

Minutes for June 24, 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>mm</u>	_____
Gov. Szymczak	x <u>mm</u>	_____
Gov. Mills	x <u>mm</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____
Gov. King	x <u>mm</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, June 24, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Hackley, General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Davis, Assistant Counsel
Miss Hart, Assistant Counsel

Items circulated to the Board. The following items, which had
been circulated to the members of 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 Bucks County Bank and Trust Company, Perkasie, Pennsylvania, granting an extension of time to establish a branch in the Borough of Quaker- town.	1
Letter to the Federal Reserve Bank of St. Louis regarding service by Mr. Philip F. Lichtenstein as a director and officer of a national bank.	2

1/ Entered at point indicated in minutes.

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Policy record for 1958. There had been distributed to the Board copies of a memorandum from Mr. Riefler dated June 23, 1959, submitting a draft of the Federal Open Market Committee policy record for 1958. This draft reflected a number of changes suggested by members of the Committee and staff following distribution of a previous draft under date of May 15, 1959, the principal one being the insertion of an introductory statement substantially in the form distributed to the members of the Committee on May 29. The introductory statement set forth the statutory basis for including Open Market Committee and Board policy records in the Board's Annual Reports, described the basis on which the Open Market Committee policy record was prepared, and developed the point that, although many policy decisions were by unanimous vote, emphasis on specific reasons for preferring a particular line of policy might vary from one Committee member to another.

There had also been distributed copies of a memorandum from Mr. Sherman dated June 5, 1959, submitting a draft of record covering policy actions taken by the Board of Governors during 1958. A second memorandum from Mr. Sherman, distributed under date of June 23, 1959, submitted, in the light of suggestions by Governor Robertson, a revision of the statement explaining the action taken on April 17, 1958, reducing reserve requirements of member banks and a revision of the statement of Governor Robertson's reasons for voting against the increase in margin requirements which was approved by the Board on October 15, 1958.

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Consideration was given first to the draft of Federal Open Market Committee policy record, and Mr. Riefler suggested a further change. At the meeting on February 11, 1958, he recalled, the Open Market Committee contemplated free reserves in the area of \$200 to \$300 million. In late February, however, the volume of free reserves increased, reflecting among other factors a reduction in reserve requirements by the Board of Governors, and the Committee authorized by telegram the maintenance of a somewhat higher level of free reserves than contemplated at the February 11 meeting. It had been suggested that a reference to this telegraphic authorization be included in the policy record. Mr. Riefler agreed with this suggestion and recommended incorporating a notation in the entry covering the Committee meeting on March 4, 1958.

Governor Balderston then asked for comment on the proposed introductory statement to the policy record, and no member of the Board indicated objection to inclusion of the statement in the form submitted.

Thereupon, subject to the addition mentioned by Mr. Riefler, the draft of policy record of the Federal Open Market Committee for 1958 was approved unanimously for inclusion in the Board's Annual Report.

With respect to the draft of Board policy actions, discussion of specific entries was limited to the explanation of the action taken on April 17, 1958 in reducing reserve requirements. As originally stated, the final paragraph of the explanatory statement would have indicated

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that this action, consistent with over-all credit policy under existing conditions, was taken in recognition of the prospective need for additional reserves and to relieve pressures that were appearing on the reserve positions of central reserve and, to a somewhat lesser extent, reserve city banks. The statement also was made that country banks, on the other hand, appeared to be amply supplied with reserves. The suggestion by Governor Robertson contemplated adding a sentence as follows: "Some members felt that the existing situation afforded an opportunity to reduce the level of reserve requirements at a time when such action was consistent with credit policy and at the same time further to enlarge the area of flexibility for System action should it become necessary at some future date to institute a policy of credit restraint in the light of changed economic conditions."

At Governor Balderston's suggestion, it was agreed that the sentence referring to country banks should be eliminated.

Governor Balderston then inquired whether the first sentence of the paragraph did not afford an adequate explanation of the action.

In response, Governor Robertson said it was his general feeling that the policy record tended to convey the impression that all Board members were of exactly the same mind and arrived at a decision for the same reasons. In this particular instance, he had come to the same conclusion as the other members of the Board, but for different reasons. It would be unfortunate, he felt, for the record to make it appear as though everyone had simply "followed the leader."

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Governor Shepardson commented that he had no particular objection to the entry in the form suggested by Governor Robertson and that he recalled Governor Robertson having so expressed himself at the time. However, he felt there was a question as to how far the policy record should attempt to go in reflecting various lines of reasoning through which the several members of the Board or the Open Market Committee arrived at a consensus. If such an effort were made, it might almost be necessary to provide a stenographic record of each person's views, for there were frequently various shades of differences, some quite marked and others hardly discernible.

Governor Robertson conceded that this would represent a difficult job but added that he thought the ideal way of putting together the policy record had not yet been found. While the introductory statement to the Open Market policy record and the addition he proposed to the Board policy record did not substantially expand the two records, he felt that they were helpful in providing a better tone because they indicated that the final determination of policy resulted from independent thinking on the part of the participants.

Governor Szymczak questioned the desirability of attempting to define personal views too clearly, his thought being that this might serve only to provide fuel for critics of System policy. After referring to the difficulty often experienced in arriving at a consensus, both on Board and Open Market Committee matters, because of prevailing shades of

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opinion, he suggested that in most cases it might serve no useful purpose to expound on the differences that preceded reaching the decision.

Governor Mills stated that his general approach was in accord with Governor Szymczak's reasoning and that he felt the policy record should reflect the final consensus without delineating all differences of opinion. In the Open Market policy record, however, he felt strongly that the setting forth of a unanimous vote on the policy directive obscured the fact that there might not have been complete unanimity of views at the meeting. At Open Market Committee meetings, he noted, it is customary for the Chairman to use language such as "the consensus of opinion" or "the majority opinion" in summarizing the discussion. At the same time, there may have been differences of opinion, perhaps vigorously expressed, and to suggest a unanimity of opinion by recording the vote on the policy directive seemed to him wrong.

Governor Robertson expressed agreement with Governor Mills.

At Open Market Committee meetings, he commented, it is customary for the majority view to be stated by the Chairman and for the members of the Committee to agree that the Chairman's statement of the majority view is correct. However, in agreeing that the Chairman has correctly stated the majority position a member is not necessarily indicating that he concurs with the consensus. The question of presentation in the policy record was another problem, one which he felt deserved further thought in preparing the record in the future.

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Governor Balderston said that he agreed somewhat with Governors Mills and Robertson, his view being that most of the proceedings at Open Market Committee meetings do not truly lend themselves to the taking of a formal vote and that the members agree principally on whether the Chairman has expressed the consensus of opinion. It might be well, he suggested, for the Board to discuss further at another meeting the form that the policy record should take in the future.

Governor Shepardson pointed out that the form of the 1958 Open Market Committee policy record was not different from the form of the record for the past several years. However, he was inclined to agree with those who had suggested that the principal point of expression at Open Market meetings was on whether the Chairman had correctly stated the dominant view, which did not necessarily mean that all of the participants concurred in it. Therefore, the setting forth of a unanimous vote on the policy directive in the policy record, without any indication that there were degrees of difference, might tend to give a misleading impression.

As to the suggestion by Governor Robertson with respect to the entry in the Board policy record, Governor Shepardson recalled that he had indicated concurrence in the views expressed by Governor Robertson at the meeting on April 17, 1958. He thought it did not make a great deal of difference whether the proposed final sentence of the explanatory

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statement was included or not, the question being simply how far the Board wished to go in reflecting differing points of view. However, this practice might eventually lead to a situation where each person who participated in a decision would want to insert such shades of opinion as he may have expressed.

Governor Shepardson then referred to the understanding of the Open Market Committee last year that the policy record would be maintained on a current basis and to the fact that this had not been done. He thought it desirable to have Open Market policy record entries prepared promptly so that they might be reviewed while the situation was fresh in the minds of the Committee members. Also, whenever the Board took a policy action, he felt that a policy record entry should be drafted as quickly as possible and approved on at least a tentative basis.

Agreement was expressed that the procedure stated by Governor Shepardson should be followed.

In a further comment on procedure at Open Market Committee meetings, Mr. Hackley brought out that at each meeting there is at least one policy decision on which a vote should be recorded, namely, the renewal or modification of the policy directive to the Federal Reserve Bank of New York. All of the previous discussion, he said, leads up to approval or modification of the directive, and that is a policy action of the kind where the law contemplates that a vote be recorded.

Following additional remarks which suggested the advisability of giving further thought to the form of the policy record for 1959 and

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future years, the Board reverted to the suggestion of Governor Robertson relating to the Board policy record for 1958. It was agreed to include the suggested additional sentence in the April 17 entry concerning the reduction of reserve requirements, and the proposed Board policy record, with that addition, was approved unanimously for inclusion in the 1958 Annual Report.

Annual Report for 1958. The text of the Board's 1958 Annual Report, which had been submitted to the members of the Board in draft, was approved unanimously, with the understanding that the report would be submitted to the Congress and other appropriate distribution made as soon as it was available in printed form.

Messrs. Thurston and Riefler then withdrew from the meeting. Mr. Molony, Special Assistant to the Board, who had entered the room during the foregoing discussion of the Board and Open Market Committee policy records, also withdrew at this point.

Pan American Bank of Miami (Item No. 3). In a letter to Governor Robertson dated June 19, 1959, General Sterling A. Wood, Assistant to the President of South Dade Farms, Inc., Miami, Florida, reported a breakdown in the negotiations with Glore, Forgan & Co. relating to a proposed stock issue from the proceeds of which additional capital was to have been provided for the Pan American Bank of Miami. General Wood also outlined steps taken and contemplated to be taken under the letter of guaranty dated July 24, 1958, in which South Dade Farms agreed to remove at least \$1 million of doubtful assets from

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Pan American prior to March 31, 1959, an additional \$500,000 by March 31, 1960, and a further \$500,000 by March 31, 1961, unless collected or corrected in such manner that the Federal Reserve examiners removed the loans from the doubtful classification. This report indicated that the Sottile interests had agreed to donate \$250,000 to the capital structure of Pan American and that all loans classified as loss in the examination made as of May 18, 1959, were to be charged off on July 31, 1959.

There had been distributed to the members of the Board copies of a proposed reply to General Wood which would call attention to the terms of the original guarantee, point out that its purpose was to restore capital lost through charge-offs, and make clear that no credit toward compliance with the guarantee could be permitted simply because classified items were charged off.

In commenting, Governor Robertson said that the purpose of the proposed reply to General Wood was to keep the record straight with respect to the obligation of South Dade Farms under its letter dated July 24, 1958. General Wood's attention would be called to the interpretation of the guarantee contained in a letter from President Bryan of the Federal Reserve Bank of Atlanta to the Pan American Bank dated September 26, 1958. If the reply to General Wood were sent, Governor Robertson felt that the Board should await further word regarding the outcome of the negotiations on the South Dade Farms' stock issue before deciding, in consultation with the other bank supervisory authorities, what further corrective steps seemed indicated.

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Unanimous approval then was given to the proposed letter to General Wood, a copy of which is attached as Item No. 3, with the understanding that a copy would be sent to the Federal Reserve Bank of Atlanta.

Messrs. Benner and Goodman then withdrew from the meeting.

Section 4(c)(6) cases. Bank Shares, Inc., Otto Bremer Company, First Bank Stock Corporation, and Northwest Bancorporation had requested determinations pursuant to section 4(c)(6) of the Bank Holding Company Act which would permit the retention of a total of 14 nonbanking organizations. Pursuant to the provisions of the Act, hearings were held on these requests, and oral arguments were heard by the Board on May 11, 1959.

In a memorandum dated June 19, 1959, which had been distributed to the Board, the Legal Division presented (1) a statement of the statutory and regulatory requirements for exemption under section 4(c)(6), (2) a discussion of general principles deemed relevant to a determination of the questions involved, (3) a discussion of each of the pending cases in the light of these general principles, and (4) a summary of the recommendations of the Division.

Following a discussion of procedure, during which Chairman Martin joined the meeting, it developed that all of the members of the Board were prepared to go forward with a determination of the pending cases.

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Mr. Hackley then presented, at the Board's request, a statement in which he summarized the rather complex issues involved, using as the basis of his remarks the information contained in the memorandum from the Legal Division. There followed questions by members of the Board relating to general principles and their applicability to particular circumstances, after which the Board addressed itself to the specific cases before it for determination.

It was agreed unanimously to grant the requests of Bank Shares, Inc., for determinations with respect to Chicago-Lake Agency, Inc., Columbia Heights Agency, Inc., Marquette Insurance Agency, Inc., and University National Agency, Inc.

With respect to Columbia Heights Agency, Inc., and University National Agency, Inc., Governor Robertson stated that there was a question in his mind whether the percentage of business of either of those insurance agencies related to transactions of its associated bank holding company subsidiary bank was substantial enough to warrant an exemption under section 4(c)(6). In the case of Columbia, the portion of premiums related to the transactions of its associated bank was only about 22 per cent, while in the case of University the volume was only about 16 per cent. As to Marquette Insurance Agency and Chicago-Lake Agency, where the percentages were approximately 44 and 62, respectively, he had no question. He did not want to record a dissent against granting the applications with respect to Columbia and

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University and he would not want to specify a percentage of business that would constitute a benchmark. At the same time, he feared that the Board, by granting the two requests, might be getting itself into a difficult position for it would have made a determination in a case where the related volume amounted to as little as 16 per cent of the total volume of business. He suggested that the Legal Division, in drafting the statements on these two cases, make it clear that the percentage of related business to total volume was considered in combination with all other factors pertinent to reaching a decision.

With respect to the requests of Otto Bremer Company, it was agreed unanimously as follows:

1. To grant the request for a determination with regard to Citizens Agency, Inc.;
2. To grant the request with regard to Western State Agency, Inc., subject to the condition that the lending activities of that agency be discontinued;
3. To grant the requested determination with regard to Willmar Investment Company, subject to the condition that the real estate agency business of that company be discontinued;
4. To grant the requested determination with regard to Drivers Exchange Agency & Realty, Inc., subject to the condition that the nature and volume of that company's real estate transactions remain as at present; and
5. To grant the requested determination with regard to New England Insurance Agency, on condition that the agency's volume of lending activities not be increased and that its real estate business be discontinued.

It was also agreed unanimously to grant the determination requested by First Bank Stock Corporation with respect to First Service Agencies, Inc., and the determinations requested by Northwest Bancorporation with respect to South Side Insurance Agency and Union Investment Company.

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There remained for consideration the request by First Bank Stock Corporation for a determination with respect to First Banccredit Corporation and the request of Northwest Bancorporation for a determination with respect to Northwestern Mortgage Company.

As to First Banccredit Corporation, all of its activities were of a "financial" nature and were wholly related to business of the holding company's subsidiary banks. However, it was the recommendation of the Legal Division that the request be denied because the activities of First Banccredit were thought to violate section 6 of the Bank Holding Company Act and perhaps also because they were inconsistent with the spirit of section 3(d) of the Act and of branch banking laws. Hence, such activities were deemed not a "proper" incident to banking and inconsistent with the purposes of the Bank Holding Company Act.

Governor Mills stated that he agreed with the conclusion but that his reasoning differed somewhat from that expressed in the memorandum. He was not entirely clear as to what extent the recommendation hinged on the General Contract case and the decision as to what would be deemed a discount, but this appeared to be given considerable weight. There was also a question in his mind regarding the importance attached to the so-called branch banking facet of the application, as compared with the fact that First Banccredit was engaged in activities in no sense related to banking. In his view, disapproval of the request for determination should be based predominantly on the requirement of the

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Bank Holding Company Act calling for divestment of a type of activity not directly related to banking and only a lesser importance should be placed on section 3(d). As he saw it, the continued operation of First Bancredit Corporation by the holding company would be in a sense contrary to the spirit of the Act because it would represent engaging in an extension of banking activities. In summary, since the operations of First Bancredit Corporation did not in any sense constitute a banking activity, he felt that this subsidiary should be disposed of by First Bank Stock Corporation.

When other members of the Board indicated that they concurred in the reasoning of the Legal Division, the suggestion was made that in this case there would appear to be a need for two statements, a statement of the Board and a concurring opinion. Governor Mills then stated that he would like to prepare a concurring opinion, with the assistance of the Legal Division.

Accordingly, it was agreed unanimously to deny the request of First Bank Stock Corporation for a determination with respect to First Bancredit Corporation, with the understanding that a statement of the Board and a concurring opinion would be prepared and that the individual members of the Board would indicate which they preferred when the two statements were available for review.

Consideration then was given to the request of Northwest Bancorporation with respect to Northwestern Mortgage Company. This case

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involved a company engaged in property management, mortgage loan brokerage and servicing, and insurance activities, all activities of a financial, fiduciary, or insurance nature. The Legal Division found the property management and mortgage loan activities to bear a substantial relationship to the business of Northwest Bancorporation's subsidiary banks, principally the Northwestern National Bank of Minneapolis. The insurance activities were inconsequential and could be regarded as incidental to the property management and mortgage loan activities. Taking all factors together, the Legal Division felt that the activities of Northwestern Mortgage Company, aside from the small insurance function, could properly be determined to be so closely related to the business of the subsidiary banks as to be a proper incident thereto and as to be consistent with the purposes of the Bank Holding Company Act. It was further the view of the Division that, while Northwestern Mortgage Company might properly be required to divest itself of the insurance activities, the Board could, in its discretion, exempt those activities as being merely incidental to the main business of the company. It was recommended, therefore, that the request for a determination be granted without any condition relating to the insurance activities.

Governor Mills stated that his view would be more restrictive than that of the Legal Division. Northwestern Mortgage Company, he observed, was engaged substantially in business going beyond the handling of transactions for the customers of Northwest Bancorporation's subsidiary

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banks. It was engaging in activities that would attract persons wishing to negotiate loans on large commercial properties and in placing those loans with various purchasers. It was also engaged in urban and farm property management for clients who were not necessarily the customers of banks in the holding company system. Those types of services could be provided by competing nonbanking institutions, so in a real sense it seemed to him that Northwestern Mortgage Company was operating in fields prohibited under the Bank Holding Company Act. Beyond that, many of the company's operations, where related to the business of customers of banks in the holding company system, could be carried on through the trust departments of Northwestern National Bank or other subsidiary banks, either through trust or agency arrangements, and the same purpose would be accomplished. In substance, the primary reason for the existence of Northwestern Mortgage Company appeared to him to be to engage in activities beyond the scope of activities handled by the holding company's subsidiary banks and their trust departments. To the extent that this was the case, it seemed to him that the company's activities fell within areas of activity prohibited by the terms of the Bank Holding Company Act. Furthermore, the earnings of the company appeared to derive largely from activities not handled by the holding company banks. Accordingly, in the absence of persuasive arguments on the other side, he would be inclined to deny the request for a section 4(c)(6) determination.

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Miss Hart commented that, according to the record, a large proportion of the property management activities of Northwestern Mortgage Company appeared to be performed for people who were customers of Northwest Bancorporation subsidiary banks. It was not entirely clear, however, whether this was necessarily so or whether it was merely an accident of operation. Under the present setup, the mortgage company theoretically could draw upon customers who had nothing to do with the holding company banks, but the fact that the mortgage company currently tended to handle mostly customers of the holding company banks would seem to argue in favor of the requested determination. As far as she could determine from the record, the principal reason for maintaining the mortgage company as a separate organization was that its operations could be performed more efficiently on a wholesale basis than by a single bank. On the other hand, one could not judge from the record to what extent competing banks found it necessary to use outside agencies. In any event, however, Northwest Bancorporation had made a fairly persuasive case that it could not maintain as efficient an organization within the trust department of the Northwestern National Bank. Apparently, the mortgage company was incorporated at a time of poor farming conditions when the national bank deemed expert management services in that area vital. Since the national bank could not provide those services efficiently within the framework of its trust department, the mortgage company was established and experts were employed on a full-time basis.

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Governor Robertson said he was not persuaded that the reasoning of the Hearing Examiner, who had listened to all of the facts and arguments, was wrong. Consequently, he was inclined to feel that the Hearing Examiner's adverse recommendation should be followed.

Governor Shepardson stated that he also was inclined to agree with the Hearing Examiner. However, he felt that a close question was involved as far as the property management activities were concerned and that there might be justification for permitting that portion of the mortgage company's activities to be retained.

There followed discussion with regard to the range of property management services commonly offered through the trust departments of larger commercial banks, after which Governor King commented that during oral argument Northwest Bancorporation representatives stressed as a reason for maintaining a separate organization the fact that a trust department could not operate beyond State boundaries. Thus, it was contended that the conducting of operations through Northwestern Mortgage Company was convenient and more economical because the mortgage company could serve a wider area.

It continued to be his conclusion, Governor King said, that it would be better if the request for a determination with respect to Northwestern Mortgage Company were not granted. If approved, he felt that the pattern thus suggested would be unfortunate inasmuch as it would point to approval of somewhat similar requests in the future.

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At this point Mr. Hackley recalled that Northwest Bancorporation had argued, with respect to this subsidiary, that the property management activities were not merely incidental to the business of banking but were actually inherent in the banking business. On the basis of the views expressed at this meeting, he suggested that the line of reasoning, if it were decided to deny the request, would not dispute the argument that the activities of the mortgage company in the property management field were closely related to the business of banking as conducted by the holding company and its subsidiary banks. It would be held, however, that those activities were not such as to meet the test of being properly incidental to banking for the purposes of section 4 of the Bank Holding Company Act.

Governor Balderston then stated that, as he saw it, the issue was whether a holding company should be permitted to maintain a separate corporate entity to carry on a functional activity for several subsidiary banks. Any independent bank, he pointed out, apparently would have the right to create an agency to carry on property management functions if it did not wish to furnish those services out of its own trust department. However, the Board would be denying a holding company the right to set up a property management organization to serve its subsidiary banks.

The question of interstate operations was then brought again into discussion, and Governor Shepardson inquired whether serious objection could be interposed on that account. If it would be proper,

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through one agency, to provide management services to customers of holding company banks in the State of Minnesota and, through another agency, similar services to customers of holding company banks in South Dakota, then it was not entirely clear to him what evil the Board would be safeguarding against by refusing to permit continuation of the management activities rendered by the Northwestern Mortgage Company, an organization equipped to handle a variety of problems common to the whole area.

Governor Mills commented that the real estate loan brokerage business of Northwestern Mortgage Company appeared clearly to constitute a type of activity that should be prohibited under the provisions of the Bank Holding Company Act. As to the property management activities, he felt that there might be reasonable doubt. He noted, however, that if the trust department of a bank, in the course of accepting and managing trusts, goes outside its home State, there are ordinarily provisions of State law requiring the appointment of ancillary trustees.

On this point Mr. Hackley said it appeared from the record that, both as to urban and farm properties, the activities of the mortgage company were primarily within the local area served by the Northwestern National Bank. This comment led Governor Mills to raise the question whether, if such were the case, the activities could not be handled by the trust department of the national bank. Governor Robertson noted, however, that during the oral argument Northwest Bancorporation contended that it would not be possible to retain a body of experts solely for the purpose of performing management functions for customers of Northwestern National Bank.

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Governor Robertson then suggested that the Legal Division be requested to prepare alternative opinions on this case for the Board's consideration.

Governor Balderston said that his inclination had been to favor disapproval of the requested determination. He then inquired of Mr. Hackley whether the latter felt, on the basis of the record and this discussion, that the Legal Division would be able to prepare an opinion supporting disapproval that would be consistent with the principles enunciated in the memorandum of June 19, 1959.

In response, Mr. Hackley outlined the type of statement supporting denial that he would envisage preparing for the Board's consideration. Such an opinion would rest largely, he said, on the theory that although the activities of the mortgage company were closely related to the business of banking as conducted by the holding company and its subsidiary banks, they fell within the area of activities against which the Bank Holding Company Act was intended to safeguard.

Following additional discussion, it was agreed to postpone an expression of Board opinion on the request for a section 4(c)(6) determination with respect to Northwestern Mortgage Company until alternative statements on this case had been prepared by the Legal Division and were available to the Board for review.

It was understood that statements on the other section 4(c)(6) cases considered at this meeting would be drafted by the Legal Division

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in accordance with the actions on them which had been indicated by the Board. In the case of First Banccredit Corporation, this would include both a principal statement and a concurring opinion.

St. Joseph Agency. Consideration of a request for an interpretation under the Bank Holding Company Act with respect to the insurance activities of St. Joseph Agency, Inc., South Bend, Indiana, had previously been deferred by the Board pending discussion of the section 4(c)(6) cases considered at this meeting, many of which also involved activities of an insurance nature. Under date of June 19, 1959, there had been distributed to the Board a memorandum from the Legal Division summarizing the St. Joseph Agency case and presenting a draft of letter containing views that it was deemed appropriate for the Board to state.

Mr. Hackley now suggested that it might be advisable to defer consideration of the proposed letter until statements were prepared on the section 4(c)(6) cases considered by the Board today, and there was agreement with this suggestion. Governor Robertson said he would like the record to reflect his agreement with the recommendation of the Legal Division on the St. Joseph Agency case.

Mr. Davis and Miss Hart then withdrew from the meeting.

Additional items circulated to the Board. The following items, which had been circulated to the members of 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 Boston approving the payment of salary to George H. Ellis, Vice President and Director of Research, at the rate fixed by the Board of Directors. 4
- Letter to the Federal Reserve Bank of Kansas City approving the payment of salary to William F. Fairley, General Auditor, at the rate fixed by the Board of Directors. 5
- Letter to the Federal Reserve Bank of Kansas City approving the payment of salary to W. J. Milburn, Jr., Assistant Cashier, Oklahoma City Branch, at the rate fixed by the Board of Directors. 6

Statement by Congressman Patman. With reference to the statement released by Congressman Patman under date of June 22, 1959, concerning Federal Reserve Bank expenditures, attention was drawn by Governor Balderston to the fact that a number of Mr. Patman's charges involved misinterpretation of information contained in the reports of examination of the Federal Reserve Banks. These reports, he pointed out, followed a pattern designed to provide maximum information for the Board of Governors concerning the operations of the respective Reserve Banks. However, they were now being used for an unanticipated purpose, with the result that the Federal Reserve System was being placed in a difficult position, and the situation seemed likely to continue to prevail.

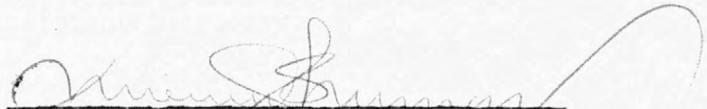
During a discussion of this point, Governor Robertson expressed the view that the examination reports should be complete and thorough and that the examiners should be placed under no restrictions in reporting

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their findings. The matter of furnishing the reports for inspection by Congressman Patman was a separate question. Heretofore, the Board had leaned over backward to make the reports available to the Banking and Currency Committees, and he (Governor Robertson) would not want to adopt a position of refusing a request from those Committees, even recognizing the use to which the reports had been put. This, he felt, was a risk that must be assumed by a public agency. At the first opportunity, however, it would be his inclination to consider the matter of requesting a hearing on the Patman criticisms for the purpose of providing a full explanation to the Congress. Last year the Board compiled an item-by-item commentary on Congressman Patman's charges but the "answer never caught up with the charges."

The discussion concluded with a comment by Chairman Martin that as a first step the Board should review thoroughly all of the items criticized by Mr. Patman.

The meeting then adjourned.



 Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1959.



Board of Directors,
Bucks County Bank and Trust Company,
Perkasie, Pennsylvania.

Gentlemen:

The Board of Governors extends to January 23, 1960, the time within which Bucks County Bank and Trust Company, Perkasie, Pennsylvania, may, under the authority contained in the Board's letter of July 23, 1957, establish a branch in a shopping center to be constructed at the intersection of West Broad Street and West End Boulevard (U. S. Route 309), in the Borough of Quakertown, Pennsylvania.

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
6/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1959.

Mr. Geo. E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Kroner:

Reference is made to your letter of June 5, 1959, with respect to a petition filed by the directors of the American National Bank in St. Louis, St. Louis, Missouri, with Mr. C. M. Dunn, Supervising Examiner of the St. Louis office of the Federal Deposit Insurance Corporation, seeking the consent of the Corporation for Mr. Philip F. Lichtenstein to continue to serve as a director and officer of the national bank under Section 19 of the Federal Deposit Insurance Act. You state that Mr. Dunn has asked for an expression of your official attitude toward the request of the directors of the American National Bank and that if the Board has any views in the matter you will be glad to receive them.

Your letter stated that photostatic copies of resolutions of the directors of the American National Bank in St. Louis, including a petition submitted to the FDIC and a presidential pardon, were enclosed. These documents were not received.

Since the matter which you describe does not appear to be directly within the area of the Board's supervisory duties and responsibilities, it would be inappropriate for the Board to express any views on the subject.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
6/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1959

Pan American Bank of Miami,
Miami 30, Florida.

Attention: General Sterling A. Wood

Gentlemen:

This will acknowledge the receipt of General Wood's letter of June 19, 1959, discussing the present status of the refinancing of South Dade Farms, Inc., from the proceeds of which \$3 million is to be provided in new capital for the Pan American Bank. It is regretted that the negotiations for the sale of stock of South Dade Farms have been interrupted, but it is hoped that the meeting this week between Mr. Sottile and Glore, Forgan & Company will have beneficial results, especially because of the imperative need of the bank for additional capital funds of at least \$3 million to restore it to sound capital condition.

The purpose of this letter is simply to record the concern of the Board about the way in which you have construed the obligation of South Dade Farms as contained in the excerpt of the minutes of July 24, 1958, of the board of directors of the bank respecting the guarantee of South Dade Farms to purchase doubtful assets of the bank on specified dates. This guarantee is contained in the letter dated July 24, 1958, to Mr. Denmark of the Federal Reserve Bank. Subsequent to receipt of that letter, Mr. Malcolm Bryan, President of the Reserve Bank, responded to the letter of July 24, giving his interpretation of the guarantee. A copy of Mr. Bryan's letter dated September 26, 1958, is enclosed.

Specifically, the Board is sure you did not intentionally wish to contend that a charge-off "corrects" a classified item, yet the schedule included in your letter reflects reductions of the total classified doubtful by the amount of charge-offs made. Obviously the purpose of the guarantee is to restore capital lost through charge-offs, and no credit on account of such adjustments could be permitted. It would be our view, on the basis of Mr. Bryan's letter, with which the Board is in agreement, that a substantial amount of the items classified doubtful in the March 31, 1958 report of examination would still be subject to the terms of the guarantee.

Pan American Bank of Miami

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

Although we are not at this time in a position to verify your calculations, the Board doubts that the current obligation of South Dade Farms would be met by a contribution of \$250,000, although the donation will, of course, be helpful in disposing of the large volume of items classified as losses.

In the near future we will communicate with you further in respect to this matter and other aspects of the total problem. In the meantime, please advise results of present negotiations with Glore, Forgan & Company or other financing arrangements you may have in view, and inform us of the date and amount of the charge-off of all loss classifications.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 4
6/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1959.

Confidential (FR)

Mr. J. A. Erickson, President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Erickson:

The Board of Governors approves the payment of salary to Mr. George H. Ellis, Vice President and Director of Research, Federal Reserve Bank of Boston, for the period July 1, 1959, through December 31, 1959, at the rate of \$18,500 per annum, which is the rate fixed by your Board of Directors as reported in your letter of June 2, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
6/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1959.



CONFIDENTIAL (FR)

Mr. Raymond W. Hall, Chairman of the Board,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Hall:

The Board of Governors approves the payment of salary to Mr. William F. Fairley as General Auditor, Federal Reserve Bank of Kansas City, for the period August 1, 1959 through December 31, 1959, at the rate of \$11,500 per annum, which is the rate fixed by your Board of Directors as reported in your letter of June 8, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 6
6/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1959.

CONFIDENTIAL (FR)

Mr. Raymond W. Hall, Chairman of the Board,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Hall:

The Board of Governors approves the payment of salary to
Mr. W. J. Milburn, Jr., Assistant Cashier, Oklahoma City Branch,
for the period July 1, 1959 through December 31, 1959, at the rate
of \$8,750 per annum, which is the rate fixed by your Board of
Directors as reported in your letter of June 8, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.