The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on November 19, 1959, which you have previously initialed, has been amended to delete the footnote on page 1 and the first sentence on page 17.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes for November 19, 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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

on Thursday, November 19, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary

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:

Memorandum from Mr. Young dated November 2, 1959, regarding an additional authorization for the publication of the Treasury-Federal Reserve Government Securities Market Study.

Letter to Millburn-Short Hills Bank, Millburn, New Jersey, granting an extension of time to accomplish membership in the Federal Reserve System.

Letter to The Provident Bank, Cincinnati, Ohio, approving an extension of time to establish a branch at the corner of Central Parkway and Vine Street in Cincinnati.
Letter to the Comptroller of the Currency recommending unfavorably with regard to an application to organize a national bank at Rosemead, California.

Letter to Coleman and Gibson, Fredericksburg, Virginia, attorneys for The National Bank of Fredericksburg, Fredericksburg, Virginia, regarding the obtaining of fiduciary powers under a co-fiduciary plan.

Letter to the Federal Reserve Bank of San Francisco approving the appointment of Mr. Lance C. Grundvig as a Federal Reserve Agent's Representative.

Mr. Hooff, Assistant Counsel, entered the room at this point.

Application to organize a national bank at Mountain Grove, Missouri. There had been circulated to the Board a memorandum from the Division of Examinations dated November 10, 1959, along with a draft letter to the Comptroller of the Currency with regard to an application to organize a national bank at Mountain Grove, Missouri, for which the Federal Reserve Bank of St. Louis and the Division of Examinations had recommended favorably.

Governor King indicated that he was not in favor of recommending favorably on this application since he believed the chartering of another bank in Mountain Grove, a community of 4,300 population, would lead to over-competition in banking, especially since the established bank was not a member of the Federal Reserve System and could absorb exchange charges and the like in competing with a new member bank. He added that the Examiner's Report appeared to rest its case for recommending that a national bank charter be granted upon the personality of the
President of the existing bank but that no questions of a supervisory nature had been raised concerning the activities of this bank and there were very few cases in which it had refused to grant credit.

Governor Mills agreed that the present application was a marginal one but said his thinking led him to conclude that a new bank should not be discouraged if there was an even or better chance for survival within the community, some of whose residents were willing to put capital at risk to establish a new institution.

Governor Robertson indicated that he would also vote in favor of approving the application to organize a national bank at Mountain Grove although he recognized that Governor King's comments were valid to a point. However, where competition was possible he believed it should be provided, particularly in a one-bank town where 70 business concerns were backing the application for a national bank. With respect to allegations that substantial amounts of deposits were being placed in banks outside Mountain Grove, he observed that this sort of statistic was subject to a wide range of error.

Governor Shepardson voiced agreement with the proposition that competition should be provided in banking whenever possible. The question was that of the market potential in a community of 4,300 population. After stating that he had been bothered by this aspect of applications for national bank charters in several of these small town cases, he raised the question of the purpose served the Comptroller of the
Currency and the Federal Reserve by making recommendations to the former's office. He noted that the Comptroller was not required to take the Board's recommendations into consideration in approving or disapproving applications for national bank charters and that since the Federal Reserve investigated jointly with the Comptroller's office prior to making such recommendations, no new facts were turned up. He then requested Mr. Nelson briefly to present data regarding the number of cases in which the Comptroller of the Currency had not followed the recommendation of the Board where applications for national bank charters were concerned.

Mr. Nelson said that in the period from 1957 to date, of 113 cases there were 14 in which the Comptroller had not followed the Board's recommendation. A breakdown of these 14 showed that the Comptroller had approved 8 on which the Board had recommended unfavorably, while he had disapproved 6 for which the Board had recommended approval.

Governor Shepardson then remarked that as he understood the historical record, the Comptroller had originally called on the Federal Reserve Banks for information before applications for national bank charters had been considered and that subsequently he had started to call on the Board for assistance in getting information relating to these applications. He questioned whether the Comptroller was interested
in receiving the Board's opinion as to whether the applications should
or should not be approved.

Governor Robertson pointed out that the Comptroller was asking
for the Board's judgment in these cases for the reason that whenever
the Comptroller approved granting a charter to a national bank he was
automatically granting a charter to a member bank. He added that the
Comptroller also sought the recommendation of the Federal Deposit
Insurance Corporation, since the bank in question would automatically
be insured by that Corporation. Governor Robertson felt that so long
as the Comptroller wanted the recommendation of the Board, he was
entitled to receive it and that such recommendation was of some value
to him in exercising his judgment. Therefore, he saw some good in the
practice, no harm in it, and thought it should be continued although it
was not a great issue either way.

A brief discussion then ensued with respect to the desirability
of cooperation among the three Federal agencies involved in this question,
during which Governor Robertson observed that it would be helpful for
examiners from the Federal Reserve Banks to make a separate examination
of the facts pertaining to applications for national bank charters
rather than to participate jointly in examination with representatives
of the Comptroller's Office and the Federal Deposit Insurance Corporation.
He noted, on a question from Governor Shepardson, that relationships
between the Comptroller's Office and the System had been quite amicable
where the question of recommendations from the Board on charter applications was concerned.

Governor King remarked that it was to be expected there would be differences of opinion between the Board and the Comptroller on individual applications, since this would be the natural result of independent thinking. His particular interest in examining the record on these applications was to discover whether any pattern was developing. He then raised the question whether it might not be desirable for the Board to indicate its actual vote on each case in its letters of recommendation to the Comptroller so as to communicate the Board's judgment to the Comptroller in the most effective way.

Governor Balderston commented that there were only two classes of cases in which a record of the Board's vote was made public, namely, holding company cases and policy actions of the Board. He felt that referring only to the decision of the whole Board in other instances was usually preferable to help prevent critics of the Board from publicizing or misconstruing apparent differences of opinion that might exist within the Board on specific questions. He then proposed that in sending its next recommendation to the Comptroller, the Board's letter could point out the pros and cons in any particular case but state that on balance the Board felt that such and such a position should be taken.
Governor Szymczak said that he would vote against recommending approval of the application to organize a national bank at Mountain Grove for the reasons advanced by Governor King. He added there must be many instances in which a relatively small community had only one bank which was State chartered and in which a movement would start to get a national bank. He questioned whether in such instances the State authorities would grant a charter to another State bank.

A discussion followed relating to the question of referring the present application back to the Federal Reserve Bank of St. Louis for further consideration, during which Governor Robertson expressed the view that the Comptroller would be influenced in his decision by the fact that the State bank in Mountain Grove was a non-par bank and that the community should have a par bank and that it was likely that the application would be approved by the Comptroller on this basis since it was a close case.

Governor King replied that he could see this point; however, he felt the community was not big enough to support two banks and if the Comptroller granted a charter he would be interested to follow the banking developments in Mountain Grove.

After further discussion relating to the manner in which the letter to the Comptroller could be phrased to indicate that certain members of the Board seriously questioned that there was sufficient
business in Mountain Grove to justify another bank, it was agreed that the Federal Reserve Bank of St. Louis should be requested to furnish additional information regarding the service being provided by the existing bank in Mountain Grove and the ability of the area to support another bank, after which the application would be given further consideration by the Board.

Application to organize a national bank at Jasper, Texas (Item No. 7). There had been circulated a memorandum from the Division of Examinations dated November 16, 1959, as well as a draft letter to the Comptroller of the Currency with regard to an application to organize a national bank at Jasper, Texas, for which the Federal Reserve Bank of Dallas had recommended approval. The Division of Examinations also recommended approval, provided a conflicting application for a State charter, which had been filed first, was not approved.

By way of background for considering this application, Governor Shepardson recalled that at its meeting of September 11, 1959, the Board had considered and decided not to send a letter to the Comptroller recommending that an application to organize a national bank in Houston, Texas, not be approved, since the State banking authorities had granted a charter for a State bank in the same community and there was not sufficient need to justify establishment of two banks in the area at the time. He noted that the reason for the Board's decision was
that subsequent to the granting of the State charter, the Comptroller granted an application for a national bank charter in Houston in conformance with his rule that priority in filing applications should be observed. He noted that this rule was not followed by the Texas Banking Board. In the case under consideration, he added, the priority was just the reverse of what had been true in the Houston instance. In his estimation, there was justification for granting preference to the application for a national bank in Jasper, despite the fact that the application for a State bank had been filed first, which raised the question of the Comptroller's emphasis on filing dates in the earlier case.

Governor Robertson indicated that he would like to present the other side of the picture by pointing out that a group wishing to apply for a national bank charter to operate in Jasper, Texas, secured forms from the Federal Reserve on July 17, 1959, and that five days later application for a State bank charter was filed on behalf of the existing State bank in Jasper to hold up granting of the national charter. As a result Mr. Gidney, the Comptroller, had asked Mr. Faulkner of the Texas State Banking Board about these different applications and Mr. Faulkner had been sympathetic to the Comptroller's view that the national bank charter should be approved. He went on to say that all the Comptroller wanted from the Board was a statement that another bank was justified
in Jasper. He added that he did not consider the question of priority to be inviolate if the applications for bank charters were not bona fide, and that the application for a State charter in this case was not bona fide. He noted further that the State Banking Board had already passed up an opportunity to pass favorably on the application for a State charter in this instance.

Remarking that this answered his question, Governor Shepardson said that the statement was frequently made that the Comptroller granted applications of this kind rather freely and that if there were any indication the rule was being used solely for the sake of convenience, it should be applied uniformly. However, he said, if Mr. Faulkner, of the State Banking Board, was not disturbed by this case, he (Governor Shepardson) was satisfied, but he would dislike to see the Board get into the position of deciding priority in a haphazard way.

Following agreement with a suggestion by Governor Robertson that the Examinations Division inform Mr. Jennings, the Deputy Comptroller of the Currency, of what the Board's letter to the Comptroller would say regarding this application, a letter to the Comptroller in the form attached as Item No. 7 was unanimously approved.

Letter regarding application of Section 8 of the Clayton Act and Regulation L (Item No. 8). There had been circulated a draft of letter to the Presidents of all Federal Reserve Banks regarding
application of Section 8 of the Clayton Act and Regulation L in connection
with a director or officer of a member serving another bank in a town or
city "contiguous or adjacent thereto" along with a memorandum from the
Legal Division dated November 9, 1959.

Mr. Hackley, in commenting on the memorandum, noted that Section 8
of the Clayton Act provides several exceptions to the rule on interlocking
directorships and that Mr. Sidney Friedman, who was a director of The
Meadow Brook National Bank of Nassau County, West Hempstead, New York,
and of Commercial Bank of North America, New York, New York, and his
attorneys took the position that he qualified for exception No. 5 of
Section 8, since Meadow Brook was an office located in a corporate
village "contiguous" but not apparently "adjacent" to New York City.
He recalled that there had been several discussions between Mr. Friedman
and members of the Board's staff and that in a letter dated October 22,
1959, Mr. R. B. Wiltse, Vice President of the New York Reserve Bank, had
made two suggestions regarding the problem presented by this case: (1)
the Board might rule that Section 8 of the Clayton Act does not apply in
this instance since even though the banks are located in the same metro-
Politan area, West Hempstead and New York City would not be regarded as
"contiguous if they are widely separated and there are many intervening
trade areas"; (2) the Board might amend Regulation L, as amended effective
July 1, 1948, governing "Interlocking Bank Directors under the Clayton Act"
by incorporating an additional exception, which could be done legally.

Mr. Hackley said that, in the latter connection, the New York Reserve Bank had suggested using a given population figure, such as 1,000,000 or more, as a criterion for permitting an interlocking relationship between a bank in such a city and a bank located in a contiguous city, town or village, "provided the community areas in which the two banks have offices are distinctly separated by clearly defined intervening community areas" with the understanding that the exact population figure used could be decided upon after consultation with the other Federal Reserve Banks. He emphasized that the sole purpose of the draft letter presented for Board consideration was to obtain these views, adding that he suspected several of the Reserve Banks would object to either or both of the alternative suggestions. He then reminded the Board of the Deyerberg case on which the Board ruled on October 15, 1940. In that instance, a bank in Great Kills, Staten Island, New York City, and a bank in North Bergen, New Jersey, were involved with the corporate limits of North Bergen and New York City meeting in the middle of the Hudson River. An unfavorable reflection on the statute and the Federal Reserve System was avoided by the Board's conclusion that the statute did not preclude Mr. Deyerberg's serving as a director of both banks. However, in this case the distance of 18 miles between North Bergen and Great Kills and the presence of
several incorporated communities between them introduced a different situation than was present in the instant case.

Governor Mills commented that he would be inclined to adhere to a literal application of the statute and regulation, although he thought it a good idea to solicit the views of the Federal Reserve Banks on this matter. As he saw it, if the Board interpreted the regulation freely, it could have a significant bearing on its responsibility for bank supervision in Nassau, Suffolk, and Westchester Counties of New York State where the First National City Bank was proposing to establish a holding company.

Governor Robertson stated that he had no strong opposition to sending the proposed letter to the Reserve Banks but that he was inclined to consider Mr. Friedman's joint directorship a violation of Section 8 of the Clayton Act and Regulation L. He felt there would not be much benefit derived from asking the opinions of other Reserve Banks aside from Chicago, since a situation was presented which probably would only arise in New York and Chicago.

Governor King agreed that the question presented was the responsibility of the Board, and he expressed his personal view that no letter need be sent to the Reserve Banks although he had no strong objections to sending a letter. His disposition would be to notify Mr. Friedman that his dual directorship was in conflict with the law. Governor King
said that he had prepared a memorandum on the Friedman case that he wished to present when that case was considered by the Board, and at Governor Mills' request he said that he would make copies of his memorandum available to the Board prior to the Board's discussion of the case.

Thereupon unanimous approval was given to a letter to the Reserve Bank Presidents in the form attached as Item No. 8, soliciting their views on this question.

Messrs. Benner and Nelson then withdrew from the meeting.

Whether First National City Bank of New York should be classified as a bank holding company. There had been circulated a memorandum from Mr. Hexter dated November 10, 1959, with respect to a determination of whether or not the First National City Bank of New York should be classified as a bank holding company.

In elaboration of his memorandum, Mr. Hexter noted that on November 9 the chief counsel to the Comptroller of the Currency had visited Mr. Hackley and himself to discuss a proposal by First National City to acquire direct ownership of all of the stock of First National City Trust Company (formerly City Bank Farmers Trust Company), which is now held by trustees for the benefit of the shareholders of First National City. This raised the question as to whether the proposed acquisition
would cause First National City to become a bank holding company. Since the Trust Company was clearly a bank as defined in section 2(c) of the Bank Holding Company Act of 1956, the real question to be determined was whether International Banking Corporation, a Connecticut chartered corporation all of whose stock is owned by First National City and which is engaged chiefly in foreign banking, is also a bank within the same definition. He went on to say that until now the Board had not considered any specific situation that presented this basic legal question. However, the Board's May 7, 1958, Report to Congress on the Act included a recommendation that section 2(c) be amended to exempt agreement corporations such as the International Banking Corporation from the definition of "bank". In connection with this recommendation, the Board stated (on page 15)* that certain language of the definition exempted so-called Edge corporations but "does not exempt" agreement corporations and that "there is no reason why such 'agreement' foreign banking corporations should not have the same exemption" as Edge corporations. In the opinion of the Legal Division, Mr. Hexter said, the Board's recommendation to Congress was justified, but it might better have been presented as a recommendation to clarify the law on a definite matter rather than to change the law. In other words, he believed that the existing definition of "bank" in section 2(c)

*Page 15 of Senate Print; pp. 32-33 of Board's mimeographed copy.
of the Bank Holding Company Act should be interpreted by the Board as not including agreement corporations. He continued by saying that in view of the specific exclusion of Edge corporations from the four categories mentioned in the Act, namely, national banking associations, State banks, savings banks, and trust companies, the proposal to exempt agreement corporations specifically raised the question whether this action should be interpreted as meaning that the definition of "bank" does include agreement corporations. In the opinion of the Legal Division, such an interpretation was neither necessary nor warranted and, if the recommended interpretation were adopted by the Board, First National City would not be a bank holding company, since it would have only one subsidiary bank (the Trust Company). Mr. Hexter concluded by saying that should the Board so act it would be unnecessary to communicate the Board's view to First National City, which clearly had been proceeding on the assumption that it was not a bank holding company.

Mr. Hackley added that the conclusion of the Legal Division on this question had been influenced by the fact that it would be illogical to exempt only Edge corporations and not agreement corporations from the provisions of the Bank Holding Company Act, since neither type was engaged in banking in this country and section 3 of the Bank Holding Company Act was intended only to avoid concentration of banking within the United States.
Following a suggestion from Mr. Hexter that the term "banking" for purposes of the Holding Company Act should be defined to exclude agreement corporations to clarify the implied exclusion, Mr. Solomon agreed that it was unreasonable to differentiate between agreement and Edge corporations and that there was sufficient basis to support treating them in the same way for the purposes of the Bank Holding Company Act.

Unanimous approval was then given to the recommendation contained in Mr. Hexter's memorandum that agreement corporations should not be classified as banks within the meaning of section 2(c) of the Bank Holding Company Act of 1956.

At this point all members of the staff excepting Messrs. Sherman, Molony, and Fauver withdrew from the room.

Appointment of directors. Before this meeting there had been distributed a memorandum from Mr. Fauver dated November 18, 1959, containing biographical information concerning persons who had been suggested for the Board's consideration for appointment to the Class C directorship at the Federal Reserve Bank of Philadelphia that will become vacant at the end of 1959. After discussion, it was agreed unanimously that, in accordance with the usual procedure, the Chairman of the Philadelphia Bank should be requested to ascertain whether Paul J. Cupp, President and Chief Executive of American Stores Company, Philadelphia, was
eligible and would accept appointment as a Class C director for the three-year term commencing January 1, 1960. It was understood that if Mr. Cupp was eligible and able to serve the appointment would be tendered him, but that in the event he was unable to serve similar steps would be taken to ascertain whether William P. Drake, President, Pennsylvania Salt Manufacturing Company, Philadelphia, would be eligible and willing to accept appointment if tendered.

In connection with the foregoing discussion, Governor Robertson stated that, while he approved tendering the appointment as indicated above, he was concerned that Class C directors rarely came from small business concerns. He realized that it seemed inevitable that men who attained leadership and prominence in their communities were likely to be associated with larger companies, but he still felt the Board should have in mind obtaining directors from the field of small business to the extent that that was practicable.

Other members of the Board indicated sympathy with the point of view expressed by Governor Robertson, and Governor Szymczak noted that a similar problem existed in connection with efforts to bring about appointments of persons who might be considered to have full understanding of the position of labor and labor organization in the economy.

There also had been distributed a memorandum from Mr. Fauver dated November 16, 1959, containing biographical information with
respect to possible appointees as directors of the Louisville Branch and of the Memphis Branch of the Federal Reserve Bank of St. Louis for the three-year terms commencing January 1, 1960. In the course of the discussion it was agreed that the usual steps should be taken to ascertain whether William Heyward Harrison, President of T. P. Taylor & Company, Louisville, Kentucky, was eligible and would accept appointment, if tendered, as a director of the Louisville Branch and to make the appointment if he was eligible and willing to accept. Should Mr. Harrison be unable to serve, similar steps would be taken to bring about the appointment of B. Hudson Milner, Executive Vice President and Treasurer of the Louisville Gas & Electric Company.

Governor King stated that he was in the process of obtaining additional information concerning persons who might be considered for appointment as directors of the Memphis Branch, and it was understood that further consideration would be given to an appointment at that branch at a later meeting.

The meeting then adjourned.

Secretary's Notes: Pursuant to the understanding reached at the meeting on August 12, 1959, Governor Shepardson today approved on behalf of the Board a memorandum from Mr. Young dated November 16, 1959, requesting that Robert Solomon, Senior Economist in the Division of Research and Statistics,
be authorized to follow a specified itinerary in connection with his participation in the SEANZA Central Banking Course and visits to central banks during the period January 22-March 5, 1960, with the understanding that actual necessary transportation expenses plus per diem in lieu of subsistence would be claimed in accordance with the Board’s travel regulations as supplemented by the Standardized Government Travel Regulations.

Governor Shepardson also approved today on behalf of the Board the following items:

Memorandum dated November 17, 1959, from Mr. Johnson, Director, Division of Personnel Administration, recommending that authority be granted to Nathan B. Hughes, Personnel Technician in that Division, to perform certain technical advisory services for the Amalgamated Lithographers of America (Local 13) on Government policies and procedures relating to job evaluation, with the understanding that the matter would be reviewed if reimbursement should become involved or if Mr. Hughes should be called upon to plead cases on behalf of the union.

Letter to Mr. Rufus P. Browning, New Haven, Connecticut, (attached Item No. 9), denying his request for access to unpublished information of the Board and the Federal Open Market Committee.
It is recommended that the Division of Research and Statistics and the Division of Administrative Services be granted an additional authorization of $3,500 supplemental to the July 9, 1959 authorization of $12,000 for publishing the Treasury-Federal Reserve Government Securities Market Study. This recommendation is intended to provide for reprinting 5,000 more copies of Part I of the Study and for increasing the planned initial printing of Parts II and III from 2,500 to 7,500 copies.

On July 9, 1959, the Board approved my memorandum of July 7 relating to publication of the Treasury-Federal Reserve Government Securities Market Study and including authorization of the Division of Research and Statistics and the Division of Administrative Services to make the necessary arrangements for publication at a cost not to exceed $12,000.

In July 2,500 copies of the first of three parts or volumes of the Study were printed at a cost of $2,916. This item is now out of stock because the demand has been much heavier than expected. The Publications Section of the Administrative Services Division reports a backlog of unfulfilled orders.

The Division of Administrative Services has proposed a printing run of 5,000 copies of Part I of the Study and an initial printing of 7,500 copies of each of the second and third parts. The Division of Research and Statistics concurs in this proposal. Our original plans were to print 2,500 copies of each of the three parts.

The proposed total printing costs, including the estimated additional cost for the larger number of copies, is $3,000 in excess of the $12,000 authorized on July 9. However, we are suggesting a supplemental appropriation of $3,500 in order to provide for variations in such items as number of pages and authors' corrections.

All printing and publication costs would be charged against the Special Project - Treasury-Federal Reserve Government Securities Market Study. No regular budgetary provision was made for this Study.
Board of Directors,
Millburn-Short Hills Bank,
Millburn, New Jersey.

Gentlemen:

In accordance with your request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to May 23, 1960, the time within which Millburn-Short Hills Bank, Millburn, New Jersey, may accomplish admission to membership in the Federal Reserve System, as outlined in the Board's letter of November 25, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors has approved an extension of time until January 2, 1960, in which The Provident Bank may establish a branch at the corner of Central Parkway and Vine Street in Cincinnati, Ohio. The establishment of this branch was authorized in a letter dated May 12, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
November 19, 1959.

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

Attention Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated November 19, 1958, enclosing copies of an application to organize a national bank at Rosemead, California, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco indicates that, based on projected deposits and investment in fixed assets, the proposed capital structure would be adequate. Should the organizers undertake to construct, rather than lease, adequate banking quarters, a larger beginning capital structure would be desirable. The prospects for profitable operations would be fairly satisfactory if the bank is able to achieve the deposit volume expected by its organizers. However, the area now appears to be reasonably well supplied with banking facilities and future growth potential is limited. The report indicates that the proposed bank would have difficulty competing for existing business and the need for a new institution has not been sufficiently established. While the proposed executive officer is an experienced banker, he is past retirement age and the proposed board of directors appears to lack some of the qualifications necessary for satisfactory management. Accordingly, the Board of Governors does not feel justified in recommending approval of the application at this time.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. William J. Gibson,
Coleman and Gibson,
Fredericksburg, Virginia.

Dear Mr. Gibson:

This refers to your letter of September 28, 1959, in which you requested advice as to whether your client, The National Bank of Fredericksburg, Fredericksburg, Virginia, might apply for full trust powers with the understanding that it would only accept appointments if the First & Merchants National Bank of Richmond, Richmond, Virginia, was named as co-fiduciary. Under the proposed arrangement, the Richmond bank, which has a large, well-established trust department, would assume full responsibility for the administration of the trust estates and all actions taken would be placed before a trust committee composed of directors of The National Bank of Fredericksburg for approval.

Section 11(k) of the Federal Reserve Act empowers the Board of Governors of the Federal Reserve System to grant national banks the right "to act" in various fiduciary capacities and to promulgate regulations concerning the proper exercise of the powers so granted. The Board's Regulation F was issued pursuant to this authority and is in consonance with the various provisions contained therein. As you know, Regulation F provides that a national bank exercising trust powers is required to establish a separate trust department, appoint a satisfactory trust committee and a competent trust officer, have qualified legal counsel available to advise the bank in respect of fiduciary matters, and maintain such books and records as will provide full information relating to each trust. It has never been contemplated that a national bank obtaining fiduciary powers would do other than administer the fiduciary accounts to which it had been appointed, and there are no special provisions in the Regulation which would relieve the bank, under the arrangement which you propose, from adhering to the requirements referred to above.
Mr. William J. Gibson

It is recognized that the proposal which you advance on behalf of The National Bank of Fredericksburg would seem appealing to a bank that, for competitive or other reasons, wishes to be in a position to accept fiduciary appointments without the expense of maintaining a trust department. In view of the requirements contained in Regulation F to maintain adequate trust personnel and facilities, however, and since the major portion of trust fees would necessarily go to the servicing bank under your proposal, the arrangement is not likely to effect economies. In the event of surcharge for possible improper administration of trusts or estates by First & Merchants National Bank of Richmond under the plan, The National Bank of Fredericksburg would be held equally liable for any losses which settlors or beneficiaries might sustain, even though the Fredericksburg bank had not directly participated in the acts of commission or omission which created the loss; a fiduciary cannot escape responsibility by partitioning or delegating any portion of its functions. Furthermore, it is believed that an arrangement under which a servicing bank in another city administers local fiduciary accounts without contact with the beneficiaries or personal interest in their welfare would not be in the best interest of those who desire fiduciary service from the local bank. For these reasons, the Board would not be favorably disposed toward granting fiduciary powers under the arrangement which you propose.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. A. H. Brawner, Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Brawner:

In accordance with the request contained in your letter of
November 6, 1959, the Board of Governors approves the appointment of
Mr. Lance C. Grundvig as a Federal Reserve Agent's Representative at
the Salt Lake City Branch to succeed Mr. A. E. Stephens.

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

When not engaged in the performance of his duties as Federal
Reserve Agent's Representative, Mr. Grundvig may, with the approval of
the Federal Reserve Agent and the Vice President in charge of the
Salt Lake City 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 Mr. Grundvig is fully informed of
the importance of his responsibilities as a member 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.

It is noted from your letter that with the approval of
Mr. Grundvig's appointment by the Board of Governors, he will execute
the usual Oath of Office which will be forwarded to the Board of
Governors together with advice as to the effective date of his
appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
November 19, 1959.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated August 17, 1959, enclosing copies of an application to organize a national bank at Jasper, Texas, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas discloses that the proponents plan to provide a minimum capital structure for the bank of $500,000 instead of $300,000 shown in the application. This revised capital structure appears to be adequate. The report discloses also generally favorable findings with respect to earnings prospects, management, and the needs of the community to be served. However, it appears that an application has been made for a State bank in Jasper and there is need for only one additional bank at this time. In view of these circumstances, the Board of Governors recommends approval of the application to organize a national bank in Jasper unless prior filing of the application for a State charter or other circumstances should appear to you to suggest approval of the application for the State charter rather than a national charter for the community.

The Board’s Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
November 19, 1959.

Dear Sir:

The Board has had under consideration for some time a question arising under section 8 of the Clayton Act and Regulation L, and would appreciate your views regarding it.

Section 8 provides that a director, officer, or employee of a member bank shall not be at the same time a director, officer, or employee of any other bank, with certain exceptions, one of the exceptions being a bank not located in the same city, town, or village as that in which the member bank is located, or in any city, town, or village "contiguous or adjacent" thereto (subsection (5)). As you know, section 8 was rewritten by the Banking Act of 1935 so as to substitute a set of specific rules for the unprecise standard which the statute had contained, namely, that the Board could permit interlocking relationships in individual cases when in its judgment "it is not incompatible with the public interest".

The standards now contained in section 8 are intended to make the section inapplicable in cases where the banks are not in substantial competition, and the standards have apparently worked well except in a very few cases. One of the principal difficulties has arisen in applying subsection (5) to large metropolitan areas, where the statute sometimes has the effect of prohibiting interlocking relationships between two banks which are many miles apart and are separated by a number of intervening communities. The problem is to avoid a result which seems clearly not in harmony with the purpose of the statute, without, however, returning to the indefinite standard which existed prior to the 1935 Amendment.

Three methods of dealing with the matter appear to be open to the Board: (1) an amendment to the regulation, (2) a published ruling, and (3) a letter to the Reserve Banks stating that the Board would be prepared to consider individual cases.

The third of these would seem to be undesirable because prospective directors or officers who might be affected by it would not know that the rule existed and would not ask to have it applied to
them. The second alternative would appear to be the most desirable, if it gave sufficient notice to prospective directors and officers; otherwise the first alternative would be preferable even though it would be a somewhat cumbersome method of dealing with a very small number of cases.

The substance of the ruling or amendment, of course, is the principal question on which the views of your bank are solicited. The suggestion which the Board's staff and one Reserve Bank have been considering is to say that in a metropolitan area having a population in excess of 1,000,000, or some other figure, two banks will not be considered to be located in a "contiguous or adjacent" city, town, or village if the banks (including the head office or any branch) are more than five miles apart (or some other distance) and if there are several distinct communities intervening.

A further question is whether this exception, if adopted, should be made applicable not only to banks in separate incorporated communities which are contiguous or adjacent, but also to banks having banking offices in the same large city. To accomplish this result, it would, of course, be necessary to amend the regulation so as to add a new exception in section 3 of the regulation, because the result could not be achieved by interpreting the language of the statute.

The Board would appreciate comments that your Bank may wish to make regarding this matter, and it would be helpful if such comments could be received by December 10.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
Mr. Rufus P. Browning,
70 Central Avenue, Apt. 18,
New Haven 15, Connecticut.

Dear Mr. Browning:

The Board has considered your letter of October 29, 1959, along with the comprehensive statement of your proposed research project on Government policy-making with respect to interest rates paid on Government securities over the period 1949-1953.

As indicated by your letter, the accomplishment of this project would involve unlimited access to unpublished documents of the Board and the Federal Open Market Committee, including material to which access is closely restricted even within the Federal Reserve System. While you have suggested that the Board would be able "to protect itself against improper disclosure in many ways," it must be recognized that no guarantee of the preservation of confidentiality can be made for material appearing in a scholarly study.

Although sympathetic with the desire of scholars to inquire into important questions of Government such as the process of decision-making in vital areas, the Board has been forced to conclude on various occasions in the past that it would be inappropriate to accede to requests from such sources for access to unpublished information of a highly confidential character. After careful consideration of your request, it is felt that a different conclusion in this instance would not be justified.

Very truly yours,

Merritt Sherman,
Secretary.