

Minutes for October 17, 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

Handwritten initials and signatures for each board member, written over horizontal lines. The initials are: Chm. Martin (M), Gov. Szymczak (S), Gov. Mills (M), Gov. Robertson (R), Gov. Balderston (B), Gov. Shepardson (S), and Gov. King (K).

Minutes of the Board of Governors of the Federal Reserve System  
on Monday, October 17, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Young, Assistant Counsel  
Mr. Leavitt, Supervisory Review Examiner, Division  
of Examinations

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 unani-  
mously:

	<u>Item No.</u>
Letter to Peoples Union Bank and Trust Company, McKeesport, Pennsylvania, approving the establish- ment of branches in Rostraver Township and in Versailles Borough.	1
Letter to the Federal Deposit Insurance Corporation regarding the application of First State Bank of Corpus Christi, Corpus Christi, Texas, for continu- ation of deposit insurance after withdrawal from membership in the Federal Reserve System.	2

Possible misapplication of funds (Middletown, Kentucky). A memo-  
randum dated October 12, 1960, from the Legal Division and the Division  
of Examinations had been distributed in connection with a possible

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misapplication of funds by Mr. M. W. Ross, President of the Bank of Middletown, Middletown, Kentucky. Mr. Ross had made certain substantial loans without the authority or approval of the bank's board of directors, question had been raised about some of the appraisals on property pledged to secure the loans, and one \$1,000 note was discovered to be a forgery, although it was not evident that Mr. Ross was a party to the forgery. Mr. Ross had assured the directors that he was confident that the loans in question were sound and collectible, and had voluntarily created a trust with an estimated value of \$140,000 for the benefit of the bank. The directors accepted this trust but curtailed Mr. Ross' authority to make loans.

The memorandum pointed out that the Board's outstanding instructions to the Federal Reserve Banks are to the effect that a report should be made to the local United States Attorney of every case in which it appears probable, even though not entirely clear, that a violation of the banking laws constituting a felony may have occurred. However, in telephone conversations between the Division of Examinations and officers of the Federal Reserve Bank of St. Louis, the latter expressed doubt whether the Board's instructions called for reporting the facts in regard to the incident at the Middletown bank. The Board's Legal Division and Division of Examinations were inclined to believe it would be preferable to report the matter. An important element in the situation was that an application had been made for the merger of Bank of Middletown into Liberty National Bank and Trust Company of Louisville.

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Governor Mills stated that, although presumably there was a legal obligation to report the possibility of a misapplication of funds to the Federal Bureau of Investigation and the United States Attorney at some point, he thought there might be justification for delaying the report in this case until after the merger had been effected. The delay should be conditioned, however, upon certainty that the acquiring bank in the pending merger was completely familiar with the problem and had been protected in the acquisition by an adequate audit.

Mr. Solomon indicated that the reluctance of the St. Louis Bank to report the matter at this time appeared to be based on a desire to avoid putting the merger in the wrong light. The St. Louis Bank had assured the Board's staff that Liberty National was completely familiar with the situation. In fact, one of its officers had been placed in the Bank of Middletown, and Liberty National was satisfied that it was receiving full value in the merger. Of course, the absorbing bank was concerned principally with seeing that it got what it paid for rather than with the criminal aspects of the matter.

Governor Robertson stated that in his opinion the report should be made and that it should be left to the discretion and judgment of the United States Attorney and the Federal Bureau of Investigation to handle the investigation with due regard to public relations aspects. It was his view that the Board, as a public body, had an obligation to report the matter, and he doubted that any action taken by the Federal Bureau of

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Investigation or the United States Attorney would disturb the community unduly.

Governor Shepardson expressed the view that, although Governor Mills' point had merit, the Board did not have much option. He believed the incident should be reported and that the Federal Bureau of Investigation and the United States Attorney should be relied on to proceed discreetly.

During further discussion, it was noted that although the prospect was that the pending merger would be completed shortly, a number of weeks had already passed since the question was raised regarding a report on the possible misapplication of funds.

Governor Mills expressed the opinion that the incident was based on suspicion and that it might involve merely bad judgment rather than culpability.

With regard to the forged note, discussion brought out that a complete verification of loans that had been made by Liberty National had disclosed an additional forged note for \$1,000. However, there was no positive indication that President Ross was responsible for or had knowledge of the forgeries.

It was then agreed, Governor Mills dissenting, that the Federal Reserve Bank of St. Louis should be informed of the Board's view that a report of the incident should be made promptly to the Federal Bureau of Investigation and to the United States Attorney.

Mr. Young then withdrew from the meeting.

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Denial of merger application (Jackson-Hazlehurst, Mississippi).

Governor Robertson reported that Mr. W. P. McMullan, Chairman of the Board of Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, had visited the Board's offices last week and had talked with him, with Governor King, and with Mr. Solomon in regard to the Board's disapproval of the merger of Bank of Hazlehurst, Hazlehurst, Mississippi, into his bank. Mr. McMullan had asked whether the Board would be willing to reconsider the case and whether announcement of the Board's decision might be delayed until additional information could be presented to the Board. The Board had also received a letter dated October 14, 1960, from Mr. N. S. Rogers, President of Deposit Guaranty Bank & Trust Company, requesting reconsideration of the matter by the Board and stating that new and additional information that the bank felt was pertinent to the merger would be sent to the Board promptly. Governor Robertson expressed the view that the Board should reconsider the case on the basis of the additional information offered, and that announcement of the decision made by the Board last week should be withheld.

Governor Mills referred to the public hearing granted by the Board in the BancOhio case, as a result of which the Hearing Examiner had recommended a final decision in accord with the Board's tentative decision. After noting that the hearing involved a considerable expenditure of time and effort, he referred to the document submitted by the applicant for purposes of the hearing as an example of the lengths to which a disappointed

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applicant will go in developing insignificant details. He also referred to the permission the Board had granted Northwest Bancorporation to submit additional information in connection with its pending application to acquire stock of The First National Bank of Pipestone, Minnesota, and expressed the view that if the Board allowed such cases to be prolonged it might lose public respect and also find it difficult to complete its work. He thought that, instead of requesting reconsideration by the Board, which was vested with authority and was expected to reach a judgment to the best of its ability on the evidence assembled, such applicants should go to the courts for review of the justification for the Board's decisions.

Mr. Hackley pointed out that in the Hazlehurst case it should be kept in mind that a competing bank, Merchants and Planters Bank of Hazlehurst, had requested a hearing in order to present its protest to the merger. If, after examining the additional information submitted, the Board should be disposed to reverse its decision, the request of the competing bank should be considered.

Governor Shepardson asked if there was any reason to believe that the information Deposit Guaranty intended to submit contained any pertinent information for the record that had not previously been available to the Board, to which Governor Robertson replied that in his conversations with Mr. McMullan, the latter had stated that there was no presentation to the Board of the fact that State law precluded Deposit Guaranty from having more than 15 branches. Thus, although the bank had been expanding

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aggressively, it could not blanket the State because of legal limitations. Mr. McMullan also doubted that the need for additional capital had been presented adequately; the proposed merger with Bank of Hazlehurst was an opportunity to obtain additional capital readily because the smaller bank was overcapitalized. Further, Mr. McMullan thought that Deposit Guaranty's plans to obtain another \$2,000,000 in capital in 1961 by selling stock had not been spelled out sufficiently and that the information offered in regard to competition with the remaining independent bank in Hazlehurst had not been sufficiently comprehensive.

Governor Mills reiterated the views he had previously expressed with regard to appropriate procedure in cases of this kind. However, since Mr. McMullan had had several conversations with members of the Board and its staff presumably it would be necessary to let him submit his information. At the same time, Governor Mills felt that the Board should adopt a more definite policy for the future in regard to such cases.

Governor Robertson stated that he wanted to make clear that there had been no pressure, commitments, indications, or urging that would put anyone in an embarrassing position if the Board wanted to say right now that it stood on its decision. The Board's action on Mr. McMullan's request should not be made on the basis of the conversations Mr. McMullan had had, but rather on its judgment as to what was the right thing to do.

Mr. Hackley commented that in every denial the applicant no doubt could think of additional information he wished he had presented, but it

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was his responsibility to present all pertinent facts in the first place. Mr. Hackley then said that he would like to maintain the legal position that the Board had followed in the past, namely, that it would not reconsider any case unless new facts were submitted. Therefore, he thought Mr. McMullan should be informed that at this time the Board saw no basis for reconsideration, but that when the additional information that was being sent had been received it would be examined and the Board would then decide whether reconsideration was appropriate.

Mr. Fauver referred to Mr. McMullan's request for delay of announcement of the Board's decision on this application. Under an established procedure, Mr. Fauver pointed out, actions taken by the Board approving or denying merger applications are published each week in a routine release, which would be issued tomorrow. When that procedure was established the press was informed of it, and was also informed that information about the Board's decision on any particular merger application would not be available until the issuance of the release.<sup>1/</sup> Mr. Fauver thought that in this instance there was an important public relations aspect of the publication of the announcement, especially in view of the fact that a competing bank that had an unusual degree of interest in the case had asked for a hearing.

Governor Robertson commented that if disapproval was announced tomorrow and a reversal was announced some time later, public reaction would be worse than if no announcement were made of last week's Board action.

<sup>1/</sup> This is not intended to modify the understanding at the meeting on August 24, 1960, that the staff was authorized to respond to specific inquiries on merger applications following action thereon by the Board.

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In the ensuing discussion it was brought out that omission of the announcement of the Board's decision in this case would make tomorrow's release inaccurate, since the release customarily includes a positive statement that no Board actions on mergers have been taken, if such is the case. Making that statement in the release would present a difficult problem of explanation for a public relations officer, since some people knew that there had been Board action. If the announcement was omitted from tomorrow's release, the press could no longer rely on the release as presenting a true report of Board actions on mergers. In response to an inquiry as to whether the additional information Deposit Guaranty was sending might arrive in time to allow its review before the K.3 release was issued, it was indicated that the information probably would not be received before the latter part of the week.

Governor Shepardson inquired whether it would be possible to take Board action today suspending the previous decision. During discussion there was agreement that that course would not solve the problem because of the positive indication in the release that no Board action had been taken, whereas the record showed clearly that there had been Board action.

Governor Mills observed that publication of the Board's decision would not preclude Deposit Guaranty or any one else from corresponding with the Board. Although he did not think that review of such communications should be exhaustive, if they contained information that seemed significant the Board was free to reopen the case.

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Governor Shepardson remarked that departure from the announcement procedure in the present circumstances would nullify whatever value the Board had attempted to gain by adopting the procedure. Therefore, it seemed to him that the Hazlehurst announcement should be published, and the Board could still decide to reconsider the case if the information being submitted justified that action. He agreed with the view that if the case was reopened other interested persons should be given an opportunity to be heard.

Governor Szymczak concurred in Governor Shepardson's view. If the announcement were not made, he said, or if action was taken suspending the decision, the Board in essence would have already said that it expected to reconsider--on the basis of material that had not yet been received.

After further discussion it was agreed that announcement of the Board's disapproval of the application of Deposit Guaranty would be published tomorrow and that no reply would be made to Mr. Rogers' letter requesting reconsideration until the information Deposit Guaranty was sending had been received and reviewed, reply then to be made in accordance with the Board's appraisal of the significance of the information submitted.

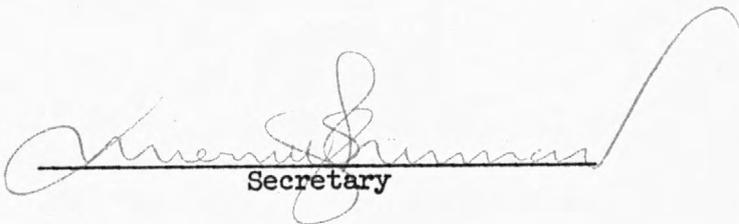
The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a memorandum dated October 14, 1960, from the Division of Personnel Administration recommending payment of an additional \$5 for each pre-employment physical examination for cafeteria employees to cover the increased cost of the chest X-ray examination.

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Governor Shepardson also approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the appointment of Douglass Hammond Adams as assistant examiner.



Secretary

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

Item No. 1  
10/17/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 17, 1960

Board of Directors,  
Peoples Union Bank and Trust Company,  
McKeesport, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch (1) on State Route #51 near the intersection of State Route #71, in an unincorporated area in Rostraver Township, Westmoreland County, Pennsylvania, and a branch (2) in the Olympia Shopping Center located on Walnut Street in Versailles Borough, Allegheny County, Pennsylvania, by Peoples Union Bank and Trust Company, McKeesport, Pennsylvania, provided the branches are established within nine months from the date of this letter.

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. 2  
10/17/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 17, 1960

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

Dear Mr. Wolcott:

Reference is made to your letter of October 5, 1960, concerning the application of the First State Bank of Corpus Christi, Corpus Christi, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
10/17/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 17, 1960



CONFIDENTIAL (FR)

Mr. N. L. Armistead, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of October 7, 1960, the Board approves the appointment of Douglass Hammond Adams as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Adams is the son of the executive vice president and director of The Parkersburg National Bank, Parkersburg, West Virginia. Accordingly, the Board's approval of the appointment of Mr. Adams is given with the understanding that he will not participate in any examination of The Parkersburg National Bank as long as his father is an officer or director of that bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.