FR 609
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Minutes for January 13, 1960.

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 Wednesday, January 13, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on January 11, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Items circulated to the Board. The following items, which had 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:

	Item No.
Letter to the Comptroller of the Currency recommending approval of the application of The Beach Bank, Jacksonville Beach, Florida, to convert into a national banking association.	1
Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank in Aurora, Illinois.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of the Farmers Bank, Clay, Kentucky, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to the Riverside Trust Company, Riverside, New Jersey, approving an investment in bank premises.	4
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to certain nonclerical personnel at specified annual rates.	5

The First State Bank, Abilene, Texas--investment in bank premises. There had been distributed a memorandum from the Division of Examinations dated January 6, 1960, attaching a draft letter to The First State Bank, Abilene, Texas, granting permission to invest in bank premises an amount in excess of the capital stock of the Bank as provided for by Section 24A of the Federal Reserve Act.

Governor Mills observed that the analysis in the memorandum was thorough and included the reservations which the Division of Examinations had with respect to the proposed investment in bank premises by The First State Bank, although the conclusion of its memorandum was that on balance

it recommended approval of the application. He said that his own sentiment was that approval would constitute a violation of the canons of sound banking administration with respect to overinvestment in bank premises and that consequently he believed the application should be rejected, realizing that such action would probably cause The First State Bank to withdraw from membership in the System.

Governor Robertson agreed with the view expressed by Governor Mills, stating that the proposed investment in bank premises went much further than what he thought was contemplated under the statute as a normal banking operation. The fact that the asset condition of the Bank was not rated as top notch indicated that the large planned investment in real estate would be unwise.

Governor Shepardson said that he had similar reservations. His view turned partly on whether the Board had any fairly definite standards on how far a bank might be permitted to go in investing in real estate, and if so whether this program could be brought within those standards.

Chairman Martin then inquired whether it was the sentiment of the Board that the Dallas Reserve Bank should be informed that the Board was leaning toward rejection of this application and that any further information the Bank wished to add would be helpful at this point.

Mr. Solomon noted that, because of time limitations, the complete file on this case had not been circulated to the Board. He

said that the file disclosed that the Division of Examinations had already requested Vice President Pondrom of the Dallas Reserve Bank for additional information regarding the proposal, with the result that the Bank had sent an examiner to Abilene to make a detailed survey of the situation. Although the Division's original inclination had been that the application should not be approved, following receipt of the complete report of the examiner a further study of the proposal had caused the Division to conclude that it was feasible. Mr. Solomon explained that the reason the entire file had not been circulated was that Vice President Pondrom had telephoned from Dallas on January 11 to disclose that the stockholders meeting of First State Bank was to be held today, that the Bank was anxious to receive the Board's views this morning, and that in view of this fact it seemed desirable to distribute to the Board the memorandum that had been prepared by the Division of Examinations, which memorandum contained fairly complete information in summary form but did not include the detailed picture conveyed by the complete file. Mr. Solomon called attention to the fact that half of the total cost of $1 million for the proposed new banking quarters would be financed by an insurance company loan secured by a first mortgage on the property, and there would be an arrangement under which the Bank would repurchase the property subject to, but without liability for, the mortgage. The Bank proposed to sell additional capital stock for about $470,000 and, counting the borrowed

capital, the investment in bank premises would constitute 71 per cent of the total capital structure of the Bank. Despite the dangers involved in the Bank's going into the real estate business to the extent proposed, the investment seemed reasonable under the circumstances and, in fact, was almost a necessity in order to provide badly needed additional space required by the Bank for its operations.

Noting that the proposal of the applicant bank apparently would still involve an absorption of its capital in excess of 50 per cent, Governor Mills suggested that it would be difficult to approve the application in the light of the standards supervisory authorities had in mind for new national banks or State chartered banks entering the System.

Mr. Nelson replied that the Bank's capital would be $1,420,750 following sale of the additional stock for about $500,000, and that the mortgage money secured from the insurance company would be paid off by rentals, so that in effect the ratio of the Bank's investment in the new premises to its own capital would be only 35 per cent and not 71 per cent. The issue of $500,000 additional capital, which would be completed only if this plan was approved, would mean that the stockholders were putting up the money the bank actually would be investing in the building.

Mr. Solomon commented that when the sale of $500,000 stock was completed, the bank would have 91 per cent of the capital that was

indicated as desirable under the Board's form of analysis of bank capital, which put it in a fairly good position.

Messrs. Molony and Fauver, Assistants to the Board, entered the room during the foregoing discussion.

Following a comment from Governor Robertson that it would be helpful for the Board members to see the complete file on this case before reaching a decision, the Chairman suggested that this procedure be followed and that Mr. Solomon telephone the Dallas Reserve Bank to inform it that the Board had not been able to act on the application today. He would also inform the Dallas Bank of the sentiment at this meeting, inviting any additional comments that the Reserve Bank might wish to offer.

This suggestion was approved unanimously.

Safekeeping of securities by the Reserve Banks (Item No. 6). There had been distributed a memorandum dated December 30, 1959, from Messrs. Hackley, Solomon, and Farrell regarding modification of a statement of general policy proposed by the Conference of Presidents on March 23, 1959, with respect to the safekeeping of securities by the Federal Reserve Banks. Attached to the memorandum was a draft of letter to all Federal Reserve Banks prepared pursuant to the discussion at the meeting of the Board on May 20, 1959.

Mr. Farrell indicated that there had been some differences of opinion between the Division of Bank Operations and the Division of

Examinations as to the content of the draft of letter for transmission to the Reserve Banks. As he had indicated at the meeting on May 20, 1959, he believed that in rejecting the proposal made by the Presidents' Conference on March 23, 1959, regarding safekeeping operations, it would be preferable to issue a brief general statement on safekeeping practices that would authorize such holdings when they would contribute to the efficient and economical operations of the Reserve Banks or otherwise would be in the public interest and consistent with the purposes of the System. This would leave the matter largely to the judgment of the individual Reserve Banks. On the other hand, the Division of Examinations, as had been indicated at the meeting last May, believed that a more detailed statement of the acceptable practices for safekeeping along the lines that the Conference of Presidents had suggested would be helpful to the examiners in attempting to determine whether the practices of the Reserve Banks complied with the Board's policy. In discussing the matter with Mr. Hackley, the latter felt that a letter along the lines of the draft proposed would be substantially in accordance with the conclusions that the Board reached last May.

Mr. Solomon said that as he recalled the discussion in May of 1959, the Board felt that it would be appropriate to have a general statement such as Mr. Farrell suggested and to accompany it with some examples of acceptable safekeeping practices under that general policy statement. If no examples were given, the Board's examiners would find

it difficult to determine whether specific practices were in keeping with the expressed intent of the Board and would have to accept almost any view of a Reserve Bank as to what was in the public interest. His feeling was that the draft of letter submitted with the memorandum of December 30, 1959, would be satisfactory from the standpoint of the Division of Examinations, and that it would also be consistent with earlier instructions of the Board and recommendations of the Presidents' Conference. In response to a question from Governor Robertson as to whether Federal Reserve Banks should hold any securities in safekeeping for member banks or the public, Mr. Solomon said that he had not studied this question in detail since he had not understood that the Board contemplated elimination of all safekeeping, which had been practiced in greater or less degree by the Federal Reserve Banks over a period of many years. There could no doubt be persuasive arguments for reducing the amount of safekeeping.

There ensued considerable discussion of the extent to which Federal Reserve Banks in the past had held securities in safekeeping for member banks and for others, of what might constitute holdings in the "public interest", and of the desirability of indicating to the Banks the types of safekeeping that might be appropriate.

Returning to the question of the letter to be sent to the Federal Reserve Banks regarding the policy to be followed, Chairman Martin commented that the subject of safekeeping seemed to go around in circles

and that this discussion illustrated why it had been so difficult for the System to resolve the question over the years. If only a general statement were issued to the Reserve Banks leaving them free to engage in safekeeping whenever they felt it to be in the public interest, that would end the idea of a limitation by the Board on the extent of such services. Perhaps this was where the Board wanted to come out, but on the other hand, he thought there was something to the position that there should be some guides for the Reserve Banks and for the help of the examiners.

Governor Robertson said that his view was that, in the absence of better reasons than he had heard for specific statements of what could be held in safekeeping, the whole problem should be turned back to the Reserve Banks with the understanding that they would make their own rules.

Governor Mills questioned whether that would be the most desirable approach. Essentially, the Reserve Banks had been following a "good neighbor policy" on safekeeping for many years, and in his opinion it had gone too far. The proposed letter would freeze the practices where they are and not suggest additions. Governor Mills felt that it would be desirable to contract what the System is doing rather than to expand, but there was a situation that had grown up over the years which made it difficult to bring about a contraction. In his judgment, the Board had an area of responsibility from the budgetary standpoint

since the costs of the safekeeping operation were substantial. This must be looked upon essentially as a free service to member banks. The proposed letter would freeze the situation that now existed, and he would not wish to send a letter which opened the way for those Reserve Banks who wished to do so to extend this area of free services to member banks.

Mr. Farrell said that he endorsed the comments of Governor Mills. The tendency among the Reserve Bank Presidents, he said, was to leave the matter to the judgment of each Reserve Bank, which would have been substantially the result of the proposed statement submitted by the Conference of Presidents. Over the years, the Board had gone along with any suggestions from the Reserve Banks, which had resulted in the collection of outstanding letters on this subject in the Federal Reserve Loose-Leaf Service. While the proposed letter might put some restraint on further expansion of safekeeping services, he doubted that it would be very effective.

Chairman Martin said that it seemed to him the draft letter would provide a guide as to what might be done without trying to spell out in specific detail rules that might be embarrassing to the Board or cause embarrassment to the Reserve Banks. He noted that the draft letter contained a statement as to what would be appropriate general policy and then provided various illustrations that would be helpful to the Reserve Banks as well as to the Board's examiners in judging

whether given practices fell within the general policy. As Governor Mills had indicated, it was difficult for the System to go backward on a thing such as this, and safekeeping practices had been afforded by the Reserve Banks in greater or less degree for many years.

Governor Robertson commented that he had no objection to the general statement of policy contained in the proposed draft letter. He did have difficulty in justifying some of the types of safekeeping for which illustrations were given, especially since so far as he knew this was not expressly provided for in the Federal Reserve Act.

Mr. Farrell noted that the basic authority for the safekeeping operation was one aspect of the problem that had been raised before the Presidents' Conference but that only one of the Presidents took the position that the Banks should not engage in that activity because of doubtful legal authority.

Mr. Hackley commented that there was nothing in the Federal Reserve Act that specifically authorized safekeeping by the Reserve Banks but, in his opinion, this function could be supported as a legitimate service, consistent with the purposes of the System, both to member banks and to a limited extent where a third party had an interest in the securities.

Mr. Smith stated that the letter represented an attempt to limit safekeeping services and not to provide a basis for expanding them. From the standpoint of the examiner, it would be preferable to

have this type of letter, and it also would provide the Reserve Banks themselves with a more definite guide on which they could fall back in rejecting requests for safekeeping services that might be received from member banks and public officials.

Governor Robertson stated that the latter point was one reason why he doubted the advisability of the Board's sending out illustrations that would enable the Reserve Banks to reject safekeeping requests on the grounds that the Board's rules would not permit them to give the service.

Chairman Martin stated that this got into the public relations area, that the Reserve Banks had a good many problems in this area without adding to their difficulties, and that in his judgment it would be preferable in this particular case to have some general guide lines that the Banks might refer to in reaching decisions on safekeeping requests.

During a further discussion of this matter, Mr. Hexter pointed out that the draft of letter, after stating a general policy, essentially represented a statement of existing outstanding instructions of the Board, merely brought together into a single document. He doubted that any Reserve Bank could undertake any safekeeping activity within the terms of the proposed letter that could not be undertaken at the present time in accordance with various outstanding instructions of the Board. The Board, of course, had the alternatives of giving the Reserve Banks

unlimited authority in the safekeeping field, or of having a complete re-assessment of the entire safekeeping function. The approach taken in the draft letter was intended to implement what the Board tentatively decided last May and to indicate by specific illustrations that if a particular safekeeping operation fell within any of those listed, it was a permissible activity.

Governor Shepardson said that he believed the Board had in mind accepting an existing situation. In his opinion the proposed draft letter accomplished this. Regardless of whether the rationale for these safekeeping services was entirely satisfactory, the System had a practical situation. In his opinion, the proposed letter furnished a good statement that would give to the Reserve Banks reasonable guides. He believed that the Board could well accept this letter and authorize it to be sent on to the Federal Reserve Banks.

Governor King stated that he concurred in this view, and Governor Szymczak said that the Reserve Banks had long been following safekeeping practices such as those described and he would favor approval of the letter.

Chairman Martin commented that the letter should be looked upon as providing a guide under the general statement of policy rather than a specific set of rules. Unless there was objection, he suggested that the Board approve the letter.

No further comments being heard, unanimous approval was given to a letter to the Federal Reserve Banks regarding safekeeping activities in the form of the attached Item No. 6.

Messrs. Farrell, Kiley, and Smith then withdrew from the meeting.

Application under Bank Holding Company Act of Farmers and Mechanics Trust Company, Childress, Texas (Items 7, 8, and 9). In a memorandum dated January 8, 1960, and distributed to the Board before this meeting, Mr. O'Connell referred to the fact that on November 30, 1959, the Board issued a notice of tentative decision and a tentative statement announcing that it proposed to approve the application of Farmers and Mechanics Trust Company, a bank holding company of Childress, Texas, filed pursuant to Section 3(a) of the Bank Holding Company Act, for prior approval of the acquisition of 5 per cent of the outstanding voting shares of the First National Bank, Paducah, Texas. Two of the members of the Board had dissented from the tentative decision. Mr. O'Connell's memorandum indicated that the Board had received comments on and objections to the proposed approval from Mr. J. M. Faulkner, Banking Commissioner of Texas, and from Congressman Wright Patman of Texas, copies of which were distributed to the Board. With respect to these objections, the memorandum stated that in the opinion of the Legal Division, they either had been dealt with sufficiently in the language of the statement that accompanied the tentative decision, or

there had been added comments in the draft statement now submitted to the Board that adequately reflected consideration of the objections received.

Mr. O'Connell commented on the nature of the objections received and the manner in which they had been covered in the draft of statement now submitted to the Board. He then outlined three possible alternative courses of action: (a) The Board could affirm the tentative decision and adopt the draft of statement now attached, an action which would reflect the judgment of the Legal Division that the objections received from Mr. Faulkner and Congressman Patman were sufficiently answered in the statement or were sufficiently nonmeritorious as not to invalidate the tentative decision. (b) The Board could defer action and afford the applicant an opportunity to file additional comments--a course that seemed unnecessary, particularly if the Board were prepared to approve the application, since the applicant had had an opportunity to see the objections which had been made public by the objectors. (c) The Board could reconsider the position taken in the tentative decision of November 30, and if there had been a change in that position, the Board might wish to request the Legal Division to rewrite the draft of statement regarding the case.

Mr. O'Connell went on to say that if the first of these alternatives were taken by the Board it might wish to approve the draft of statement now before it, the draft Order approving the application,

and a statement for the press, all for release later today. In that event, and if any member or members of the Board wished to dissent from such decision, as had two members in the case of the tentative decision, a dissenting statement also would be issued.

In response to a question from Chairman Martin, Mr. O'Connell stated that in his judgment it was not necessary for the Board to send the applicant copies of the objection filed, either as a legal matter or as a public relations move.

Mr. Hackley commented that this case differed from a case recently considered by the Board in which Wisconsin Bankshares Corporation of Milwaukee, Wisconsin, applied for permission to acquire the shares of a bank in the Mayfair Shopping Center, Wauwatosa, Wisconsin. In that case the Board issued a tentative decision indicating approval of the application, after which objections were received by the Board and those objections were the basis for a request by the Board to the Federal Reserve Bank of Chicago for a re-examination of the application. In that case, however, the objections went to the merits of the case, whereas in the case now before the Board the objections were to the Board's procedure and there was nothing additional to be gotten from either the Reserve Bank or the applicant.

Governor Robertson commented that assuming the majority of the Board would approve the application of Farmers and Mechanics Trust Company, nothing would be gained by sending the matter back to the

applicant since any additional comments by the applicant would be by way of trying to support approval of the request.

Governor King inquired as to the basis for an objection by Congressman Patman that the Board had failed to notify the State Banking Commissioner of Texas of the application filed by Farmers and Mechanics Trust Company and to await receipt of his views before reaching any decision regarding the case.

Mr. O'Connell stated that Congressman Patman was incorrect in his basic statement for the reason that the applicant is not a bank and the bank sought to be acquired is a national bank. There is no statutory requirement for notification of a State Banking Commissioner in such a case. Under the statute, the only requirement for notification in this instance was to the Comptroller of the Currency, who had been notified.

Chairman Martin said that the real question appeared to be whether any member of the Board had changed the position he had taken when the tentative decision on this application was reached last November, at which time all members of the Board except Governors Szymczak and Robertson indicated that they would approve the application.

There being no indication of a change in position, Governor Mills moved the approval of the draft of statement submitted by the Legal Division with its memorandum of January 8, 1960, the issuance of an Order of approval of the acquisition in the form of the draft

submitted, and the release of a press statement in accordance with that suggested by the Legal Division.

There followed a discussion of Governor Mills' motion during which Governor Shepardson said that he understood that the Board was definitely trying to establish a philosophy in administering the Bank Holding Company Act that these applications were to be approved in the absence of countervailing factors. In other words, the Board would not attempt to show any need for an acquisition; in fact, it denied the existence of need, and it would base its decision on a lack of adverse effect on competition or other factors to cause approval to be withheld.

Mr. O'Connell said that the Board's philosophy on the basis of its previous decisions under the Bank Holding Company Act gave attention to the statutory wording that the acquisition be "consistent" with various factors. If a finding by the Board indicated that the acquisition would be "consistent" with adequate and sound banking, preservation of competition, and with the public interest, the inference under the statute would be that the Board may (not "must") give its approval. In the case before the Board, Mr. O'Connell said, the finding was that there was no "need" and there was no favorable finding on the grounds of serving the public. It was Mr. O'Connell's opinion that this was a case fitting as closely as possible the statutory language that would warrant approval.

Mr. Hackley stated that the Legal Division assumed it to be the philosophy of the majority of the Board at the present time that the Board is required under the law to consider certain factors. The law does not say that if the Board finds adversely under any of these factors it must disapprove, nor does it say that the Board must approve if it finds favorably. It is a matter of judgment for the Board. Mr. Hackley went on to say that the Legal Division believes that, if the Board finds that any significant loss of competition would be likely to result from an acquisition, then in order to warrant approval, there must be a finding of a contribution to the public interest or some other counter-vailing factor that would outweigh the lessening of competition. In the present instance, the issue seemed to come down to a matter of judgment as to whether the lessening of competition would be sufficient to offset the other factors which were either favorable or neutral. In reaching the tentative decision in November, it was Mr. Hackley's understanding that the majority of the Board believed that there was not shown such a lessening of competition as to warrant disapproval of the application of Farmers and Mechanics Trust Company.

Governor King said that in his opinion there was an area of competition that the Board did not discuss very often. This was the area of relative freedom of people in business and banking to pursue their business under as much freedom as possible. To him, this repre-sented an area of public interest. On the one side were the people

who sought to borrow from the banks, while on the other side were those engaged in banking. It was difficult to be certain in weighing these as to where the public interest would be best served. In Governor King's judgment, the precedent set by a decision on the application now before the Board was the important consideration rather than this specific case. In reaching his decision in this close case, he would give weight to this area of public interest, the relative freedom of those in business and banking to pursue their business, as well as to the public interest that was represented by the borrower.

Governor Balderston said that Mr. Hackley had stated the philosophical differences among the members of the Board. This was the question underlying many of the votes of Board members on these holding company cases. To put it another way, could the Board approve an application if the public was not injured? Or, should the Board not approve an application if the public was not injured, and take a position that it would give approval only if the public was to receive a positive benefit?

Chairman Martin stated that at this time he would call for a vote on Governor Mills' motion.

Governor Robertson indicated that he would still wish to dissent on the application, and Governor Szymczak indicated that this was also his position.

Thereupon, Governor Mills' motion was put by the Chair and approved, Governors Szymczak and Robertson dissenting.

Governor Robertson suggested that the Board might wish to hear a draft of a dissenting statement that he and Governor Szymczak proposed to issue, and he then read the proposed statement.

Chairman Martin stated that in carrying out the action taken by the Board it would be understood that the Order, the Statement, and the press release on the application, as well as the Dissenting Statement of Governors Szymczak and Robertson, would be issued promptly, preferably for release at 4 o'clock this afternoon.

Secretary's Note: Pursuant to this action the Order, Statements, and press announcement were released at 4:00 p.m. on January 13, 1960, and copies were sent to the applicant and other interested parties. Copies of the Order, Statement, and the Dissenting Statement of Governors Szymczak and Robertson are attached to these minutes as Items 7, 8, and 9, respectively.

Messrs. Johnson, Director, and Sprecher, Assistant Director, Division of Personnel Administration, entered the room during the foregoing discussion, and at this point, all of the members of the staff excepting Messrs. Sherman, Johnson, Chase, and Sprecher withdrew from the meeting.

Retirement allowance for Reserve Bank officers (Items 10 and 11). At the meeting on November 18, 1959, the Board gave approval to a plan under which short-service Presidents of the Federal Reserve Banks could be granted a minimum retirement allowance of 40 per cent of their final salary if they retired after completing 10 years' service, the difference between the amount payable under the Retirement System of the Federal

Reserve Banks and the 40 per cent of final salary to be paid directly by the Federal Reserve Bank concerned to the individual. The Board's willingness to approve such an arrangement was indicated informally to all Reserve Bank Chairmen at the time of the meeting of the Conference of Chairmen with the Board on December 4, 1959, and in letters from the Boston and Chicago Reserve Banks, both dated December 30, 1959, the Board was advised that the directors of those Banks wished to enter into contracts with Presidents Erickson and Allen, respectively, under which such a guarantee would be undertaken. In the case of President Erickson, this represented a revision of the contract already in effect, originally entered into on December 12, 1950, and amended February 24, 1958; in the case of President Allen the contract would be in the form submitted with the Chicago Bank's letter of December 30, 1959, and would represent an initial undertaking between the Chicago Reserve Bank and President Allen.

In a memorandum dated January 6, 1960, the Division of Personnel Administration stated that the proposed contracts between the Boston and Chicago Banks and Presidents Erickson and Allen had been reviewed by that Division as well as by the Legal Division and appeared to be in a form that would carry out the arrangements with those Presidents, along the lines approved by the Board on November 18, 1959, for Mr. Hickman, should he be employed by the Federal Reserve Bank of Cleveland.

Governor Balderston noted that on November 18, 1959, the Board approved a retirement arrangement for Mr. Hickman and also his employment as a Vice President of the Federal Reserve Bank of Cleveland. He then inquired whether a contract covering the retirement provisions between the Cleveland Reserve Bank and Mr. Hickman had been submitted for the Board's approval, to which Mr. Sprecher responded that Mr. Hickman had not yet actually become an employee of the Cleveland Bank but that it was expected that a contract designed to carry out an arrangement such as the Board approved on November 18 would be submitted shortly for the Board's approval.

Governor Balderston then stated that the two contracts now before the Board for approval were typical of the type of contract that the Board might expect to receive from the New York, Atlanta, and Cleveland Banks. He inquired whether, if the Board saw fit to approve the contracts submitted by the Boston and Chicago Banks, it would wish now to give advance approval to contracts that might come in from other Federal Reserve Banks covering similar arrangements with Presidents for short-term service.

Governor Mills said that, as he understood the situation, the type of retirement allowances indicated by the two contracts before the Board for Reserve Bank Presidents who had not filled a complete term of service in the Federal Reserve System had been given provisional approval by the Board, and Governor Balderston now was asking

whether that provisional approval should be made a blanket approval that would cover all cases if and when they might come in. Governor Mills said that in his judgment, a matter of this importance should be considered by the Board and receive its approval on each separate occasion. He went on to say that he had expressed reservations about the adoption of such an arrangement at the meeting on November 18 and that the more he thought of it the less enthusiasm he had for the whole plan.

Chairman Martin noted that the requests before the Board today were for approval only of the letters to the Boston and Chicago Banks regarding the proposed contracts submitted by those Banks. Unless there was objection, he suggested that these be approved.

Governor Robertson said that he would not vote against accepting these two contracts but that his approval was given only because the Board had adopted this program for other short-service Presidents in the Federal Reserve Banks. Under the circumstances, he saw no purpose in his continuing to vote against the implementation of similar arrangements for the Presidents of the Boston and Chicago Banks.

Thereupon, the letters to the Boston and Chicago Federal Reserve Banks were approved unanimously in the form attached to these minutes as Items 10 and 11, with the understanding that the contracts referred to in the letters would be executed by the Secretary on behalf of the Board and copies transmitted to the respective Federal Reserve Banks and to the individuals concerned.

Mr. Chase withdrew from the meeting at this point.

Security matter. Governor Shepardson referred to a security investigation of a Board employee several years ago which had been accepted with the understanding that the employee would not be placed in a sensitive position. Subsequently, the Board authorized full security clearance for the employee. In view of this later action, Governor Shepardson said it was assumed that the restriction as to assignment of the employee to a sensitive position also was removed.

There was unanimous concurrence that Governor Shepardson had correctly stated the Board's intention.

Thereupon the meeting adjourned.

Secretary's Note: On January 12, 1960, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of Chicago (attached Item No. 12) approving the designation of Arthur J. Frigaard as special assistant examiner.

Secretary

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

Item No. 1
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1960.

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

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated December 14, 1959, enclosing copies of an application of The Beach Bank, Jacksonville Beach, Florida, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

This bank has been a member of the Federal Reserve System since May 17, 1948, and, in view of the Reserve Bank's knowledge of the institution and the latest report of examination as of March 27, 1959, a field investigation of the application was not regarded as necessary. Current information is favorable with respect to the financial history of the bank, adequacy of capital structure, future earnings prospects, general character of management, and services to the community. Accordingly, the Board of Governors recommends approval of the application of The Beach Bank to convert into a national banking association.

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.

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

Item No. 2
1/13/60

January 13, 1960.

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

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 2, 1959, enclosing copies of an application to organize a national bank at Aurora, Illinois, 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 Chicago discloses generally favorable findings with respect to the factors usually considered in connection with such proposals with the exception of the unfavorable background and past record of one of the proposed directors. It is assumed that this matter will be resolved to your satisfaction and accordingly the Board of Governors recommends approval of the application.

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.

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

Item No. 3
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1960.

The Honorable Jesse P. Wolcott,
Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of December 31, 1959, concerning the application of Farmers Bank, Clay, Kentucky, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs that the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

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. 4
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1960.

Board of Directors,
Riverside Trust Company,
Riverside, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $211,000 in bank premises by Riverside Trust Company, Riverside, New Jersey, for the purchase of land and construction of temporary and permanent quarters for the Levittown Branch, Levittown, New Jersey.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1960.

CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the Bank's Engineers and Firemen at annual rates of $6,697.60 and $5,907.20, respectively, effective January 4, 1960, in accordance with the request contained in your letter of December 30, 1959.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

S-1722
Item No. 6
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1960.

Dear Sir:

This refers to the statement of general policy for the Federal Reserve Banks with regard to the safekeeping of securities and related practices adopted by the Conference of Presidents on March 23, 1959.

The Board has accepted this statement, with certain modifications, as set forth below:

It is appropriate for the Federal Reserve Banks to hold securities in safekeeping when such holdings contribute to the efficient and economical operations of the Reserve Banks, or are otherwise in the public interest and are consistent with the purposes of the Federal Reserve System. The following are illustrative of types of holdings that would or would not be appropriate under this policy.

1. Securities owned by a member bank located outside of a Federal Reserve city, or located in a Federal Reserve city but outside of the central financial district thereof, may be accepted for safekeeping without restriction.

2. Securities issued by the U. S. Government or its agencies and owned by a member bank located in the central financial district of a Federal Reserve city may be accepted for safekeeping or held in "collateral account" (even if not actually pledged as collateral for borrowings or deposits) if such custody contributes to the efficient and economical operations of the Reserve Banks.

3. Securities, other than those issued by the U. S. Government or its agencies, owned by a member bank located in the central financial district of a Federal Reserve city may be held only if required as collateral for borrowings or deposits.

4. Securities in which third parties have an interest should not be accepted from member banks for safekeeping except (1) securities pledged as collateral by member banks to secure deposits of public funds, (2) securities pledged with a public official to qualify member banks to exercise trust powers, (3) securities pledged as collateral to secure deposits of trust funds in their commercial banking departments, (4) securities pledged pursuant to Treasury Department instructions and Federal court orders, and (5) securities which for other reasons within the framework of the general policy a Reserve Bank may deem desirable to accept for safekeeping.

5. In order that nonmember banks may not indirectly obtain the safekeeping privileges that are available to member banks, the amount of securities held for a nonmember bank as collateral for its Treasury Tax and Loan Account should have a reasonable relationship to the actual balance in that account over a period of time.

6. Securities issued by the U. S. Government, owned by States or political subdivisions thereof, may be accepted for safekeeping where such service appears desirable; but, in order not to overload the vault facilities of the Reserve Banks, there should be no general invitation to States or political subdivisions to deposit securities for safekeeping.

This letter supersedes the Board's letters of:

June 6, 1934 (X-7907, F.R.L.S. #3061)
June 18, 1947 (S-981, F.R.L.S. #3061.1)
April 2, 1943 (S-631, F.R.L.S. #3061.2)
May 2, 1951 (S-1321, F.R.L.S. #3061.3)
April 4, 1955 (S-1562-a, F.R.L.S. #3061.3)
September 29, 1939 (S-186-a, F.R.L.S. #3067)

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

UNITED STATES OF AMERICA

Item No. 7
1/13/60

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of FARMERS AND MECHANICS TRUST COMPANY Childress, Texas for prior approval of acquisition of voting shares of The First National Bank, Paducah, Texas

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There having come before the Board of Governors pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843) and section 4(a)(2) of the Board's Regulation Y (12 CFR 222.4 (a)(2)), application on behalf of the Farmers and Mechanics Trust Company, Childress, Texas, for the Board's prior approval of the acquisition of 5 per cent (150 shares) of the outstanding voting shares of The First National Bank, Paducah, Texas; a Notice of Tentative Decision referring to a Tentative Statement on said application having been published in the Federal Register on December 5, 1959 (24 F.R. 9801); said Notice having provided interested persons an opportunity, before issuance of the Board's final order, to file objections to or comments upon the statements of fact and conclusions reached in the Tentative Statement; and the time for filing such objections and comments having expired and comments received having been duly considered;

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application by Farmers and Mechanics Trust Company for approval of the acquisition of 5 per cent of the outstanding voting shares of The First National Bank, Paducah, Texas, be and hereby is granted and approved, provided that such acquisition is completed within three months from the date hereof.

Dated at Washington, D. C., this 13th day of January, 1960.

By order of the Board of Governors.

Voting for this action: Chairman Martin, Vice Chairman Balderston and Governors Mills, Shepardson and King.

Voting against this action: Governors Szymczak and Robertson.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

Item No. 8
1/13/60

APPLICATION BY FARMERS AND MECHANICS TRUST COMPANY, CHILDRESS, TEXAS, FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF THE FIRST NATIONAL BANK, PADUCAH, TEXAS

STATEMENT

Farmers and Mechanics Trust Company ("Farmers"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of its acquisition of 5 per cent (150 shares) of the outstanding voting shares of The First National Bank, Paducah, Texas ("National").

Views and recommendations of supervisory authorities. - Section 3(b) of the Act requires the Board, upon receipt of an application for approval under section 3, to "give notice to the Comptroller of the Currency, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a national banking association or a District bank, or to the appropriate supervisory authority of the interested State, if the applicant company or any bank the voting shares or assets of which are sought to be acquired is a State bank . . .". Farmers, the applicant company, is not a bank. The bank, the voting shares of which are sought to be acquired, is a national bank. Pursuant to the requirements of the Act, notice of the receipt of this application was given to the Comptroller of the Currency, and the Comptroller recommended that the application be approved.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether or not the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Farmers presently has two subsidiary banks: one, with deposits of about $2.3 million, in the town of Childress in Childress County, Texas, and the other, with deposits of about $2.7 million, in the town of Hollis in Harmon County, Oklahoma. Harmon County is northeast of, and partly contiguous to, Childress County. National, the bank in which Farmers seeks to acquire stock, is located in Paducah in Cottle County, Texas, which is just south of Childress County. National is the only banking office in Cottle County, and holds deposits of about $4 million.

At present, Farmers owns 5 per cent of National's stock. The proposed acquisition of 150 additional shares of stock would cause Farmers to own 10 per cent of National's outstanding stock. National would not become a "subsidiary" of the holding company within the meaning of the Act, since subsidiary status is based upon ownership of 25 per cent or more of the voting shares of a bank.

Insofar as the first three statutory factors are concerned, it appears that the financial history and condition of Farmers and National are satisfactory and that their prospects and the character of their management are good. As to the fourth factor, Farmers asserts that its increased stock ownership of National would enable it to use its greater influence in the management of the bank to expand the bank's loan operations to accommodate worthy farmers, ranchers, and businessmen in the Paducah area. However, there is no evidence that National has not been serving its area adequately or that demand for loans by qualified borrowers has not been satisfied. In the Board's opinion, the proposed stock acquisition would not substantially contribute to, although it would not be inconsistent with, the "convenience, needs, and welfare of the communities and the area concerned".

Turning to the fifth statutory factor, there is no suggestion that the proposed expansion of the size or extent of the holding company system involved would be inconsistent with adequate and sound banking. The crucial question is whether such expansion would be consistent with the public interest and the preservation of competition in the field of banking.

The area concerned is sparsely populated and the towns are relatively small. Paducah accounts for a large part of the population of Cottle County. The nearest town with banking facilities is Childress, 31 miles to the north, which has two banks. One is a subsidiary of Farmers, as previously mentioned; the other is about twice the size of Farmers' bank and is not controlled by a holding company. There are four banks located in three other towns in adjoining counties, located from 32 to 42 miles distant from Paducah.

To the extent that the proposed transaction might result in a diminution of banking competition, it would, in the Board's opinion, be limited to the area between and around Paducah and Childress in which there are three banks, one being Farmers' subsidiary in Childress. Assuming that the acquisition by Farmers of additional stock of National would tend to draw further within its influence a second of the three banks in this area, it might diminish, to some degree, the availability to residents of the area of alternative sources of banking services under separate and independent control. However, one of the remaining alternative sources would be the second bank in Childress, the largest bank in the area; and, as previously indicated, there are four other banks in towns which, in view of geographic and population factors, may be regarded as only a relatively short distance from the Childress-Paducah area.

After consideration of the foregoing facts in the light of the purposes of the Act and the factors contained in section 3(c) thereof, it was the Board's tentative decision, notice of which was duly published in the Federal Register, that approval of this application would be consistent with the statutory objectives and the public interest. As permitted by that notice, certain objections and comments were submitted to the Board; and all of such objections and comments have been carefully considered.

One of the objections received and considered by the Board urges that the acquisition by Farmers of additional voting shares of National cannot lawfully be approved by the Board because the acquisition proposed by Farmers would be ultra vires, that is, beyond the powers

conferred on Farmers as contained in its charter granted by the State of Texas. In the Board's opinion this objection cannot be sustained.

In connection with bills that preceded the passage of the Bank Holding Company Act of 1956, Congress considered various proposals that would have precluded approval by the Board of any acquisition in conflict with applicable State law. Congress rejected all such proposals, with the single exception, not here pertinent, of the provision contained in section 3(d) of the Act that prohibits approval of acquisitions across State lines. The Board has previously taken the position that no provision of the Bank Holding Company Act operates to preclude the Board from approving a particular transaction merely because it appears to be in contravention of a State statute. (In the matter of the Applications of First New York Corporation, et al., 44 Federal Reserve Bulletin 902, 905 (1958)) This position is here reaffirmed; and the same principle must be applied to a provision in an applicant's corporate charter. This does not mean, of course, that a particular transaction need not meet the requirements of any statute, Federal or State, that might be applicable to any aspects of such transaction. It is not the province of the Board, however, to determine whether such a transaction would violate State law or exceed the charter powers of a State corporation; such questions are within the jurisdiction of the appropriate State administrative and judicial authorities.

Another objection received by the Board in this case urges that common control of two or more banks in the State of Texas contravenes that State's prohibition against branch banking and, as a

consequence, contravenes the provisions of the Bank Holding Company Act. In the Board's view, this objection is clearly answered by the legislative history of that Act.

Chief among the proposals considered by Congress for limiting the Board's discretionary authority under the Act was that contained in a bill passed by the House of Representatives which would have prohibited approval of any acquisition of stock of a bank in any State except "within geographic limitations that would apply to the establishment of branches of banks under the statute law of such State", unless the acquisition was affirmatively authorized by the law of the State. This proposal, however, was rejected by the Senate, and the bill finally enacted into law contained no provision that would require the Board to consider the existence or not of branch banking legislation within a particular State in passing upon an application that would result in holding company expansion within that State. At the time of passage of the Act, Congress was apparently aware of the existence of legislation in several States that prohibited branch banking. Congress was presumably aware of the fact also that in the National Bank Act it had specifically taken into consideration the existence of State branch banking laws in authorizing the Comptroller of the Currency to approve the establishment or operation of a branch by a national bank only if State laws specifically and affirmatively authorized State banks to have such branches. No mandatory reference to State branch banking provisions was included in the Bank Holding Company Act. Thus, notwithstanding proposals made on the floor of the Congress regarding the relation of State branch banking laws to holding company expansion, the existence in a particular State of a prohibition against branch banking cannot be

weighed as an adverse consideration by the Board in exercising its judgment on a holding company's application to acquire stock of a bank in that State.

It appearing that the proposed acquisition would be consistent with the statutory objectives and the public interest, it is the judgment of the Board that the application should be approved. It is so ordered.

January 13, 1960.

Item No. 9
1/13/60

Dissenting Statement of Governors Szymczak and Robertson

The proposed acquisition in this case would tend to lessen banking competition. At present, persons residing in the area between and around Paducah and Childress have three conveniently available choices of banking services: The First National Bank of Paducah and the two banks in Childress, one of which is a subsidiary of the holding company. The Holding Company already owns 5 per cent of the stock of the Paducah bank. Its acquisition of an additional 5 per cent will admittedly and purposefully increase its influence in the affairs of that bank and to that extent will likely result in a diminution of competition between the Paducah bank and the holding company's subsidiary bank in Childress.

Against this adverse factor of probable lessening of competition, there are no offsetting favorable considerations. It is apparent that the Paducah bank is adequately meeting loan demands in its community. There is no positive indication that the proposed stock acquisition would in any way tend to improve banking services or otherwise contribute to the public interest.

The facts that the holding company and the bank involved in this case are relatively small and that the area concerned is now sparsely populated (although it may not always be so), do not warrant a departure from the general principles that would be applied in a case involving larger institutions and more heavily populated areas, when considered in the light of the factors stated in section 3(c) of the Bank Holding Company Act. In our judgment, the application should be denied.

1/13/60

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

Item No. 10
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

JAN 13 1960

Confidential (FR)

Mr. Robert C. Sprague,
Chairman,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Sprague:

This refers to your letter of December 30, 1959, to Chairman Martin enclosing a copy of the vote of your Board of Directors and three copies of the revised contract dated December 28, 1959, entered into between the Federal Reserve Bank of Boston and President Erickson providing for a minimum retirement allowance for President Erickson after his retirement under certain conditions.

The Board of Governors approves the contract as entered into between the Bank and Mr. Erickson on December 28, 1959, and the Secretary of the Board of Governors has affixed his signature in the place indicated in the Agreement.

In accordance with your letter, one executed copy has been retained for the Board's files and the other two copies are returned herewith.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

CONTRACT

For and in consideration of the mutual promises of each, this Agreement is entered into between Joseph A. Erickson and the Federal Reserve Bank of Boston, Boston, Massachusetts.

Subject to all of the applicable provisions of law, Joseph A. Erickson agrees to serve as an officer of the said Federal Reserve Bank as long as such service shall be mutually agreeable to the parties hereto.

For and on account of such service, said Federal Reserve Bank shall pay said Joseph A. Erickson as follows:

(1) Said Federal Reserve Bank shall pay to said Joseph A. Erickson a salary at the rate of $35,000 per annum during the period ending December 31, 1960, and thereafter during his service as an officer and prior to his retirement his salary shall be as determined from time to time in accordance with applicable provisions of law;

(2) If, having attained the age of 65, said Joseph A. Erickson shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is President of said Federal Reserve Bank at the time of his retirement, said Federal Reserve Bank shall pay to said Joseph A. Erickson after such retirement and during the remainder of his lifetime an amount per annum which, together with his regular retirement allowance under the Retirement System of the Federal Reserve Banks (without regard to optional benefits or conversion, or additional voluntary contributions), will aggregate a sum equal to 40 per cent of the annual salary being paid to him at the time of his retirement; and

(3) If, without having attained the age of 65, said Joseph A. Erickson shall retire with not less than 10 years of service creditable

under the Retirement System of the Federal Reserve Banks, and if he is President of said Federal Reserve Bank at the time of his retirement, the aggregate sum equal to 40 per cent of salary referred to in the preceding paragraph (2) shall be reduced by the application of the then current table of pension reduction factors of the Bank Plan of the Retirement System of the Federal Reserve Banks, and the portion of the aggregate that is payable by said Federal Reserve Bank shall be the difference between the dollar amount represented by such lesser percentage of salary and the regular retirement allowance payable at the attained age by said Retirement System.

This Agreement does not obligate the said Joseph A. Erickson to remain as an officer of the said Federal Reserve Bank, and does not constitute an Agreement by the said Federal Reserve Bank or the Board of Governors of the Federal Reserve System that he will continue in such capacity; it does not obligate the said Federal Reserve Bank to appoint, reappoint, or continue him as an officer, nor does it obligate the Board of Governors of the Federal Reserve System to approve his appointment or reappointment or his compensation.

The existing agreement between the parties dated December 12, 1950 as revised by supplement dated February 24, 1958 is hereby further amended to make the terms thereof consistent with the terms hereof.

Witness our hands and seals this 28th day of December 1959.

Joseph A. Erickson

FEDERAL RESERVE BANK OF BOSTON

Attest:

By _____
Chairman of Board of Directors

Laurence H. Stone
Secretary

The above Agreement has been approved by the Board of Governors of the

Federal Reserve System and in witness thereof, the seal of the said Board is attached and its Secretary has affixed his signature.

(SEAL)

(Signed) Merritt Sherman
Secretary

January 13, 1960
(Date)

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

Item No. 11
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1960.

Confidential (FR)

Mr. Bert R. Prall,
Chairman,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prall:

This refers to your letter of December 30, 1959, to Governor Balderston enclosing a resolution of your Board of Directors and four copies of an Agreement dated December 30, 1959, between your Bank and President Allen providing for a minimum retirement allowance for President Allen after his retirement under certain conditions.

The Board of Governors approves the Agreement as entered into between the Bank and Mr. Allen on December 30, 1959, and the Secretary of the Board of Governors has affixed his signature in the place indicated in the Agreement.

In accordance with your letter, two executed copies have been retained for the Board's files and the other two copies are returned herewith.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

AGREEMENT

For and in consideration of the mutual promises of each, this Agreement is entered into between CARL E. ALLEN and the FEDERAL RESERVE BANK OF CHICAGO, Chicago, Illinois.

Subject to all of the applicable provisions of law, CARL E. ALLEN agrees to serve as an officer of the said FEDERAL RESERVE BANK as long as such service shall be mutually agreeable to the parties hereto.

For and on account of such service, said FEDERAL RESERVE BANK shall pay said CARL E. ALLEN as follows:

(1) Said FEDERAL RESERVE BANK shall pay to said CARL E. ALLEN a salary at the rate of $50,000 per annum during the period ending December 31, 1960, and thereafter during his service as an officer and prior to his retirement his salary shall be as determined from time to time in accordance with applicable provisions of law;

(2) If, having attained the age of 65, said CARL E. ALLEN shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is President of said FEDERAL RESERVE BANK at the time of his retirement, said FEDERAL RESERVE BANK shall pay to said CARL E. ALLEN after such retirement and during the remainder

of his lifetime an amount per annum in equal monthly installments which, together with his regular retirement allowance under the Retirement System of the Federal Reserve Banks (without regard to optional benefits or conversion, or additional voluntary contributions), will aggregate a sum equal to 40 per cent of the annual salary being paid to him at the time of his retirement; and

(3) If, without having attained the age of 65, said CARL E. ALLEN shall retire with not less than 10 years of service creditable under the Retirement System of the Federal Reserve Banks, and if he is President of said FEDERAL RESERVE BANK at the time of his retirement, the aggregate sum equal to 40 per cent of salary referred to in the preceding paragraph (2) shall be reduced by the application of the then current table of pension reduction factors of the Bank Plan of the Retirement System of the Federal Reserve Banks, and the portion of the aggregate that is payable by said FEDERAL RESERVE BANK shall be the difference between the dollar amount represented by such lesser percentage of salary and the regular retirement allowance payable at the attained age by said Retirement System.

This Agreement does not obligate the said CARL E. ALLEN to remain

as an officer of the said FEDERAL RESERVE BANK, and does not constitute an Agreement by the said FEDERAL RESERVE BANK or the Board of Governors of the Federal Reserve System that he will continue in such capacity; it does not obligate the said FEDERAL RESERVE BANK to appoint, reappoint, or continue him as an officer, nor does it obligate the Board of Governors of the Federal Reserve System to approve his appointment or reappointment or his compensation.

Witness our hands and seals this 30th day of December, 1959.

Carl E. Allen

FEDERAL RESERVE BANK OF CHICAGO

BY Bert C. Pond
Chairman of Board of Directors

Attest:

Secretary

The above Agreement has been approved by the Board of Governors of the Federal Reserve System and in witness thereof, the seal of the said Board is attached and its Secretary has affixed his signature.

(SEAL)

(Signed) Merritt Sherman
Secretary

January 13, 1960
(Date)

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

Item No. 12
1/13/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1960.

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

Dear Mr. Diercks:

In accordance with the request contained in your letter of January 6, 1960, the Board approves the designation of Arthur J. Frigaard as a special assistant examiner for the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.