

Minutes for May 16, 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

RM
MS

Gov. Szymczak

Gov. Mills

[Signature]

Gov. Robertson

Gov. Balderston

CRB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Monday, May 16, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Koch, Adviser, Division of Research
and Statistics
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Landry, Assistant to the Secretary
Mr. Keir, Chief, Government Finance Section,
Division of Research and Statistics

Report on money market developments. Messrs. Thomas and Keir reported on recent developments in the money market and near-term bank reserve projections.

Messrs. Koch and Keir then withdrew from the meeting.

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas on May 12, 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.

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

	<u>Item No.</u>
Letter to the Gary Trust and Savings Bank, Gary, Indiana, approving the establishment of a branch at 650 South Lake Street.	1
Letter to the Union Bank and Trust Company, Grand Rapids, Michigan, approving an extension of time to establish a branch in Grand Rapids Township, Kent County.	2
Letter to the Warren Bank, Warren, Michigan, approving the establishment of a branch at 27248 Van Dyke Avenue.	3
Letter to Bank of America National Trust and Savings Association, San Francisco, California, approving the establishment of a branch on the Island of Moen, Truk Atoll, United States Trust Territory of the Pacific Islands.	4
Letter to the Union Bank, Los Angeles, California approving the establishment of a branch in Orange.	5
Letter to The First National Bank of DeWitt, DeWitt, Arkansas, approving its application for fiduciary powers.	6
Letter to The First National Bank of Vinita, Vinita, Oklahoma, approving its application for fiduciary powers.	7
Letter to Chairman Robertson of the Senate Banking and Currency Committee reporting on S. 3472, which would extend until June 30, 1962, the authority contained in the Defense Production Act of 1950, as amended.	8

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	<u>Item No.</u>
Telegram to the Federal Reserve Bank of Atlanta authorizing it to obtain bids for the proposed two-floor addition to the Atlanta (head office) parking garage.	9
Letter to the Federal Reserve Bank of New York noting the action of its Board of Directors approving continuation of its program for advanced education of personnel.	10
Letter to the Federal Reserve Bank of Cleveland approving continuation of the payment of salary to an employee of the Pittsburgh Branch at a rate in excess of the maximum of the grade to which his position is allocated.	11

Messrs. Thomas and Daniels then withdrew and Messrs. Hackley, General Counsel, Hexter, Assistant General Counsel, and Nelson, Assistant Director, Division of Examinations, and Miss Hart, Assistant Counsel, entered the room.

Order and Statement in the case of Otto Bremer Company (Items 12 and 13). There had been distributed a memorandum dated May 9, 1960, from the Legal Division regarding a request of Otto Bremer Company, St. Paul, Minnesota, on November 20, 1959, for a determination under section 4(c)(6) of the Bank Holding Company Act that the activities of a proposed subsidiary, Foster County Agency, Inc., were of a kind that would make inapplicable the provisions of section 4(a)(2) of the Act, prohibiting the retention by a bank holding company of any voting shares of a nonbanking organization. The memorandum noted that Otto

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Bremer Company proposed to acquire 390 of the 1,000 total shares of Foster County Agency, Inc., and that the agency would then conduct various insurance activities now carried on by the insurance department of the Foster County State Bank, a banking subsidiary of whose stock Otto Bremer Company controls 39 per cent. It was further noted that a hearing was held on February 8, 1960, at the offices of the Federal Reserve Bank of Minneapolis and that on April 7, 1960, the hearing examiner filed his Report and Recommended Decision wherein he recommended that the Board grant the request. The time for filing exceptions to the hearing examiner's Report expired on April 26, 1960, no exceptions having been filed thereto. Noting that the hearing examiner had concluded that all the activities of the proposed subsidiary would fall within the terms of the exemptions afforded by section 4(c)(6), the memorandum stated that the Legal Division agreed with this conclusion and believed it to be in accord with the statutory purposes of that provision as well as with previous decisions of the Board. Accordingly, it was recommended that the Board authorize the issuance of an Order and Statement along the lines of drafts that were attached to the memorandum.

There being no indication of disagreement with the conclusion and recommendation of the Legal Division, an Order and Statement in the form of attached Items 12 and 13 were unanimously approved.

Letter to the Philadelphia National Bank, Philadelphia, Pennsylvania (Items 14 and 15). There had been circulated a draft letter to the

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Philadelphia National Bank, Philadelphia, Pennsylvania, that would advise of Board approval of the articles of association and the organization certificate of Philadelphia International Investment Corporation. The letter also would transmit a permit authorizing the corporation to proceed with steps incidental and preliminary to its organization.

Mr. Solomon said that it should be noted that Board approval of the articles and organization certificate of Philadelphia International Investment Corporation would constitute a definitive step since it meant that the Board, for all practical purposes, would be approving the Investment Corporation's charter. However, in his estimation there was nothing unusual in the application.

Mr. Goodman concurred, saying that the application was entirely in order.

The Board then unanimously approved the letter to the Philadelphia National Bank, Philadelphia, Pennsylvania, advising of approval of the articles of association and the organization certificate of Philadelphia International Investment Corporation and transmitting a permit authorizing the corporation to proceed with steps incidental and preliminary to its organization. Copies of the letter and the permit are attached as Items 14 and 15.

Messrs. Noyes and Goodman then withdrew from the meeting.

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Letter to the Comptroller of the Currency. There had been circulated a memorandum dated April 29, 1960, from the Division of Examinations recommending favorably with respect to an application to organize a national bank at Miami, Florida, along with a draft of letter to the Comptroller of the Currency containing this recommendation. It was noted in the memorandum that the Atlanta Reserve Bank had recommended unfavorably on the application.

Asked by the Chairman to comment, Mr. Nelson said that the proposed national bank would be located about four miles southwest of the center of Miami, that the population of the area to be served included about 200,000 persons, and that the proposed bank expected to have \$9 million in deposits at the end of the third year of operation. Both future earnings prospects and general character of management were considered to be satisfactory. The only question related to the convenience and needs of the community to be served, which apparently would be served by the proposed bank, since the nearest competing bank was two miles distant. The ratio of population per banking office in the Miami metropolitan area was about 18,000 to one compared to about 16,000 to one in the State of Florida and 9,800 to one in metropolitan areas in the United States in 1958. Mr. Nelson went on to say that although the investigation of the proposed bank did not develop many facts indicating pronounced need for additional banking facilities in the area, it did show that a satisfactory volume of business could be

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developed within a reasonable period. Thus, even though a number of letters had been received from bankers in Dade County during recent weeks opposing the granting of new bank charters, the Division of Examinations recommended that this application be acted on favorably.

Governor Shepardson referred to a letter from a director of the Bank of South Miami dated March 18, 1960, stating opposition to new bank charters in Dade County, in part because of a decline in the deposits of certain of the commercial banks in the County in the past few months. He said that when he was in Jacksonville a few weeks ago, he had heard comment at the Jacksonville Branch of the Federal Reserve Bank of Atlanta to the effect that the Miami area might be becoming over-banked. In addition, a real estate agent to whom he had talked had referred to a rising number of vacancies in the area. Consequently, he (Governor Shepardson) had requested Mr. Nelson to look into the question whether there had been a decline in bank volume in the Miami area during 1959. However, the data secured by Mr. Nelson from the Atlanta Reserve Bank on this point did not reveal such a trend. He believed the recommendation of the Division of Examinations was correct in the light of the great disparity in the ratio of population to bank offices in Dade County compared to the rest of the country.

Chairman Martin observed that hotels in the Miami-Miami Beach area were experiencing difficulty and had a high vacancy rate. However, this hardly constituted a real basis for turning down the application

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before the Board, in view of the other information available regarding the proposed bank.

It appearing that the Board was disposed to recommend approval of the application, it was understood that the Division of Examinations, according to the customary procedure, would communicate with the Atlanta Reserve Bank to inform it of this fact and to give the Bank an opportunity to furnish any further details concerning the application it might desire.

Telegram to all Reserve Banks regarding report of "unregulated lenders" (Item No. 16). There had been distributed a memorandum dated May 13, 1960, from Miss Hart recommending that the New York Reserve Bank be given discretion to grant extensions up to 90 days on three applications for extensions of time in which to file Form F. R. 728 under section 221.3(j) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, pertaining to loans by so-called "unregulated lenders." A draft letter to this effect was attached to the memorandum.

Miss Hart commented that the Legal Division was in accord with a suggestion that all of the Reserve Banks be given the same discretion to grant extensions of time within which to file Form F. R. 728 as was proposed in the draft letter to the New York Reserve Bank. It was contemplated that each Reserve Bank would then be in a position to grant requests with a reasonable showing of need.

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There being no objection, unanimous approval was given to the recommendation of the Legal Division, with the understanding that all Reserve Banks would be informed by telegram of the Board's action, and with the additional understanding that no further public notice of extensions of time be given pursuant to this action. A copy of the telegram is attached as Item No. 16.

Bank merger bill. Noting that the Bank Merger Bill (S. 1062) had been signed by the President on May 13, 1960, Governor Robertson stated that the Board would be affected by its provisions immediately. In the first place, it probably would be necessary for the Board to give public notice of applications for mergers now pending. He said that this was also the view of the Federal Deposit Insurance Corporation and the Comptroller of the Currency regarding applications pending in their offices. Secondly, there was the question whether under the statute each of the Federal bank supervisory agencies should seek each other's views solely with respect to the competitive aspects of proposed mergers. It was his view that this would be the correct procedure and that the Board's request for comments from the Justice Department should also be restricted solely to this aspect.

Mr. Hackley concurred in this view. He also said that he hoped to be able to submit a memorandum shortly to the Board regarding the legislative history of the law, with special reference to standards that

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should be considered by the Board in passing on mergers. He went on to say that one requirement of the law was that a form of Notice of intent to merge be prescribed by each bank supervisory agency to be used by banks submitting applications to it.

Mr. Solomon remarked that some work had already been done by the staff on the preparation of such a form of Notice, which could be presented rather promptly to the Board for its consideration. In the same connection, he noted that it would be necessary to prepare an application form for use by banks that planned to merge and that a draft of such application form had already been sent to the Reserve Banks for comment. The latter had been requested to use this blank until a definitive form could be prepared. He then referred to a procedural question that would have to be worked out by the three supervisory agencies, namely, how much of each application to merge needed to be submitted to the other two supervisory agencies and the Justice Department by the agency to which the application was originally made. He agreed with Governor Robertson and Mr. Hackley that as a matter of principle only that portion of each application relating to competitive factors needed to be submitted. However, there was the factual question of separating references to this factor from the closely related aspect of convenience and need. In response to a question from Governor Robertson, Mr. Solomon said that the Notice of intent to merge to be published by member and nonmember insured

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banks would involve preparation of a new form by the Board and the Federal Deposit Insurance Corporation, whereas the Comptroller's Office would need only to revise slightly the form it currently requires for notice by national banks intending to merge.

At this point Mr. Hexter and Miss Hart withdrew from the meeting.

Annual review by Price Waterhouse & Co. of examination procedures and techniques. Governor Shepardson referred to the meeting of April 20, 1960, at which consideration had been given to a memorandum dated March 28, 1960, from the Division of Examinations regarding the report of Price Waterhouse & Co. dated December 18, 1959, covering the firm's 1959 study of techniques and procedures used by the Board's examining staff in conducting examinations of Federal Reserve Banks. He recalled that the Board then authorized expenditure of an amount not to exceed \$7,500 for the purpose of retaining representatives of an accounting firm to accompany representatives of the Division of Examinations in making on-the-spot surveys of audits conducted by auditing departments of the Reserve Banks, and deferred action on the question whether the review of examination procedures and techniques that had been made annually by public accounting firms for the past several years should be continued. In his judgment, it would be desirable to continue the yearly reviews of examination procedures and techniques. Should the Board agree, he would recommend that it authorize continuation of the annual reviews.

There was unanimous agreement with this suggestion.

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The meeting then adjourned.

Secretary's Notes: On May 12 and 13, 1960, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

On May 12:

Salary increases

Esther P. Locke, Secretary, Division of Research and Statistics, from \$4,790 to \$4,940 per annum, effective the date she assumes the new position to which she has been transferred.

Albert C. Bain, from \$4,940 to \$5,090 per annum, with a change in title from Telegraph Operator to Senior Operator (Tabulation Equipment), Division of Administrative Services, effective May 15, 1960.

On May 13:

Appointment

Carolyn Ruth Cullipher as Clerk-Stenographer in the Division of Personnel Administration, with basic annual salary at the rate of \$3,755, effective the date she assumes her duties.

Salary increases, effective May 15, 1960

Elsie Q. Davis, from \$4,325 to \$4,490 per annum, with change in title from Statistical Clerk to Statistical Assistant, Division of Research and Statistics.

Gerald F. Millea, Chief, Division Administration Section, Division of Research and Statistics, from \$9,290 to \$9,890 per annum.

Dorothy Projector, Economist, Division of Research and Statistics, from \$8,810 to \$9,890 per annum.

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Permission to work additional period
before beginning maternity leave

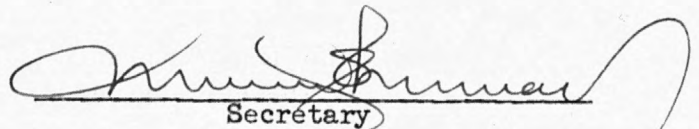
Midge C. Boteler, Clerk-Stenographer, Division of Personnel Administration, to work through June 10, 1960, before beginning maternity leave.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 17) approving the designation of Donald Ashcraft as special assistant examiner.

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

Memorandum dated May 11, 1960, from Mr. Masters, Associate Director, Division of Examinations, recommending that reimbursement in the amount of \$128 be made to Ralph C. Maurer, Review Examiner, Division of Examinations, for certain expenses incurred by him during March 1960 after assuming duties as a member of the Board's staff and prior to establishing a residence in the Washington area.

No. 18) Letter to the Federal Reserve Bank of New York (attached Item) approving the appointment of seven persons as examiners.


Secretary



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

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Item No. 1
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960

Board of Directors,
Gary Trust and Savings Bank,
Gary, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 650 South Lake Street, Gary, Indiana, by Gary Trust and Savings Bank, provided the branch is established within six months from the date of this letter.

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
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960

Board of Directors,
Union Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System extends the time within which Union Bank and Trust Company may establish a branch at the southwest corner of Plainfield Avenue, N.E. and Four Mile Road, N.E., Grand Rapids Township, Kent County, Michigan, to September 15, 1960, under the authorization contained in the Board's letter dated December 10, 1959.

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
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960

Board of Directors,
Warren Bank,
Warren, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 27248 Van Dyke Avenue, Warren, Michigan, by Warren Bank, Warren, Michigan, provided the branch is established within nine months from the date of this letter.

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
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960



Bank of America National Trust
and Savings Association,
San Francisco 20, California.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes Bank of America National Trust and Savings Association, San Francisco, California, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch on the Island of Moen, Truk Atoll, United States Trust Territory of the Pacific Islands, and to operate and maintain such branch subject to the provisions of such Section.

Unless the branch is actually established and opened for business on or before May 1, 1961, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of San Francisco, when the branch is opened for business, furnishing information as to the exact location of the branch.

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
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960



Board of Directors,
Union Bank,
Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Main and Bronson Streets, Orange, California, by Union Bank, provided the branch is established within one year from the date of this letter.

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. 6
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960

Board of Directors,
The First National Bank
of DeWitt,
DeWitt, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The First National Bank of DeWitt authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Arkansas. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 7
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960



Board of Directors,
The First National Bank
of Vinita,
Vinita, Oklahoma.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The First National Bank of Vinita authority to act, when not in contravention of State or local law, as executor, administrator, guardian of estates, and committee of estates of lunatics. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
5/16/60

OFFICE OF THE CHAIRMAN

May 16, 1960



The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of May 5, 1960 for a report on the bill, S. 3472, which would extend until June 30, 1962, the authority contained in the Defense Production Act of 1950, as amended.

The only provisions of the Defense Production Act of 1950 which relate directly to the responsibilities of the Board are contained in Title III, relating to Government-guaranteed loans for Defense Production under the Board's Regulation V. It is understood that the Office of Civil and Defense Mobilization considers that this authority is useful particularly to the procuring agencies as a means of assisting their contractors in securing working capital and additional equipment needed for the performance of defense contracts. The Board would, therefore, have no objection to an extension of this program for an additional two years as provided by the bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

TELEGRAM
LEASED WIRE SERVICEItem No. 9
5/16/60BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 16, 1960

Patterson - Atlanta

Reurlet April 20, 1960, Board authorizes your Bank to call for bids for construction of proposed 2-floor addition to Atlanta parking garage on basis of detailed plans and specifications submitted.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 10
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960



Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

The Board has read with interest the memorandum enclosed with your letter of April 15 appraising the results of the "Program for Advanced Education of Personnel" during the two-year period ended recently.

It is observed that, on the basis of experience during the past two years, the Bank considers the program highly successful. The Board has noted the action by the Board of Directors at its meeting on April 7, 1960, approving continuation of the program on a permanent basis and extending the participation.

The Board will rely upon normal budget procedures to keep informed of the cost and activity in the Advanced Education Program in the future.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 11
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960

CONFIDENTIAL (FR)

Mr. W. D. Fulton,
President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

In view of the circumstances outlined in your letter of May 6, 1960, the Board of Governors approves the continuation of the payment of salary to Mr. Munroe T. Smith, Senior Clerk, Securities and Treasury Issues Divisions, Pittsburgh Branch, at his present rate of \$6,682 per annum until such time as the maximum annual salary range for Grade 10 applicable to the Pittsburgh Branch is increased above the current \$6,656 or Mr. Smith is transferred to a position classified in a higher grade.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

UNITED STATES OF AMERICA

Item No. 12
5/16/60

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 | In the Matter of the Request of |
 | OTTO BREMER COMPANY |
 | For Determination under Section 4(c)(6) |
 | of the Bank Holding Company Act of 1956 |
with respect to Foster County Agency, Inc.

DOCKET NO.
BHC-55

ORDER

The Otto Bremer Company, St. Paul, Minnesota, a bank holding company within the meaning of section 2(a) of the Bank Holding Company Act of 1956 (12 USC § 1843), has filed a request for a determination by the Board of Governors of the Federal Reserve System that a corporation to be formed, the Foster County Agency, Inc., and its activities are of the kind described in section 4(c)(6) of the Act and section 5(b) of the Board's Regulation Y (12 CFR 222.5(b)), so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to retention of shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

A hearing having been held pursuant to section 4(c)(6) of the Act and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y (12 CFR 222.5(b) and 222.7(a)); the Hearing Examiner having filed on April 7, 1960, his Report and Recommended Decision

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wherein he recommended that the request with respect to Foster County Agency, Inc. be approved; the time for filing with the Board exceptions and brief to the recommended decision of the Hearing Examiner having expired without any exceptions or brief having been filed; the Board having given due consideration to all relevant aspects of the matter; and all such steps having been taken in accordance with the Board's Rules of Practice for Form Hearings (12 CFR 263):

IT IS HEREBY ORDERED, for the reasons set forth in the accompanying Statement of the Board of this date, that Foster County Agency, Inc. and its activities are determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Bank Holding Company Act of 1956 to apply in order to carry out the purposes of that Act, and, therefore, Applicant's request with respect to Foster County Agency, Inc. shall be, and hereby is, granted; provided that this determination shall be subject to revocation by the Board if the facts upon which it is based should substantially change in such a manner as to make the reasons for such determination no longer applicable.

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Dated at Washington, D. C. this 16th day of May, 1960.

By order of the Board of Governors.

Voting for this action: Chairman Martin and Governors Szymczak, Robertson, Shepardson, and King.

Absent and not voting: Governors Balderston and Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

UNITED STATES OF AMERICA

Item No.13
5/16/60

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

| In the Matter of the Request of |

| OTTO BREMER COMPANY |

| For Determination Under Section 4(c)(6) |

| of the Bank Holding Company Act of 1956 |

| with respect to Foster County Agency, Inc. |

DOCKET NO.
BHC-55

STATEMENT

Background of the case. - On November 20, 1959, the Otto Bremer Company (hereafter sometimes called the "Applicant"), a Minnesota corporation with its principal office and place of business in St. Paul, Minnesota, and a bank holding company as defined in section 2(a) of the Bank Holding Company Act of 1956 (the "Act"), filed with the Board of Governors of the Federal Reserve System (the "Board") a request for a determination that a proposed non-banking subsidiary and its activities, the Foster County Agency, Inc. ("Foster"), will be of such a nature as to be exempt from the prohibitions of section 4(a) of the Act.

Section 4(a) of the Act makes it unlawful, subject to certain exceptions, for a bank holding company (1) to acquire direct or indirect ownership or control of voting shares of any company that is not a bank, or (2) to retain direct or indirect ownership

or control of voting shares of any such company after two years from the date of enactment (May 9, 1956) of the Act. Foster is a nonbanking company which the shareholders of Foster County State Bank ("Bank") propose to form, and in which the Applicant proposes to acquire stock.

The Applicant's proposed acquisition of stock of Foster escapes the prohibitions of the Act only if it falls within one of the exceptions provided by the Act. Section 4(c)(6) of the Act excepts shares of a non-banking company if two requirements are met: (1) if all the activities of the company are of a financial, fiduciary, or insurance nature, and (2) if the Board determines, on the basis of the record made at a hearing, that all the activities of the company are so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 to apply in order to carry out the purposes of the Act. ^{1/} Section 5(b) of

1/ The relevant language of the Act is as follows:

"Sec. 4(a) Except as otherwise provided in this Act, no bank holding company shall--

"(1) after the date of enactment of this Act acquire direct or indirect ownership or control of any voting shares of any company which is not a bank, or

"(2) after two years from the date of enactment of this Act . . . retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company

* * * * *
"(c) The prohibitions of this section shall not apply--
* * * * *

"(6) to shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act. . . ."

the Board's Regulation Y, issued pursuant to the Act, paraphrases the provisions of the Act, but requires that the activities of a company must be closely related to the business of banking or of managing or controlling banks "as conducted by such bank holding company or its banking subsidiaries."

As required by the statute, the Board, on January 18, 1960, ordered that a hearing be held on the Applicant's request; and such a hearing was held at Minneapolis, Minnesota, before a duly designated Hearing Examiner on February 8, 1960. Following the conclusion of that hearing, the Applicant, on March 22, 1960, submitted proposed findings of fact and conclusions of law. In his Report and Recommended Decision, filed with the Board on April 7, 1960, the Hearing Examiner recommended approval of the Applicant's request.

The salient relevant facts with respect to the insurance business to be carried on by Foster are set forth hereafter in this Statement. Additional facts with respect to its activities are contained in the Hearing Examiner's Report and Recommended Decision attached hereto; and, to the extent not inconsistent with this Statement, the findings of fact made by the Hearing Examiner are hereby adopted.

In determining whether or not the pending request should be granted, the Board has considered solely the facts embraced in the record of the hearing held in this matter. In addition, however, the Board has considered arguments presented in the Applicant's proposed

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findings of fact and conclusions of law, and the Hearing Examiner's Report and Recommended Decision. The Board's findings and conclusions are hereafter set forth.

Factual summary. - The Foster County State Bank, located in Carrington, North Dakota, is a State bank. It is proposed that the stockholders in Bank will form the new corporation, Foster, which will have 1,000 shares of stock outstanding, and that they will receive shares in proportion to their stockholdings in Bank. The Applicant owns 39 per cent of the stock of Bank, so that it would receive 390 shares of stock in Foster.

Carrington has a population of approximately 2,500 people, and there is no other bank in Carrington, although there are two other banks in the trade area of approximately 20 surrounding miles. The Bank has been in operation for approximately 65 years, and for over 50 years has owned and operated an insurance department on its premises. Foster will confine itself to carrying on the same activities now carried on by this department. The Hearing Examiner found that:

"The insurance business, as a department of the bank, is actually intermingled with the business of the bank and all profits resulting therefrom inure to the benefit of the bank. The bank does not advertise the insurance agency and does not actively solicit insurance business. It maintains the department of insurance for its own convenience, the convenience of its bank customers, and to make certain that collateral on loans are protected by insurance when such is necessary. The purchase of insurance is not made a condition for a borrower to obtain a loan, except where prudence requires the protection of property against hazards when such property is the principal security for a loan, such as in the case of automobile loans, and real estate loans where buildings are the main value of the property offered as security. In such cases, the bank will accept insurance written by any other agent, not requiring that it be purchased from the bank."

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The insurance department of Bank sells fire, automobile, inland marine, public liability, bond, specific disease, travel (baggage), plate glass, grain and hail insurance. During the period from January 1, 1958, through September 30, 1959, 13.37 per cent of total premiums received derived from insurance written on collateral held by the bank. During the period from October 1, 1959, through December 31, 1959, 25 per cent of total premiums received derived from this source. Testimony was introduced at the hearing, and the Hearing Examiner made findings, tending to show that a substantial proportion of premiums received during the former period derived from hail insurance, and that this insurance was connected with bank loans to a considerable extent. However, in the absence of more specific data, the Board makes no finding on this point. During the entire period reviewed, more than 99 per cent of the business of the insurance department was done with persons who were also customers of Bank. All three of the Bank's officers are licensed insurance agents, and they conduct the business of the department.

The Hearing Examiner also found that:

"It is a normal and accepted practice for State banks in the State of North Dakota to offer insurance agency service in conjunction with their banking operation. Both of the other banks which operate in the same area with Foster County State Bank have bank-connected insurance agencies. A recent survey made in the State of North Dakota indicates that 84 per cent of the State banks therein have connected insurance agencies, and in communities under 5,000 population, 88 per cent of the State banks and 94 per cent of the national banks have connected insurance departments."

Preliminary requirement as to nature of activities. - Since Foster will confine itself, as the insurance department of Bank has

done, to selling insurance, it is clear that the preliminary requirement for exemption under section 4(c)(6) of the Act will be met - that all the activities of the company involved be of a "financial, fiduciary, or insurance nature."

Relation to banking business. - The statute and the Board's Regulation Y require that, after passing the preliminary test, the company's activities must be determined by the Board to be "so closely related" to the business of banking or of managing or controlling banks, as conducted by the Applicant and its banking subsidiaries, as to be a "proper incident" to such business and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act. This determination is to be made on the basis of all of the relevant facts and circumstances disclosed at a hearing held in the case.

The weight which the Board believes should be given these factors and circumstances was discussed at length in its Statement in the First Bank Stock Corporation matter, 1959 Federal Reserve Bulletin 917, 930-933. For the reasons there set forth, it is the Board's judgment that the direct connection between the activities of Foster and the activities of Bank, when considered in the light of the physical, personnel, and particularly of the historical connection between the two, is sufficiently great as to be given strong weight, along with other pertinent factors, as suggesting the requisite close relationship required by the statute. The degree to which common customers make use of facilities offered by both is a cumulative factor entitled to be considered in this respect. Area practice in North Dakota, under

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which banks in these localities offer insurance services of the kind which has been provided by the insurance department of Bank and will be provided by Foster, is a weighty factor, and in the opinion of the Board, the enactment of the Bank Holding Company Act does not diminish the weight to be accorded such area practice.

Closeness and propriety of relationship. - On the basis of the record and particularly the facts heretofore stated, it is the Board's view that the activities of Foster will bear a direct and substantial relationship to the business of Bank. For the reasons set forth in the Board's Statement in the First Bank Stock Corporation matter, cited above, the Board believes that the relation of Foster's activities to the business of Applicant's subsidiary, the Foster County State Bank, will not be inconsistent with the purposes of the Act.

Conclusion. - After carefully considering all the circumstances - historical, physical, and personnel relationship, the extent of direct connection between the proposed activities of Foster and the activities of Bank, the degree to which common customers will be enjoyed by both, and particularly the sanction given by long-established practice in North Dakota to the operation of bank-connected insurance agencies - the Board has determined that the activities of Foster County Agency, Inc. will be so closely related to the business of banking as conducted by the Foster County State Bank as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act.

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Accordingly, for the reasons herein set forth, it is the Board's judgment that the requested exemption with respect to Foster County Agency, Inc. should be granted; and IT IS SO ORDERED.

As indicated in the Board's Order, its approval of this request is based solely on the facts disclosed by the record; and if the facts should substantially change in the future in such manner as to make the reasons for the Board's conclusion no longer applicable, the statutory exemption resulting from the Board's present determination would, of course, cease to obtain.

May 16, 1960

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

Item No. 14
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960



Mr. Frederick C. Rieck,
Assistant Vice President,
The Philadelphia National Bank,
Philadelphia 1, Pennsylvania.

Dear Mr. Rieck:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated April 20, 1960, of Philadelphia International Investment Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. The Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 3(c) of the Board's Regulation K.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 15
5/16/60

May 16, 1960

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated April 20, 1960, of PHILADELPHIA INTERNATIONAL INVESTMENT CORPORATION duly filed with said Board of Governors, and that PHILADELPHIA INTERNATIONAL INVESTMENT CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Kenneth A. Kenyon

Assistant Secretary

(SEAL)

TELEGRAM
LEASED WIRE SERVICE

Item No. 16
5/16/60

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

May 16, 1960

Presidents, all Federal Reserve Banks

Board today authorized granting extensions of time for filing Form FR 728 under section 221.3(j) of Regulation U of up to 90 days from May 15, 1960, in the Federal Reserve Bank's discretion in cases where the facts in your judgment warrant granting the extension. No further public notice is deemed necessary.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 17
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1960

Mr. G. T. Quast, Chief Examiner,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Quast:

In accordance with the request contained in your letter of May 5, 1960, the Board approves the designation of Donald Ashcraft as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of member banks. The authorization heretofore given your Bank to designate Mr. Ashcraft as a special assistant examiner on a restricted basis is hereby canceled.

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

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. 18
5/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1960

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of May 9, 1960, the Board approves the appointment of the following named employees as examiners for the Federal Reserve Bank of New York, effective May 5, 1960:

David W. Bouton
John J. Cooney
John B. Harrison
A. John Maher
Richard J. Pflieger
Donald F. Rice
Harold J. Spory

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.