

Minutes for January 15, 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	<u>(W) [Signature]</u>
Gov. Szymczak	<u>[Signature]</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R [Signature]</u>
Gov. Balderston	<u>CB [Signature]</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Friday, January 15, 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. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Achor, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Kansas City, and Dallas on January 14, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of San Francisco approving the appointment of Parker R. Smith as Federal Reserve Agent's Representative at the Seattle Branch.	1
Letter to the Federal Reserve Bank of San Francisco regarding an interpretation of section 6(a)(4) of the Bank Holding Company Act requested by First-america Corporation.	2

Letter to Senator Robertson. In accordance with the understanding reached at the Board meeting yesterday, there had been distributed a redraft of letter to Senator Robertson, Chairman of the Banking and Currency Committee, recommending approval of S. 2609, a bill to amend the Federal Deposit Insurance Act to revise the assessment base and for other purposes, discussed at the meeting on January 14, 1960.

Governor Robertson commented that he had gone back over the bill following the discussion of this question at yesterday's Board meeting. He thought the basic purpose of the proposal to make possible an easier determination of assessments on insured banks was laudable; but he was concerned by the language of lines 4 through 9 on page 9 of the bill which read "The Board of Directors, the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System, or a majority of said agencies may jointly by regulation define the terms "cash items" and "process of collection" and shall classify deposits as "time," "savings," and "demand" deposits for the purpose of this section." Such a provision of the law would permit two of the three agencies to

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overrule the third and issue regulations in an area which fell properly within the latter's province. He believed this to be objectionable and suggested the desirability of consultation between Chairman Martin and Messrs. Gidney and Wolcott, Comptroller of the Currency and Chairman of the Federal Deposit Insurance Corporation, respectively, for the purpose of discussing this feature and suggesting that the Federal Deposit Insurance Corporation be given sole jurisdiction in this area which related solely to determination of the assessment base. His thought was that the Board's report on the bill should be favorable but that the Federal Deposit Insurance Corporation might suggest to Senator Robertson a change in the bill on this point, if it agreed that a change would be desirable.

Chairman Martin said that if the Board so desired he would try to arrange a luncheon meeting with Messrs. Gidney and Wolcott to discuss the question, although he believed that Governor Robertson might be exaggerating the potential dangers involved in the bill as it stood.

Mr. Hexter commented that it was his impression that the arrangement for tri-agency control as set forth in the bill stemmed from the hope that the proposed bill would be advantageous to the insured banks in that the certified statement of deposits for assessment purposes would be based on data set forth in reports of condition, and Mr. Conkling concurred. Mr. Hexter went on to say that should the Federal Deposit Insurance Corporation be given a free hand it might

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prescribe a condition report form that was undesirable for the System or for the Comptroller of the Currency and one that would require member banks to submit additional reports.

Mr. Thomas inquired whether this meant that the Board and the Reserve Banks would be unable to continue to get additional statistical information from member banks, and Mr. Hexter replied that this was not meant.

Mr. Hackley said that he also was somewhat disturbed by the provision on page 9 of the bill to which Governor Robertson had referred because of the completely different purposes served by the reports, i.e., as a basis for deposit insurance assessments, as a basis for administering reserve requirements of member banks, and as a means of helping to administer the law and regulations relating to the payment of interest on deposits. The reports submitted should be made to serve the purposes of each of the agencies concerned, and he suggested that one alternative might be to change the wording of the draft bill to place the authority in the hands of the Federal Deposit Insurance Corporation with the proviso that there should be consultation with the Comptroller of the Currency and the Board of Governors to achieve maximum possible uniformity.

After discussion, it was understood that the Chairman would endeavor to arrange a meeting with Messrs. Wolcott and Gidney for the purpose of discussing the proposed legislation.

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Messrs. Conkling and Chase withdrew from the meeting at this point.

Limited voting permit for City Commerce Corporation, Anchorage, Alaska (Item No. 3). There had been distributed a memorandum dated January 13, 1960, from the Division of Examinations recommending that either a section 301 determination be made or a limited voting permit be issued to the City Commerce Corporation, Anchorage, Alaska, to vote the shares it owned or controlled of the City National Bank of the same place at the annual meeting of that bank to be held on January 20, 1960.

Mr. Solomon said that although the memorandum recommended that a section 301 determination be made in this case, it was the present feeling of both the Division of Examinations and the Legal Division that it would be advisable to defer such a determination and to issue a limited voting permit instead, pending further study of the relationships between City Commerce Corporation and its subsidiaries engaged in the small loan business.

Governor Mills said he concurred completely with the view expressed by Mr. Solomon and he recalled that when the City National Bank was admitted to the System before Alaska was admitted to Statehood, there were certain reservations regarding its condition and management.

Issuance of a limited voting permit to City Commerce Corporation, Anchorage, Alaska, to vote the shares it owns or controls of City National Bank, Anchorage, Alaska, at the annual meeting of that bank

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to be held on January 20, 1960, was then authorized, with the understanding that a telegram containing this authorization would be sent to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco. A copy of this telegram is attached to these minutes as Item No. 3.

Mr. Hostrup withdrew from the meeting at this point.

Application to organize a national bank in Houston, Texas.

There had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency that would recommend that an application to organize a national bank in Houston, Texas, be disapproved. This recommendation of the Division of Examinations was consistent with the views of the Federal Reserve Bank of Dallas. While the file was in circulation, Governors Mills, Robertson, and Balderston indicated that they would recommend favorably regarding this application since the sponsoring group was evidently quite capable of assuming the risks involved.

The Chairman asked if it was the wish of the Board to inform the Dallas Reserve Bank that the Board was inclined to recommend approval of this application and invite additional comments.

Mr. Solomon stated that he had already held a telephone conversation with Vice President Pondrom of the Dallas Bank concerning

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the close character of this case, although he had not made reference to any position that the Board might take on the application. In response to a question from Governor Mills, he said that Mr. Pondrom personally was fully familiar with the application. He had been a manager of the Houston branch of the Dallas Reserve Bank for several years and he knew the individuals involved in the application, recognizing that they were wealthy men with good reputations in the community. He added that the sponsors would not only be able to prevent the bank from failing but could also give it some valuable business. On the other hand, Mr. Pondrom had expressed the view that Houston was probably at or beyond an overbanked position. The applicant bank would be moving into a building in a less desirable part of town from which another bank had recently moved, and on balance Mr. Pondrom concluded that the application should be denied on the grounds that there was no need for another bank in Houston at this time and prospects for profitable operations were not bright. Mr. Solomon went on to say that he was not persuaded that Houston was yet an overbanked city, although he realized that within the past five years sixteen banks had been established there. However, ten of these banks were affiliated with chains. He concluded by noting that since Mr. Pondrom felt rather strongly about the question, he had not been willing to substitute his judgment for Mr. Pondrom's. His own view was that the application presented a fairly close decision whether to approve or disapprove.

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Governor King commented that, despite Mr. Pondrom's views on the rundown economic character of the locality in which the proposed bank would be established, the bank that had moved from the building into which the new bank would go had built up deposits from \$3 to \$16 million in three years. He felt that this argued against the conclusion that the local business area was not favorable for satisfactory growth of the bank, especially since banks nowadays are not as highly dependent upon local area business as in the past. He said that he also was impressed by the long list of substantial stockholders.

It was then agreed that in accordance with the usual procedure in such cases, the application would be discussed further with the Dallas Reserve Bank in the light of the comments at this meeting, with the understanding that Mr. Solomon would report back to the Board.

Messrs. Nelson and Achor then withdrew from the meeting.

Foreign-branch records. There had been distributed to the Board under date of January 14, 1960, a memorandum from Mr. Hexter concerning production in court of foreign-branch records.

Mr. Hexter commented on the memorandum which referred to an investigation by the Internal Revenue Service of the tax liability of a corporation that is a customer of the First National City Bank of New York's branch in the Republic of Panama. He noted that in connection with that investigation the Federal Court of Appeals in New York recently ordered the bank to produce in this country records of its Panama branch

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relating to that customer, and that the bank had petitioned the Supreme Court for a writ of certiorari. If the writ was granted the Supreme Court would then review the decision, he said, but if it was denied the Court of Appeals' decision would be final. He observed that the First National City Bank was requesting the Board to inform the Department of Justice or the Treasury Department upon inquiry that the Board considered it to be in the public interest for the Supreme Court to grant such a writ in the litigation. However, it was the view of the Legal Division that, in the absence of a study of the question whether American banks with branches abroad should be subject to subpoena in this country to produce records of foreign branches, the Board probably would not be in a position to reach any conclusion on the merits of the controversy. Accordingly, it was the recommendation of the Legal Division that, if the Board were asked for its views regarding the desirability of Supreme Court review in this case, the inquiring agency should be informed that in the Board's opinion the mere fact that the law in this matter would be "settled" (subject to legislative change) by a Supreme Court decision would not appear to be of substantial benefit to American banking or to our foreign commerce.

Governor Szymczak observed that after communicating with the New York Reserve Bank, Mr. Wriston, Senior Vice President of National City Bank, and Mr. Parlin of the bank's counsel, had visited him and

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Messrs. Solomon, Hexter, and Furth, on January 8, 1960. Messrs. Wriston and Parlin stated at that meeting that this matter was of extreme importance to their bank and to other American banks with branches abroad. They also stated that they understood it to be the Board's position from a provision in the Financial Institutions Act proposed in 1956 that foreign branches of American banks should be on an equal footing with domestic banks. Governor Szymczak said he doubted the Board knew enough about this question to be able to decide that the Supreme Court should grant a writ of certiorari, and he noted that the Internal Revenue Service was opposed to the granting of such a writ by the Supreme Court. He added that he thought the Board should study the question and seek the views of the Comptroller of the Currency and other interested agencies on it since the First National City Bank, which had more foreign branches than any other American bank, intended to go to Congress to obtain a change in the law.

Governor Mills agreed with this suggestion but proposed that the Board reply to any inquiry by stating that the Board had no views to express in the matter since it involved questions beyond the Board's authority and interest.

Governor Robertson concurred with this view, adding that he thought Governor Szymczak's proposal to study the question was a good one since it would prepare the Board for any additional legislation on this question.

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It was then agreed that, should the Board be asked for its views regarding the desirability of Supreme Court review of this case, the inquiring agency should be informed that the Board had no views to express.

Messrs. Hexter and Furth then withdrew from the meeting, and Mr. Molony, Assistant to the Board, entered the room.

Report on use of reserve requirements. Mr. Shay recalled that the report by the House Banking and Currency Committee on the reserve requirements bill (House Report No. 403, 86th Congress, 1st Session) requested a report from the Board which would (1) make a comparison of the relative efficiency of changes in reserve requirements with open market operations; and (2) consider possible improvements in their use as an anti-inflationary tool. Subsequently, when asked during a hearing about this report, the Chairman replied that he would transmit a study of this question to the Committee, and when he appeared before the Joint Economic Committee in July 1959, Congressman Reuss, a member of both committees, inquired as to the status of the report. Mr. Shay said that he was bringing this to the Board's attention since it seemed certain that Congressman Reuss would raise a question regarding the report on use of reserve requirements when Chairman Martin appeared before that Committee on February 2, 1960. He noted alternative staff suggestions as to whether it would be preferable to include the report on reserve requirements in the Board's Annual Report for 1959, or whether to submit it as a separate document.

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Governor Mills said that in view of the lapse of time since the report had been requested, he thought it should be made available before the Chairman appeared before the Joint Economic Committee on February 2.

Mr. Noyes noted that the request for the report had not originated with the Joint Economic Committee but rather with Chairman Spence's Banking and Currency Committee and that the Joint Economic Committee was already apprised of the Board's position on this subject through the medium of responses to previous questions. He went on to say that the report was presently in its third draft and that it took the position that the use of small changes in reserve requirements as an instrument of monetary policy in substitution for open market operations more generally than in the past was neither desirable nor feasible.

Chairman Martin observed that at the present time debate over the substance of the report should not be permitted to delay getting it submitted to the Congress, since the Board was open to the charge of being dilatory in this matter. The other members of the Board concurred in this view, and it was understood that the Division of Research and Statistics should present to the Board for its consideration as soon as possible a draft of report on the relative effectiveness of changes in reserve requirements and open market operations as instruments of monetary policy.

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Publication date of Annual Report. The Chairman then inquired as to the status of work on the Board's Annual Report for 1959. After reports from Messrs. Noyes and Sherman indicating that preparation of text, policy records, and other material was proceeding satisfactorily with a view to publication of the printed report in March, the Chairman stated reasons why such a program should be pressed forward.

Thereupon the meeting adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals, Governor Shepardson today approved on behalf of the Board the following actions affecting the Board's staff:

Appointment

Edwin A. Anderson as Economist in the Division of International Finance, with basic annual salary at the rate of \$9,890, effective the date he assumes his duties.

Change in status

Ann M. Van Eckhardt, Statistical Assistant, Division of Research and Statistics, from a half-time basis to a full-time basis, with basic annual salary at the rate of \$4,340, effective January 18, 1960.

Permission to work additional period before maternity leave

Jean S. Barber, Payroll Clerk, Office of the Controller, to work through January 22, 1960, before beginning maternity leave.



Secretary

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

Item No. 1
1/15/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1960.



Mr. F. B. Whitman, Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Whitman:

In accordance with the request contained in your letter of January 4, 1960, the Board of Governors approves the appointment of Mr. Parker R. Smith as a Federal Reserve Agent's Representative at the Seattle Branch to succeed Mr. Frank J. Reff.

This approval is given with the understanding that Mr. Smith 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. Smith may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Seattle 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. Smith 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. Smith'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.

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

Item No. 2
1/15/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1960.



AIR MAIL

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

This is in response to your letter of July 16, 1959, enclosing copies of correspondence between your Bank and Firstamerica Corporation relating to the interpretation of section 6(a)(4) of the Bank Holding Company Act.

The Board understands that Commercial Investment Trust Co. ("Commercial"), a depositor in the National Bank of Washington ("Washington"), which is a subsidiary of Firstamerica, has requested a \$1 million revolving line of credit. First National Bank of Oregon ("Oregon"), another subsidiary of Firstamerica, wishes to furnish all of the loans that may be called for by Commercial under this line of credit. Washington and Oregon plan to enter into a written agreement under which the making of such loans will be handled by Washington, the notes being executed on Washington's note form. As each loan is made, Washington will charge Oregon's account with the full amount of the particular loan and will credit Commercial's account with Washington's account with Washington will be sufficient, at all times, to enable Washington to charge Oregon's account immediately with the full amount of each loan that is made to Commercial under the line of credit. Whenever a loan is made, Washington, as the payee of Commercial's note, will immediately endorse the note to Oregon on a nonrecourse basis. Washington will service the loans and will credit Oregon's account with all collections of principal and interest.

The question presented is whether the procedure described would violate section 6(a)(4) of the Bank Holding Company Act, which prohibits a bank subsidiary of a holding company from making any loan, discount or extension of credit to any other subsidiary of the holding company.

As indicated by your General Counsel, the plan appears to be similar, in most respects, to the first of the four factual situations dealt with in the Board interpretation published in the September 1958

Mr. E. R. Millard

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Federal Reserve Bulletin, at page 1059. However, all of the situations dealt with in that interpretation related to arrangements under which the originating bank was making a part of the loan and the other bank was taking the remainder of the loan, not the entire loan. The interpretation turned on whether each arrangement constituted a "joining at the outset", an expression used in the Board's Statement in Matter of General Contract Corporation, 44 Fed. Res. Bulletin 260 (1958). In the instant case, the "originating" bank - National Bank of Washington - will not make any part of the loans made under the line of credit; First National Bank of Oregon will take 100 per cent of all of such loans. Consequently, there would be no "joining at the outset", and you have requested the Board's views as to whether the principles expressed in the September 1958 interpretation will nevertheless be applicable.

The decisive question, in the interpretation and application of section 6(a)(4), is whether there is, in fact, any "loan, discount or extension of credit" between subsidiaries of the same holding company. In each of the situations described in the September 1958 interpretation, referred to above, the Board concluded that no "intra-group" loan, discount or extension of credit was involved. Under Firstamerica's plan, the Oregon bank would furnish all of the funds being borrowed by Commercial, but in all other respects the arrangement appears to be substantially similar to the first situation dealt with in the published interpretation.

In the opinion of the Board, it is immaterial, for the purposes of section 6(a)(4), whether the second bank (1) takes only a participation in the loan or (2) makes the entire loan. Accordingly, the Board concludes that the arrangement described above would not violate the provisions of section 6(a) of the Bank Holding Company Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 3
1/15/60BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 15, 1960.

WHITMAN - SAN FRANCISCO

KECEA

- A. City Commerce Corporation, Anchorage, Alaska.
- B. City National Bank of Anchorage, Anchorage, Alaska.
- C. None.
- D. At any time prior to April 1, 1960, at the annual meeting of shareholders of such bank or any adjournments thereof (1) to elect directors, and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank; (2) to amend the by-laws to provide for two examinations per year by the Examining Committee; and (3) to increase the capital stock and take all necessary actions in connection therewith, provided that all actions taken in connection with the capital increase are in accordance with plans satisfactory to the Comptroller of the Currency STOP. Please advise Applicant that all other matters outlined in the Applicant's letter to Mr. Millard dated November 16, 1959, to be discussed or considered at the annual meeting, are considered matters of a routine nature.

(Signed) Merritt Sherman

SHERMAN

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).