

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Saturday, April 15, 1950. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Millard, Director, Division
of Examinations
Mr. Baumann, Assistant General Counsel
Mr. Hostrup, Assistant Director,
Division of Examinations

Mr. Vardaman requested that it be stated in these minutes that this was a special meeting called after 5 o'clock Friday and, because of his absence from the city, he was not able to be present.

Chairman McCabe stated that in accordance with the understanding at the meeting yesterday he and Mr. Vest attended a meeting in Senator Robertson's office at 3 o'clock that afternoon at which there was presented a draft of a proposed bank holding company bill which had been prepared in the office of the Comptroller of the Currency after consultation with representatives of the American Bankers Association and the principal bank holding company groups. Others in attendance at the meeting, he said, included in addition to Senator Robertson, Mr. Talman, Staff Assistant to Senator Robertson, Deputy Comptroller of the Currency Robertson, (who

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apparently had written the draft of bill to be considered), Mr. Hexter of the Comptroller's Office, and Mr. Cook, Director, and three staff representatives of the Federal Deposit Insurance Corporation.

Chairman McCabe stated that, after checking yesterday with the other members of the Board who were available, he had asked that the Board meet this morning because Senator Robertson had stated during the meeting yesterday that he planned to discuss the substitute bill with Senator Maybank Monday morning, April 17, and, if satisfactory to him, submit it immediately to the subcommittee of the Banking and Currency Committee on Federal Reserve matters with a view to reporting it promptly to the full Senate Banking and Currency Committee, and that if Chairman McCabe wished to make any comments with respect to the bill they should be sent to him (Senator Robertson) before 10 o'clock on Monday the 17th. Chairman McCabe added that Mr. Evans had been notified by telephone of this development and that he and Mr. Townsend, Solicitor, were coming to Washington to participate in the discussions and were expected to arrive at 1:30 this afternoon.

At Chairman McCabe's request, Mr. Vest then reviewed the general provisions of the proposed bill discussed in Senator Robertson's office, stating that it did not repeal, modify, or change in any way the provisions of existing law relating to holding company affiliates and that the proposed new bill would be

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superimposed upon the existing law. Mr. Vest stated that the draft would define a bank holding company in much the same way as the term "holding company affiliate" is defined in existing law except that it would apply to the ownership or control of insured banks instead of merely member banks. Thus, a company would be a holding company if it owned or controlled 50 per cent of the shares of a bank or 50 per cent of the shares voted in the last election of directors, or controlled in any manner the election of a majority of directors. A company which, under this definition, was a holding company on April 15, 1950, or thereafter would always be a holding company, and so long as it owned or controlled more than 5 per cent of the shares of any insured bank would be subject to the restrictions of the bill. A bank holding company would be prohibited from acquiring the shares of any bank except with the approval of (a) the Board if the bank to be acquired was a State member bank (b) the Comptroller of the Currency if the bank to be acquired was a national bank or (c) the Federal Deposit Insurance Corporation in the case of any other bank. A bank holding company would be prohibited after 5 years from the date of the law from holding stock in any non-banking corporations, except those engaged in a safe deposit or a fiduciary business, and from holding any obligations except investment securities which national banks are permitted to purchase under the National Bank Act; but these provisions would not apply to bank holding

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companies which themselves were banks. No bank holding company could acquire any shares of a State bank if that would be contrary to State law. In passing upon requests for bank holding companies to purchase shares in banks, Mr. Vest said, the bill would provide standards which the appropriate Federal supervisory agency would be required to take into consideration including the financial status of the bank, adequacy of capital, earnings prospect, character of management, needs of the community, and whether or not the corporate powers were consistent with the law relating to insurance of deposits. It would also be required to take into account the policy of Congress "in favor of local ownership and control of banks and competition in the field of banking and in opposition to excessive concentration of power in the field of banking through undue expansion of multiple-office banking systems". These factors would have to be taken into consideration also by a Federal supervisory agency in considering applications for branches. The bill would provide no sanction or provision for enforcement except criminal penalties. Mr. Vest also stated that the bill presented by Senator Robertson contained restrictions upon the acquisition by a bank holding company system of more than 25 per cent of the deposits or banking offices in a Federal Reserve district and upon the acquisition of shares in banks in other Federal Reserve districts, but that it was understood these provisions were to be omitted from the bill.

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In commenting on the revised draft of bill, Mr. Vest stated that while it was much less satisfactory as a means of accomplishing the objectives which the Board had in mind than the bill, S. 2318, on which hearings were recently completed, it was his opinion that with appropriate amendments the proposed bill could be made to accomplish the major objectives which the Board had sought in holding company legislation recommended to Congress in recent years.

There was a general discussion of the provisions of the bill proposed by Senator Robertson and of what if any comments might be given to him by 10 o'clock on Monday morning.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the close of the morning session except that Mr. Evans and Mr. Townsend, Solicitor, were also present.

Discussion of the proposed revised holding company bill was resumed. In the course of the discussion, it was pointed out that the proposed bill failed to provide adequate regulation of bank holding companies and it was the consensus that while the form of the legislation might be changed, any bill to which the Board might give its approval should accomplish the objectives which the Board had had in mind in its study of the matter over a period of years. Various alternative procedures were discussed, one of which was a suggestion that a letter be sent to Senator Robertson by 10 o'clock Monday morning commenting upon the proposed

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bill and stating that the Board would be glad to study the matter further with a view to submitting specific suggestions if the subcommittee of the Banking and Currency Committee desired to receive them.

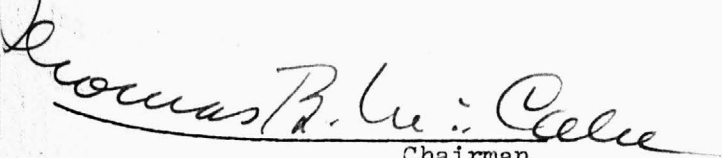
This suggestion was discussed and it was agreed unanimously that the staff would prepare a draft letter to Senator Robertson along the lines suggested which would be considered at a meeting to be held tomorrow afternoon at 2 p.m.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 13, 1950, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 14, 1950, were approved and the actions recorded therein were ratified unanimously.


Secretary.

Approved:


Chairman.