide for trust powers, and (d) to increase capital stock, provided that all actions taken in connection with items (2)(a) through (d) shall be satisfactory to the Comptroller of the Currency. STOP. The ratification of actions taken by the Board of Directors since the 10th annual meeting, the fixing of the number of directors for the coming year, the authorization of directors' fees, and approval of (a) the minutes of 10th annual meeting, and (b) the President's and Examining Committee's reports, are considered matters of a routine nature. Please advise applicant that permission to vote to provide for trust powers by such bank is not to be construed as constituting Board approval of permission to exercise such powers.

(Signed) Kenneth A. Kenyon

KENYON

ASER

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 8
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959

Cleary, Gottlieb, Friendly & Hamilton,
52 Wall Street,
New York 5, New York.

Gentlemen:

This refers to the request contained in your letter of December 5, 1958, submitted through the Federal Reserve Bank of New York, for a determination by the Board of Governors of the Federal Reserve System, as to the status of Valores Comerciales e Industriales C. A., Caracas, Venezuela, as a holding company affiliate.

From the information supplied, the Board understands that Valores Comerciales e Industriales C. A. was organized primarily for the purpose of lending money to commercial and industrial enterprises, and investing in the shares and securities of such enterprises; that such company has engaged in a number of lending and financing transactions, and may engage occasionally in the underwriting or distribution of Venezuelan stocks or securities, but has no intention of engaging in such activities in the United States; that such company owns or has entered into contracts to purchase 56,879 of the 60,000 outstanding shares of common stock of Colonial Trust Company, New York, New York, which stock is owned or is to be acquired for investment purposes only; that such company contemplates reducing its holding in such bank stock to a minority interest when favorable opportunities to do so can be found; and that such company does not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than Colonial Trust Company.

In view of these facts the Board has determined that Valores Comerciales e Industriales C. A. is not engaged, directly or indirectly, as a business in holding the stock of, or managing

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or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Valores Comerciales e Industriales C. A. is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that Valores Comerciales e Industriales C. A. might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 9
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

The Bureau of the Budget has asked for the Board's view on two pieces of proposed draft legislation, "Mortgage Insurance for Nursing Homes" and "Neighborhood Development Mortgage Insurance." Both would be incorporated in the proposed "Housing Act of 1959," on which the Board expressed its views to the Budget Bureau in a letter dated December 23, 1958.

With regard to nursing homes, the Board recognizes a social need for adequate nursing facilities for our expanding population but is concerned about whether an underwriting approach of this kind is the most appropriate one to meet the need most effectively. If an underwriting approach is followed, the Board would question the wisdom of setting a maximum statutory annual interest rate of 5-1/2 per cent on insured loans for nursing homes, as provided in the draft legislation. The Board has stated in a previous letter that full flexibility of interest rates according to market conditions would be preferable for all FHA programs. This would facilitate competitive functioning of such programs in the capital markets.

The Board is not in a position to evaluate the desirability of the discretionary authorities given to the FHA Commissioner under this provision of the proposed act, namely to regulate charges, methods of operation, capital structure, and rate of return on insured nursing homes, which are financial counterparts of the adequacy of the health services rendered. We note that the proposed bill directs the FHA Commissioner, in administering the program, to consult with and secure the advice and recommendations of the Department of Health, Education, and Welfare. This raises the question whether it might not be better to place these discretionary authorities directly under the Department of Health, Education and Welfare while leaving the mortgage underwriting features within the jurisdiction of the FHA Commissioner to apply standards and techniques consistent with FHA experience.

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The proposed neighborhood development mortgage insurance program might conceivably involve the Federal Government in sizeable individual commitments entailing large financial risks. Past experience has shown that in many cases the financing of raw land development has involved a greater element of risk than that associated with the financing of completed residential developments. The Board believes that the Federal Government should not assume the responsibility for underwriting possible losses on such operations.

Even if the Congress should decide that the assumption of such risks by the Government was appropriate, the problem would still remain of minimizing excessive subdivision activity. The Board notes that the proposed bill directs the FHA Commissioner to schedule advances under insured mortgages in such a fashion that "land improvements will not be installed at a rate faster than that warranted by market absorption of the improved lots for current building purposes." The Board questions whether any administrative control of that nature could be entirely effective in view of the inherent conflict between the time-consuming process of subdivision operations and the fluctuating nature of consumer demand for new housing.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM Item No. 10
1/20/59

WASHINGTON, D. C.

In the Matter of the Application of

NORTHWEST BANCORPORATION

for prior approval of acquisition of voting shares of The First National Bank at Eveleth, Eveleth, Minnesota

ORDER GRANTING 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 Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by Northwest Bancorporation, Minneapolis, Minnesota, for prior approval of the acquisition of 1,085 of the 1,200 outstanding voting shares of The First National Bank at Eveleth, Eveleth, Minnesota; a Notice of Tentative Decision referring to a Tentative Statement on said application having been published in the Federal Register on December 23, 1958 (23 FR 9932); said Notice having provided interested persons an opportunity, before issuance of the Board's final Order, to file objections to or comments upon the facts

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stated and the reasons indicated in the Tentative Statement; and the time for filing such objections and comments having expired and comments received having been duly considered;

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, and the acquisition by Northwest Bancorporation of 1,085 of the 1,200 outstanding voting shares of The First National Bank at Eveleth, Eveleth, Minnesota, is hereby approved, provided that such acquisition is completed within three months from the date hereof.

Dated at Washington, D. C., this 20th day of January, 1959.

By order of the Board of Governors.

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

Voting against this action: none.

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

Item No. 11
1/20/59

APPLICATION BY NORTHWEST BANCORPORATION, MINNEAPOLIS, MINNESOTA, FOR APPROVAL OF ACQUISITION OF VOTING SHARES OF THE FIRST NATIONAL BANK, EVELETH, MINNESOTA

STATEMENT

Northwest Bancorporation, 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 1,085 of the 1,200 outstanding voting shares of The First National Bank at Eveleth, Eveleth, Minnesota.

Since The First National Bank at Eveleth is a national bank under the supervision of the Comptroller of the Currency, the Comptroller was asked, pursuant to section 3(b) of the Act, for his views and recommendations. The Comptroller recommended that the Board approve 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

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holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - The applicant, Northwest Bancorporation, is a bank holding company with its principal office in Minneapolis. It owns a large majority of the stock of 46 banks in Minnesota and 30 banks in Iowa, Montana, Nebraska, North Dakota, South Dakota, and Wisconsin. Northwest's 76 subsidiary banks have total deposits of about $1.7 billion, of which about $1 billion is in its Minnesota banks. Almost two-thirds of the deposits in its Minnesota banks are in the principal bank of the holding company system (Northwestern National Bank of Minneapolis) and the eleven other subsidiary banks in Minneapolis and St. Paul.

The town of Eveleth, with an estimated population of 6,200, is located in the Mesabi Iron Range in the northern part of the State, over 50 miles north of Duluth. Immediately adjacent to Eveleth is Virginia, which, with a population of 12,486 (1950 census), is the largest community in the Mesabi area with the exception of Hibbing (population 16,276), 20 miles to the west. Within a few miles of Eveleth is the town of Gilbert (population 2,247).

Virginia, Eveleth, and Gilbert, the three towns in the immediate area, are presently served by five banks. The largest of these are the State Bank of Virginia, owned by Northwest, and the First National Bank of Virginia, owned by First Bank Stock Corporation, the other large bank holding company operating in Minnesota and nearby States. Each of these banks has deposits of approximately

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$12 million. Eveleth has two banks, the First National Bank (the subject of the pending application), with deposits of $4.9 million, and the Miners National Bank, with deposits of $3.6 million. The First National Bank of Gilbert (deposits $2.6 million) is controlled by the same interests that control the Miners National Bank of Eveleth. There are four relatively small banks in towns from 10 to 16 miles from Eveleth, and the Hibbing/Chisholm area, 20 miles to the west, has four banks, of which the largest (deposits $12.8 million) is owned by First Bank Stock Corporation.

The financial history and condition of Northwest Bancorporation and The First National Bank at Eveleth are satisfactory. The prospects of both the holding company and the bank also are favorable, except to the extent that the prospects of the bank might be adversely affected by problems of management succession, discussed hereinafter.

The management of Northwest is capable and experienced. The present management of the bank also is competent, but the senior officers of the bank, who are in their middle 60's, wish to retire from active management as soon as replacement management is obtained. Northwest and the Eveleth bank state that successor management is not available within the bank's present staff and that it would be very difficult to secure management from outside the bank, there having been unsuccessful efforts to do so. It appears to the Board that if Northwest acquires control of the bank, capable replacements would be supplied when present active management retires.

The bank appears to have been serving the convenience, needs, and welfare of its community and area in a satisfactory manner.

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Such satisfactory service can be expected to continue if control is acquired by Northwest, and the change in ownership probably will result in the bank's furnishing better and more complete banking service to its customers. In this connection it may be expected that, if owned by Northwest, the bank will be more aggressive in seeking business.

In this case, as in many others under the Bank Holding Company Act, the most difficult problems arise under the fifth factor enumerated in section 3(c), which requires the Board to consider whether 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 banking, the public interest, and the preservation of competition in the field of banking."

It is apparent that the proposed expansion of the Northwest Bancorporation holding company system would not be inconsistent with adequate and sound banking. On the contrary, as previously indicated, any changes that occurred in this respect probably would be in the direction of increased banking service to the community and area.

With respect to the preservation of competition, there are conflicting elements. At present the Virginia-Eveleth-Gilbert area is served by five banks, controlled by four separate interests. The banking public in Eveleth can seek accommodation not only from the two banks in that town but also from the two larger banks in Virginia, five miles away, both of which are now unrelated to the Eveleth banks.

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After the proposed acquisition, only one of the two banks in Virginia would be under separate control from the banks in Eveleth.*

In addition to the fact that the proposed acquisition would result in a 25 per cent decrease in the number of competing banking interests in the three-town area, the resulting increased relative size of Northwest's interests in that area is an element requiring careful consideration. As a result of the acquisition, Northwest's percentage of control of the banking offices in the three-town area would increase from 20 per cent to 40 per cent, and its banks' aggregate holdings of the deposits of individuals, partnerships, and corporations in the banks of the three towns would increase from 34 per cent to 48.8 per cent.

These, of course, are adverse considerations. On the favorable side, however, must be weighed the fact that the acquisition would insure that the town of Eveleth will continue to be served by two banks; whereas, if the acquisition is not permitted, there is some possibility, in view of the age and the retirement plans of the senior officers of the Eveleth bank and the difficulties encountered in securing successor management, that the bank eventually would be liquidated, thereby depriving Eveleth of one of its two in-town banking institutions. In addition to the importance of this aspect

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* This decrease in the number of separately-controlled banking facilities in the area would also affect the banking public of Virginia, but presumably to a lesser degree because Virginia is the larger community and the two largest banks of the area are situated there, so that the actual and potential flow of banking business from Eveleth to Virginia probably is greater than the flow in the opposite direction.

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from the viewpoint of the convenience, needs, and welfare of the community, it is significant from the viewpoint of maintenance of banking competition in the town of Eveleth itself. In this connection, it is to be noted that the bulk of the deposits of the Eveleth banks originate within the town.

Also favorable to the application is the previously-mentioned fact that acquisition of the bank by Northwest will tend to assure competent and aggressive management succession, which would contribute to the adequacy and soundness of banking in the area, and thereby to the public interest. In addition, in view of the history of Northwest and its subsidiary banks it appears unlikely that the acquisition would lead to undue domination of banking in the area by this holding company system.

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 23, 1958 (23 FR 9932), affording interested persons an opportunity to submit comments on or objections to the Board's proposed action. Consideration has been given to comments that have been received.

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 relevant considerations in favor of the proposed acquisition outweigh the adverse circumstances and that, accordingly, the application should be approved.

January 20, 1959

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

Item No. 12
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

This letter is in reply to your letter of January 15, 1959, regarding the loan of Mr. Horace L. Sanford and Mr. Francis H. Schott to the Central Bank of Venezuela to advise that Bank on problems relating to the market for Government securities in Venezuela. It is understood that the salaries of Messrs. Sanford and Schott will continue to be paid by your Bank but the cost of travel, subsistence, and incidental expenses will be borne by the Central Bank of Venezuela.

This matter has been brought to the attention of the Board, which interposes no objection to the arrangements outlined in your letter.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 13
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1959.

Mr. James Sottile, Jr.,
President,
Pan American Bank,
Miami, Florida.

Dear Sir:

Following the meeting between you and your associates, Messrs. Sedlacek and Wood, with the Board of Governors and its staff yesterday afternoon, the Board met and concluded as follows:

In the first place, as you are aware, the Board considers the Pan American Bank to be a problem institution from the point of view of inadequacy of capital, asset condition, and management. None of these difficulties can be adequately dealt with in one step and all are going to have to be the subject of continued concentrated endeavor. Furthermore, the Board will not be satisfied until all of the problems have been successfully dealt with.

For the moment, although it does not believe the proposed sale for cash of additional common stock to be an adequate solution of all the difficulties presented, the Board has decided that a minimum of $3 million should be injected into the capital funds of this bank at an early date. Although the Board understands you propose to obtain the funds through the issuance of stock by South Dade Farms, it is not voicing an opinion one way or another with respect to the appropriateness of this means by which the new capital is added to the capital structure of the Pan American Bank.

In order that it may be in a position to take whatever further action may be necessary to bring about a correction of the condition of your institution, the Board expects to be informed within ninety days as to whether the additional capital aforementioned will be forthcoming, although it realizes that an additional period may be necessary for the consummation of the transaction. When the Board has been assured that definite arrangements have been made to provide the $3 million, it will consent to a withdrawal of the commitment heretofore given, pursuant to which South Dade Farms agreed to take out of the bank within specified times a specified amount of the classified assets.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
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WASHINGTON 25, D. C.

Item No. 14
1/20/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20,1959.

Mr. Eliot J. Swan, First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

In accordance with the request contained in your letter of January 14, 1959, the Board approves the appointment of Donald R. Maas as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise us as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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