

Minutes for February 26, 1959.



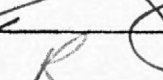
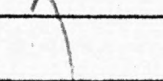
To: Members of the Board

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></u>	_____
Gov. Szymczak	x <u></u>	_____
Gov. Mills	x <u></u>	_____
Gov. Robertson	x <u></u>	_____
Gov. Balderston	_____	x <u>CCB</u>
Gov. Shepardson	x <u>CEWS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, February 26, 1959. The Board met in the Board Room at  
10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Molony, Special Assistant to the Board  
Mr. Solomon, Assistant General Counsel  
Mr. Hexter, Assistant General Counsel  
Mr. Hostrup, Assistant Director, Division of  
Examinations  
Mr. Nelson, Assistant Director, Division of  
Examinations  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mr. Hill, Assistant to the Secretary  
Mr. Holahan, Supervisory Review Examiner,  
Division of Examinations

Labor representation on Board. Chairman Martin called attention  
to an editorial in today's issue of the New York Times regarding a  
proposal of the AFL-CIO Executive Council, meeting currently in San Juan,  
Puerto Rico, that the Federal Reserve Act be amended in various respects,  
including an amendment to provide for "adequate representation of labor,  
the consumer and small business interests on the Board of Governors."

Following a brief discussion, it was understood that the editorial  
and other pertinent material would be distributed to the members of the  
Board for their information.

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Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of Minneapolis and San Francisco approving the establishment without change by those Banks on February 25, 1959, of the rates on discounts and advances in their existing schedules.

Items circulated to the Board. The following items, which had been circulated to the 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 Fidelity Union Trust Company, Newark, New Jersey, approving the establishment of a branch in the Port Newark section of Newark. (For transmittal through the Federal Reserve Bank of New York)   | 1               |
| Letter to The Oberlin Savings Bank Company, Oberlin, Ohio, consenting to its consolidation with The Kipton Bank Company, Kipton, Ohio, and approving the establishment of a branch in Kipton. (For transmittal through the Federal Reserve Bank of Cleveland)                                  | 2               |
| Letter to the State-Planters Bank of Commerce and Trusts, Richmond, Virginia, approving the establishment of four branches incident to its proposed merger with The Citizens National Bank of Petersburg, Petersburg, Virginia. (For transmittal through the Federal Reserve Bank of Richmond) | 3               |
| Letter to the First National Bank in Olney, Olney, Illinois, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of St. Louis)   | 4               |
| Letter to the Northwest National Bank of Dallas, Dallas, Texas, granting it permission to maintain the reserves required for banks located outside of central reserve and reserve cities. (For transmittal through the Federal Reserve Bank of Dallas)   | 5               |

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Item No.

Letter to the Home Bank, Compton, California, approving the establishment of a branch at a location in Bellflower different from the location approved by the Board on August 20, 1958. (For transmittal through the Federal Reserve Bank of San Francisco)

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Letter to the Department of Justice replying to a request for information regarding a suit brought against the Federal Reserve Bank of San Francisco by The Continental Bank and Trust Company, Salt Lake City, Utah.

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Letter to the Federal Reserve Bank of Philadelphia regarding the applicability of Regulation U to a loan made by a member bank to a corporate borrower where the loan was made in technically unsecured form but was later secured by registered stocks held as side collateral.

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With respect to the foregoing Item No. 8, Mr. Solomon stated that he understood the loan had now been paid off and the member bank had asked that its request for an interpretation be withdrawn. However, the Federal Reserve Bank of Philadelphia indicated that it would prefer to have a letter sent so that the interpretation might be on record. It was then suggested and agreed that the substance of the interpretation be sent to all Federal Reserve Banks and published in the Federal Reserve Bulletin.

Mr. Noyes, Adviser, Division of Research and Statistics, entered the room at this point.

Reports on bank merger bills. There had been distributed to the Board a memorandum from Mr. Hackley dated February 24, 1959, concerning requests from Congressional committees for reports on three bank merger bills: H.R. 4152 and S. 1004, which were similar and would amend

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section 7 of the Clayton Act to bring acquisitions of bank assets within the coverage of that section; and S. 1062, which would amend section 18(c) of the Federal Deposit Insurance Act so as to require the consent of the appropriate Federal bank supervisory authority for every merger or consolidation in which the resulting bank would be a national, State member, or nonmember insured bank, whether or not a diminution in capital funds was involved. Attached to the memorandum were drafts of letters with respect to each of these bills. There had also been distributed a memorandum from Mr. Hackley dated February 25, 1959, suggesting certain changes in the draft letters on H.R. 4152 and S. 1004.

In explanatory comments, Mr. Hackley brought out that the draft letters were intended to follow the position taken by the Board in the past on bank merger legislation and that the changes suggested in his second memorandum were intended to make the reports on H.R. 4152 and S. 1004 conform even more closely.

After Governor Robertson requested an opportunity to review them in more detail, the proposed letters, revised to take into account the changes suggested in Mr. Hackley's second memorandum, were approved with the understanding that they would not actually be sent until Governor Robertson had indicated that they were satisfactory from his standpoint.

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Notification to Justice Department on bank holding company applications. There had been distributed to the Board a memorandum from Mr. Hackley dated February 24, 1959, concerning an oral request from Mr. Herbert Maletz, Counsel for the House Judiciary Committee, for the Board's views in connection with certain aspects of pending "prenotification" merger bills. The Association of Registered Bank Holding Companies had recommended exemption of bank holding companies on the grounds that, under the Bank Holding Company Act, they must apply to the Board for prior approval of acquisitions of bank stock or assets and furnish the Board more detailed information than required by the prenotification bills. Mr. Maletz said he was prepared to draft such an amendment if assurance were given that notice of every holding company application would be given by the Board to the Justice Department. Technically, as the memorandum pointed out, the Justice Department was already receiving advance notice of every application prior to the Board's final decision, since a notice of tentative decision is published in the Federal Register as to every application on which a hearing is not held and a notice of hearing is published in cases in which a hearing is to be held. However, no procedure had been established for direct advice to the Justice Department. The establishment of such a procedure being regarded as appropriate and desirable, a proposed letter to Judge Victor Hansen,

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Assistant Attorney General in charge of the Antitrust Division, was submitted which would state that in view of the Division's responsibilities under the antitrust laws the Board would hereafter send directly to him copies of any notice of tentative decision or of any order for a public hearing on a bank holding company application when published in the Federal Register. It was noted that conceivably the Department of Justice might like to be advised upon the receipt of every application. However, in line with the Board's policy of not announcing the receipt of applications, it was thought preferable not to volunteer to advise the Department.

In a supplemental memorandum, distributed under date of February 25, 1959, Mr. Hackley suggested addition of a paragraph to the proposed letter to Judge Hansen which would clarify that although the prenotification requirements of pending bills would apply to the indirect as well as the direct acquisition of stock or assets of a bank, the Bank Holding Company Act does not require prior Board approval for the indirect acquisition by a bank holding company of the assets of a bank in a case where a banking subsidiary of such a company acquires the assets of another bank through a merger.

After discussion, agreement was expressed with the suggestion that Mr. Hackley advise Mr. Maletz informally of the letter proposed to be sent to the Justice Department, obtain his reaction, and then bring the matter back to the Board for further consideration.

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Mr. Wernick, Economist, Division of Research and Statistics, entered the meeting during the foregoing discussion.

Questions of procedure on Morgan-Guaranty merger. Mr. Hackley's memorandum of February 24, 1959, also referred to Congressman Celler's letter dated January 26, 1959, and the Board's reply regarding matters of procedure in the proposed merger of J. P. Morgan & Co. and Guaranty Trust Company and stated that, according to Mr. Maletz, Mr. Celler continued to desire a letter at the appropriate time indicating whether (1) the Board would notify the Justice Department and ask for its views, (2) the Board would apply the test of "substantial" lessening of competition, and (3) the Board will hold a public hearing (in which event Mr. Celler would want to testify).

While this did not require immediate action, it was understood that a branch application in connection with the Morgan-Guaranty merger had been filed with the Federal Reserve Bank of New York. Accordingly, preliminary consideration was given to Mr. Celler's questions. The discussion indicated that in the Board's present thinking it would not be necessary or desirable to hold a public hearing in connection with a branch application in this case. As to the question whether the Board would notify the Justice Department and ask for its views, certain tentative suggestions were made with respect to the handling of the Morgan-Guaranty case and possible extension of any procedure followed in that case to other similar cases. However, no decision was reached and it was understood that the matter would be given further consideration.



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Messrs. Benner and Holahan then withdrew from the meeting.

Federal Reserve approval for branches of State member banks  
(Item No. 9). In a letter dated January 20, 1959, Chairman Spence of the House Committee on Banking and Currency requested a report on H.R. 1048, a bill "to amend section 9 of the Federal Reserve Act, as amended," the purpose of which would be to eliminate the requirement of Board approval before a State member bank may establish a branch. In a memorandum dated February 20, 1959, which had been distributed to the Board, Mr. Hexter outlined the background of this proposal and submitted a draft of reply to Chairman Spence indicating that the Board would not favor the enactment of H.R. 1048.

In reviewing the matter, Mr. Hexter commented that Mr. Shay, Legislative Counsel, had been informed that the Committee did not contemplate taking this bill up for consideration. After agreement had been expressed with a minor change in the proposed letter mentioned by Mr. Hexter, Governor Robertson suggested that the report could be strengthened by bringing out more clearly that legislation of this kind would leave branches of one class of State banks (i.e., insured non-member banks) subject to Federal approval through the Federal Deposit Insurance Corporation.

Thereupon, the letter was approved unanimously in a form reflecting Governor Robertson's suggestion, with the understanding that a copy would be sent to the Bureau of the Budget. A copy is attached as Item No. 9.

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Mr. Hexter then withdrew and Messrs. Connell, Controller, and Kakalec, Budget and Planning Assistant, Office of the Controller, entered the room.

Area redevelopment and assistance legislation (Item No. 10).

The Board had been requested by the Senate Banking and Currency Committee to report on bills S. 722, S. 268, and S. 1064, each of which was designed to cope with the problem of substantial and persistent levels of unemployment or underemployment in economically depressed areas. A proposed reply prepared by the Division of Research and Statistics had been distributed to the Board, together with a memorandum dated February 24, 1959, giving background information and summaries of the bills.

In commenting on the matter, Mr. Noyes brought out that the proposed report would be in line with a letter sent by Chairman Martin in March 1958 to the Chairman of the Senate Banking and Currency Committee in response to a request for comments on proposed legislation of a similar character.

After further discussion of the bills in terms of their scope and the magnitude of the respective programs, the letter was approved unanimously, with the understanding that a copy would be sent to the Bureau of the Budget. A copy is attached hereto as Item No. 10.

Messrs. Hostrup, Nelson, and Wernick then withdrew from the meeting.

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Report of audit of Board's accounts for 1958. With a letter dated February 13, 1959, Price Waterhouse & Co. transmitted to the Board its report of audit of the financial statements of the Board of Governors for the year ended December 31, 1958 and a report on the scope of their examination of those financial statements. Copies had been sent to the members of the Board along with a memorandum from Mr. Connell dated February 20, 1959, comparing the Board's balance sheet as of December 31, 1958, and its statement of income and expenses for 1958 with the Price Waterhouse presentations.

After comments by Mr. Connell, question was raised by Governor Mills regarding the composition of miscellaneous expenditures for 1958, amounting to \$22,940, and the reasons for the increase over 1957. Accordingly, Mr. Connell was requested to have a breakdown of such expenses distributed to the Board.

It was then agreed unanimously to accept the statements rendered by Price Waterhouse & Co. In accordance with the usual procedure, it was understood that copies of the audit report and the statement on scope of examination would be sent to the Chairmen of the Banking and Currency Committees of the Congress.

Messrs. Connell and Kakalec then withdrew from the meeting.

Additional 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:

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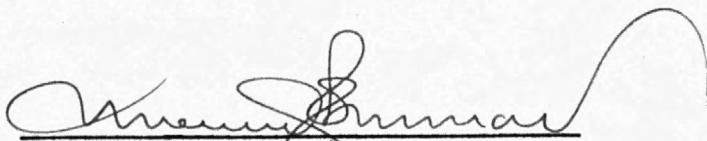
Item No.

- Letter to the Federal Reserve Bank of New York approving the retention in active service of Mr. Parke R. Elmer. 11
- Letter to the Federal Reserve Bank of Atlanta approving the payment of salary to two officers at rates fixed by the Board of Directors. 12

The meeting then adjourned.

Secretary's Note: Acting on behalf of the Board, Governor Shepardson approved yesterday the recommendation contained in a memorandum dated February 24, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, that the resignation of Carl T. Arlt, Jr., Economist in that Division, be accepted effective February 25, 1959.

Governor Shepardson approved today on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 13) approving the appointment of Richard E. Speagle as examiner.


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 Secretary

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

Item No. 1  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



February 26, 1959.

Board of Directors,  
Fidelity Union Trust Company,  
Newark, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch in the vicinity of the intersection of Terminal and Tyler Streets in the Port Newark section of Newark, New Jersey, by Fidelity Union Trust Company, Newark, New Jersey. This approval is given provided the branch is established within one year from the date of this letter and that formal approval of State authorities is effective at the time the branch is established.

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  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



February 26, 1959.

Board of Directors,  
The Oberlin Savings Bank Company,  
Oberlin, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the consolidation of The Oberlin Savings Bank Company and The Kipton Bank Company, Kipton, Ohio, and approves the establishment of a branch in Kipton, Ohio, by The Oberlin Savings Bank Company. This approval is given provided:

- (1) the consolidation is effected substantially in accordance with the Agreement of Consolidation dated January 7, 1959, copy of which was submitted with your request,
- (2) formal approval of the appropriate State authorities is obtained,
- (3) the consolidation and the establishment of the branch are effected within six months from the date of this letter, and
- (4) any shares acquired by the bank from dissenting stockholders are sold within six months from the date of their acquisition.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 3  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



February 26, 1959.

Board of Directors,  
State-Planters Bank of Commerce  
and Trusts,  
Richmond 14, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves the establishment of a branch at each of the following locations in Petersburg, Virginia:

- 147 North Sycamore Street
- 1935 South Sycamore Street
- 1104 West Washington Street
- Corner of Monroe and Tabb Streets

by State-Planters Bank of Commerce and Trusts, in connection with the proposed merger of State-Planters Bank of Commerce and Trusts and The Citizens National Bank of Petersburg, Petersburg, Virginia. This approval is given provided (a) the merger is effected substantially in accordance with Agreement of Merger dated February 2, 1959, (b) any stock acquired from dissenting shareholders is disposed of within six months from date of acquisition, (c) the branches are established within six months from the date of this letter, and (d) formal approval of the State authorities is obtained and is in effect at the time the branches are established.

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. 4  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959.

Board of Directors,  
First National Bank in Olney,  
Olney, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Illinois, the exercise of all such rights to be subject to the provisions of section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the First National Bank in Olney is now authorized to exercise will be forwarded to you in due course.

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. 5  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959.



Mr. F. M. Holt, President,  
Northwest National Bank of Dallas,  
201 Walnut Hill Village,  
P. O. Box 13407,  
Dallas 20, Texas.

Dear Mr. Holt:

Pursuant to your February 2 request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to your bank to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date of its opening for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 6  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959.

Board of Directors,  
Home Bank,  
Compton, California.

Gentlemen:

The Board of Governors approves the establishment of a branch by Home Bank, Compton, California, on Lakewood Boulevard approximately one and one-half blocks north of Center Street, Bellflower, California, instead of at Lakewood Boulevard and Center Street, Bellflower, California, as approved by the Board on August 20, 1958. This new location is approved provided the branch is established by August 20, 1959, and that formal approval of State authorities is effective at the time the branch is established.

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. 7  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959.



Honorable George Cochran Doub,  
Assistant Attorney General,  
Civil Division, Department of Justice,  
Washington, D. C.

Attention Donald B. MacGuineas, Esq.,  
Chief, General Litigation Section.

Re: Walter E. Cosgriff et al. on behalf of himself  
and all other stockholders of The Continental  
Bank and Trust Company v. Federal Reserve Bank  
of San Francisco (USDC D. Utah), Civil Action  
#C17-59; D.J. Ref. GCD:APV 145-105-2.

Dear Mr. Doub:

This is in reply to your letter of February 4, 1959,  
directed to the attention of the Board's General Counsel, containing  
requests for information, copies of documents, and recommendations  
of this office in connection with the above-entitled proceeding.

A summary of the facts giving rise to this cause of action  
follows:

The Continental Bank and Trust Company, Salt Lake City,  
Utah, a State chartered bank and member of the Federal Reserve System,  
is the beneficiary of a trust under which the trustees (officers of  
Continental Bank) hold the stock of a life insurance company in the  
State of Texas, with all dividends thereon payable to Continental  
Bank for use by it in its business. The trust agreement also provides  
that if payments of the dividends to Continental Bank should be held  
illegal, they shall be payable to the shareholders of that bank.

In June 1958, the Federal Reserve Bank of San Francisco re-  
quested that Continental Bank divest itself of any interest in the  
above-described stock on the grounds that such interest involved a  
violation by the bank of provisions of Federal and State law, re-  
garding the ownership of corporate stock by banks. There followed  
considerable correspondence regarding this matter between counsel for  
Continental Bank and Mr. John A. O'Kane, Vice President and General  
Counsel of the Federal Reserve Bank of San Francisco.

During the exchange of this correspondence, on January 21, 1959, Continental Bank filed suit against the Federal Reserve Bank asking for a declaratory judgment as to whether the Federal Reserve Bank was the proper authority to pass upon distribution of income of the trust; whether the Reserve Bank's opinion as to violation of law was correct; and whether dividends received by the trustees should be paid to the bank or its shareholders.

Mr. O'Connell of the Board's Legal Division has talked with Mr. O'Kane concerning defense of this suit and has been advised that Mr. O'Kane has discussed the matter with the United States Attorney for the District of Utah, Salt Lake City, Utah. Mr. O'Kane has indicated that as a result of the latter conversation, it has been mutually agreed that the legal staff of the Federal Reserve Bank will prepare for filing in the United States District Court an appropriate responsive pleading or motion, together with a supporting memorandum. Upon oral argument or trial, counsel for the Federal Reserve Bank will assume principal representation of the defendant. The United States Attorney, however, has indicated his agreement to assist counsel for the Federal Reserve Bank in any manner necessary.

Relative to the assistance of the United States Attorney, it will be appreciated if you will arrange to have the United States Attorney authorized to enter his appearance in this case. It is understood that Mr. O'Connell has conveyed the substance of this proposed arrangement to Mr. Andrew P. Vance of your division and that Mr. Vance has indicated his approval of such procedure. Mr. O'Kane will be requested to forward to your office, through the United States Attorney, copies of all pleadings and supporting briefs that are filed in this action. Under the circumstances, Mr. Vance has also indicated that it will be unnecessary at this time to forward to you the extensive data usually provided in a report of this nature. Should such detailed data later become necessary, it will be promptly made available to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 8  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



February 26, 1959.

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

Dear Mr. Campbell:

In your letter of January 22, 1959, you requested an interpretation of Regulation U as it applies to a loan made by a member bank to a corporate borrower where the loan was made in technically unsecured form but is now secured by registered stocks held as side collateral.

As we understand them, the facts are as follows: The Provident Traders Bank and Trust Company ("the bank") was approached by Albert M. Greenfield on behalf of Variety Stores, Inc. ("the borrower") with the proposal that the bank lend an amount ultimately fixed at \$2,200,000 for the purchase of a controlling interest in United Stores Corporation ("United"), a holding company which controls several chains of variety stores. The borrower intends to merge United with another chain of variety stores which it already controls to form the second largest retail chain in the United States. According to the original understanding, the purchased stock was to be held by the bank as collateral for the loan. When actually made, the loan was technically in unsecured form; but as soon as the stock became available, some weeks later, it was delivered to the bank and pledged as collateral.

Purchase price of the stock was \$3,636,000. The stock is registered on a national securities exchange although not extensively traded. The average of the high and low prices on the exchange for the preceding year gives a value for the block in question of \$3,276,000, and of prices on the days when the actual purchase was made of \$3,027,000. Since the maximum loan value on the date of the loan was 50 per cent of the shares purchased, the loan exceeded the maximum loan value of the collateral by \$382,000 if actual purchase price is used, by \$562,000 if average of high and low prices for the previous year is used, and by \$685,000 if the price on the exchange on the days of the sale fixes the "current market value" of the stock.

The bank suggests that the stock could be accorded a value in excess of the purchase price for two reasons, first, that the block represents control, and second, that the borrower reports

Mr. Joseph R. Campbell

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receiving cash offers for the block, one before and two after the purchase was consummated, at prices ranging from approximately one to two million dollars in excess of the amount paid.

An interpretation is requested on four points. First, since the loan was made in technically unsecured form, is it in fact subject to Regulation U. Second, even though otherwise subject to its terms, is the loan exempt on the ground that the Regulation is directed solely toward purchases of stock for speculative or investment purposes, and is not intended to cover purchases made for the business purpose of acquiring control of a particular enterprise. Third, assuming that the loan is subject to the Regulation, what standard should be applied to determine the current market value of the collateral on the date of the loan. Finally, if the loan exceeded the maximum loan value of the collateral, what steps should be taken to correct the situation.

The Board is in general accord with the view of your counsel that the loan is both subject to and in violation of Regulation U. To take up the points in order, the Board has long held as to the first, in the closely related "purpose" area, that "the original purpose of the loan should not be determined upon a narrow analysis" of the technical circumstances under which the loan was made. Instead, "the fundamental purpose of the loan should be considered to be controlling". S-11, June 25, 1937, Digest #8120. Indeed, "the fact that a loan made on the borrower's signature only, for example, becomes secured by registered stock shortly after the disbursement of the loan" affords reasonable grounds for questioning whether the bank was entitled to rely upon the borrower's statement as to the purpose of the loan. 1953 Bull. 951. Where security is involved, standards of interpretation should be equally searching. If, as in the present instance, the original agreement between borrower and bank provided that the loan should be secured by registered stock, and such stock was in fact delivered to the bank as soon as available, the transaction must be regarded as fundamentally a secured loan. This view is strengthened by the fact that the regulation applies to a loan "secured directly or indirectly by any stock" and the further fact that the bank now appears unwilling to "weaken the position of the loan" by surrendering the security.

Turning to the second question, the Board agrees that administration of Regulation U would be self-defeating were it possible to exempt transactions in registered stock on a scale large enough to involve control of a company, while less serious and smaller transactions remained subject to the Regulation. The language of the Regulation is explicitly inclusive. Moreover, the withdrawal in 1945

Mr. Joseph R. Campbell

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of the original section 2(e) of the Regulation, which exempted "any loan for the purpose of purchasing a stock from or through a person who is not a member of a national securities exchange . . ." plainly implies that transactions of the sort under consideration are now subject to the general prohibition of section 1.

Since the current market value of registered stocks would normally be fixed by their selling price on an exchange, the Board has had little occasion to consider the question whether, and when, value may be determined by an alternative method. The Supplement to Regulation U provides that current market value shall be determined by "any reasonable method". Regulation T, which, while not controlling, may throw some light on the problem, provides that current market value of a security "throughout the day of its purchase or sale" shall be "total cost or the net proceeds of its sale." The Board is of the opinion that actual sale price in an arm's length transaction provides the best evidence of value. Evidence as to offers should be resorted to only in the absence of an actual sale. Since the price at which the United stock changed hands was considerably in excess of the nearest per share price on the stock exchange, it must be assumed that this price reflected intangible factors including control. At the time of the loan, the value of the block of United stock was accordingly \$3,636,000 and the loan exceeded the maximum loan value of the collateral by \$382,000.

Violations of the Regulation and of the statute may of course create the occasion for imposing certain civil and criminal penalties. The policy of the Board in this regard has been to "obtain compliance as far as possible by persuasion" and to avoid legal proceedings unless a bank "shows that it is not amenable to other methods of correction". S-149, March 16, 1939, Digest #6212. The Board's interpretation should therefore be brought to the attention of the bank, and a reasonable opportunity be given to correct the situation, whether by requiring additional collateral for the loan, or by reducing the amount of the loan. If the bank should fail to take appropriate action within a reasonable time, the matter should again be brought to the attention of the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 9  
2/26/59

OFFICE OF THE CHAIRMAN

February 26, 1959

The Honorable Brent Spence, Chairman,  
Committee on Banking and Currency,  
House of Representatives,  
Washington 25, D. C.

My dear Mr. Chairman:

This is in response to your letter of January 20, requesting a report by the Board on H. R. 1048, a bill "To amend section 9 of the Federal Reserve Act, as amended."

Under section 9 in its present form, the approval of the Board of Governors of the Federal Reserve System must be obtained before a State member bank may establish a branch. The purpose of H. R. 1048 is to eliminate this requirement, so that State banks that are members of the Federal Reserve System would not have to obtain the Board's approval as a prerequisite to the establishment of a branch.

The proposal embodied in H. R. 1048 raises a fundamental question regarding Federal governmental policy with respect to bank supervision. One of the enumerated purposes of the Federal Reserve Act is "to establish a more effective supervision of banking in the United States." Congress consistently has taken the position that this objective can and should be promoted through a substantial measure of Federal supervision of State banks that elect to become members of the Federal Reserve System and nonmember banks that elect to have deposits insured pursuant to the Federal Deposit Insurance Act. The requirement of Board approval for the establishment of branches of member State banks is one part of the general system of laws, regulations, and supervision that applies to State banks that are either members of the Federal Reserve System or insured by the Federal Deposit Insurance Corporation. That regulatory plan also comprises the provisions of R. S. 5136 (12 U.S.C. 24) and of the Comptroller of the Currency's Regulation governing securities investments of member State banks as well as of national banks; the provisions of section 24A of the Federal Reserve Act imposing limitations on investments in bank premises (12 U.S.C. 371d); the provision of section 9 of the Federal Reserve Act requiring the consent of the Board to a reduction in the capital stock of a member State bank (12 U.S.C. 329); the general authority of the Federal Reserve System to supervise and examine member State banks (12 U.S.C. 325, 248(a), 483, etc.); and many others.



The Honorable Brent Spence

In most of these matters, if not all, the Federal law, regulation, or supervision is in addition to that imposed by the particular State involved. Consequently, the suggestion that Congress should eliminate the requirement for Federal approval of additional branches of member State banks, on the ground that there is State control over this matter, necessarily raises the issue of the general advisability of Federal regulation of member State banks. With respect to that question, the Board believes that the benefits to the banking system, and to the economy generally, are more than sufficient to justify continued adherence to the principle of Federal regulation and supervision of all member banks. With specific reference to the establishment of branches, the Board considers this field to be significant, from the supervisory viewpoint, in two major respects-- first, as to the financial condition of the bank in relation to the proposed expansion of its operations, and second, as to the maintenance of an appropriate number of banking offices in the community or area, assuring adequate competition, if feasible, while avoiding the dangers of over-banking.

It is also to be noted that H. R. 1048 would eliminate the requirement of Federal approval for the establishment of branches by State member banks only. Therefore, its enactment would introduce a distinction that would seem difficult to justify, in that State banks covered by Federal Deposit Insurance because of membership in the Federal Reserve System would not be subject to Federal regulation in this respect, whereas nonmember insured State banks would be.

In this connection, moreover, it is understood that the Federal Deposit Insurance Corporation considers that its responsibilities as insurer of bank deposits call for the exercise by it of control over establishment of branches by insured banks in all cases where such control is not exercised by one of the other Federal bank supervisory agencies. Consequently, amendment of the Federal Reserve Act in accordance with H. R. 1048 might not actually change, except perhaps temporarily, the present situation, insofar as it involves the existence of Federal as well as State control over establishment of branches by State banks that are members of the Federal Reserve System.

For the reasons indicated, the Board of Governors opposes the enactment of H. R. 1048.

Sincerely yours,

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 10  
2/26/59

OFFICE OF THE CHAIRMAN

February 26, 1959.

The Honorable A. Willis Robertson,  
Chairman, Banking and Currency Committee,  
United States Senate,  
Washington 25, D. C.

Dear Mr. Chairman:

In accordance with requests by your Committee of January 19, 1959, February 2, 1959, and February 16, 1959, the Board of Governors of the Federal Reserve System is submitting this report on bills S. 268, S. 722, and S. 1064, with which your Committee is presently concerned.

Under S. 722 - The Area Redevelopment Act - public and private organizations in "industrial redevelopment areas" and "rural redevelopment areas" would be eligible for several types of Federal assistance administered by a new independent agency, "The Area Redevelopment Administration." Major provisions are: loans and participations for private projects to the extent of \$200 million; loans for public facilities to the extent of \$100 million, with a maximum of 65 per cent government participation in any one project; grants for public facilities to the extent of \$75 million; technical assistance for redevelopment areas to the extent of \$4-1/2 million; special eligibility of municipalities in the areas for urban renewal assistance; and vocational training and subsistence payments during industrial retraining for certain workers in these areas.

Under S. 268 - The Area Redevelopment Act - the Secretary of Commerce would administer Federal assistance to industrial and rural redevelopment areas with the assistance of an Area Economic Redevelopment Administrator. Major provisions are: loans and participation for private projects to the extent of \$150 million, provided that loans shall not be extended for the purchase of machinery and equipment; loans for public facilities to the extent of \$50 million; with a maximum of 50 per cent government participation in any one project; information and technical assistance for redevelopment areas to the extent of \$3-1/2 million; special assistance for businesses in these areas in obtaining Federal procurement contracts; special eligibility of municipalities in these

The Honorable A. Willis Robertson

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areas for urban renewal assistance; and vocational training to workers in these areas.

Under S. 1064 - The Area Assistance Act of 1959 - the Secretary of Commerce, with the aid of an Area Assistance Administrator, would provide Federal technical and financial assistance to areas of substantial and persistent unemployment. Major provisions are: loans for industrial projects to the extent of \$50 million, with a maximum of 35 per cent government participation in any one project, provided that loans shall not be extended for the purchase of machinery and equipment; technical assistance grants to the extent of \$3 million for areas of substantial and persistent unemployment and other economically disadvantaged areas; assistance, financial or otherwise, to State vocational education agencies for specified areas; special eligibility of municipalities in these areas for urban renewal assistance and first priority for loans for public facilities.

These bills are directed at an important economic and social problem which has persisted in certain communities during much of the postwar period. The Board of Governors is in general accord with a number of the fundamental purposes contained in the bills.

As we understand these measures, they would provide assistance to areas where substantial and persistent unemployment and under-employment have continued even during periods of high output and generally low unemployment in the economy as a whole. The bills are not designed to deal with problems of economic recession, which we believe can best be handled by appropriate monetary, tax, and expenditure policies. Their purpose is to direct economic resources that are unemployed or under-employed into activities that will provide lasting improvement of job opportunities by the establishment or expansion of productive activities that would otherwise not be undertaken. In the process of assisting certain areas, the burden of unemployment will thus not be shifted to other areas. The maximum amount of State, local, and private cooperation and participation will be utilized with Federal assistance aimed at helping communities help themselves.

There are many reasons for substantial and persistent unemployment in some communities. Among the factors which may contribute to the economic decline of particular areas are; important changes in technology, lack of industrial diversification, shifts in consumer demands, loss of markets of certain industries to competitive products, shifts in plant locations, and changes in occupational skills required to meet the needs of a dynamic and growing economy. Prescription of remedies for particular situations developing from this multitude of causes is extremely complex and raises difficult administrative problems. The Administrator or Secretary of Commerce is given some discretion in designating

The Honorable A. Willis Robertson

industrial and redevelopment areas; but he is required to designate areas in which stipulated percentages of unemployment have continued for specified periods. The private projects for which loans may be made are described very generally, and appear to include any industrial project which will permanently improve employment opportunities.

The difficult administrative problem will be to judge whether assistance to one area will tend to shift the burden of unemployment rather than add to output of the national economy. Another difficulty will be to determine during and immediately after a recession which areas are likely to continue to have persistent unemployment and which will show improvement as economic conditions advance. The bills, as drafted, provide the same access to assistance for any area designated as distressed, no matter what the cause or the relative seriousness of unemployment. Some modification of the criteria of distress, as well as the establishment of a sliding scale of Federal assistance in relation to degree and duration of unemployment would therefore appear to be called for.

The highest proportion of Federal assistance should be extended only to those areas where substantial levels of unemployment have persisted for very long periods of time. In those areas where unemployment may have been induced by the recent recession and may prove to be temporary, the proportion of Federal financing should be more limited and government assistance in the form of loans should take precedence over direct grants.

The Board has insufficient information to determine the level of lending authorization necessary to meet the purposes of this program. However, problems inherent in a new program and the difficulty of assembling the technical skills required for administration dictate that initially such a program should be held to modest proportions until experience in the administration of the Act has been gained.

Sincerely yours,

*Wm. McC. Martin, Jr.*

Wm. McC. Martin, Jr.

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

Item No. 11  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959.



Confidential (FR)

Mr. Alfred Hayes,  
President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Hayes:

In view of the circumstances set forth in your letter of February 5, the Board of Governors approves the retention of Mr. Parke R. Elmer in active service of the Bank up to attainment of age 70, with the understanding that his salary and salary grade will be administered in a manner consistent with the Bank's regular salary programs.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 12  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959.



CONFIDENTIAL (FR)

Mr. Malcolm Bryan, President,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Bryan:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Atlanta for the period March 1 through December 31, 1959, at the rates indicated, which are the rates fixed by your Board of Directors, as reported in your letter of February 13, 1959:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Theodore Walter	Assistant Vice President	\$10,000
John T. Harris	Assistant Cashier and Manager	9,000

The Board has noted the change in assignments of Vice Presidents Schuessler and McCorvey.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 13  
2/26/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 26, 1959

Mr. R. B. Wiltse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of February 19, 1959, the Board approves the appointment of Richard E. Speagle as an examiner for the Federal Reserve Bank of New York. Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

