

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 26, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Townsend, Associate General Counsel
Mr. Horbett, Assistant Director of the Division of Bank Operations
Mr. Millard, Assistant Director of the Division of Examinations
Messrs. Chase and Shay, Assistant Counsel
Mr. Thompson, Federal Reserve Examiner, Division of Examinations
Mr. Hurley, Technical Assistant, Division of Bank Operations

Mr. Bopp, Vice President of the Federal Reserve Bank of Philadelphia

Mr. Clayton reported briefly on recent developments in connection with the Home Loan Bank legislation now pending before the Congress, including the reporting out by the Senate Banking and Currency Committee of S. 2417, which would reduce the insurance premiums on Federal savings and loan insurance. There was agreement that no further action should be taken by the Board at the present time with respect to this legislation.

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In accordance with the understanding at the meeting of the Board yesterday, Mr. Townsend reviewed the sequence of events which led up to the action of the Board on October 31, 1947, directing the Legal Division to make an investigation for the purpose of enabling the Board to determine whether it would institute a proceeding under the provisions of the Clayton Act against Transamerica Corporation. He read from section 7 of the Clayton Act and from section 11 of that Act which places in the Board of Governors authority to enforce compliance with section 7 where applicable to banks, banking associations, and trust companies. He also said that there were in the Board's files opinions from two former General Counsel of the Board that the business of banking was interstate commerce, that recent court decisions left no doubt in his mind that banking would be held to be interstate commerce, and that, therefore, there was no question that the Clayton Act would be applicable to Transamerica if it could be established that the acquisition of bank stocks by the Transamerica group had the effect of (1) substantially lessening competition, (2) restraining commerce in any section or community, or (3) tending to create a monopoly in any line of commerce.

As to the yardstick for determining the degree of proof which the Board should have in order to justify the commencement of the Clayton Act proceeding, Mr. Townsend emphasized that the question before the Board at this time was not to determine whether there was sufficient evidence to justify the issuance of an order to Transamerica

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requiring the disposition of bank stocks, that such evidence could be developed only through the medium of a hearing in which there would be full opportunity for both sides to present their cases, and that the matter now before the Board was to determine whether there appeared to be reasonable grounds, on the basis of the investigation that had been made, for the institution of a proceeding under the Clayton Act against Transamerica Corporation for the purpose of developing the information necessary to enable the Board to decide whether the Transamerica group should be ordered to dispose of bank stocks held by it.

Mr. Townsend discussed the three bases in section 7 of the Clayton Act, as referred to above, on which a proceeding could be founded, and stressed the fact that it was not necessary to wait until a monopolistic condition was an accomplished fact and that actions could be taken to prevent acquisitions which would lessen competition, restrain interstate commerce, or tend to create a monopoly. He also stated that in his opinion the question on which the case might turn would be whether the Transamerica group, through the acquisition of bank stocks, was tending toward a monopoly and that if that condition could be established there was no question but that that statute would have been violated.

In this connection, he read an excerpt from the report of the House Committee when the Clayton Act was originally passed in 1914

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which stated that one of the objectives of the Act was to prevent so far as possible control of great aggregations of capital through common directorships of banks and banking associations. He also stated that the courts, in construing the Clayton Act, had stressed repeatedly the fact that the purpose of the statute was to supplement the Sherman Antitrust Act and that it was intended to arrest monopolistic conditions in their incipiency.

Mr. Townsend then discussed in considerable detail the results of the investigation which was made at the request of the Board and which was just being completed, and expressed the opinion that there was ample evidence to establish the fact of an intention on the part of Transamerica to acquire enough of the banking resources in the area to an extent which would be not only in violation of the Clayton Act but of the Sherman Act as well. He stated that the investigation undertook to review the growth of Bank of Italy and its affiliated institutions which eventually grew into the Transamerica group, the methods followed in their expansion down to the present time, the relations of the various concerns in the group, and the extent to which the affiliated institutions and their banking resources appeared to be controlled by the group. In his opinion the investigation disclosed that there had been a continuous intention on the part of the management from 1903 up to the present time to encompass more and more banking resources and banking offices in the area and that their acquisitions had developed or were tending to develop into a monopoly.

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Chairman McCabe raised the question whether the matter should be placed before the Attorney General before further action was taken by the Board. In the discussion of this point, reference was made to the fact that last October when the Board directed that the Legal Division undertake an investigation, letters were sent to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General advising them that the investigation was being undertaken, that they were aware, therefore, of what the Board was doing, and that the Board had no obligation to clear its actions under the Clayton Act with the Department of Justice.

Mr. Vardaman suggested that if the Board should decide to institute a proceeding against Transamerica it might tell the Department of Justice of that decision. Mr. Townsend responded that there were a number of procedural questions that should be decided by the Board and that if the proceeding were instituted it would take approximately 30 days to prepare the necessary papers during which time the Board could advise the Attorney General that it had decided to institute the proceeding.

After some further discussion, Mr. Clayton moved that the Board, having considered the report made by Mr. Townsend with respect to the results of the investigation conducted by the Legal Division pursuant to the request of the Board on October 31, 1947, direct that a proceeding be instituted against Transamerica under the Clayton Act and that Counsel be directed to prepare

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and submit to the Board for action the necessary papers in connection with the institution of the proceedings.

There was a discussion of the responsibility of the Board to take action in the matter and Mr. Vest expressed the opinion that there was no question about the Board's responsibility under the Clayton Act, but that it should be kept in mind that if the proceedings were instituted the Board should be prepared to have the case carried through to the Supreme Court of the United States for final decision, which might involve a period of as much as two, three, or more years.

Mr. Townsend stated that, in accordance with a letter of November 28, 1947, addressed to the Board by the Comptroller of the Currency, that office was withholding action on a number of applications from banks in the Transamerica group to convert existing banks into branches and that the Board was under obligation to determine as promptly as possible what action it would take. He also stated that it would be his suggestion that, if the Board decided to institute a proceeding, Mr. Clayton and he meet with the Comptroller of the Currency and such members of the Comptroller's staff as the latter might wish for the purpose of bringing them up to date on the entire matter and soliciting their cooperation.

There was a discussion, in response to inquiries from Chairman McCabe, as to what extent, if any, the matter should be discussed with the Attorney General and the Comptroller of the Currency

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before action was taken by the Board and the weight of opinion of the members was that further discussion with the Department of Justice was not necessary.

Mr. Townsend stated that it would be his recommendation that if the Board acts to institute the proceeding it might address confidential letters to the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation advising them of the Board's decision.

At the conclusion of the discussion, Mr. Clayton's motion was put by the Chair and carried by unanimous vote with the understanding that letters of advice of the Board's action, in a form satisfactory to Messrs. McCabe and Clayton, would be sent to the Attorney General, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation.

Mr. Townsend stated that there were a number of procedural questions which should be considered by the Board in connection with the proceeding and, upon motion by Mr. Eccles, it was voted unanimously to request Messrs. Evans and Clayton, in consultation with Mr. Townsend, to make a recommendation to the Board as to the action to be taken on these questions.

It was past the lunch hour when the discussion of the Trans-america matter was concluded and it was agreed that a meeting of the Board would be held tomorrow morning at 10:30 for the purpose of discussing further the question of action by the Board to increase reserve requirements of member banks in central reserve cities.

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At this point Messrs. Riefler, Smead, Thomas, Vest, Townsend, Horbett, Millard, Chase, Shay, Thompson, Hurley, and Bopp withdrew from the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 25, 1948, were approved unanimously.

Memorandum dated May 14, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective May 30, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Ethelyn M. Palmer	Stenographer	\$2,243.52	\$2,394.00
Gertrude E. Trivett	Stenographer	2,243.52	2,318.76
Pearl Mae Saieed	Clerk-Stenographer	2,168.28	2,318.76
Dorothy L. Saunders	Stenographer	2,168.28	2,394.00
Louise D. Snowdon	Stenographer	2,168.28	2,394.00

Approved unanimously.

Memorandum dated May 25, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Edith Comer, a page in that Division, be accepted to be effective, in accordance with her request, at the close of business June 16, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

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Approved unanimously.

Harper
Secretary.

Approved:

Thomas B. W. Cole
Chairman.