

Minutes for July 12, 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.

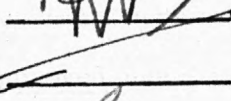
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

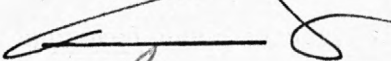
Chm. Martin



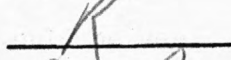
Gov. Szymczak



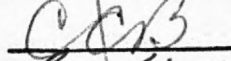
Gov. Mills



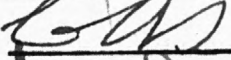
Gov. Robertson



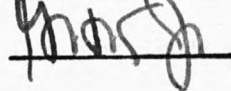
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, July 12, 1960. The Board met in the Board Room at 10:00 a.m.

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

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. Conkling, Assistant Director, Division
of Bank Operations
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Nelson, Assistant Director, Division
of Examinations
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Hooff, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on July 8, 1960, and the Federal Reserve Bank of Boston on July 11, 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 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 Boston approving continuation of the payment of salary to an employee of the Fiscal Agency Department through September 30, 1960, at a rate below the minimum of the grade in which his position is classified.	1
Letter to the Granite City Bank, Elberton, Georgia, approving its application for membership in the Federal Reserve System.	2
Letter to the Jeff Davis Bank & Trust Company, Jennings, Louisiana, granting its request for permission to exercise fiduciary powers.	3
Letter to the Federal Reserve Bank of Minneapolis approving the payment of salary to a Vice President, who will be assigned to the Helena Branch, at the rate fixed by the Board of Directors.	4
Letters to the Federal Reserve Banks of New York and Philadelphia regarding reports of condition as of June 30, 1960, to be obtained from foreign banking and foreign financing corporations.	5 and 6
Letter to the Presidents of all Federal Reserve Banks regarding section 204.3(b) of Regulation D and expressing the view that an average deficiency in reserves does not occur until the expiration of the last day of a reserve computation period and that the penalty should be related to the discount rate in effect on the first day of the calendar month in which the computation period ended.	7

With respect to Item No. 2, a letter to the Granite City Bank, Elberton, Georgia, approving its application for membership in the Federal Reserve System, Governor Mills noted that there had been some question about the quality of this bank's management. He inquired whether the board of directors of the bank was fully cognizant of the

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management situation. Mr. Nelson replied in the affirmative, adding that the bank had raised additional capital through a sale of stock last year to correct a capital deficiency problem.

Messrs. Johnson, Conkling, and Goodman then withdrew from the meeting.

Application of Punta Gorda State Bank to convert into a national banking association (Item No. 8). A draft of letter to the Comptroller of the Currency had been circulated that would recommend favorably with respect to an application of Punta Gorda State Bank, Punta Gorda, Florida, to convert into a national banking association.

Governor Mills recalled that in April of 1959 the Board had recommended disapproval of a similar application from this bank. He noted that the Punta Gorda State Bank was one of a group of banks owned by the McNulty family and that there was some question concerning the competence of management of the bank.

Mr. Nelson replied that the Division of Examinations had recommended adversely on the January 1959 application because at that time the bank was undercapitalized and the management was of poor quality. Since that time, the bank has taken steps to correct its capital situation and its assets were of good quality. However, the management problem still remained. He referred to the fact that the Federal Reserve Bank of Atlanta had recommended approval of the present application subject to approval by the Comptroller's Office of the bank's plans to

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improve its capital position and provided the management factor could be worked out on a basis satisfactory to the Comptroller of the Currency.

Following further discussion, the letter to the Comptroller of the Currency recommending favorably with respect to the application of Punta Gorda State Bank, Punta Gorda, Florida, to convert into a national banking association was approved unanimously. A copy of this letter is attached to these minutes as Item No. 8.

At this point Mr. Thomas, Adviser to the Board, joined the meeting.

Request for hearing re proposed merger of banks in Jackson and Hazlehurst, Mississippi (Item No. 9). Under date of July 5, 1960, a memorandum from the Legal Division had been circulated submitting a draft of letter to Watkins & Eager, Jackson, Mississippi, regarding the request of Merchants & Planters Bank of Hazlehurst, Hazlehurst, Mississippi, for a hearing to present evidence in opposition to the proposed merger of Deposit Guaranty Bank & Trust Company of Jackson, and the Bank of Hazlehurst. The proposed letter would point out that section 18(c) of the Federal Deposit Insurance Act, as amended by Public Law 86-463, approved May 13, 1960, does not require hearings, and that the Board did not contemplate that ordinarily hearings would be held with respect to applications for its consent under the law. The letter would go on to state, however, that the Board might decide that special circumstances in a particular case would justify the holding of a hearing.

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Governor Mills raised the question whether the Board wished to place itself in the position of "extending a hand of welcome" for the holding of a hearing in this case, particularly in view of the fact that this would break with established precedent.

In the discussion of this and related points that ensued, certain changes in the letter to Watkins & Eager were agreed upon. The letter was then approved in the form of attached Item No. 9.

Mr. Hexter then withdrew from the meeting.

Letter to the Secretary of the Treasury concerning coin shortages (Item No. 10). There had been distributed copies of a draft of letter to the Secretary of the Treasury concerning suggestions made by the Conference of Presidents of the Federal Reserve Banks during its meeting with the Board on June 14, 1960, as to the need for a long-range program to avoid recurrences of the present shortages of coin. The letter would state that the Board believed the suggestions made by the Presidents had considerable merit and that the views of the Secretary in this regard would be appreciated.

During a discussion of the letter, Governor Robertson pointed out that since 1956, when this same problem was discussed with the Treasury, Reserve Bank vault facilities for the storage of coin had been enlarged and each Bank now had adequate space for storing coin.

Several changes in the letter having been suggested and agreed upon, it was then approved in the form of attached Item No. 10.

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Meaning of the term "dividend" as used in section 5199(b) of the Revised Statutes (Item No. 11). A memorandum dated July 11, 1960, from Mr. Hooff had been distributed attaching a draft letter to the Federal Reserve Bank of Chicago agreeing with that Bank's conclusion that the purpose of section 5199(b), as amended September 8, 1959, is to prevent the depletion of the capital structure of a bank by the payment of excessive dividends. In contrast with the opinion expressed by Reserve Bank counsel, however, the draft letter would take the position that, since a stock dividend does not result in the distribution of cash or other assets, the term "dividend" in this Statute should not be construed as including stock dividends. Consequently, the position was taken that the Board's approval of the declaration of a stock dividend by a member bank was not required.

Mr. Hooff observed that this subject was discussed with Mr. Englert, Chief Counsel, Comptroller of the Currency, who agreed with the conclusion set forth in the draft letter to the Reserve Bank.

Unanimous approval was then given to the letter to the Federal Reserve Bank of Chicago agreeing with its conclusion that the purpose of section 5199(b) of the Revised Statutes of the United States, as amended September 8, 1959, is to prevent depletion of the capital structure of a bank by the payment of excessive dividends, but indicating that the Board does not consider the term "dividend" in this Statute as including stock dividends. It was understood that notice

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of this ruling would be published in the next issue of the Federal Reserve Bulletin and in the Federal Register. A copy of the letter is attached as Item No. 11.

Mr. O'Connell, Assistant General Counsel, entered the meeting at this point and Messrs. Daniels and Hooff withdrew.

Continental Bank and Trust Company (Item No. 12). Copies had been distributed of a memorandum dated July 11, 1960, from Mr. O'Connell attaching a draft of letter to the attorney for The Continental Bank and Trust Company, Salt Lake City, Utah. The draft letter would reply to the "demand" of said attorney made in his letter of July 6, 1960, that he be furnished copies of all Board staff and other memoranda submitted to the Board since the record of this case was closed in November 1958. This letter would state that the attorney's information as to "a group of memoranda regarding the legal and (supervisory) matters under this case" having been presented to the Board by its Legal and Examinations Divisions was correct but that his information that "the Board has received, since the record in this case was closed, and is now considering, additional memoranda from other outside sources with respect to the issue involved in this case" was incorrect.

Governor Balderston inquired whether it might not be desirable to omit reference in the proposed letter to legal citations supporting the position taken by the Board.

Mr. O'Connell replied that should such legal citations be omitted it could lead to conjecture by the attorney whether his demand was legitimate so far as the material presumably received by the Board

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from outside sources was concerned. He went on to say that since the attorney for Continental Bank had used the legal term "demand" in his letter to the Board, the Board would be well advised to answer in similar vein.

Governor Mills said that it was his feeling the legal citations should be left in the letter in view of the fact that during the history of this case so many references to legal decisions had been drawn into consideration. He thought it advisable for the Board to protect itself against a charge of being arbitrary and capricious in this matter. He then raised the question whether the receipt by the Board of reports of examination of Continental Bank might not expose the Board to the charge that these constituted "additional memoranda from other outside sources" besides the Board's Legal and Examinations Divisions. He noted that counsel for Continental Bank had repeatedly requested access to examination reports of that bank, particularly the confidential memoranda accompanying such reports.

Mr. O'Connell replied that the letter to the attorney for Continental Bank could be changed to read: "Except for the usual bank supervisory reports, including reports of examination of this Bank, at no time since the closing of the record in this case has the Board, to its knowledge, received memoranda with respect to this case from any 'outside sources including but not limited to the legal and examinations divisions of the various Federal Reserve banks'; nor has any request been made of any such outside sources for such memoranda."

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Following further discussion it was agreed that this change be made and that the letter be sent to the attorney for Continental Bank, with the understanding that the legal citations should be left in the letter. The letter was then approved in the form of attached Item No. 12.

Standards for classifying cities for reserve purposes and for granting banks permission to carry lower reserves. Chairman Martin referred to the discussion at the meeting on June 29 of the material presented in the staff memorandum dated June 23, 1960, that embodied various facts as to a number of different standards for classifying cities for reserve purposes and for granting permission to banks in reserve or central reserve cities to carry lower reserves. He noted the importance of exploring every avenue and idea pertaining to the problem of reserve requirements in view of the rapid approach of the fall season when it might be advisable to introduce certain of the proposed changes.


A discussion then followed regarding the possibility of changing the standards for classifying cities for reserve purposes without raising reserve requirements for particular banks and of the desirability of coming to at least a tentative decision regarding the several related problems by early fall of this year.

The meeting then adjourned.

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Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from Mr. Kelleher, Director, Division of Administrative Services, recommending the appointment of Loreto J. Clavelli as Supply Clerk in that Division, with basic annual salary at the rate of \$3,500, effective the date of entrance upon duty.



Secretary

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960

CONFIDENTIAL (FR)

Mr. D. H. Angney, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Angney:

In view of the circumstances described in Mr. Walker's letter of December 22, 1959, and his recent telephone conversation, the Board of Governors approves the continuation of the payment of salary by the Federal Reserve Bank of Boston to Mr. Richard T. Burns, Registered Bond Examiner, Fiscal Agency Department, through September 30, 1960, at the rate of \$4,000 per annum. It is noted that this rate is \$120 below the minimum of Salary Grade 8 in which his job is classified.

The Board understands that the Bank expects to work out a satisfactory solution during the extended period.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960

Board of Directors,
Granite City Bank,
Elberton, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Granite City Bank, Elberton, Georgia, for stock in the Federal Reserve Bank of Atlanta, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the Regulation is enclosed.

It is noted that under its articles of incorporation the bank is authorized to exercise fiduciary powers, deal in stocks, bonds, and other securities; guarantee payment of mortgages; and guarantee titles of real estate, but at the present time is not exercising any of such powers. Should the bank at any future time desire to broaden the scope of its corporate activities or exercise any powers not exercised at the time of admission to membership it will be necessary, under condition of membership numbered 1, to obtain permission of the Board of Governors.

Granite City Bank

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It is noted also that the capital of the bank was increased early in 1959 through the sale of 500 shares of common stock. However, the relationship between total capital accounts and total assets other than cash and U. S. Government obligations remains below average. It is expected that efforts will be directed toward further strengthening the bank's capital structure.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the Board of Directors and spread upon its minutes, and a certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 3
7/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960



Board of Directors,
Jeff Davis Bank & Trust Company,
Jennings, Louisiana.

Gentlemen:

This refers to your request for permission,
under applicable provisions of your condition of member-
ship number 1, to exercise fiduciary powers.

Following consideration of the information sub-
mitted, the Board of Governors of the Federal Reserve
System grants permission to the Jeff Davis Bank & Trust
Company to exercise the fiduciary powers now or hereafter
authorized by its charter and the laws of the State of
Louisiana.

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
7/12/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960

CONFIDENTIAL (FR)

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Minneapolis, for the period July 1 through December 31, 1960, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of June 29, 1960:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Clement A. Van Nice	Vice President	\$13,000

It is understood that Mr. Van Nice will be assigned to the Helena Branch and that Vice President Fossum will transfer to the Head Office.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
7/12/60

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960

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

Dear Mr. Crosse:

Enclosed are copies of letters calling for reports of condition as of June 30, 1960, from the following foreign banking and foreign financing corporations in the Second District operating under the provisions of Section 25 and Section 25(a) of the Federal Reserve Act:

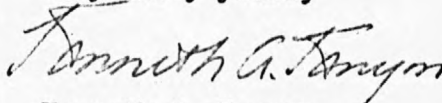
Bankers Company of New York
Chase Manhattan Overseas Corporation
International Banking Corporation
The Gallatin Company, Inc.
Bank of America
Bankers International Corporation
Bankers International Financing Company, Inc.
Chase International Investment Corporation
Chemical International Finance, Ltd.
The First Bank of Boston (International)
Morgan Guaranty International Banking Corporation
Morgan Guaranty International Finance Corporation
American Overseas Finance Company (In Liquidation)

You will observe that the letters request that the reports called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the reports it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the reports. Please forward the original copy of the reports to the Board and retain a copy for your files.

A complete review of the reports will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

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

Item No. 6
7/12/60

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

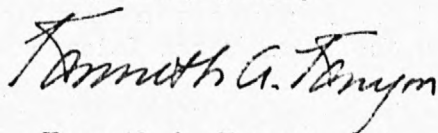
Dear Mr. Campbell:

Enclosed is a copy of a letter dated today, addressed to Philadelphia International Investment Corporation, calling for a report of condition as of June 30, 1960. You will observe that the letter requests that the report called for be submitted in duplicate to the Federal Reserve Bank for transmittal to the Board of Governors.

Upon receipt of the report it will be appreciated if you will have a proof made of the footings and obtain the correction of any obvious errors in the report. Please forward the original copy of the report to the Board and retain a copy for your files.

A complete review of the report will be made in the Board's Division of Examinations, and any correspondence which may be necessary as a result thereof will be initiated by the Board with a copy to you for your information.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Item No. 7

7/12/60

S-1750

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960.



Dear Sir:

This letter supersedes the Board's letter of June 23, 1955 (S-1567, F.R.L.S. #6124), and applies the same principle set forth therein to all member banks.

Inquiries were received in May, 1955, with respect to reserve city banks and recently with respect to country banks regarding an interpretation of section 204.3(b) of Regulation D. The section provides that penalties for deficient reserves shall be assessed at a rate of two per cent above the discount rate in effect on the first day of the calendar month in which the deficiencies occur. The question is when does a deficiency occur in the case of a bank that is deficient in its reserves during the computation period that begins in one month and ends in the subsequent month.

Since under the Regulation deficiencies in member bank reserves are computed on the basis of average daily balances during weekly or biweekly computation periods, any member bank may adjust its reserve balance on the very last day of a computation period by suitable action and thus avoid an average deficiency subject to penalty. Accordingly, it is the Board's view that an average deficiency does not occur until the expiration of the last day of a reserve computation period and that the penalty should be related to the discount rate in effect on the first day of the calendar month in which the computation period ended. For example, a member bank having deficient reserves in the period beginning June 30, 1960, and ending July 6 or July 13, 1960, would be assessed a penalty at a rate of two per cent above the Federal Reserve Bank discount rate on 90-day commercial paper in effect on July 1, 1960.

Very truly yours,

Merritt Sherman,
Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 8
7/12/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 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 May 25, 1960, enclosing copies of an application of Punta Gorda State Bank, Punta Gorda, Florida, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

A field investigation of the application has not been made, but the Federal Reserve Bank of Atlanta has furnished us with a report on the application based upon the most recent examinations of the bank made by the Federal Deposit Insurance Corporation. According to the information available, this bank was reorganized in January 1934 and has operated fairly satisfactorily since that time. It is reported that the bank plans to increase its capital structure by \$100,000 through the sale of additional capital and in that event the bank's capital structure would be fairly adequate. The earnings of the bank have been good although the net amount retained has been low due to high salaries, bonuses, and directors' fees. The present ownership and control of the institution by the McNulty family and the Estate of C. H. McNulty is not entirely satisfactory. While the management is reported as only fair, the operations and condition of the institution appear satisfactory and it seems to be meeting the needs of the community. After considering all the information available, it is believed that a favorable recommendation would be justified providing arrangements are made for the capital structure satisfactory to your office.

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) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
7/12/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960

Mr. Thomas H. Watkins,
Watkins & Eager,
800 Plaza Building,
Jackson, Mississippi.

Dear Mr. Watkins:

This is in reply to your letter of June 28 with respect to a proposed merger of Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, and Bank of Hazlehurst, Hazlehurst, Mississippi. The Board has also received a letter, dated June 10, from Mr. Newton Ellis, President of Merchants & Planters Bank, of Hazlehurst, which you represent in this matter. The Board has not yet received an application for its consent to such a merger, but upon receipt thereof appropriate consideration will be given to the information and views in your letter and that of Mr. Ellis.

You enumerate four reasons why the merger should not be approved by the Board of Governors, and you state that Merchants & Planters Bank requests a hearing and an opportunity to present evidence in opposition to the proposal.

As you are aware, section 18(c) of the Federal Deposit Insurance Act, as amended by Public Law 86-463, approved May 13, 1960, does not require hearings, and the Board of Governors does not contemplate that, ordinarily, hearings will be held with respect to applications for its consent under that law.

The reasons presented in your letter for disapproval of the proposed merger are in the nature of conclusions and do not purport to present the factual basis therefor or the reasoning leading thereto. The first two of these reasons relate to factors that the Board of Governors, under section 18(c), is required to consider in connection with applications for its consent--namely, "the convenience and needs of the community to be served" and "the effect of the transaction on competition". Your statements that the proposed transaction is not required by the convenience and needs of the community and that the proposed merger will lessen and eventually destroy competition in Hazlehurst and tend to create a banking monopoly in that area

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

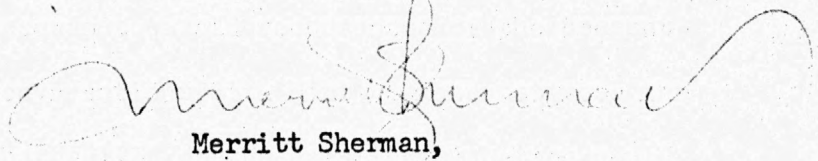
Mr. Thomas H. Watkins

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are not sufficient to enable the Board to decide whether a hearing is justified. You may wish to supplement your letter with (1) the facts and reasoning underlying your conclusions and (2) as definitely as possible, an indication of what further information you believe might be brought out at a hearing that would not be available to the Board from other sources.

In accordance with your request, there is enclosed a copy of the Board's Rules of Organization and Rules of Procedure.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
7/12/60

OFFICE OF THE CHAIRMAN

July 12, 1960.

The Honorable Robert B. Anderson,
Secretary of the Treasury,
Washington 25, D. C.

Dear Bob:

The Conference of Presidents of the Federal Reserve Banks, during a recent meeting with the Board, urged consideration of the need for a long-range program to avoid recurrences of the present coin shortages. From conversations with Mint representatives, the Presidents were aware that relief of the existing situation could not be undertaken until the beginning of the new fiscal year on July 1, 1960, and that shortly thereafter the Mint hoped to be able to step up production enough to meet current needs. The belief was expressed, however, that developments in the last three or four years have been such as to suggest the need for a comprehensive review of the arrangements under which coin supplies are furnished the Reserve Banks.

Among the points that have been mentioned in various discussions of coin shortages are that--

In recent years new construction and additions have increased the vault facilities of the Federal Reserve Banks and branches to the point where most offices are now in a position to hold almost any amount of coin that the Mint might be able to place with them.

The Honorable Robert B. Anderson -2-

Fluctuations in the demand for coin seem to follow no set pattern and it is therefore difficult, even under the best of conditions, for the Federal Reserve Banks to predict their requirements. The recent growth in the number of coin collectors and in the activities of coin dealers, and the effect of other new factors--such as the growth in suburban shopping centers and in the use of vending machines and sales taxes, and the frequency of changes in the amounts of such taxes--now make it practically impossible to estimate coin needs accurately.

Coin shortages magnify themselves because there is a natural tendency to hoard whatever is scarce. There is some feeling that appeals to turn in surplus coin have, from the broad point of view, more adverse than beneficial effect, since such actions tend to create a fear that coin released will be difficult to replace.

Nearly complete exhaustion of stocks of certain denominations of coins held by the Mint and the Federal Reserve Banks, such as recently occurred, would be likely to cause serious difficulties in the event of a national emergency. For instance, the latest draft of Booklet No. 7, Emergency Currency Distribution, being prepared by the ABA Banking Committee on Emergency Operations states: "No specific provision has been made for building up supplies of coin for use during an emergency. It is expected that coin needs can be supplied locally from coin in circulation when an emergency occurs, at least until such time as additional supplies become available and can be placed in circulation under arrangements established by the United States Mint and the Federal Reserve Banks."

The identification on coins of the place and year of mintage, the imbalance between the output of the Philadelphia and Denver Mints, distribution problems, and the activities of coin dealers and collectors have resulted in scarcities, some regional and some nationwide, of certain issues. These scarcities in turn have resulted in the issues concerned being quoted at premiums that are fantastically high for supposedly currently circulating coins.

The Denver Mint mark and the year of issue on coins seem to have outlived whatever legitimate purpose they may have once had. For instance, it would seem that coin issues could be effectively identified for control purposes by adopting a date series (carried over for several years and changed only when appropriate) similar to the procedure used for dating currency issues. Such a procedure would eliminate premiums on current coins.

The Honorable Robert B. Anderson -3-

In addition to causing much inconvenience and some hardship to the business community, coin shortages and attendant premium values have raised doubts about the integrity of the administration of Federal Reserve responsibilities. Since, with the exception of minimal issues through the Treasury Cash Room, all coin is issued through the Federal Reserve Banks, coin users naturally feel that it is the responsibility of the Reserve Banks to be in a position to supply their needs. Letters from Congress and other sources have strongly indicated that the public in general finds it difficult to understand why the Federal Reserve Banks cannot comply with requests for new coin, particularly when coin dealers have been able to get such coins by means beyond the ability of the Federal Reserve Banks to control, and are offering them at a substantial premium.

It is the System's hope that some arrangement can be worked out for a coin production schedule that will permit the stocking of a reserve supply of coins which could be used to meet unexpected demands such as have developed this spring. The System is willing to make available storage facilities for this purpose, and to absorb the cost of moving coin supplies from one Federal Reserve office to another if that were necessary. While storage of new coins might create temporary scarcities of some issues if the present arrangement of identifying coins by the year and place of mintage were continued, this problem could be avoided by the discontinuance of these identifying characteristics.

The System is concerned, as I am sure you are, about the effects of coin shortages and hopes that steps of one kind or another can be taken to avoid them, particularly since it is understood that the Government receives a net profit on all coins minted. We would appreciate your views as to the possibilities in this regard.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 11
7/12/60

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960



Mr. Hugh J. Helmer,
Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

This refers to your letter of June 30, 1960 requesting the Board's opinion as to whether section 5199(b) of the Revised Statutes of the United States, as amended September 8, 1959, requires the approval of the Board of Governors for the declaration of a stock dividend by a State member bank in an amount which would exceed the total of net profits for this year combined with the retained net profits of the preceding two years. This statute is made applicable to State member banks by the sixth paragraph of section 9 of the Federal Reserve Act.

The Board agrees with your conclusion that the purpose of this provision is to prevent the depletion of the capital structure of a bank by the payment of excessive dividends. Since a stock dividend does not result in the distribution of cash or assets, the Board does not consider the term "dividend" in this statute as including stock dividends. Consequently, the Board's approval for the declaration of a stock dividend is not required.

This position is consistent with the Board's interpretation of a similar statute, section 5114(e) of the Revised Statutes, which provides that a holding company affiliate shall, in its application for a voting permit, "agree that thenceforth it will declare dividends only out of actual net earnings." In administering this provision, the Board's form of application (Form P-1) only requires that the applicant agree that it will not directly or indirectly, by any device whatsoever, declare, pay, or set aside any dividend other than a stock dividend, unless and except to the extent that the actual net earnings of the applicant are sufficient therefor.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 12
7/12/60

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1960.



AIR MAIL - CERTIFIED
RETURN RECEIPT REQUESTED

Peter W. Billings, Esq.,
Fabian & Clendenin,
Continental Bank Building,
Salt Lake City 1, Utah.

Dear Mr. Billings:

Reference is made to your letter of July 6, 1960, in connection with the proceedings before the Board involving The Continental Bank and Trust Company, Salt Lake City, Utah, wherein as Attorney for Respondent, you demand that "respondent be furnished copies of all memoranda pertaining to the issues in this matter submitted to the Board since the closing of the record from its legal and examinations divisions and from all other outside sources, including but not limited to the legal and examinations divisions of the various Federal Reserve banks, together with copies of all requests therefore."

Your information as to "a group of memoranda regarding the legal and [supervisory] matters under this case" having been presented to the Board by its Legal and Examinations Divisions is correct. Your information that "the Board has received, since the record in this case was closed, and is now considering, additional memoranda from other outside sources with respect to the issue involved in this case" is incorrect. Except for the usual bank supervisory reports, including reports of examination of this Bank, at no time since the closing of the record in this case has the Board, to its knowledge, received memoranda with respect to this case from any "outside sources including but not limited to the legal and examinations divisions of the various Federal Reserve banks"; nor has any request been made of any such outside sources for such memoranda.

As to the memoranda from its Legal Division and Division of Examinations, the Board, with a view to a full and accurate understanding of the record made during the hearing, directed its staff to prepare memoranda containing analyses of the entire hearing record, together with views as to the Board's statutory responsibilities in

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relation to this matter. These were furnished the Board as directed. No Board representative, officer, employee, or agent who, to any degree or in any respect, participated in the preparation for or conduct of the hearing in this matter, assisted in, contributed to, or was consulted about the memoranda prepared for the Board's assistance in reviewing the record in this case.

The voluminous record presented to the Board for its consideration reflects the many legal and factual issues that were raised during these proceedings. The bulk of material presented by the parties in support of their positions indicates this fact. Contrary to your apparent position in this regard, the Board here affirms its legal right to avail itself of the services of qualified members of its staff in familiarizing itself with the material evidence in the record and in arriving at the findings whereon its conclusions will be based. Furthermore, inasmuch as the memoranda in question are appropriately a part of the Board's decisional procedure, they are not subject to or available on demand for the same by Respondent. The Board finds support for this position in the following language of the United States Court of Appeals for the Ninth Circuit in Pierce v. Securities and Exchange Commission, 239 F.2d 160, 163 (1956):

"Petitioner further suggests that the Commission relied upon a 'digest' of the record prepared by its staff. In this matter the opinion of the Court in Norris & Hirshberg, Inc., v. Securities and Exchange Commission, 1947, 82 U.S. App. D.C. 32, 163 F.2d 689, 693, certiorari denied 1948, 333 U.S. 867, 68 S.Ct. 788, 92 L.Ed. 1145, is relevant. The Court stated,

"* * * An administrative agency, such as the respondent here, may utilize the services of subordinates to sift and analyze the evidence received by the trial examiner and subsequent use by the agency of a written resume of that sifting and analyzing is a part of its internal decisional process which may not be probed on appeal.

"* * * We are not concerned with the manner in which the Commission gives consideration to the record; it is enough if it certifies that consideration has been given and that its findings arise therefrom * * *." (Footnote citations omitted.)"

These cases merely reiterate the principle implicit in the decision of the United States Supreme Court in United States v. Morgan, 313 U.S. 409, 61 S.Ct. 999 (1941), that reliance by a Government agency on an

Peter W. Billings, Esq.

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analysis of an administrative record prepared by its staff, a copy of which is not furnished the Respondent in the case, does not violate due process of law.

Accordingly, the Board denies the demand as contained in your letter of July 6, 1960.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Bolling R. Powell, Esq.
Barron K. Grier, Esq.