

Confidential  
3-14-41

Revision of Memorandum, dated February 19, 1941, on same subject, prepared by Mr. Wingfield, first considered by Board at meeting on February 20, 1941.

STATEMENT OF THE RESERVE BOARD RELATING TO CERTAIN  
VIEWS EXPRESSED AT THE CONFERENCE IN THE OFFICE OF  
THE SECRETARY OF THE TREASURY ON JANUARY 21, 1941.

*was expressed by*  
The Chairman has reported to the Board that, at the request of the Secretary of the Treasury, he attended a conference on January 21, 1941, on the bill S. 310 relating to bank holding companies. At this meeting reference was made to the Board's position on the entire bank holding company situation as it developed in Interdepartmental Committee conferences in March, 1938, and as to the view of the Secretary of the Treasury that the Federal Reserve had not done anything about the problem and that he had therefore taken the initiative and was responsible for the introduction of S. 310.

It is the view of the Board that a statement should be submitted to the Secretary outlining the Board's views as to the results of the March, 1938, conferences and as to the Board's activities regarding the bank holding company problem since the Banking Act of 1933 first conferred administrative responsibilities on the Board in connection with these companies.

RESULTS OF THE MARCH, 1938, CONFERENCES

Was there agreement on a bill? At none of the meetings was an effort made to agree on the provisions of any then pending bill or on the provisions of a proposed bill. The letter dated March 17, 1938, from the Secretary of the Treasury to the President stated that in the Committee on Banking agreement had been reached on recommendations as to the bank holding company situation and referred to a letter from Mr. Jesse Jones as chairman of a subcommittee which had been meeting on the situation and to the text of a proposed message to the Congress which accompanied Mr. Jones' letter. The Secretary referred to the fact that the proposed message had the unanimous approval of the members of the Committee which had considered the problem. These statements are entirely correct, but a consideration of Mr. Jones' letter (also dated March 17, 1938) to the Secretary shows

*Refer previous draft of this, as shorter & printed*

that at the last meeting of the Interdepartmental Committee held on March 14 "to consider recommendations to the President regarding bank legislation, and particularly to suggest a brief statement dealing with bank holding companies to be included" in the President's message to Congress, the Secretary had asked that the Committee have further meetings to endeavor to arrive at, first, a suggested statement for the President's message, second, a definition of what constitutes a bank holding company, and, third, what governmental agency should be charged with the enforcement of any Bank Act affecting holding companies. Mr. Jones then referred to the fact that attached to his letter was a suggested statement to the President to include in his message to Congress and said that "This represents the views of Governor Ransom of the Federal Reserve Board, Acting Comptroller of the Currency Marshall Diggs, Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation." (Attention is called to the fact that the "views" are of three individual officials and of the Reconstruction Finance Corporation.) Mr. Jones then further said that it was the unanimous opinion that bank holding companies should not be allowed to expand, the principle of bank holding companies not being in the best interest of the country, and that something should be done about them, and said that "Should the President determine to use it (the proposed statement to be used in his message) and the Congress acted upon his recommendation, the question of branch banking would naturally enter into the discussions." Mr. Jones quoted the Committee as feeling that other factors than a specific percentage of share ownership would enter into a proper definition of control and that it required more time for study than the Committee had had and should properly be developed in the Congressional Committee hearings. As to the supervisory authority, Mr. Jones called attention to the fact that there was a difference of opinion among the three officials and the Reconstruction Finance Corporation and stated this difference. Neither in Mr. Jones' letter nor in the accompanying suggestion for inclusion by the President in his message to Congress was there anywhere reference to any pending bill or to any agreement on a bill.

The language submitted for consideration by the President stated a policy, and Mr. Jones' letter referred to the views of those mentioned on the broad aspect of this question of policy and on the question of definition of ownership and as to the supervisory agency or agencies which should regulate bank holding companies.

BOARD'S CONTINUING CONSIDERATION OF THE PROBLEM OF SUPER-  
VISING BANK HOLDING COMPANIES

Under the terms of the Banking Acts of 1933 and 1935 the Board of Governors was given substantial and important powers in the field of bank holding companies. The existence of these powers was recognized and confirmed by Congress in the Revenue Act of 1936 and the Investment Company Act of 1940. These authorities have continuously been discharged by the Board, and during that time it has administered these provisions effectively and in the public interest. The Board has continuously recognized the desirability of making changes in this legislation and improvements in the administrative process, and in the light of its experiences in administering bank holding company statutes since 1933, fully recognizes that important and also minor difficulties exist in the holding company statutes.

Because of its direct and comprehensive knowledge of the entire field, the Board recognizes that legislation intended to provide additional disciplinary powers applicable to exceptional cases or directed towards the termination of the holding company structure generally would not be in the public interest, unless the legislation included a general revision of the existing overlapping and duplicating supervisory and examining functions in this field or was directed towards the substitution of a rational branch banking system for the existing holding company structure. The objective of any such legislation should be directed towards, first, providing sound banking facilities for the public in those sections of the country where such facilities either do not exist or exist only through banks that are part of a holding company group, and, second, towards efficient Federal supervision of banks, whether in or out of such groups.

Members of the Board's staff, after numerous conferences with members of the Board beginning in 1937, developed in the early part of 1938 a comprehensive program of legislation to eliminate difficulties in the bank holding company statutes. A memorandum in which the general outline of these proposals was set forth was tendered the members of the Interdepartmental Committee meeting with the Secretary of the Treasury on March 10, 1938, and a copy later was transmitted to the Secretary of the Treasury by Governor Ransom with a memorandum dated March 17, 1938.



During sessions of the meetings of the subcommittee in March 1938, Governor Ransom urged upon the members of the subcommittee the desirability of reaching an agreement on a broad legislative program relating to bank holding companies.

Since the enactment of the Banking Act of 1933, the Board has been continuously engaged in the administration of that statute as it applied to bank holding companies and to the statutory changes in that act made by the Banking Act of 1935. Since the Chairman reported the Secretary's views to the Board, the Members of the Board have reviewed this administrative procedure and the records of innumerable conferences with other agencies of the Government and officials of these companies, all of which were directed towards better administration of the law, as well as the determination of such changes as should be made in the law when opportunity offered. It is the conclusion of the Board that it has not in any way been negligent - quite otherwise, and the Board feels that it has obtained complete and accurate information regarding the companies in question and their many affiliate problems and that its administration of the law has been conducive to improvement in the condition of these companies and the problem as a whole. Members of the Board and its staff, in conferences with other agencies of the Government, have submitted proposals looking to the betterment of the law, but the Board, as a whole, has not felt that the holding company problem has been of such importance in relation to other much more fundamental problems in the banking field as to justify separate and prior consideration by Congress. It suggested in its Annual Report for 1938 to Congress that the subject be given consideration along with the other matters therein mentioned.

The Board has at all times in considering the problem borne in mind that other agencies of the Government had responsibility in this field and has had to rely on the judgment of these agencies in matters where they have had primary responsibility.

Furthermore, since 1933, the number of bank holding company affiliates and the number of their subsidiary banks have decreased materially. Several bank groups have been terminated completely, and many of the presently existing groups have greatly reduced the number of their banks and the cities served by them, while others have reduced to

*unimportant*

lesser degrees. Since the existing holding company statutes contain no authority to restrict the expansion of bank holding companies the Board has not attempted to curb their expansion and has directed its efforts toward securing improvements and corrections through its regulations. Nevertheless, except in three other cases there has been no expansion outside of that occurring on the West Coast.

It may be that the Secretary, in referring to "all the difficulties" he has had with the "bank holding company situation" and in concluding generally that the "bank holding company situation" is "an unhealthy and unwholesome one", is influenced by the experience in the specific case of Transamerica Corporation. As to this the Board is not persuaded that the practices of Bank of America National Trust and Savings Association which were the ground for complaint were the result of its relationship to Transamerica Corporation or that the same grounds would not have existed had there been no relationship; but even if so the Board does not believe that the general situation can be judged upon the facts of that or any other one case. This is not to say that the Board favors the expansion of the holding company structure in the banking field. Nor does it mean that it does not recognize the need for correcting the deficiencies in the present holding company statutes. It does believe, however, that in formulating a legislative program to deal generally with the bank holding company situation it would be unjust and unwise to pattern it solely upon the experience in the Transamerica case without taking into account the experience and facts in all cases. In this connection the Board believes that the technicians upon the Secretary's staff and that of the Comptroller of the Currency will agree with the Board that on the whole the management of holding company affiliates have shown a willingness to cooperate with the supervisory authorities and that their contribution to the management of their subsidiary banks has, for the most part, been helpful; that in many cases holding company affiliates have cooperated in securing corrections in subsidiary banks which otherwise would have been difficult, if not impossible, to secure; that in many cases holding company affiliates have made substantial financial contributions to the capital of weak subsidiary banks; and finally, that on the whole the condition of subsidiary group banks is now at least equally as good, if not above the average of that of banks which are not members of groups.

As to the specific case of Transamerica Corporation, when the Board was considering the matter the Comptroller advised the Board that he saw no objection to the granting of a general voting permit to this holding company and stated that the condition of the Bank of America National Trust and Savings Association was improving. In this case, as in others where national banks are involved, the Board's action was predicated on the condition of the subsidiary national banks as reflected in reports of examination made by the Office of the Comptroller. While, as stated, the Board doubts if the facts with respect to the bank would have been materially different if there had been no affiliate relationship with Transamerica, nevertheless, when the Office of the Comptroller became concerned with the bank's condition the Board was able, through the agreement required in connection with the granting of the general voting permit, to cooperate in bringing about an amendment for improvement in the condition of the bank, which the Comptroller might not have been able to obtain without such cooperation by the Board.

The Board wants to cooperate with all agencies of Government in finding solutions for any and all existing problems in this field, and its experience and knowledge is available to this end. It would like to see an over-all program formulated at such time as will assure its adoption.

*and has had since early 1936 and still has a suggested bill to implement such a program.*

(Draft)

March \_\_, 1941

My dear Mr. Secretary:

I have reported to the Board your references to us in the recent meeting in your office. There are three points that the Board would like called to your attention in regard to the bank holding company situation:

1. The March, 1938, conferences were directed towards a recommendation to the President on policy, not on any pending legislation. The Board was represented by Mr. Ransom, and, as appears from Mr. Jones' letter to you of March 17, 1938, the views expressed were his. There was no quorum of the Board in Washington just at that time. Mr. Ransom requests that it be stated they are still his views. <sup>^</sup>

2. The Board feels that it has fully discharged its administrative responsibility under the statutes. For nearly eight years, it has devoted time and attention to the situation and, in cooperation with other agencies of Government also having responsibility in this field, has worked out solutions of many important administrative and supervisory matters and is willing to let the record speak for itself. <sup>^</sup> ~~The Board~~ has not felt that the holding company situation has been of such importance in relation to other more fundamental problems in the banking field as to justify separate and prior consideration by Congress, particularly in the light of pressing reasons that have existed over this period making it inadvisable to sponsor piecemeal legislation.

3. More important than either of the above points, the Board wants to assure you of its earnest desire to cooperate in working out a long-range and conclusive solution of the many complex problems involved in the situation and to offer its experience, knowledge and views to you in an effort to accomplish the results we are sure you seek, namely, the protection of the public interest and the welfare of the banking system.

Sincerely,

M. S. Eccles,  
Chairman.

*Jones letter clearly shows there was no agreement in March and that there was no point in disagreement important aspects of the problem.*