

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 1, 1948.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser

Memorandum dated August 31, 1948, from Mr. Carpenter recommending that the resignation of Miss E. Katharine Meiser, Secretary to Mr. Hammond, be accepted to be effective, in accordance with her request, at the close of business September 10, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

Approved unanimously.

Memorandum dated August 31, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Ruth M. Williams, a stenographer in that Division, be accepted to be effective, in accordance with her request at the close of business August 27, 1948, with the understanding that she would reimburse the Board for overdrawn annual and sick leave.

Approved unanimously.

Memorandum dated August 31, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Luis F. Banos, a clerk in that Division, be accepted

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 to be effective at 12:15 p.m. August 31, 1948, with the understanding that a lump sum payment would be made for annual leave remaining to his credit as of that date.

Approved unanimously.

Letter to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"This refers to your letter of June 14, 1948, stating that Staunton Industrial Loan Corporation, Staunton, Virginia, wishes to apply for membership in the Federal Reserve System if it is eligible, and requesting a ruling by the Board with respect to the eligibility of this institution.

"Staunton Industrial Loan Corporation is a corporation organized under the general laws of the State of Virginia relating to industrial loan associations. As such, it is authorized to conduct a general instalment loan business and to sell certificates of investment or similar obligations on a full or partial payment system. From the information submitted with your letter, it appears that the institution has approximately \$3,500,000 of certificates of investment outstanding; that all but a relatively small amount of the certificates are partial payment certificates in passbook form; that the institution customarily accepts funds from the general public in any amount; that, while the right to require sixty days' notice is reserved, withdrawals from passbook accounts are permitted at any time; and that, since the institution has approximately 2,100 investment certificate accounts, payments and withdrawals by its customers are reasonably frequent. The institution's loans total approximately \$3,450,000, with about two-thirds being real estate loans and the remainder being divided about equally between personal instalment loans and miscellaneous business loans.

"While industrial loan associations, like various other types of financial institutions, are subject to examination and supervision in Virginia by the same State authorities as banks, the statutes of that State draw a marked distinction between banks and industrial loan associations and the laws governing the two types of institutions are quite different. Under its charter

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"and the applicable State laws, Staunton Industrial Loan Corporation is not authorized to receive deposits or to engage in the banking business and it is forbidden to use in its title or otherwise in its business any other words indicating that it is engaged in the banking business.

"Section 9 of the Federal Reserve Act provides that any bank organized under the general laws of any State, including Morris Plan banks and other incorporated banking institutions engaged in similar business, may apply for membership in the Federal Reserve System. In exercising its discretion to approve or disapprove such an application, the Board is required to consider, among other factors, whether or not the corporate powers exercised by the applying bank are consistent with the purposes of the Federal Reserve Act.

"Since Staunton Industrial Loan Corporation is not an insured bank, it is necessary to give special consideration to the provisions of section 12B of the Federal Reserve Act. The law clearly contemplates that no State institution shall be admitted to membership in the Federal Reserve System unless it is a State bank within the meaning of section 12B and, therefore, will become an insured bank upon its admission to membership. Further, upon admitting an uninsured State bank to membership, the Board is required by section 12B to certify to the Federal Deposit Insurance Corporation that it has considered, among other factors, whether or not the applying bank's corporate powers are consistent with the purposes of that section.

"Section 12B provides for the insurance of 'deposits', not 'investments' or 'certificates of investment'. It provides that, for the purposes of that section, the term 'State bank' shall mean 'any bank, banking association, trust company, or other banking institution which is engaged in the business of receiving deposits and which is incorporated under the laws of any State \* \* \*. The term 'deposit' is defined as 'the unpaid balance of money or its equivalent received by a bank in the usual course of business and for which it has given or is obligated to give credit to a commercial, checking, savings, time or thrift account, or which is evidenced by its certificate of deposit, \* \* \* together with such other obligations of a bank as the board of directors [of the Federal Deposit Insurance Corporation] shall find and shall prescribe by its regulations to be deposit liabilities by general usage \* \* \*'. The regulations of the Federal Deposit

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"Insurance Corporation do not include 'certificates of investment' in the list of other obligations which shall be regarded as 'deposits'. It is also pertinent that, under section 12B and the regulations of the Federal Deposit Insurance Corporation, an insured bank must display office signs stating that its 'deposits' are insured.

"It would appear that, in view of the manner in which its business actually is conducted, Staunton Industrial Loan Corporation might be considered to be engaged in receiving deposits, and to be a bank, for some purposes (see Staunton Industrial Loan Corporation v. Commissioner of Internal Revenue, 120 F. (2d) 930, holding that it was a bank within the meaning of a Federal tax statute.) However, the fact remains that the institution has no authority to receive deposits as such; and it is not incorporated and doing business as a bank under State law and is not permitted to represent that it is engaged in the banking business. It is questionable, at least, whether it would be consistent with State law for the institution to become an insured bank and to represent to the public through office signs and advertisements that its 'deposits' are insured. The Virginia statutes at one time authorized industrial loan associations to amend their charters to become banks of discount and deposit or trust companies, but this institution did not elect to take such action. As it now operates, the institution appears to exercise, in substance, some of the privileges of a bank, without subjecting itself to the duties, limitations, and restrictions imposed upon banks by State law. Moreover, while its business now resembles that of a savings bank, the institution under its present corporate powers could operate in such a manner that it clearly would not be engaged in deposit banking.

"In the circumstances, there is such doubt whether Staunton Industrial Loan Corporation is the type of institution for which deposit insurance was intended and whether its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act, that it is believed that the Board should not give favorable consideration to an application by Staunton Industrial Loan Corporation for membership in the Federal Reserve System."

Approved unanimously.

Letter to Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

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"Reference is made to your letter, received August 18, 1948, submitting the request of the Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, for approval of the establishment of a branch in Clinton, Mississippi, in connection with the proposed absorption through merger of the Bank of Clinton, Clinton, Mississippi.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Clinton, Mississippi, by the Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, provided its merger with the Bank of Clinton is effected substantially as proposed. It is noted that 250 shares of new common stock (par value \$100 per share) will be issued on a 3 for 1 basis, 200 of which (value \$60,000) will go to the shareholders of the Bank of Clinton in exchange for its common stock and the remaining 50 shares will be sold for cash (\$15,000). Since the common stock of the Bank of Clinton has a book value of substantially less than the exchange value, appropriate adjustment should be made on the bank's books when the plan is consummated. The Board's approval is given with the distinct understanding that there will be no write-up in book values of assets to be acquired from the Bank of Clinton, and with the understanding also that counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to effect the merger and establish the branch."

Approved unanimously.

Telegram to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Board is prepared to grant Wendell National Bank, Wendell, Idaho, the restricted fiduciary authority applied for upon receipt of advice that bank has increased its capital stock to \$50,000 under a plan involving the introduction of at least \$25,000 in new money into its capital structure, and upon receipt of a formal application, duly executed, together with a favorable opinion of the reserve bank's counsel."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

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"This refers to your letter of August 11, 1948, enclosing a copy of a letter received by you under date of August 9, 1948, from Mr. Keehn W. Berry, President, Whitney National Bank, New Orleans, Louisiana, regarding the applicability of the Board's Regulation Q to the absorption by member banks of the costs of shipping currency and to the private wire system recently inaugurated by the Bankers Trust Company of New York.

"The Board has not ruled upon the question whether either of the practices mentioned by Mr. Berry involves a payment of interest in violation of the law. As you know, it has been the Board's general policy for a number of years not to attempt to pass upon questions as to what constitutes a payment of interest on demand deposits under the law and under Regulation Q except after a consideration of all the facts and circumstances of the particular case as developed in the course of examination of the member bank involved. Experience has demonstrated that this is the most practical method of dealing with questions of this kind and it is believed also that this policy is in the interests of the member banks themselves. While both of the practices referred to in Mr. Berry's letter have come to the attention of the Board and while it is possible that such practices in certain circumstances may lead to undesirable methods of competition between banks, the question of the desirability of the practices is entirely distinct from the question of their legality; and, as above indicated, the Board has not had occasion to pass upon the question of their legality under Regulation Q.

"Mr. Berry's letter refers to the fact that the Federal Reserve Banks themselves absorb costs of currency shipments. In this connection, it might be pointed out that the Federal Reserve Banks are agencies created by Congress for public purposes and that the providing of free currency shipments for their member banks is simply one of the services performed by the Reserve Banks in the public interest. One of the principal effects of this free service is to provide member banks not located in Federal Reserve Bank cities with the same facilities and benefits of the Federal Reserve System in this respect as are enjoyed by member banks which happen to be located in such cities.

"It is suggested that a reply to Mr. Berry's letter along the lines indicated above might serve to explain the position of the Board with respect to the questions which he presents.

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"For your own information, if you have not already seen them, there are enclosed copies of letters addressed by the Board to Mr. Chester C. Davis, President of the Federal Reserve Bank of St. Louis, under dates of January 30 and February 12, 1947, regarding the absorption by member banks of the costs of shipments of currency."

Approved unanimously.

Telegrams to Mr. George A. Cohan, Used Car Statistical Bureau, Inc., 95 Massachusetts Avenue, Boston, Massachusetts; Mr. C. A. Leukhart, General Manager, National Used Car Market Report, Inc., 1315 South Michigan Avenue, Chicago 5, Illinois; Mr. W. C. Nesbitt, American Auto Appraisal, 194 Grove Avenue, Detroit, Michigan; and Mr. Leslie Kelly, President, Kelley Blue Book, 1221 South Figueroa Street, Los Angeles, California, reading as follows:

"Regulation W, as issued effective September 20, 1948, in Part 4 of the Supplement includes a provision with respect to automobile appraisal guides.

"The Board is considering the designation of guides for this purpose. In this connection it desires to obtain the information set forth below, to bring up to date the material already in the Board's files.

"1. The dates on which issues are planned during the remainder of 1948 and the first half of 1949, and the periods for which each issue is to be effective.

"2. A complete description of the method by which your organization arrives at the 'retail' quotations.

"3. The model years to be covered by the issues to be distributed in 1948.

"It would be appreciated if this information were wired to the Board as soon as possible."

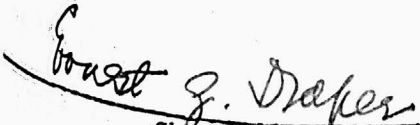
Approved unanimously, together with similar telegrams to Mr. T. R. Leonard, Northwest Publishing Company, 90 University Street, Seattle 1, Washington, and Mr. S. F. D. Meffley, Special Representative, Recording and Statistical Corporation,

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222 West Adams Street, Chicago 6, Illinois.

  
Secretary.

Approved:

  
Chairman pro tem.