

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Sunday, April 16, 1950. The Board met in the Board Room at 2:00 p.m.

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

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. Townsend, Solicitor
 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 yesterday afternoon and, because of his absence from the city, he was not able to be present.

Pursuant to the understanding at the meeting yesterday, there was presented a draft of letter prepared for Chairman McCabe's signature to Senator Robertson, Chairman of the Senate Banking and Currency Subcommittee on Federal Reserve matters, with respect to the proposed holding company bill, a copy of which he had given to Chairman McCabe at a meeting held in his office on Friday afternoon, April 14, 1950.

The draft was read, changed, and approved unanimously in the following form:

"At the meeting in your office last Friday afternoon, April 14, attended by representatives of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board, you distributed copies of the

4/16/50

-2-

"draft of the proposed new bank holding company bill which we understand had been prepared in the office of the Comptroller of the Currency, after consultation with representatives of some banking groups, as a substitute for S. 2318. As you know, representatives of the Board had had no previous opportunity to see the proposed substitute and at the meeting we could only give our quick reactions on the basis of a hasty reading of the revised draft. In response to my request, you stated that you would receive suggestions as to changes in the revised draft that the Board might submit to you before 10 a.m. on Monday, April 17. We met over the week end in order to give very hasty consideration to the many important questions presented by the substitute draft. As you can imagine we could not fully appraise all of the provisions of the bill in the limited time available and, therefore, the comments hereafter made with respect to the draft are only preliminary observations.

"As you know, the Board has had primary statutory responsibility for the administration of the present bank holding company law for some seventeen years. It has repeatedly recommended revision of the present inadequate law and at different times has submitted proposed corrective legislation. In 1947, your Committee favorably reported a bill prepared by the Board on this subject. Following consideration of this matter in the last Congress, we conferred over a period of eighteen months with various groups interested in this matter and as a result of those discussions formulated a bill, S. 2318, which took into account, so far as the Board felt it was practicable to do so, the various divergent views expressed. This resulted in the incorporation in S. 2318 of various provisions intended to meet objections of those affected by the bill where this could be done without sacrifice of the principles involved.

"We can fully appreciate your desire to have a shorter and simpler bill as indicated in the revised draft. However, it does constitute an entirely new approach to the subject which cannot be adequately appraised over a single week end.

"Although the provisions of the revised bill appear on their face to be relatively easy of interpretation, upon consideration they seem to us to raise numerous important questions as to the effectiveness of the legislation. Since we understand that it is your desire

4/16/50

-3-

"to take this matter up with Senator Maybank and probably with your Subcommittee on Monday, April 17, and it is not your intention to hold further hearings, we can, in the short time available, only mention some of the problems raised by this entirely new approach.

"One of the principal objectives of legislation to regulate bank holding companies is to correct the grossly inadequate provisions of the present law and be prepared to meet the exigencies of situations that we may be called upon to meet in the future.

"The definition of 'bank holding company' contained in the bill is patterned in part at least after the corresponding definition in existing law, which has proven so unsatisfactory. As we have previously indicated, we feel that there should be some administrative method of determining what is a bank holding company in doubtful cases, but even if this is not to be done, a percentage substantially less than the 50 per cent now prescribed in the definition is necessary to effective legislation.

"A related point is the omission in the bill of any authority in an administering agency to make investigations in order to determine what institutions may or may not be bank holding companies within the meaning of the definition prescribed and therefore subject to the restrictions imposed by the legislation. Without such authority to make investigations institutions which should be regulated may be able to avoid the law entirely.

"Expansion and tendencies toward monopoly can be attained not only by the purchase of shares of banks by the bank holding company but also by the acquisition of assets of other banking institutions by banks in the holding company group. The revised draft, however, contains no provision which would restrict or limit expansion by the latter means.

"Although existing law authorizes examinations of bank holding companies where member banks are involved, the revised draft contains no provisions with respect to examinations. Accordingly, a holding company which owns or controls only nonmember banks would not be subject to examination by any Federal agency. This is only one example of the lack of correlation between this bill and the existing law, which we have found inadequate in many other respects as well.

"Under the revised draft, a bank holding company

4/16/50

-4-

"may purchase the stock of banks only with the consent of the Comptroller of the Currency, the Board, or the Federal Deposit Insurance Corporation, depending upon whether the bank to be acquired is a national bank, a State member bank or a nonmember bank. This diffusion of authority, we believe, for reasons which we have previously stated, is impracticable, will lead to conflicting policies, and will hamper effective administration of the law.

"The above are merely illustrations of the questions which are presented by some of the provisions and omissions of the revised draft, and do not purport to cover all of the questions involved. The Board does not mean to imply that we believe that S. 2318 is the only form that constructive legislation might take. Our objective like yours is to obtain constructive antimonopoly legislation that will be effective to protect local ownership of banks and to preserve competition in the field of banking, and we will welcome any legislative approach which will accomplish this end.

"The Board is making a study of the new revised draft and will make the results of the study available to your Subcommittee or to the full Senate Banking and Currency Committee, if desired. The Board wishes to cooperate with you in every way possible in your endeavor to bring about effective legislation on this subject.

"We will appreciate it if you will convey the contents of this letter to your Subcommittee."

There was an informal discussion of the possible approval of applications pending in the Office of the Comptroller from Bank of America, National Savings and Trust Association, to convert to branches twenty-two of the banks, the controlling stock of which is owned by Transamerica Corporation, and of the effects such action by the Comptroller might have. It appeared from reports appearing in the press today that such approval by the Comptroller of the Currency might have already been given.

4/16/50

-5-

The conclusion was reached by unanimous vote that it would be advisable for Chairman McCabe to discuss the matter with the Attorney General, and it was understood that the Chairman would be authorized to use such information in the Board's files as in his judgment was necessary to make a full presentation of the matter to the Attorney General.

Reference was then made to the discussion at the meeting on Tuesday, April 11, 1950, with respect to the action of Mr. Towle, Vice President of the Federal Reserve Bank of Minneapolis in charge of the Helena Branch, in connection with the misappropriation of funds by Mr. Larson, a former officer of that branch, and to the understanding that a draft of memorandum would be prepared for Chairman McCabe's use in discussing the matter with Chairman Shepard of the Minneapolis Bank by telephone. Mr. Carpenter stated that the draft of memorandum had been sent to Mr. Szymczak as the senior member of the Personnel Committee and that Mr. Szymczak had suggested that it be taken up at a meeting.

Mr. Szymczak stated that, whereas the draft of memorandum presented two alternative courses which it stated would be satisfactory to the Board, one of which would permit Mr. Towle to continue as an officer of the Minneapolis Bank until the end of the present calendar year provided he agreed to make restitution to those who had suffered loss as a result of Mr. Larson's misconduct after Mr. Towle learned of Larson's embezzlement from the Prescott Company, he (Mr. Szymczak) felt that the Board should express the view that Mr. Towle should retire immediately since, if he were permitted to stay until the end of this

4/16/50

-6-

year it might only postpone a definite settlement.

There followed a discussion of alternative courses that might be followed, during which Chairman McCabe suggested that Mr. Szymczak ask Chairman Shepard to meet him when he was in Chicago during the coming week for the purpose of discussing with Mr. Shepard informally the views expressed by the Board after full consideration of the matter. This suggestion and the content of what Mr. Szymczak might say to Chairman Shepard were then discussed.

At the conclusion of the discussion, Chairman McCabe's suggestion was approved unanimously with the understanding that the Secretary would prepare a memorandum in the light of the discussion at this meeting for Mr. Szymczak's use in his meeting with Mr. Shepard.

Secretary's note: The memorandum prepared under date of April 17, 1950, for Mr. Szymczak's use read as follows:

"At the meeting of the Board yesterday, at which you were present, during a discussion of the Towle matter at the Helena Branch of the Federal Reserve Bank of Minneapolis, it was suggested that you ask Chairman Shepard of that Bank to meet you in Chicago when you were in that city later this week for the purpose of discussing with him informally the views expressed by the Board after full consideration of the matter. In your talk with Mr. Shepard, you would say substantially the following:

"Mr. Morrill informed the Board of recent telephone calls from Mr. Peyton during which the latter stated that arrangements were being made for a joint meeting of the head office and Helena Branch directors on April 28, 1950, to consider the available information and the action to be taken in the Towle matter. Mr. Peyton pointed out the very great concern of the Helena Branch directors as well as the

4/16/50

-7-

"head office directors in this matter, and urged that the Board send a committee of three of its members to attend the joint meeting. Mr. Millard reported to the Board the substance of the additional information gained during the recent trip in which he participated with Messrs. McConnell and Ueland for the purpose of making a complete investigation of the subject.

"The problem presented was discussed at length and the Board reached the conclusion that the additional information submitted at this time confirmed and strengthened the original impression of the Board, which had been communicated in its letter of March 8, 1950, to Mr. Powell, to the effect that Mr. Towle had failed to recognize and to discharge the important responsibility resting on him as an officer of the Minneapolis Bank. This statement related primarily to his nondisclosure of information regarding Mr. Larson's misappropriation of funds of the Prescott Company and it now appears that Mr. Towle was negligent and careless in other related matters which emphasize his failure to recognize his responsibility as an officer of your Bank.

"The Board gave full consideration to Mr. Peyton's suggestion but felt that, since the initial responsibility in respect to the disposition of this matter rests with the directors of the Federal Reserve Bank of Minneapolis, the participation by members of the Board in the forthcoming joint meeting would not be desirable or necessary.

"However, since a knowledge of the views of the Board may be of assistance to the directors in their consideration of the matter, I have been asked to say to you that, after reviewing all of the information which it is understood is also available to your directors, it continues to be the view of the Board that prompt action on the matter should be taken by the directors of the Bank.

"In the Board's discussion of what that action might be, two views were advanced: one was that in addition to censuring Mr. Towle, he should be requested or permitted to retire immediately. This was the strong inclination of the members of the Board but they were aware of the fact that the directors of the Minneapolis Bank face a difficult situation in view of Mr. Towle's length of service with the System (he was one of the original employees of the Minneapolis Bank), his popularity in Montana, and his approaching retirement age. In view of those circumstances, the alternative view was that Mr. Towle might

4/16/50

-8-

"serve out the remainder of his present appointment which will expire at the end of this calendar year but that he should not be continued as an officer of the Bank beyond that time. In advancing this as a possible alternative view, it was realized that such a course of action would not dispose of the matter promptly, that question might be raised at the end of the year as to why Mr. Towle should not continue to serve to retirement age of 65, and that the directors of the Minneapolis Bank might then have to deal with the matter again. For these reasons, if in the judgment of the Minneapolis directors it would be preferable, the Board would concur in their arranging for Mr. Towle's retirement at once.

"Regardless of whether Mr. Towle retired now or at the end of this year, it was the feeling of the members of the Board that he had a moral obligation to make restitution to those who may suffer loss as a result of Mr. Larson's misconduct after Mr. Towle became aware of the fact that Mr. Larson had embezzled funds from the Prescott Company.

"It was also the view of the members of the Board that, whether Mr. Towle retired immediately or served to the end of this year, no dismissal pay should be given him and no supplemental contribution should be made to the retirement system in his behalf, but that he would retire with the appropriate allowances under the existing regulations of the Retirement System.

"The Board would appreciate being advised promptly following the meeting of the directors on April 28 as to the action taken by the Minneapolis Board."

Mr. Carpenter referred to the tentative understanding at the meeting on April 11 that the Board would meet with delegations of unemployed being brought to Washington by the CIO Full Employment Committee, stating that he had been informed that it would meet the desires of the Committee if two groups could call upon the Board, one at 2:30 p.m. on Wednesday, April 19, and another at 2:30 p.m. on Wednesday, April 26, 1950.

It was understood that available members of the Board

4/16/50

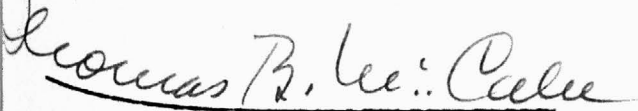
-9-

would meet with the delegations
at the times suggested.

Minutes of actions taken by the Board of Governors of the
Federal Reserve System on Saturday, April 15, 1950, were approved
unanimously.


Secretary.

Approved:


Chairman.