

Minutes for February 9, 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	<input checked="" type="checkbox"/> <u>WM</u>	_____
Gov. Szymczak	<input checked="" type="checkbox"/> <u>MS</u>	_____
Gov. Mills	<input checked="" type="checkbox"/> <u>MS</u>	_____
Gov. Robertson	<input checked="" type="checkbox"/> <u>R</u>	_____
Gov. Balderston	<input checked="" type="checkbox"/> <u>CB</u>	_____
Gov. Shepardson	<input checked="" type="checkbox"/> <u>LS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Monday, February 9, 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. Fauver, Assistant Secretary
Mr. Thomas, Economic Adviser to
the Board
Mr. Hill, Assistant to the Secretary

Messrs. Marget, Furth, Hersey, Sammons,
Katz, Irvine, and Wood of the Division
of International Finance.

Economic review. Because of the chart show to be given tomorrow at the meeting of the Federal Open Market Committee, the usual summary of domestic economic developments was omitted. The review by the Division of International Finance indicated that the gold outflow in January was the smallest in the last 12 months. However, the modest upward trend of United States exports in October and November was not sustained in December and imports rose beyond the previous peak level at the end of 1957. Following a summarization of developments in foreign areas which might influence the future course of this country's balance of payments, Mr. Marget observed that although there were still soft spots in various parts of the world the prospects for stability were brighter than for some time. This suggested that the United States could not afford to pursue monetary and fiscal policies that would suffer by comparison with those of its principal trading partners.

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All of the members of the staff except Messrs. Sherman, Kenyon, and Hill then withdrew and Messrs. Hackley, General Counsel; Solomon, Chase, and Hexter, Assistant General Counsel; Hostrup, Nelson, and Benner, Assistant Directors, Division of Examinations; and Davis, Assistant Counsel, entered the room.

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

	<u>Item No.</u>
Letter to the Valley Bank and Trust Company, Springfield, Massachusetts, approving the establishment of a branch in the Springfield Plaza Shopping Center. (For transmittal through the Federal Reserve Bank of Boston)	1
Letter to the Comptroller of the Currency recommending favorable consideration of an application to organize a national bank in Kansas City, Missouri. (With a copy to the Federal Reserve Bank of Kansas City)	2
Letter to the Comptroller of the Currency regarding the investment of trust funds by a national bank in shares of a mutual trust investment company.	3

Application of Harvard Trust Company. Having obtained the approval of the State banking authorities, Harvard Trust Company, Cambridge, Massachusetts, a subsidiary of Baystate Corporation, sought approval of the Board for the establishment of a branch in Littleton,

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a community in the same county as its head office but about 23 miles distant. The application was opposed by the First National Bank of Ayer, Ayer, Massachusetts, which, subsequent to the filing of the Harvard Trust application, asked permission from the Comptroller of the Currency to establish a branch in Littleton. The smaller national bank, located about six miles from Littleton, maintained that about one-tenth of its loans originated in that area.

The Federal Reserve Bank of Boston recommended favorably on the application of Harvard Trust Company, feeling that better service would be rendered to Littleton by that institution than the national bank in Ayer, the management of which was considered not too aggressive. In the opinion of the Reserve Bank, the national bank was not anxious to provide banking facilities in Littleton and entered its branch application only for the purpose of warding off the potential competition of Harvard Trust Company.

A difference of opinion developed within the Board's Division of Examinations, Supervisory Review Examiner Griffin recommending denial of the Harvard Trust application, principally on the grounds of the adverse competitive effect upon the national bank of the entrance of the holding company subsidiary bank into the Littleton area, while Director Masters and Assistant Director Nelson felt that approval of the trust company's request could be justified on the basis of better service to the community and the priority of that application. As to

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the competitive position of Baystate in the county, it was pointed out that 50 of the 109 commercial banking offices were controlled by the holding company. However, neither the percentage of banking outlets nor the percentage of controlled deposits would be nearly as large if mutual savings banks were taken into consideration.

Following comments by Mr. Nelson based on information contained in the file that had been circulated to the Board, Governor Mills noted that the branch application of the holding company subsidiary bank contemplated expansion into an area not now served by that bank or contiguous to any area presently served by it. Since an alternative was available to provide banking facilities to Littleton, it was his opinion that the Harvard Trust Company's application should be denied and that the national bank in Ayer should be encouraged by the Comptroller of the Currency to establish a branch in Littleton.

Governor Robertson indicated that the Comptroller had been postponing a decision on the national bank's application pending a decision by the Board on the Harvard Trust application. In Governor Robertson's view, this was one instance where an exception should be made to the general rule relating to priority of applications. After pointing out that the national bank had good management and a clean asset condition, he commented that although the dollar volume of loans and deposits originating in the Littleton community was about the same for both applicant banks, the percentages were much higher in the case

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of the national bank. Where there were competing applications by a holding company unit desiring to go into a territory in which only an insignificant proportion of its business originated and by a satisfactorily operated small independent bank willing to expand its service in an area where it was already operating, he felt that the decision should be in favor of the latter. To insure the availability of banking facilities in Littleton, he suggested phrasing disapproval of the application of Harvard Trust Company in terms that if the national bank did not establish service there within a certain period, say six months, following approval of its branch application by the Comptroller, the Board would be willing to reconsider the trust company's application.

Question then was raised, in view of certain statements in the file on the application of Harvard Trust Company, whether the application of the First National Bank of Ayer was still active. In order to clarify the situation, Governor Robertson was requested to check with the Comptroller of the Currency on the current status of the application. If such inquiry revealed that the national bank still desired to provide service in Littleton, it was understood that in accordance with the customary practice the Federal Reserve Bank of Boston would be notified of the possibility of Board action to deny the application of Harvard Trust Company so that the Reserve Bank might have an opportunity to submit such further comments as it might desire in support of its favorable recommendation.

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Allen Discount Corporation (Item No. 4). There had been distributed to the Board a memorandum from Mr. Davis dated February 5, 1959, presenting for the Board's determination the question of the status of Allen Discount Corporation, Boulder, Colorado, under the Bank Holding Company Act of 1956. On the basis of information submitted through the Federal Reserve Bank of Kansas City, it was the opinion of the Legal Division that the corporation should be regarded as a bank holding company.

In summarizing the matter, Mr. Davis pointed out that the classification of the corporation as a bank holding company turned on whether its two subsidiaries were banks within the meaning of section 2(c) of the Bank Holding Company Act. Since both institutions accepted interest-bearing savings deposits, loaned money and made collections, discounted commercial paper, and issued notes, bonds, and investment certificates, it was the conclusion of the legal staff that they should be so regarded.

After a brief discussion, the Board concurred in the view of the staff and approved unanimously the letter to the Federal Reserve Bank of Kansas City of which a copy is attached hereto as Item No. 4.

Messrs. Hexter and Davis then withdrew from the meeting.

Letter from Congressman Celler (Item No. 5). There had been distributed a draft of reply to a letter from Chairman Celler of the House Committee on the Judiciary dated January 26, 1959, regarding the

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proposed merger of Manufacturers Trust Company and Bankers Trust Company, both of New York City. Subsequent to receipt of the Congressman's letter, the press had carried reports to the effect that the merger negotiations had been terminated. However, the letter raised the same fundamental questions pertaining to procedures and standards in considering bank mergers as Mr. Celler had asked previously in connection with the proposed merger of Guaranty Trust Company of New York and J. P. Morgan and Co. The Board had not as yet received an application in connection with that merger, although it appeared that its jurisdiction in the matter might be limited to the establishment by the continuing bank of a branch at the location of the Morgan head office and perhaps the continuance of the Morgan office in Paris, France.

Following comments by Mr. Hackley, the Board approved unanimously a reply to Congressman Celler in the form attached hereto as Item No. 5.

At the instance of Chairman Martin, and in view of one of the questions raised by Congressman Celler, preliminary consideration was given to the possibility of holding a hearing on any application that might be received in connection with the Guaranty-Morgan merger. While no conclusion was reached, it was brought out that the Board heretofore had not followed the practice of holding public hearings on applications for branches.

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Proposed amendment to Regulation R (Items 6 and 7). Pursuant to the discussion at the meeting on November 7, 1958, Mr. Chase had submitted a further memorandum to the Board under date of January 19, 1959, regarding possible expansion of the exception contained in Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933, to apply to firms dealing in certain securities other than direct obligations of the United States, obligations fully guaranteed by the United States, debentures issued by Federal Intermediate Credit Banks, bonds issued by Federal Land Banks, and general obligations of territories, dependencies, and insular possessions of the United States. The memorandum stated that the Federal Reserve Bank of New York believed interlocking relationships in existence by virtue of the existing exception in Regulation R involved only two firms - Discount Corporation and Schroeder, Rockefeller and Company. Insofar as the Reserve Bank knew, these two firms dealt only in direct obligations of the United States. The Bank continued to favor expansion of the exception as originally suggested and was strongly opposed to eliminating the exception.

Mr. Chase's memorandum listed four alternatives for the Board's consideration, as follows: (1) expand the exception to include certain additional securities; (2) eliminate the existing exception; (3) narrow the existing exception to apply to firms dealing only in direct obligations of the United States; or (4) leave the exception unchanged. In view of

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the careful consideration given to the exception when Regulation R was adopted and the fact that relationships had existed since that time without, so far as known, producing any of the dangers at which section 32 of the Banking Act of 1933 was directed, it was recommended that the exception be left in its present form.

Following comments by Mr. Chase concerning the information received from the Federal Reserve Bank of New York, discussion by the Board brought out that Discount Corporation was originally organized as a cooperative venture to promote the use and distribution of bankers' acceptances, which accounted for principal officers of leading New York City banks having become directors of that institution. The thought was expressed that if one questioned the wisdom of the original decision to include the existing exception in Regulation R, logic would seem to call for its elimination. If, on the other hand, the exception was not eliminated, an argument could be made for broadening it to include firms dealing in securities essentially of the same nature as those already specified. However, it was observed that the existence of the exception had not appeared to result in the dangers envisaged by the Banking Act of 1933 and that the request for further liberalization had come only from one individual. On balance, therefore, and in the absence of any strong feeling, it appeared that the most feasible course might be to leave the situation in status quo, with review from time to

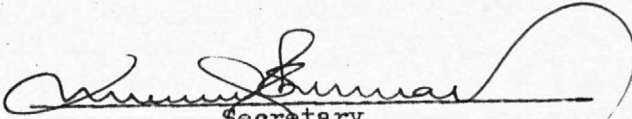
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time to determine whether there had been any change in circumstances such as to suggest the desirability of further study.

Accordingly, it was decided to take no action at this time to change the existing exception in Regulation R, with the understanding that advice of this decision would be sent to the individual who had suggested a broadening of the exception (Mr. C. Richard Youngdahl of Aubrey G. Lanston & Co.) and to the Presidents of the Federal Reserve Banks. Copies of the letters sent pursuant to this decision are attached as Items 6 and 7, respectively.

The meeting then adjourned.


Secretary

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

Item No. 1
2/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1959



Board of Directors,
Valley Bank and Trust Company,
Springfield, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Valley Bank and Trust Company in the Springfield Plaza Shopping Center, St. James Avenue and Liberty Street, Springfield, Massachusetts, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
2/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1959

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

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 16, 1958, enclosing copies of an application to organize a national bank in the Ward Parkway Shopping Center, Kansas City, Missouri, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Kansas City indicates that a capital structure for the bank somewhat larger than the \$300,000 proposed in the application would be desirable. It has been suggested that \$450,000 of capital funds would be more satisfactory. The future earnings prospects of the institution are fairly favorable. At the time of the investigation definite arrangement had not been made for executive management of the bank and in view of the lack of banking experience of the directors the management factor could not be regarded favorably. However, it is reported that the principal sponsors of the bank will provide competent management. While there appears to be some question regarding the need for the bank at the present time, it is indicated that the area will attain sufficient growth to justify and support the bank. After considering the various factors, the Board of Governors recommends approval of the application provided arrangements are made for capital structure and management satisfactory to your office.

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.

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

Item No. 3
2/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1959



Mr. L. A. Jennings,
Deputy Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Mr. Jennings:

This refers to your letter of September 18, 1958, in which you request the Board's views on the application of Regulation F to the investment by a national bank of funds of a trust in shares of a mutual trust investment company.

It is understood (1) that "mutual trust investment companies" are investment companies as defined by the Investment Company Act of 1940, which are organized under State statutes requiring that all shares, except the qualifying shares of directors, be owned by corporate fiduciaries located within the state, and (2) that such companies qualify for the special tax benefits provided by section 852 of the Internal Revenue Code of 1954 with respect to "regulated investment companies". You point out that such a company has been in operation in the State of New York since 1955 under the name "Bank Fiduciary Fund" and that a recent addition to the statutes of Connecticut provides for such a fund.

Mutual trust investment companies are separate corporate entities which purchase and hold securities for the benefit of their shareholders. Although their administration, operation, and restrictions as to participation are all designed to serve the investment needs of corporate fiduciaries, in other respects such companies do not differ materially from open-end investment companies, often called "mutual funds". The question whether a national bank may invest the funds of a particular trust estate in a mutual trust investment company depends upon the propriety of such investment as determined by State law and the terms of the particular underlying trust instrument. Regulation F neither authorizes nor prohibits such investments.

However, it is understood that banks may wish to commingle the funds of various trusts for the purpose of investing them in shares of a mutual trust investment company - in other words, to make such investment as a single transaction, represented by a single certificate embodying the participations of two or more individual trusts. As you know, with an exception not relevant here, section 10(c) of Regulation F permits the collective investment of trust funds by a national bank only in a common trust fund operated pursuant to section 17 of the Regulation. Section 17 defines "Common Trust Fund" to mean "a fund maintained by a national bank exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as trustee, executor, administrator, or guardian." A mutual trust investment company is not "a fund maintained by a national bank", and consequently does not come within this definition. Therefore, a national bank should not invest funds of two or more trusts in shares of a mutual trust investment company and accept a single certificate representing the collective interests of such participating trusts.

It is realized that State banks in some jurisdictions may collectively invest trust funds in shares of mutual trust investment companies in the manner described, although it is not presently permissible under section 10(c) for their national bank competitors to do so. As the investment of trust funds in a mutual trust investment company appears to serve a meritorious purpose with respect to investment of trust funds by a trust department that is too small to operate a common trust fund, section 10(c) of Regulation F may be unduly restrictive and could be amended to permit a national bank to invest trust funds collectively in a mutual trust investment company. The Board would appreciate your views with respect to such an amendment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
2/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1959



Mr. D. W. Woolley, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Woolley:

This refers to your letter of November 24, 1958, with enclosures, regarding the possible status of Allen Discount Corporation of Boulder, Colorado, as a bank holding company under the Bank Holding Company Act of 1956 (the "Act").

On the basis of the information submitted in the foregoing letter, and enclosures, it is understood that the factual situation is substantially as follows:

Allen Discount Corporation owns 25 per cent or more of the shares of Boulder Industrial Bank ("Boulder") which in turn owns 25 per cent or more of the shares of Commonwealth Industrial Bank ("Commonwealth"), both of Boulder, Colorado. Among other things, Boulder and Commonwealth lend money and make collections, discount commercial paper, issue notes, bonds and investment certificates and buy stocks, bonds and mortgages.

It appears that Boulder and Commonwealth accept interest-bearing savings deposits both upon presentation of a passbook and by means of time certificates; that, with respect to regular savings deposits, the practice of both of these banks is that the depositors may withdraw any and all deposits at any time; and that, with respect to time certificates, both banks follow the practice of automatically renewing the amount if the bank is not given the notice required under the time deposit.

It is further understood that industrial banks in Colorado are subject to the General Business Incorporation Law of that State with respect to organization, directors, stockholders, amendments, powers, and dissolution, among other things; and that Colorado law prohibits industrial banks from carrying commercial or demand bank deposits, or lending money in excess of 10 per cent of their capital and surplus to any one person or corporation or accepting trusts other than acting as escrow agents. On the other hand, it is also understood that industrial banks in Colorado are required to register

Mr. D. W. Woolley

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with the Bank Commissioner of that State; that they are subject to the regulation of the Commissioner who must give his permission before an industrial bank may be authorized to do business; and that the Bank Commissioner is required by law to examine each industrial bank twice a year.

Section 2(c) of the Bank Holding Company Act defines a "bank" as meaning "any national banking association or any State bank, savings bank, or trust company".

While the definition of what constitutes a bank may vary in the statutes and in opinions of the courts, there appears to be at least one element in each of them, namely, that a bank is an institution which receives and pays out deposits. Not all banks, of course, engage in every type of activity generally considered to be an ordinary banking function. On the basis of some authority, Boulder and Commonwealth would be considered as engaging in banking even though their receiving of savings deposits were the only function they exercised. As indicated above, both Boulder and Commonwealth also make loans and collections, discount commercial paper, and issue notes, bonds and investment certificates. While they do not receive demand deposits subject to check, both institutions engage in activities substantially like those conducted by an ordinary "bank" or "savings bank".

It is the opinion of the Board, therefore, that Boulder and Commonwealth should be regarded as banks for purposes of the Bank Holding Company Act. It follows from this conclusion that Allen Discount Corporation is a bank holding company under the Act, since it owns 25 per cent or more of the voting shares of Boulder Industrial Bank which in turn owns 25 per cent or more of the voting shares of Commonwealth Industrial Bank. As a bank holding company the Corporation is required to register under the Act.

In order to allow Allen Discount Corporation reasonable time within which to prepare its registration statement, the Board grants (pursuant to section 5(a) of the Act) a period of 90 days from the date of this letter for the filing of a registration statement pursuant to the Act.

It will be appreciated if you will transmit the substance of this letter to Allen Discount Corporation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
2/9/59

OFFICE OF THE CHAIRMAN

February 10, 1959

The Honorable Emanuel Celler, Chairman,
Committee on the Judiciary,
U. S. House of Representatives,
Washington 25, D. C.

Dear Mr. Celler:

This refers to your letter of January 26, 1959, regarding the recently proposed merger of the Manufacturers Trust Company and the Bankers Trust Company, both of New York City.

According to newspaper accounts, it is understood that negotiations for that merger have been dropped. Consequently, it appears that questions with respect to that case have now become moot.

With respect to the proposed merger of Guaranty Trust Company of New York and J. P. Morgan & Company, it appears, as indicated in my letter to you of January 8, 1959, that the Board probably would not have jurisdiction over the merger as such, under either section 7 of the Clayton Act or section 18(c) of the Federal Deposit Insurance Act. While establishment by the continuing bank of branches at locations of former offices of the absorbed institution would require the Board's approval, the Board has not yet received any application in that connection. Until such an application is received and the nature of the Board's responsibilities with respect to that proposal are determined, the Board feels that it is not in a position to answer the questions stated in your letter insofar as they might be applicable. You may be assured, however, that if and when such an application is submitted to the Board, the views expressed in your letter will be given serious consideration.

Sincerely yours,

Wm. McC. Martin, Jr.

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

Item No. 6
2/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 17, 1959



Mr. C. R. Youngdahl,
Aubrey G. Lanston & Co., Inc.,
Twenty Broad Street,
New York 5, New York.

Dear Mr. Youngdahl:

Reference is made to your letter of June 23, 1958, suggesting an amendment to Regulation R which would add to the list of securities in the exception in section 2 of the regulation.

The Board of Governors has given careful consideration to all aspects of the matter, and the possible implications of expanding the exception, and has decided that it should not expand or amend it in any way.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
2/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

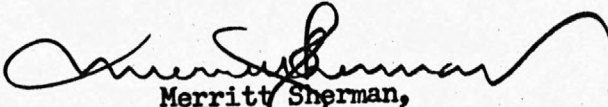
February 17, 1959.

Dear Sir:

Reference is made to the Board's letter of August 27, 1958, enclosing a draft of a possible amendment to Regulation R which would have broadened the exception now contained in that regulation.

The Board, after considering the various aspects of the matter in the light of the comments of the Reserve Banks, has decided, as it has on several previous occasions, that the exception should not be expanded or amended.

Very truly yours,


Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS