

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date April 18, 1946.

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Townsend

The Congress in 1933 attempted to deal legislatively with the bank holding company problem and, accordingly, passed section 5144 of the Revised Statutes. The Board's experience in dealing with this legislation has demonstrated that it is wholly inadequate for the purpose of providing adequate supervision and control over bank holding companies for the following reasons:

(1) The law fails to reach some bank holding companies because of the purely voluntary nature of the scheme of regulation which it provides. (Such power as the Board has must depend, in the first instance, upon the granting of a voting permit; experience has demonstrated that a holding company does not need to vote its bank shares in order to control them. Transamerica has a majority ownership of more than 20 banks as to which it holds no voting permits.)

(2) The law fails to reach others (a) because of defects in the definition of a holding company affiliate, and (b) because it affects only those companies which own or control member banks.

(3) Even as to those bank holding companies, which have obtained bank holding permits, the law does not provide effective regulation (a) because there are no statutory limitations upon the expansion of bank holding companies, (b) because the Act contains no specific power in the Board to require bank holding companies to abide by such orders, rules and regulations as the Board, in the public interest, may issue, (c) because there are no limitations upon nonbanking activities of bank holding companies, and (d) because the sanctions which are provided are aimed solely at the banks in the holding company groups rather than at the holding companies themselves.