

Minutes of the Board of Governors of the Federal Reserve System
on Monday, April 6, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak 1/
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Noyes, Adviser, Division of Research
and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Benner, Assistant Director, Division
of Examinations
Mr. Hill, Assistant to the Secretary
Mr. Brill, Chief, Capital Markets Section,
Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and Chicago on April 2, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Amendments to Regulations T and U. There had been distributed to the Board a memorandum from Governor Robertson dated April 3, 1959, regarding a telephone request from President Livingston of the Federal Advisory Council for a delay in the final promulgation of the recently

1/ Withdrew from meeting at point indicated in minutes.

4/6/59

-2-

published proposed amendments to Regulations T and U until after the meeting of the Council with the Board on April 28, 1959. Mr. Livingston had expressed doubt whether it would be possible for the Council to meet before April 28 and indicated that this matter was considered sufficiently important to warrant consideration at a meeting of the Board and the Council.

During a discussion of the request, the view was expressed by some of the members of the Board that it would not be desirable to commit the Board to a delay in taking action on the proposed amendments until after April 28. As an alternative, it was suggested that if it were not possible for the Council as a whole to meet with the Board prior to that date, perhaps the executive committee might arrange to come to Washington some time next week, while other members of the Council could submit their comments in writing. Another alternative might be to advise the Council that the Board's staff would proceed to analyze the comments received from all sources and that the results would be discussed at the meeting on April 28 if the Board had not taken action on the amendments prior to that date.

In light of the various views expressed, Governor Robertson suggested explaining to Mr. Livingston that the Board had refused to grant a deferment of the April 6 deadline for submission of comments and therefore deemed it unwise to depart from that general position even in this instance. He also suggested saying that although the Board

4/6/59

-3-

felt obliged to decline to commit itself to delay final action until April 28, it would assume that the comments of individual members of the Council not already in hand would be received shortly, and that in any event such suggestions as the Council might wish to present on April 28 would be welcome for the purpose of the Board's continuing consideration of the regulations. Should the conversation with Mr. Livingston make it seem appropriate to refer to the possibility of a meeting of the Board with a committee of the Council, Mr. Livingston would be advised that such a meeting on April 13 or 15 would be agreeable to the Board.

There was agreement that the response should be along the lines suggested, and Governor Robertson was requested to talk with Mr. Livingston on that basis.

It was agreed that the Federal Reserve Banks should be requested by telegram to forward promptly and without analysis all comments that had been received by them with respect to the proposed amendments to Regulations T and U.

Messrs. Thomas and Brill then withdrew from the meeting.

Section 4(c)(6) oral arguments. Pursuant to the understanding at the meeting on March 26, 1959, arrangements had been made for the holding of oral argument at the Board's offices on May 11, 1959, with respect to the requests of First Bank Stock Corporation, Northwest Bancorporation, and Bank Shares Incorporated for determinations under

4/6/59

-4-

section 4(c)(6) of the Bank Holding Company Act. In addition, Otto Bremer Company had been invited to join in the oral argument. In a memorandum dated April 2, 1959, which had been distributed to the Board, Mr. Solomon advised that counsel for First Bank Stock, Northwest, and Bank Shares were understood to desire an interchange of the hearing examiners' reports and recommended decisions in their respective cases as well as the Otto Bremer case, and the memorandum indicated that there seemed no reason to object to such a request.

Mr. Solomon stated that advice had now been received that Otto Bremer Company did not wish to join in the oral argument on May 11. He proposed sending a letter to that company inviting the submission of a brief, advising that copies of the report and recommended decision in its case were being sent to the other three holding companies, and enclosing copies of the reports and recommended decisions in the other cases.

Agreement was expressed with the procedure outlined by Mr. Solomon and it was understood that appropriate letters would be sent to the respective bank holding companies.

Mr. Noyes then withdrew from the meeting.

First Bank Stock hearing (Item No. 1). There had been distributed to the Board a memorandum from Mr. Solomon dated April 2, 1959, raising a question, in connection with the hearing to be held in Minneapolis on April 7, 1959, concerning the application of First Bank Stock Corporation to acquire shares of the Eastern Heights State Bank of St. Paul,

4/6/59

-5-

whether the record in a public hearing, such as ordered in this case, was available for public inspection. Also involved was the question of availability of the application for inspection by opposing parties prior to the hearing. Hillcrest State Bank of St. Paul had asked to testify at the hearing, had stated that it would like to examine a summary of First Bank Stock's presentation, and had been told by the Hearing Officer that a copy of the application could be examined at the Federal Reserve Bank of Minneapolis. As a matter of courtesy, Counsel for the Reserve Bank had advised Counsel for First Bank Stock that it proposed to make the material available. However, the latter expressed objection on the grounds that, while the Board's order provided for a "public hearing", this did not contemplate that the record would be made available for examination by the public and the copying of excerpts. Previously, the Reserve Bank had told the Secretary of the Independent Bankers Association, who was to testify at the hearing, that a contract forming a part of the application was not available for inspection.

Mr. Solomon stated that, in view of the specific request, the Minneapolis Reserve Bank hoped to be able to give an answer prior to the beginning of the hearing tomorrow. He then distributed a draft of telegram to the Reserve Bank indicating that the intention of the Board's order was to make the application available for public inspection.

4/6/59

-6-

Governor Mills noted that the application papers included the aforementioned contract between First Bank Stock Corporation and Minnesota Mining and Manufacturing Company and raised the question whether this would constitute disclosure of information properly held confidential, to which Mr. Solomon responded in terms that the contract did not appear to contain anything of a startling nature and that it was one of the items Hillcrest would like to examine.

Mr. Hackley suggested that the question be looked at from the point of view of the most effective discharge of the Board's responsibilities under the law. The purpose of a hearing was to assemble all of the facts regarding a proposed transaction and give objecting parties an opportunity to present their views and arguments. Therefore, it would seem desirable to make available to an objecting party all of the information in the record that might have a bearing on his objections. After expressing doubt that the application of First Bank Stock contained anything of a more confidential character than the application of the First New York Corporation, which had been made available for inspection, he said it would seem appropriate to start with the presumption that the whole application in a case of this kind should be made a part of the public record.

After Governor Robertson expressed agreement with the view stated by Mr. Hackley, Governor Shepardson returned to the question of the contract that was included in the First Bank Stock application and

4/6/59

-7-

inquired whether it had enough bearing on the situation to be an appropriate part of the disclosed information. In reply, Mr. Solomon said one might argue that it was not absolutely imperative to make the contract a part of the public record in order to tell the whole story, but the contract seemed to be a fairly relevant part of the entire picture. In this connection, he noted that certain items received in evidence under seal in the Firstamerica case were of quite a different character, having to do with such things as management succession plans and bank borrowings. Governor Shepardson then expressed agreement with the view that the contract was a part of the record in the First Bank Stock case that should be made available for public inspection.

At this point Governor Szymczak withdrew from the meeting to keep an appointment. Before leaving, however, he informed the Chair of his view that the application of First Bank Stock should be made available for inspection to the parties who had requested to see it.

In response to a question by Governor King as to whether it might be desirable to make clear to all bank holding companies that applications filed by them were subject to the possibility of being made public, in order that such companies might be guided accordingly in the future, Mr. Hackley said the companies in effect were on notice that a public hearing might be held on any application. When filing

4/6/59

-8-

an application, a bank holding company in effect was aware that everything in the application might at some time become part of the record in a public hearing.

Governor Mills then stated that he would wish to dissent from a decision to authorize an application such as that of First Bank Stock to be made available for public inspection until such time as information was obtained regarding the practice of other Government agencies confronted with a similar problem. After noting that certain members of Congress had proposed legislation whereby hearings would have to be held on applications by banks to enter into transactions such as the establishment of branches, he said that he found it difficult to distinguish between applications for expansion by State member banks, which are handled in strict confidence, and applications for expansion through the holding company device, where, as in this case, the whole record might be thrown open to the public.

After further discussion, it was agreed, Governor Mills dissenting, to advise the Federal Reserve Bank of Minneapolis that it was the intent of the Board's order for hearing in the First Bank Stock case to make both the application and the hearing record available for public inspection. This action was taken with the understanding, in the light of Governor Mills' comments, that the Legal Division would check with appropriate

4/6/59

-9-

agencies of the Government regarding their practices and bring the general subject back to the Board for further consideration if the information received in response to such inquiries should warrant.

A copy of the telegram sent to the Federal Reserve Bank of Minneapolis pursuant to the action taken by the Board is attached as Item No. 1.

Secretary's Note: The Secretary's Office subsequently was informed by the Legal Division that telephone inquiries had been made of several administrative agencies regarding this question, including the Interstate Commerce Commission, Federal Communications Commission, Federal Power Commission, Securities and Exchange Commission, and Civil Aeronautics Board. These inquiries indicated that (1) applications for licenses are usually made public by these agencies; (2) portions of the application may be treated in confidence in the discretion of the agency; (3) such confidential treatment usually is given only pursuant to specific statute or rule of the agency; and (4) confidential treatment ordinarily is granted only in fairly unusual situations, for example, when information has intrinsic value such as chemical formulas, results of test borings in oil explorations, etc.

Mr. Hostrup then withdrew from the meeting.

Possible violation of Regulation U (Item No. 2). Pursuant to the understanding at the meeting on March 30, 1959, there had been distributed to the Board a revised draft of reply to a letter from the Comptroller of the Currency dated March 11, 1959, regarding a possible

4/6/59

-10-

violation of Regulation U encountered in a recent examination of the Meadow Brook National Bank of Nassau County, West Hempstead, New York.

It was suggested and agreed that the last paragraph of the draft, which invited comment on the adequacy of the currently proposed amendments to Regulation U to deal with a case of this kind, be deleted since the Comptroller had already advised that he had no comments on the proposed amendments and the deadline for submission of comments expired today.

Accordingly, unanimous approval was given to a letter to the Comptroller in the form attached as Item No. 2.

Mr. Molony then withdrew from the meeting.

State legislation (Item No. 3). With a memorandum from Mr. Hackley dated April 2, 1959, there had been distributed to the Board a draft of reply to a letter from the Budget Bureau inquiring whether the Board desired to submit any proposals for State legislation that might be considered by a committee of the Council of State Governments for presentation to State legislatures in 1960. The proposed reply stated that the Board had no such proposals.

Mr. Hackley noted that the Bank Management Commission of the American Bankers Association had been working with the System Subcommittee on Collections in the preparation of a model State statute which would have the effect of eliminating the necessity for protest on most checks. He added that after the proposed statute had been

4/6/59

-11-

submitted to the Board, the Board might wish to consider recommending it to the Bureau of the Budget for consideration by the Council of State Governments.

Unanimous approval then was given to the proposed letter to the Bureau of the Budget, a copy of which is attached as Item No. 3.

Mr. Benner then withdrew from the meeting.

Arrangements for meeting with Mr. Friedman. With reference to the understanding at the meeting on March 23, 1959, regarding the handling of a request by Mr. Sidney Friedman to visit the Board's offices to discuss the applicability of the Clayton Act to his service as a director of both the Meadow Brook National Bank of Nassau County and the Commercial Bank of North America, New York City, the Secretary reported that it had been learned in a conversation with Mr. Friedman that he had in mind for the present only a discussion at the staff level, or possibly with a single Board member. The impression had been gained that Mr. Friedman was not prepared to make a presentation to the Board as a whole at this time, and April 16 had been suggested as a possible date for his visit.

There was agreement with the view expressed by Governor Mills that in the circumstances the meeting should be held at the staff level.

The meeting then adjourned.

4/6/59

-12-

Secretary's Notes: On April 3, 1959,
Governor Shepardson approved on behalf
of the Board the following items:

Memoranda from appropriate individuals concerned recommending
the following actions affecting the Board's staff:

Transfers, effective April 5, 1959

Davita C. Leister, from the position of Secretary in the Division
of Research and Statistics to the position of Secretary in the Division
of Bank Operations, with no change in her basic annual salary at the
rate of \$4,190.

Harriet Dee Litoff, from the position of Clerk-Stenographer
in the Division of Personnel Administration to the position of Clerk-
Stenographer in the Division of Research and Statistics, with no change
in her basic annual salary at the rate of \$3,850.

Transfer and salary increase

Harry G. Felix, from the position of Assistant Federal Reserve
Examiner in the Division of Examinations to the position of Budget and
Planning Assistant, Office of the Controller, with an increase in his
basic annual salary from \$5,985 to \$6,285, effective April 12, 1959.

Salary increase

Robert F. Gemmill, Economist, Division of International Finance,
from \$8,810 to \$9,890 per annum, effective April 5, 1959.

Acceptance of resignation

Georgine Winslett, Clerk-Typist, Division of Research and
Statistics, effective April 3, 1959.

Letter to the Federal Reserve Bank of New York (attached Item
No. 4) approving the reappointment of Roger E. Titus, Jr., as assistant
examiner.

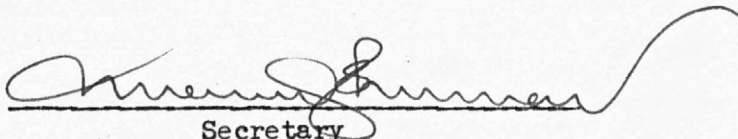
Memorandum from the Division of Personnel Administration dated
April 3, 1959, recommending the execution of a Certificate of Availability
stating that if Edward Cross, Operator, Offset Press, (Multilith),
Division of Administrative Services, and a member of the District of
Columbia Air National Guard, should be ordered to active service in the

4/6/59

-13-

Air Force of the United States during a period of mobilization, the Board would not request a delay in his entry on active duty. The memorandum pointed out that such a certificate could be rescinded by the Board at any time within a 60-day period.

Governor Shepardson approved today on behalf of the Board a memorandum dated March 30, 1959, from Mr. Farrell, Director, Division of Bank Operations, recommending that authorization be given to reprint 4,000 copies of Part 1 of the "All Bank Statistics" volume and that the cost be charged against the balance in the special budget established for that project.



Secretary

T E L E G R A M
LEASED WIRE SERVICEItem No. 1
4/6/59BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

April 6, 1959.

DEMING - MINNEAPOLIS

In connection with the Board's order of January 29, 1959, ordering a "public hearing" with respect to the application of First Bank Stock Corporation to acquire shares of Eastern Heights State Bank of Saint Paul, it is understood that a question has arisen as to the extent to which the application and thereafter the record of the hearing was intended to be made available for public inspection, copying of excerpts, etc.

It was the intention of the order to make the application available for public inspection and excerpts thereof also available to the public upon payment of the cost of duplication. It was also the intention of the order to make the record of the hearing available for public inspection or for the obtaining of copies from the reporter upon payment of the standard charge. This would apply to both transcript and exhibits.

Please give a copy of this telegram to First Bank Stock Corporation.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 2
4/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 6, 1959.

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

Dear Mr. Jennings:

This refers to your letter of March 11, 1959, regarding a letter from District Chief National Bank Examiner F. W. Krippel, and enclosures, concerning a possible violation of Regulation U encountered by your Examiner during a recent examination of the Meadow Brook National Bank of Nassau County, West Hempstead, New York.

It appears that the bank had on its books a loan of \$250,000 to Harold Roth, dated November 10, 1958. The loan was collateralized by 50,000 shares of U. S. Hoffman stock, a stock which is registered on a national securities exchange and had a market value at the time of the loan of \$569,000. Thus, the loan substantially exceeded the 10 per cent maximum loan value in effect under Regulation U at the time the loan was made. The stock certificates were dated November 16, 1958 as to 47,000 shares, and October 27, 1958 as to 3,000 shares. The loan was supported by a nonpurpose certificate. The Examiner's letter states that "It is public knowledge, having appeared in all the New York papers, that Mr. Roth, together with several others, has acquired control of U. S. Hoffman, within the past few years." A notation, the source of which was not clear, tended to indicate that the loan was to repay a loan to purchase the stock.

The Examiner indicated that "after discussion with the management, during which I told them that in my opinion this was probably a violation of Regulation U, Mr. Roth was called into the bank and he made the enclosed affidavit." The affidavit states, among other things, that: "The proceeds of the loan were not used by me either for the purpose of carrying a stock registered on a National Securities Exchange, or for the purpose of purchasing any securities similarly listed. At the time of the loan and for some time prior thereto, I owned the aforesaid securities free and clear of any liens."



Mr. L. A. Jennings

-2-

It appears that the affidavit of Mr. Roth does not answer several questions which are raised by the circumstances surrounding the loan. The sentence first quoted above from his affidavit is limited to describing the use of "proceeds" and merely states a conclusion without stating the facts on which it is based; the second sentence is indefinite in its use of the phrase "some time" as well as in its limitation to "liens."

It would seem that the bank may have been less concerned than would be expected with observing the spirit and purpose of the regulation. The question whether these facts involve a possible criminal violation or grounds for possible civil (injunction) proceedings might depend upon circumstances left uncertain in Mr. Roth's affidavit. It seems clear, in any event, that the bank, as a matter of compliance with the spirit of the regulation, should not have made the loan without obtaining a more satisfactory explanation of the suspicious circumstances, and that it should improve its practices.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
4/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 6, 1959.



Mr. Raoul Archambault, Jr.,
Assistant Director,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Archambault:

This refers to your letter of February 27, 1959, inquiring whether the Board has any proposals for State legislation which it would desire to present through the Bureau of the Budget for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.

There do not appear to be any proposals for amendments to State laws which the Board would wish to suggest at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
4/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 6, 1959.

Mr. John F. Pierce, Chief Examiner,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Pierce:

In accordance with the request contained in your letter of March 31, 1959, the Board approves the reappointment of Roger E. Titus, Jr., as an assistant examiner for the Federal Reserve Bank of New York. Please advise the date on which the reappointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.