

Minutes for November 2, 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

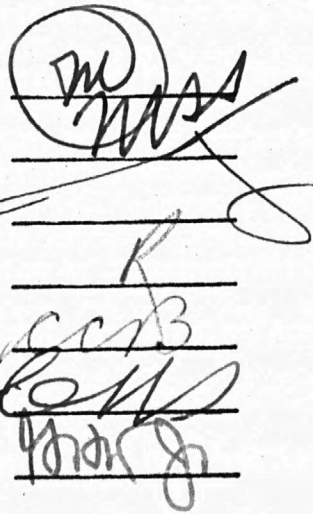
Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King


A series of handwritten initials and signatures are written over horizontal lines corresponding to each board member's name. The initials for Chm. Martin are circled. The initials for Gov. Szymczak are 'MS'. The initials for Gov. Mills are 'M'. The initials for Gov. Robertson are 'R'. The initials for Gov. Balderston are 'CB'. The initials for Gov. Shepardson are 'S'. The initials for Gov. King are 'K'.

Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, November 2, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Young, Adviser to the Board
 Mr. Shay, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of
 Research and Statistics
 Mr. Marget, Director, Division of
 International Finance
 Mr. Solomon, Director, Division of
 Examinations
 Mr. Koch, Adviser, Division of Research
 and Statistics
 Mr. Furth, Associate Adviser, Division of
 International Finance
 Mr. Sammons, Associate Adviser, Division of
 International Finance
 Mr. Benner, Assistant Director, Division of
 Examinations
 Mr. Smith, Assistant Director, Division of
 Examinations
 Mr. Landry, Assistant to the Secretary
 Mr. Young, Assistant Counsel
 Mr. Leavitt, Supervisory Review Examiner,
 Division of Examinations
 Messrs. Katz, Wood, Anderson, Dahl, Gekker,
 Maroni, and Reynolds, and Miss Logue of
 the Division of International Finance

Report by Mr. Furth. Mr. Furth reported on conversations with
 bankers and leading economists during his recent visits in Luxembourg,
 Austria, West Germany, The Netherlands, and Switzerland.

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At the conclusion of this report Messrs. Thomas, Ralph Young, and Noyes withdrew, as did all members of the Division of International Finance who had been present.

North Shore Bank of Miami (Item No. 1). There had been distributed under date of November 1, 1960, a memorandum from the Division of Examinations concerning a request from Mr. Stanley Brons, Assistant United States Attorney in Miami, Florida, for the services of two additional Federal Reserve examiners and the use of confidential sections of reports of examination of the North Shore Bank, Miami Beach. As noted in the memorandum, the Board on October 24, 1960, approved the request of the Assistant Attorney General, United States Department of Justice, that an examiner be sent to Miami to provide information on banking practices in connection with the preparation of a case against directors of North Shore Bank which involved criminal conspiracy charges. Reference was also made in the memorandum to Board approval at that time of sending with the examiner, for review by the United States Attorney, such records as the Federal Reserve Bank of Atlanta considered pertinent.

Mr. Solomon stated that in compliance with the foregoing arrangements an examiner had been sent by the Atlanta Reserve Bank to Miami to report on October 31. On the following day, however, Mr. Brons telephoned the Division of Examinations to state that he would require the services of all examiners who had examined the North Shore Bank and to request the privilege of seeing the confidential sections of all examination reports

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of the bank. Mr. Brons was prepared, if necessary, to subpoena the two examiners remaining in the employ of the Reserve Bank who had examined the North Shore Bank.

It was the recommendation of the Division of Examinations, Mr. Solomon said, that these two examiners be sent to Miami but that the confidential sections of examination reports not be made available to the United States Attorney. This would be in accord with the position taken by the Comptroller's Office in response to a similar request. Mr. Solomon noted that in addition to the question of sending the two examiners and making available the confidential sections of the examination reports, there was a question as to the use to be made of the open sections of the examination reports.

Mr. Hackley said that the Legal Division agreed with the recommendations of the Division of Examinations. He noted that the subpoena power could be used by the Justice Department to obtain the services of the examiners. If at all possible, however, he considered it advisable to avoid making examination reports available to the United States Attorney, particularly the confidential sections.

Governor Mills reiterated his position on this issue, which had been that it was proper for examiners to appear as expert witnesses, but that their assistance to the Justice Department should be limited to the giving of technical advice and that Justice should not be permitted to draw evidence from the examination reports. He believed that under the

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Board's Rules of Organization it would be possible to decline to answer a subpoena; however, should the Board be requested by the courts to make examination reports available, it apparently would be necessary for the Board to comply. Under no circumstances did he feel that it would be proper to produce for the Department of Justice the reports of examination, which were in his opinion confidential as between the bank examined and the Federal supervisory authority, and which involved a confidential relationship between the bank and its customers that he felt should not be permitted to escape through a court proceeding.

Governor Robertson expressed himself in favor of sending the two examiners, as requested by the United States Attorney. He would not make the confidential sections of examination reports available, believing that those sections should remain confidential between the examiner and the supervisory authority. With respect to the open sections of examination reports, he felt they should be made available and that the Board should not require that a subpoena be issued to do so. It was Governor Robertson's view that it was a part of the Board's responsibility as a Government agency to cooperate with the chief law enforcement agency. In making the reports available, he would inform the United States Attorney that they were confidential and were not to be used in evidence except with respect to the specific charge before the court. He went on to say that during the 1930's, when there were many prosecutions of the type involved in the present case,

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there was no release of the confidential sections of examination reports. However, portions of the open sections had been used with respect to specific transactions. On such occasions the judge often examined the reports in chambers, thereby obviating the need for introducing the reports in evidence.

After other members of the Board had indicated that they were inclined to agree with Governor Robertson's suggestion, Governor Mills said that he would wish to have the record show his dissent to making the examination reports available on this basis. To clarify his views, he believed that if an examiner were put on the stand it would be proper for him to give testimony as to the function of the examiner and the scope of his responsibilities as they would apply generally to the examination of banks. He should not, however, testify as to the particulars of a case except if he was subject to a subpoena that was being enforced by a Federal court.

In replying to a question from the Chairman as to precedent in such cases, Mr. Solomon said that from time to time requests had been received for examiners to testify in connection with defalcations, robberies, and similar charges, usually for the purpose of identifying specific facts such as serial numbers of currency and the like. He could not recall any instances in which a Federal Reserve examiner had worked closely with the Department of Justice in the preparation of a case although he understood that examiners of the Federal Deposit

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Insurance Corporation frequently did so, presumably because the Corporation was more frequently involved in defalcations or other irregularities in banks.

Mr. Benner commented that he could recall no similar case in which the System had made examiners available to the Department of Justice. He also noted that the confidential sections of certain of the reports of examination of North Shore Bank contained comments, such as comments on an officer of the bank, that it would seem undesirable to make public.

In the subsequent discussion it was brought out that part of the case against North Shore Bank revolved around the fact that the bank had lent funds to companies controlled by directors which were technically affiliates of the bank. However, the bank had denied in writing that such affiliations existed when asked this question by examiners of the Atlanta Reserve Bank. Therefore, these affiliations had not been listed in the reports of examination.

After considerable discussion of the extent to which the examiners of the Federal Reserve Bank of Atlanta might testify in this case, during which there was general agreement that under no circumstances should the content of the confidential sections of examination reports be reviewed or used as a basis for comment by the examiners, Chairman Martin suggested that the Board authorize two examiners of the Atlanta Reserve Bank to go to Miami for the purpose of assisting the Assistant United States Attorney along the lines discussed at this meeting; that is, they could cooperate

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as experts in supplying information revealed in the open section of the reports of examinations of North Shore Bank but they should not provide information based on the confidential sections of the reports. He suggested that the examiners should be briefed on the extent to which they should comment and that since the Assistant United States Attorney had indicated that their services would be needed for only about one day they could be asked to keep the Board informed of any further developments, such as a request after reaching Miami that they provide information beyond the facts that could be obtained from the open section of the examination reports.

Governor Mills' views as stated during the meeting having been noted, there was agreement that the Assistant United States Attorney in Miami should be advised that the two examiners would go to Miami and that the Federal Reserve Bank of Atlanta should be informed of the conditions under which the examiners were to be sent and of the extent to which they were authorized to make available information from the reports of examination.

Secretary's Note: Later in the day a telegram was sent to Mr. Sheffer, Chief Examiner, Federal Reserve Bank of Atlanta, in the form of attached Item No. 1.

Messrs. Benner and Walter Young then withdrew from the meeting.

Application to organize a national bank at Delcambre, Louisiana
(Item No. 2). There had been circulated under date of October 17, 1960,

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a memorandum from the Division of Examinations submitting a draft of letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Delcambre, Louisiana. A similar recommendation had been made by the Federal Reserve Bank of Atlanta. When the file was in circulation, Governor Robertson indicated that he had a question concerning the recommendation.

Governor Robertson referred to the location and population of the community of Delcambre and pointed out that, unlike neighboring communities, it had no banking facilities. He also noted that the proposed directors of the national bank were among the most influential businessmen in the town and were in a good financial position.

In discussion, during which the situation was reviewed in more detail, it was brought out that although branch banking is permissible under Louisiana law, none of the nearby banks had sought to establish a branch in Delcambre. In the course of the discussion, a majority of the Board members indicated that they would go along with the recommendation of the Reserve Bank in the absence of stronger evidence that a bank was needed in Delcambre. Accordingly, the letter to the Comptroller of the Currency recommending unfavorably on the application was approved, Governors Balderston and Robertson dissenting. A copy of the letter is attached as Item No. 2.

Mr. Leavitt then withdrew from the meeting.

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St. Joseph Agency (Item No. 3). Distribution had been made of a memorandum from the Legal Division dated November 1, 1960, concerning arrangements for a hearing on the application of St. Joseph Agency, Inc., South Bend, Indiana, for a determination under section 4(c)(6) of the Bank Holding Company Act with respect to its subsidiary, St. Joseph Insurance Agency, Inc. Attached to the memorandum was a draft of notice of request and order for hearing thereon. The hearing was set for November 21, 1960, at the offices of the Federal Reserve Bank of Chicago and was to be conducted by Hearing Examiner Edward H. McMahan, whose services had been arranged. Mr. Gordon W. Lamphere, Assistant General Counsel of the Federal Reserve Bank of Chicago, was to be designated as Board Counsel, in association with Mr. Paul C. Hodge, General Counsel of the Chicago Bank.

Without objection, the Notice of Request and Order for Hearing Thereon was approved unanimously. A copy is attached as Item No. 3.

Mr. Landry then withdrew from the meeting.

Report of examination--Federal Reserve Bank of Chicago. Mr. Smith commented on the examination of the Federal Reserve Bank of Chicago made as of June 10, 1960, the report on which had completed circulation to the members of the Board. On the basis of his comments, it was agreed that there were no matters disclosed by the examination which required action on the part of the Board.

The meeting then adjourned.

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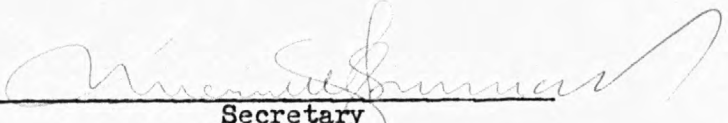
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Secretary's Notes: Governor Shepardson today approved on behalf of the Board a letter to the Director of the Graduate School, United States Department of Agriculture, confirming detailed arrangements for a thirty-two hour training course in Technical Writing for members of the Board's staff and authorizing a contract fee of \$1,200 to cover the total cost of the program. (A letter was sent to the Director of the Graduate School under date of September 26, 1960, regarding tentative arrangements for the course, approval of which is entered in the minutes of September 23.)

Pursuant to the recommendation contained in a memorandum dated November 1, 1960, from Mr. Fauver, Assistant to the Board, Governor Shepardson today approved on behalf of the Board a visit by a group of participants in the Economic Development Institute sponsored by the International Bank for Reconstruction and Development on December 7, 1960, for a program which would include luncheon in the staff dining room.

Governor Shepardson also approved today on behalf of the Board letters to the Federal Reserve Bank of New York (attached Items 4 and 5) approving the appointment of Walter H. Ludlum, Harry I. Stevens, Jr., and Matthew T. Fitzpatrick as assistant examiners.

Upon consideration of a memorandum dated November 2, 1960, from Mr. Sammons, Associate Adviser, Division of International Finance, Governor Shepardson authorized on behalf of the Board a representation allowance not to exceed \$500 in connection with attendance of certain members of the Board's staff at the Sixth Meeting of Central Bank Technicians of the American Continent to be held in Guatemala from November 14 to November 25, 1960, such attendance having been authorized by the Board on March 3, 1960.


Secretary

T E L E G R A M
LEASED WIRE SERVICEItem No. 1
11/2/60BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

November 2, 1960.

SHEFFER - ATLANTA

Board telegraphed Stanley Brons, Assistant United States Attorney, Miami, Florida, today as follows: "Answering your request, Board approves sending to your office Examiners R. A. Sanders and J. L. Hardin for questioning. These men are engaged in important bank examinations; hence, it is expected that your promise they would be needed for about one day only will be observed. Reserve Bank will be notified and will advise you when examiners will arrive. Board regrets it cannot accede to your request to supply confidential sections for your perusal." Telegram was signed by Henry Benner, Assistant Director. Suggest you advise Brons when two examiners will arrive. In preparation for questioning, examiners should review open sections of examination reports only and make no reference to confidential sections.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 2
11/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1960

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

Attention Mr. C. C. Fleming,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to your letter of May 24, 1960, enclosing copies of an application to organize a national bank at Delcambre, Louisiana, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of this application made by an examiner for the Federal Reserve Bank of Atlanta indicates favorable findings with respect to the proposed capital structure and the convenience and needs of the community. Prospects for earnings are not, however, particularly favorable, and the relatively modest amount of business anticipated does not appear to justify establishment of a commercial bank in the town at this time. The management factor is also not considered satisfactory as there is no one among the proposed officers or on the board of directors who has had experience in either investments or loans. Accordingly, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



Item No. 3
11/2/60

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
NOTICE OF REQUEST FOR DETERMINATION
PURSUANT TO SECTION 4(c)(6) OF
BANK HOLDING COMPANY ACT OF 1956 AND
ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the Board of Governors of the Federal Reserve System, pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 [12 U.S.C. 1843] and section 5(b) of the Board's Regulation Y [12 CFR 222.5(b)] by St. Joseph Agency, Inc., South Bend, Indiana, a bank holding company, for a determination by said Board that the activities of its subsidiary, St. Joseph Insurance Agency, Inc., an Indiana corporation, are of the kind described in the aforementioned sections of the Act and the Regulation so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

Inasmuch as section 4(c)(6) of the Bank Holding Company Act of 1956 requires that any determination pursuant thereto be made by the Board after due notice and hearing and on the basis of the record made at such hearing,

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IT IS HEREBY ORDERED That pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y [12 CFR 222.5(b), 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this matter be held commencing on November 21, 1960, at 10:00 a.m., at the offices of the Federal Reserve Bank of Chicago, Chicago, Illinois, before a duly selected hearing officer, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System [12 CFR Part 263]. The right is reserved to the Board or such hearing officer to designate any other date or place for such hearing or any part thereof which may be determined to be necessary or appropriate for the convenience of the parties. The Board's Rules of Practice for Formal Hearings provide, in part, that "All such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; Provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public."

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Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of Chicago, on or before November 14, 1960, a written request containing a statement of the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wishes to give testimony. Such request will be presented to the designated hearing officer for his determination. Persons submitting timely requests will be notified of the hearing officer's decision.

Dated at Washington, D. C., this 2nd day of November, 1960.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 4
11/2/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1960

CONFIDENTIAL (FR)

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bilby:

In accordance with the request contained in your letter of October 27, 1960, the Board approves the appointment of Walter H. Ludlum and Harry I. Stevens, Jr. as assistant examiners for the Federal Reserve Bank of New York. Please advise us of the effective dates of the appointments.

It is noted that Mr. Stevens owns 14 shares of stock of The County Trust Company, White Plains, New York, a State member bank, and that he plans to dispose of this stock prior to accepting employment with your Bank. It is also noted that Mr. Stevens is indebted to The County Trust Company in the amount of \$700, and to National Bank of Westchester, White Plains, New York, in the amount of \$180. Accordingly, the Board's approval of the appointment of Mr. Stevens is given with the understanding that he will not participate in any examination of these banks until his indebtedness has been liquidated.

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. 5
11/2/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 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 October 28, 1960, the Board approves the appointment of Matthew T. Fitzpatrick as an assistant examiner for the Federal Reserve Bank of New York. Please advise us of the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.