

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 23, 1948.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Draper
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 20, 1948, were approved unanimously.

Telegram to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Your letter August 19, 1948, regarding service of Mr. John H. Wurts, Assistant Vice President of your Bank, as member of Planning Board of Township of Mahwah, New Jersey. It is understood that members of this Board consist of certain designated town officials and four residents appointed by chairman of Township Committee for purpose of considering and passing upon plans for development of Township, that position carries no fees, salary, or other compensation, involves no political affiliation or other obligation and would not interfere with work of Mr. Wurts at your Bank. On this basis, Board finds no reason to differ from views of your directors that service of Mr. Wurts as member of such Planning Board would be compatible with Board's resolution of 1915, regarding holding of political or public office by officers and directors of Federal Reserve Banks."

Approved unanimously.

Telegram to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

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"Relet August 16 Board extends to November 1, 1948, the time within which Empire State Bank of Dallas may accomplish membership."

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to the Board's letter dated January 27, 1948 in pursuance of which your bank has made a review of interlocking relationships in which the Board or your bank has heretofore taken the position that the organization involved was not affected by section 32 of the Banking Act of 1933 on the ground that the extent to which it was engaged in the types of business described in such section was not sufficient to make it primarily engaged in such business.

"The cases submitted by your bank in connection with this review have been given careful consideration and it appears, on the basis of the information which your bank has submitted that there are four cases in your district in which the statute may be applicable, as follows:

1. Mr. Albert M. Austin, as President and Director of The First National Bank of Sparkill, New York, and as a special partner in the firm of Francis I. duPont Co., New York, New York.
2. Mr. S. M. Brewer, as a Director of the First National Bank of Herkimer, Herkimer, New York, and as an employee in the Utica office of Carl M. Loeb, Rhoades & Co., New York, New York.
3. Mr. Robert W. Kean, as President and Director of Livingston National Bank, Livingston, New Jersey, and as partner of the firm of Kean, Taylor & Co., New York, New York.
4. Mr. Henry A. Colgate, as a Director of the Morristown Trust Company, Morristown, New Jersey, and as partner in the firm of Wood-Struthers & Co., New York, New York.

"In the case involving Mr. Austin, it appears that the firm of Francis I. duPont & Co. has been active in

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"the underwriting and distributing business during the past four years, its dollar volume of such business for the years 1944 to 1947, inclusive, being \$9,042,086; \$13,598,796; \$22,742,840; and \$20,475,877, respectively; that the percentage ratio of such dollar volume to the dollar volume of the firm's total business for the years in question was 3.559%; 3.178%; 4.815% and 5.787%, respectively; that the percentage ratio of such dollar volume to the dollar volume of all underwriting engaged in by all firms in the country was 0.49%, 0.35%, 0.53% and 0.46%, respectively; that the gross income of the firm from underwriting and distributing for the years in question was \$69,758, \$109,984, \$167,495, and \$171,157, respectively; and that the percentage ratio of such income to the firm's total gross income was 2.208%, 2.175%, 3.297% and 4.603%, respectively. It appears that in 1946 the firm participated as underwriter or distributor in 267 separate issues and in 125 separate issues during 1947. It also appears that, although in its advertisements the firm does not emphasize underwriting or distributing, it does hold itself out as being in the underwriting and distributing business and it does maintain a separate underwriting and distributing department.

"In Mr. Brewer's case, the information which your bank has submitted indicates that the firm of Carl M. Loeb, Rhoades & Co. has been active in the underwriting and distributing business during the past four years, its dollar volume of such business for the years 1944 to 1947, inclusive, being \$5,386,589, \$15,806,646, \$24,076,808, and \$13,095,143, respectively; that the percentage ratio of such dollar volume to the dollar volume of all underwriting in the country for the years in question was 0.29%, 0.41%, 0.56% and 0.29%, respectively; that the gross income of the firm from underwriting and distributing for the years in question was \$112,954, \$291,534, \$509,827, and \$262,593, respectively; and that the percentage ratio of such income to the firm's total gross income for the years in question was 2.5%, 4.3%, 6.7% and 5.3%, respectively. The firm participated as underwriter or distributor in 116 separate issues in 1944, 176 in 1945, 194 in 1946, and 112 in 1947. Moreover, the firm maintains a separate underwriting and

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"distributing department, it holds itself out as being in the underwriting and distributing business, and in its advertising it emphasizes its underwriting and distributing business.

"Kean, Taylor & Co., of which Mr. Robert W. Kean is a general partner, appears also to have been active in the underwriting and distributing business since during the past four years its dollar volume of such business was \$4,580,836, \$14,348,662, \$14,817,287, and \$11,213,934, respectively. The percentage ratio of such dollar volume to the firm's total gross business for the four years in question was 4.62%, 8.95%, 8.86% and 11.50%, respectively. The percentage ratio of such dollar volume to the dollar volume of all underwriting engaged in by all firms in the country for the years in question was 0.25%, 0.37%, 0.34% and 0.25%, respectively. The gross income of the firm from underwriting and distributing for the years in question was \$28,209; \$85,450; \$29,194; \$45,918, respectively, and the percentage ratio of such income to the firm's total income was 7.45%, 12.83%, 5.33% and 15.82%, respectively. The number of issues in which the firm participated as underwriter or distributor for the years in question were 49, 86, 101 and 68, respectively. Although the firm does not emphasize underwriting or distributing in its advertising and does not maintain a separate underwriting or distributing department, the firm does hold itself out as being in the underwriting and distributing business.

"In the case involving Mr. Colgate, it is stated that the firm of Wood-Struthers & Co. 'does not participate in underwriting -- with the exception of an occasional municipal issue -- but does join selling groups'. This is one of the classes of business described in section 32. The dollar volume of this type of business for the years 1944 to 1947 is stated to be \$9,730,000, \$17,940,000, \$15,100,000 and \$28,400,000, respectively; the percentage ratio of such dollar volume to the dollar volume of all underwriting in the country for the years in question was 0.52%, 0.47%, 0.35% and 0.63%; its gross income from this business for the years in question is stated to

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"be \$64,400; \$151,500; \$192,300, and \$160,000, respectively, and that the percentage ratio of such income to the firm's total gross income for the years in question is 8%, 17%, 30% and 23%, respectively. The firm holds itself out as being in the distributing business.

"On the basis of the information which your bank has submitted and particularly the facts stated above, it appears that the firms mentioned above may be 'primarily engaged' in the types of business described in section 32. It will be appreciated if your bank will advise the individuals concerned of the Board's tentative views with respect to their particular interlocking relationships, and advise them also that before the Board expresses a definite opinion in the matter it will afford each of them an opportunity to present any additional information to your bank for transmission to and consideration by the Board of Governors. In the event any of the individuals do not wish to pursue the matter further, you may suggest to them that they take such steps as may be necessary to bring their interlocking relationships into conformity with the statute.

"There are three situations in your district which it is felt should be reviewed by your bank as soon after the end of this calendar year as the pertinent information may become available. These firms are Shearson, Hammill & Co., Stillman, Maynard & Co., and A. M. Kidder & Co. It will be noted that the dollar volume of underwriting of each of these firms averages between \$4,000,000 and \$5,000,000 a year and in the case of Stillman, Maynard & Co. and A. M. Kidder & Co. the percentage of income from this business averages 7% and 8% a year, respectively. It will be appreciated, therefore, if your bank will review these cases as indicated above and submit the information to the Board.

"On the basis of the information submitted by your bank on the other firms in your district, it appears that none of them fall within the prohibitions of section 32 at this time."

Approved unanimously.

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Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to the Board's letter dated January 27, 1948, in pursuance of which your bank has made a review of interlocking relationships in which the Board or your bank has heretofore taken the position that the organization involved was not affected by Section 32 of the Banking Act of 1933 on the ground that the extent to which it was engaged in the types of business described in such section was not sufficient to make it primarily engaged in such business.

"Of the four cases which your bank has reviewed, you were advised in the Board's letter of April 22, 1948 that the statute did not apply at the present time to Mr. E. Webster Harrison as partner of Harrison & Company, Cincinnati, Ohio, and Mr. Ceylon E. Hudson, Wooster, Ohio, and it appears also that the statute is not applicable at this time to the services of Mr. Robert Patterson as President of Greene & Brock, Dayton, Ohio, and as Director of The Peoples Bank of Dayton, Dayton, Ohio.

"However, the information which your bank has submitted on the firm of Westheimer & Company, Cincinnati, Ohio, is not complete enough to base a definite conclusion as to whether this firm is primarily engaged in the business described in Section 32. In this connection, it is noted that during the past three calendar years the firm's dollar volume of underwriting and distributing has averaged over \$1,000,000 a year, but the information which your bank submitted did not include the gross income of the firm from underwriting and distributing and the percentage ratio of income from underwriting and distributing to total gross income of the firm. It will be appreciated, therefore, if your bank will make another effort either through correspondence or consultation to obtain this information if at all possible and submit it to the Board."

Approved unanimously.

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Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to the Board's letter of January 27, 1948, pursuant to which your Bank reviewed the interlocking relationships under Section 32 of the Banking Act of 1933 in which the Board or your Bank has heretofore taken the position that the organization involved was not affected by the statute on the ground that the extent to which it was engaged in the types of business described in such section was not sufficient to make it primarily engaged in such business. On the basis of the information contained in your letter of May 7, 1948, and enclosures, it appears that the firm of Strauss & Blosser, Chicago, Illinois, may be primarily engaged in the types of business described in Section 32. Mr. L. A. O'Donnell is the local representative of this firm in Gary, Indiana, and director of the Gary Trust and Savings Bank, Gary, Indiana.

"It appears that the dollar volume of underwriting and distributing engaged in by Strauss & Blosser for the years 1945 to 1947, inclusive, was \$3,663,598, \$5,777,489 and \$4,228,469, respectively; and that the percentage ratio of the dollar volume of this business to the dollar volume of the firm's total business was 9.4%, 13.1%, and 16.7%, respectively. That the gross income from underwriting was \$293,202 or 38.74% of its total gross income for 1945; \$358,226 or 39.75% of its total gross income for 1946; and \$418,220 or 61.72% of its total gross income for 1947. The firm maintains a separate underwriting department, holds itself out as being in the underwriting business, and in its advertising emphasizes its underwriting and distributing business.

"On the basis of the information which your bank has submitted and particularly the facts stated above, it appears that the firm of Strauss & Blosser may be 'primarily engaged' in the types of business described in Section 32. It will be appreciated if your bank will advise Mr. O'Donnell of the Board's tentative views with respect to his interlocking relationship, and advise him also that before the Board expresses a

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"definite opinion in the matter it will afford him an opportunity to present any additional information to your bank for transmission to and consideration by the Board of Governors. In the event Mr. O'Donnell does not wish to pursue the matter further, you may suggest that he take such steps as may be necessary to bring his interlocking relationship into conformity with the statute.

"In the case involving Illinois Securities Co., Joliet, Illinois, it appears that the dollar volume of the underwriting and distributing of this firm for the years 1944 to 1947, inclusive, was \$500,000, \$75,000, \$250,000 and \$470,000, respectively; and the percentage ratio of the dollar volume of its underwriting business to the dollar volume of the firm's total business was 19%, 4%, 10% and 18% for each of the four years respectively. The gross income from underwriting and distributing was \$17,500 or 16% of its total gross income for 1944; \$3,750 or 4% of its total gross income for 1945; \$12,500 or 7% of its total gross income for 1946, and \$20,275 or 14% of its total gross income for 1947. It is also noted that this firm is the largest firm of its kind in Joliet. It is felt that this information is not sufficiently conclusive to enable the Board to express an opinion at this time. It is suggested therefore that your bank review the underwriting activities of this firm for the calendar year 1948 as soon as the pertinent information may become available after the end of this year and submit such information to the Board. If you wish you may advise Mr. Peyla, whose interlocking relationship is involved, that the Board is not in a position to express an opinion with respect to his interlocking relationship at this time."

Approved unanimously.

Letters to the Honorable Preston Delano, Comptroller of the Currency, prepared in accordance with the action taken by the Board on August 20, 1948, and reading as follows:

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"Governor Szymczak has told the Board of his recent conversation with you on the subject of branches of Bank of America N. T. & S. A. and of other national banks in the Transamerica group. In the conversation Governor Szymczak promised that the Board would write you regarding its position and its interest in this matter.

"The Board believes that the approval of the establishment of domestic branches by any of the banks of the Transamerica group, regardless of whether such branches are new offices or result from the conversion of existing banks into branches, may be considered incompatible with the proceeding which the Board has instituted against Transamerica Corporation under section 11 of the Clayton Act. Broadly stated, the issue involved in that proceeding is the legality of the expansion of the Transamerica banking group in the West Coast area. Until that issue is decided, the Board feels that it is inconsistent for any Federal agency to approve further expansion of the group in that area by any method.

"Accordingly the Board, while fully mindful of your discretionary authority, urges that pending the conclusion of the Clayton Act proceeding you withhold approval of the establishment of any de novo branches by national banks in the Transamerica group, as we understand you have been doing with respect to applications for the establishment of branches resulting from the conversion of existing banks.

"In the conversation with Governor Szymczak you referred to the matter of foreign branches of Bank of America N. T. & S. A. The Board believes that there is a marked distinction between foreign and domestic branches insofar as the question of monopolistic banking conditions in the West Coast area of this country is concerned.

"The Board regrets that there has been any misunderstanding of its position with respect to the establishment of branches by banks in the Transamerica group, and hopes, in the interest of greater effectiveness of Federal authority in the banking field, that agreement can be had in these matters.

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"Since the Transamerica group includes insured nonmember banks, the Board is conveying its views in this matter to the Chairman of the Federal Deposit Insurance Corporation."

"In your recent conversations with Governor Szymczak, regarding the establishment of branches by banks in the Transamerica group there appeared to be a difference of view as to the present status of the policy agreed upon in February 1942 by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board regarding expansion of that group.

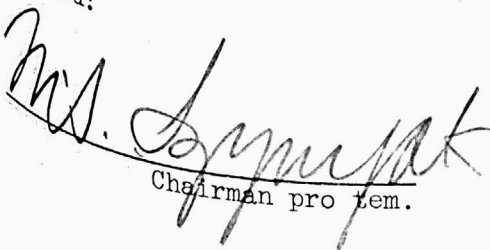
"In the conversations, it appeared that your office had assumed that the understanding had been terminated and that the Board was of the same view. While the Board has been aware of the fact that the establishment of branches by banks in the Transamerica group has been approved in some instances, the Board has considered itself bound by the understanding and will continue to act in accordance with its terms until such time as it may be terminated or modified after consultation among the three agencies.

"We are writing this letter to obviate any possible misunderstanding as to the Board's position in this matter."

Approved unanimously, with the understanding that copies of the letters would be sent to the Honorable Maple T. Harl, Chairman of the Federal Deposit Insurance Corporation.


Secretary.

Approved:


Chairman pro tem.