

Minutes for April 20, 1959

To: Members of the Board  
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>RM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	_____	x <u>CCB</u>
Gov. Shepardson	_____	x <u>[Signature]</u>
Gov. King	x <u>[Signature]</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Monday, April 20, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson  
Mr. King

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Young, Director, Division of Research  
and Statistics  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hackley, General Counsel  
Mr. Molony, Special Assistant to the Board  
Mr. Shay, Legislative Counsel  
Mr. Noyes, Adviser, Division of Research  
and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Nelson, 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

Item circulated to the Board. The following item, which had  
been circulated to the Board and copy of which is attached to these  
minutes as Item No. 1, was approved unanimously:

Letter to the Federal Reserve Bank of Richmond  
approving the appointment of John E. Mallory, Jr.,  
as Alternate Assistant Federal Reserve Agent  
and William C. Norton as Federal Reserve Agent's  
Representative at the Baltimore Branch.

Mr. Johnson then withdrew from the meeting.

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1/ Entered meeting at point indicated in minutes.

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Pan American Bank of Miami (Item No. 2). In a letter to the Board dated March 27, 1959, Vice President Denmark of the Federal Reserve Bank of Atlanta advised that he had an appointment with the board of directors of the Pan American Bank of Miami, Miami, Florida, on April 28, 1959, to review the report of examination made as of November 3, 1958, and requested an expression of the Board's views regarding the position to be taken on the matter of charging off estimated losses shown in the report, wherein the examiner requested that losses of \$1,109,585 be charged off upon receipt of the report unless previously eliminated otherwise. Mr. Denmark reported that losses had been charged off in the amount of \$226,760, the net amount of the bad debt reserve at the time of the charge-offs. To charge off the balance of approximately \$882,800 would require the bank to use surplus to some extent, inasmuch as net undivided profits totaled only \$344,000 at the date of examination. In Mr. Denmark's absence, Chief Examiner Sheffer, in a letter dated April 2, 1959, and in a later telephone conversation, recommended that at the meeting on April 28 the bank be required to charge off, or set up valuation reserves to cover, the losses shown in the examination report except where definite improvement had been made in the status of the loans. The Division of Examinations recommended that the Board concur in Mr. Sheffer's suggestion, except that Mr. Denmark be given latitude for exercise of discretion when he talked with

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the board of directors. It was noted that an examination to be made by the State Banking Department in May would include a complete credit investigation by Federal Reserve examiners and would be available by early June, at which time, if the proposed program to add new capital had failed, some concrete corrective action would be necessary. A draft of letter to the Reserve Bank was submitted with the memorandum, and a revised draft was distributed later.

Mr. Benner, in summarizing the memorandum, commented that it was problematical what effect the charge-offs would have on the bank. He noted that the 90-day period within which the bank had anticipated that it would be able to give assurance that the proposed capital increase program would be carried through was up today. However, nothing had been heard from the bank and it seemed doubtful that satisfactory arrangements had been made.

Governor Mills stated that this was a difficult problem. On the one hand, the Board should not become a party to presenting a deceptive picture of the bank's condition to its customers. On the other hand, to require the bank to draw upon its surplus and show a vastly changed capital structure could not only be publicly disturbing but also reduce the possibility of introducing new capital through the program reportedly under negotiation. Instead of requiring immediate charge-off of the losses, one alternative might be to require the bank to set up special

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loss reserves. While these would show up in the next published statement, such a procedure might at least suggest an element of doubt as to whether all of the criticized paper would eventuate in loss without any substantial recovery. From the standpoint of the proposed sale of stock by the bank's parent company, South Dade Farms, Inc., he noted that potential purchasers would look to the Pan American Bank as one of parent company's assets supporting their investment, and he would therefore be reluctant to give any favorably colored slant to that particular segment of the company's holdings. On balance, he would favor dispatching the proposed letter, but with the understanding that the flexibility in it would be the guiding influence rather than a summary directive to charge off the criticized paper.

Governor Robertson expressed agreement with the position taken in the letter. If the member bank preferred to set up a reserve rather than to charge off the estimated losses and such a procedure was agreeable to the Atlanta Bank, it would also be agreeable to him. In any event, however, steps must be taken and the Atlanta Bank was entitled to the Board's views.

Chairman Martin entered the meeting at this point and Governor Szymczak reviewed the discussion for him.

Unanimous approval then was given to the proposed letter to the Federal Reserve Bank of Atlanta, a copy of which is attached hereto as Item No. 2.

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Morgan-Guaranty merger (Item No. 3). In a letter dated January 26, 1959, Representative Celler referred to the proposed merger of J. P. Morgan & Co. and Guaranty Trust Company, and to the proposed merger of Manufacturers Trust Company and Bankers Trust Company, all of New York City, and asked (1) what competitive test the Board would apply, (2) whether the Board would consult the Department of Justice, and (3) whether hearings would be held by the Board. In its reply of February 10, 1959, the Board noted that the Manufacturers-Bankers merger had been dropped; that no application had been received in connection with the Morgan-Guaranty proposal; but that, if such an application were received, Mr. Celler's views would be given serious consideration. At the meeting on February 26, Mr. Hackley reported that Mr. Herbert Maletz, Counsel for the House Judiciary Committee, had advised that if and when any application should be received by the Board in connection with the proposed Morgan-Guaranty merger, Mr. Celler would like to be informed as to the three questions he had raised. It was the Board's preliminary view that no public hearing would be necessary, but the Board deferred a decision on all three questions pending receipt of an application.

In a memorandum dated April 17, 1959, which had been distributed to the Board, Mr. Hackley advised that an application for the establishment by the continuing Morgan-Guaranty Trust Company of a branch at 23 Wall Street (present office of J. P. Morgan & Co.) had been received. Therefore, a draft reply to Mr. Celler was submitted for consideration.

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In reviewing the matter, Mr. Hackley commented that the Board was required to consider only the establishment of a branch, since the proposed merger would not involve a bank stock acquisition subject to section 7 of the Clayton Act or a diminution of capital or surplus that would require the Board's approval of the merger under section 18(c) of the Federal Deposit Insurance Act. In the circumstances, the Board's consideration would include, in addition to the effect of establishment of the branch on competition, such factors as the financial condition and management of the continuing institution, the needs and convenience of the banking public, and other matters relevant to the public interest. However, as indicated in the proposed letter, it would not seem necessary to consult the Department of Justice or to hold a public hearing.

Following discussion, during which several changes in the draft were suggested, unanimous approval was given to a letter to Mr. Celler in the form attached hereto as Item No. 3.

Amendments to Regulations T and U (Item No. 4). There had been distributed to the Board a memorandum from Messrs. Solomon and Brill dated April 17, 1959, summarizing the comments on the proposed amendments to Regulations T and U contained in approximately 200 letters received directly by the Board or transmitted through the Federal Reserve Banks.

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After discussion of the summary, Chairman Martin suggested that the Board set a date--preferably April 29, 1959, the day after the joint meeting of the Board and the Federal Advisory Council--on which to hear those who had inquired about a hearing or requested an opportunity to present their views orally.

Governor Mills suggested, as an intervening step, that the staff endeavor to make available a memorandum sifting out the substantive comments and recommending what revisions in the proposed amendments might be made. This, he thought, would be a valuable guide for the members of the Board preparatory to hearing the comments of the Federal Advisory Council on April 28 and others the next day.

The Secretary then read a draft telegram that might be sent to the Presidents of the Federal Reserve Banks advising them to inform persons who had raised the question of oral presentation that they could present their views at the Board's offices on the date specified or at the nearest Federal Reserve Bank.

In response to a question as to whether limiting participation in the oral hearing might be interpreted as favoritism, particularly if the views of the parties heard should receive favorable consideration, Chairman Martin expressed the opinion that to open the discussions to the public would change the character of the oral presentations in a way that he thought would be undesirable. There was general agreement with this position.

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With regard to the staff recommendations, Mr. Solomon noted that comments from the Federal Reserve Bank of New York had not yet been received. He then suggested that it might be desirable for the staff to have the benefit of consultation with representatives of some of the Federal Reserve Banks in preparing the recommendations. In response to an inquiry, he stated that the staff of the Securities and Exchange Commission had expressed a willingness to be of any desired assistance.

It was agreed that arrangements along the lines suggested by Mr. Solomon would be appropriate.

Pursuant to suggestions by Governor Robertson, several changes were decided upon in the form of telegram to the Federal Reserve Banks regarding the invitation to interested parties to be heard. Accordingly, since April 29, 1959, was regarded as an appropriate date for oral presentations on the proposed amendments, it was understood that telegrams in such form would be sent to the Presidents of the Federal Reserve Banks. A copy of the telegram sent to the Federal Reserve Bank of New York pursuant to this understanding is attached hereto as Item No. 4, and similar telegrams were sent to the other Banks.

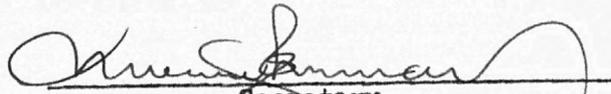
It was understood that the Board's staff would continue work on analyzing the written comments received, with a view to having a memorandum of recommendations available before April 27.

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The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Chicago (attached Item No. 5) approving the appointment of David F. Popp as assistant examiner.

  
Secretary

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

Item No. 1  
4/20/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 20, 1959



Mr. Alonzo G. Decker, Jr.,  
Federal Reserve Agent,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Decker:

In accordance with the request contained in your letter of March 12, 1959, the Board of Governors approves the appointment of Mr. John E. Mallory, Jr. as an additional Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Richmond and of Mr. William C. Norton as an additional Federal Reserve Agent's Representative at the Baltimore Branch.

This approval is given with the understanding that they will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of their duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, their responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Mallory may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent. Similarly, when not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Norton may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if these new appointees are fully informed of the importance of their responsibilities as members of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Alonzo G. Decker, Jr.

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It is noted from your letter that with the approval of these appointments by the Board of Governors, Messrs. Mallory and Norton will execute the usual Oath of Office which will be forwarded to the Board of Governors and that each appointment will become effective on the date of execution of the Oath.

Very truly yours,

**(Signed) Merritt Sherman**

Merritt Sherman,  
Secretary.

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

Item No. 2  
4/20/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 20, 1959

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

Dear Mr. Bryan:

In Mr. Denmark's letter of March 27, 1959, he asked for an expression of the Board's views regarding the charge off of losses estimated in the current report of examination of the Pan American Bank of Miami, Miami, Florida. Previously he had advised us that total charge offs of \$226,760.11 had been made and apparently this would leave a total of around \$882,000 still to be charged off. It is his wish to inform the board of directors of the bank at the meeting on April 28 when such charge offs should be made.

Mr. Sheffer on April 2, during Mr. Denmark's absence, informed the Board that it was the view of Mr. Denmark and him that the bank should be required to charge off the losses as shown in the report of examination except in the case of definite improvement where there was a reasonable indication that the classified loans in question had been so strengthened that there would be no question of their ultimate collectibility.

The Board has given careful consideration to the two letters from Mr. Denmark and Mr. Sheffer and concurs that you should be authorized to request that all losses shown in the last report of examination be charged off immediately, except for those which have been heretofore charged off and those which have shown such improvement as to justify their elimination from this classification. Within that range, the Board wants you and Mr. Denmark to feel free to make such changes in the charge-off program as may be deemed reasonable in the light of any facts and views which may be presented at the meeting.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
4/20/59

OFFICE OF THE CHAIRMAN

April 20, 1959



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

Dear Mr. Chairman:

On February 20, 1959, Mr. Herbert Maletz, Counsel to your Committee, advised the Board's General Counsel that, if and when any application should be received by the Board in connection with the proposed merger of Guaranty Trust Company and J. P. Morgan & Co., you would like to be informed as to (1) whether the Board would apply the Clayton Act test of "substantial" lessening of competition in considering such application, (2) whether the Board would seek the views of the Department of Justice regarding the application, and (3) whether the Board would order a public hearing on the application.

The Board now has before it an application for its approval of the establishment, by the State member bank continuing after the proposed merger, of a branch at 23 Wall Street, the location of the only present office of J. P. Morgan & Co. It appears that the proposed merger does not involve a bank stock acquisition subject to section 7 of the Clayton Act or a diminution of capital or surplus requiring the Board's approval of the merger under section 18(c) of the Federal Deposit Insurance Act. Our jurisdiction is derived solely from section 9 of the Federal Reserve Act, which requires a State member bank to obtain the Board's approval before establishing a branch.

In this case, as in others involving branch applications, the Board will consider the financial condition and management of the institution, the needs and convenience of the banking public, and other factors relevant to the public interest, including the probable effect of establishment of the proposed branch upon banking competition.

In view of the fact that the Board has before it only an application for approval of a branch, the Board does not plan to seek

The Honorable Emanuel Celler -2-

the views of the Department of Justice regarding this matter; and, in the circumstances of this case, it does not appear that any useful purpose would be served by a public hearing.

Sincerely yours,

*Wm. McC. Martin, Jr.*

Wm. McC. Martin, Jr.

Item No. 4  
4/20/59

April 21, 1959

HAYES - NEW YORK

After considering requests by several firms and one association to have an opportunity for oral presentation of their views with respect to proposed amendments to Regulations T and U, either by formal hearings or through informal consultations, Board has agreed that interested persons may meet with available members of the Board and its staff on Wednesday, April 29, 1959, beginning at 10:00 a.m. The Conference will not be public. Interested persons in your district who have raised the question of oral presentation of their views should be informed that they may do so, either in the Board's offices on the date specified, or, if they prefer, at their nearest Federal Reserve Bank. In latter event, summary of views should be sent to reach Board's offices before close of business April 29.

With respect to your district, requests that have reached the Board for an opportunity to present views orally include New York Clearing House Association, D. H. Blair & Co., and H. Hentz & Co. Board is wiring these three that they may present views orally if they so desire on Wednesday, April 29, commencing at 10:00 a.m. in Room 1202 of the Board's building. It is understood that New York Stock Exchange may also have discussed informally question of a hearing, and it will be appreciated if you will ascertain and advise Board by April 24 whether it desires to present additional comments orally. Please wire no later than April 24 names of any other firms or organizations requesting opportunity to present views to the Board on day specified.

(Signed) Merritt Sherman  
SHERMAN

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

Item No. 5  
4/20/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 20, 1959.

Mr. W. R. Diercks, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of April 16, 1959, the Board approves the appointment of David F. Popp as an assistant examiner for the Federal Reserve Bank of Chicago. 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.