

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 17, 1951. The Board met in the Board Room at 9:05 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Norton  
 Mr. Powell

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Vest, General Counsel  
 Mr. Townsend, Solicitor  
 Mr. Sloan, Director, Division of  
 Examinations  
 Mr. Hostrup, Assistant Director, Division  
 of Examinations  
 Mr. Thompson, Federal Reserve Examiner,  
 Division of Examinations

Chairman Martin referred to the discussions at the meetings on December 6 and 14, 1951 regarding the application of Marine Midland Corporation, Jersey City, New Jersey, for a general voting permit covering the controlling stock of The National Chautauqua County Bank of Jamestown, Jamestown, New York, for the purpose of effecting a consolidation of that institution with the Union Trust Company of Jamestown, also a subsidiary of the Corporation, and to the decision at the latter meeting to postpone action on the application until a time when all of the members of the Board could be present. He stated that in

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accordance with the understanding at the December 14 meeting he discussed the matter with President Sproul, of the Federal Reserve Bank of New York, by telephone that afternoon and that he subsequently received a telegram from Mr. Sproul dated December 14, 1951, reading as follows:

"Quick review of situation in light of our telephone conversation this afternoon indicates that

(1) Our internal memorandum of April 1947 reveals that we indicated to Marine Midland that embarrassment might be avoided if it could give us ample notice of intention to acquire further banking institutions, particularly in certain areas, not including Jamestown

(2) Marine Midland did give us and Board what can be considered ample notice in late August or early September of this year in connection with Jamestown purchase

(3) While our recommendation with respect to application for voting permit in this case, as in other cases, does not refer to Clayton Act, our people did consider this aspect and were of the opinion that neither in the community nor the district would the acquisition of Jamestown Bank by Marine Midland transgress the Clayton Act

(4) Our opinion is that voting permit should be granted in this case with whatever admonition as to further acquisitions Board deems desirable in light of Clayton Act"

Chairman Martin went on to say that he had been advised that Mr. Pope had succeeded in postponing the meeting of the stockholders of The National Chautauqua County Bank, scheduled for today, until tomorrow, that Mr. Pope would call at the Board's offices today, and that if it should be decided not to authorize issuance of a general

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voting permit, Mr. Pope would appreciate an opportunity to present his views to the Board.

There followed a general discussion of the possible courses of action on the voting permit application and their consequences, during which Mr. Evans stated that in view of the opinions expressed in the memorandum dated December 13, 1951 from Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, and Mr. Shay, Assistant Counsel of the Board, copies of which he had distributed at the meeting on December 14, he would be compelled to vote against granting the voting permit. Mr. Evans also stated that if the Board should act favorably on the voting permit he would wish to talk to Mr. Pope and explain the reasons underlying the position he had taken.

The other members of the Board made statements indicating that they would favor authorizing the issuance of a general voting permit in this case, and several suggestions were advanced as to what advice, if any, should be given to Marine Midland Corporation to put the Corporation on notice that the issuance of the permit should not be construed as indicating any decision by the Board with respect to the application of the Clayton Act or related statutes to the Corporation.

There also was discussion whether Marine Midland Corporation had in fact given ample notice of its intention to purchase The National Chautauqua County Bank of Jamestown and the Syracuse Trust Company,



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Syracuse, New York, control of which the Corporation is now in process of acquiring. It was suggested that if any admonition were given to Marine Midland Corporation with respect to advance notice in the case of future acquisitions, the Presidents of all of the Federal Reserve Banks should be advised by letter of the nature of the admonition so that they could be prepared to discuss the matter with bank holding companies in their respective districts and advise them of the Board's position.

Chairman Martin then suggested that Mr. Evans talk with Mr. Pope when the latter visited the Board's offices this morning, advising Mr. Pope of his views in the matter, and that the staff in consultation with Mr. Evans draft a telegram to the Chairman of the Federal Reserve Bank of New York authorizing issuance of a general voting permit to Marine Midland Corporation covering its stock in The National Chautauqua County Bank of Jamestown and incorporating such statement as seemed appropriate for transmission by the Reserve Bank to the Corporation in the light of the discussion at this meeting. It was understood that the suggested procedure would be followed.

Mr. Vardaman renewed the suggestion which he made at the meeting on December 14, that the Board consider requesting Congress to grant it the power of subpoena in proceedings instituted under the Clayton Act. This suggestion was discussed briefly but was not approved.

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The meeting then recessed and reconvened at 10:55 a.m. with the same attendance as at the close of the earlier session except that Messrs. Powell and Thompson were not present.

In response to an inquiry by Chairman Martin, Mr. Evans said that he had talked with Mr. Pope and had explained to him the reasons why he felt obliged to vote against the issuance of the general voting permit to Marine Midland Corporation.

There was then presented a draft of telegram to Chairman Stevens, of the Federal Reserve Bank of New York, reading as follows:

"The Board authorizes the issuance of a general voting permit, under the provisions of section 5114 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter 'A', entitling such organization to vote the stock which it owns or controls of the bank named below after the letter 'B' at all meetings of shareholders of such bank, subject to the conditions stated below after the letter 'C'. The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947 (S-964).

"A. Marine Midland Corporation, Jersey City, New Jersey.

"B. The National Chautauqua County Bank of Jamestown, Jamestown, New York.

"C. Prior to the issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

"In advising Marine Midland Corporation of Board's action in this matter you are requested to advise the corporation that the Board has noted that the copy of the prospectus concerning the 4-1/4 per cent cumulative preferred stock,

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"which was made a part of the voting permit application, contains a statement on page 14 that, in the opinion of the management, the corporation would not be required to set aside any reserves of readily marketable assets until net earnings in any year exceeded approximately \$19,000,000. Such opinion was predicated on the premise that in computing book value of its own shares outstanding, investments in subsidiaries should be reflected at cost rather than net tangible asset values. The Board does not agree with the management's position, and is of the opinion that on the basis of the accounting and reporting procedures presently followed by the corporation, the book value of the corporation's own shares outstanding, within the meaning of section 514 of the Revised Statutes, is as reflected in the corporation's balance sheets included in reports to its shareholders and to the Board.

"Referring to informal discussions with Sproul and Pope, in advising corporation of issuance of permit please transmit following statement to corporation with the comment that it is transmitted at request of Board: 'In granting this permit, Board has not made and should not be deemed to have made any decision as to application of Clayton Anti-trust Act or any related statutes to Marine Midland Corporation. In view of the responsibility of the Board under various statutes you are requested to advise the Board well in advance of any acquisition of stock of additional banking institutions by the corporation so that the Board will have ample opportunity to consider the matter fully before transaction is consummated.'"

The telegram as set forth above was approved, Mr. Evans voting "no", with the understanding that before it was sent the Secretary would bring it to the attention of Mr. Powell, who was attending a meeting outside the building.

Secretary's note: The telegram was read over the telephone to Mr. Powell, who stated that he would vote to approve it if he were present.



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It was also understood that a draft of letter to all other Federal Reserve Banks along the lines suggested during the above discussion would be prepared and submitted to the Board for consideration.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, 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 December 14, 1951, were approved unanimously.

Memorandum dated December 14, 1951, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending that the resignation of Alton W. Cassidy, Assistant Gardener in that Division, be accepted, to be effective, in accordance with his request, at the close of business December 29, 1951.

Approved unanimously.

Memorandum dated December 12, 1951, from Mr. Marget, Director, Division of International Finance, recommending the transfer of Miss Eleanor W. McNeill, Clerk-Stenographer in the Division of Selective Credit Regulation, to the Division of International Finance as Clerk-Stenographer, with an increase in her basic salary from \$3,255 to \$3,270 per annum, effective as of the date she enters upon the performance of her new duties. The memorandum also stated that the

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Division of Selective Credit Regulation was agreeable to this transfer.

Approved unanimously.

Letter to Mr. Neely, Chairman and Federal Reserve Agent,  
Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of December 10, 1951, the Board of Governors approves the payment of salary to Mr. W. Lester Hicks, Federal Reserve Agent's Representative, Jacksonville Branch, effective January 1, 1952, at the rate of \$5,000 per annum."

Approved unanimously.

Letter to Mr. Neely, Chairman and Federal Reserve Agent,  
Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of December 11, 1951, the Board of Governors approves the payment of salary to Mr. D. E. Moncrief, Assistant Federal Reserve Agent, effective January 1, 1952, at the rate of \$4,800 per annum."

Approved unanimously.

Letter to Mr. Koppang, First Vice President, Federal Reserve  
Bank of Kansas City, reading as follows:

"In accordance with the requests contained in your two letters of December 11, 1951, the Board approves the appointments of Rodney Ray Hill and Dean Robert Young, at present special assistant examiners, as assistant examiners for the Federal Reserve Bank of Kansas City, effective January 2, 1952."

Approved unanimously.



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

"This refers to your letter of December 11 and telegram of December 13, regarding the penalty incurred by The Citizens National Bank of Alexandria, Virginia, on an average daily deficiency of \$270,000, or 10 per cent of its required reserves during the period ended November 30, 1951.

"It is noted that the deficiency resulted from a bookkeeping error; that the bank carried ample funds with its correspondent which would have eliminated the deficiency had the mistake been detected in time; and that this is the bank's first deficiency in eighteen years.

"In the circumstances, the Board authorizes your Bank to waive assessment of the penalty in this case."

Approved unanimously.

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

"Relet December 7 in view of your recommendation the Board approves establishment and operation of 2 branches in Long Beach, California, by Southern Commercial and Savings Bank, East Pasadena, California, provided the absorption of the Long Beach National Bank, Long Beach, California, is effected substantially in accordance with the program as represented to the Reserve Bank and provided the capital of the applicant bank is increased to not less than \$500,000 and the surplus to approximately \$250,000 prior to the establishment of the branches. The Board also approves the establishment and operation of a branch at San Marino, California, by the above bank provided its capital is further increased to \$550,000 prior to the establishment of the branch, and approves the establishment of a branch in the Monterey Park-Garvey-Wilmar area, Los Angeles County, provided applicant's capital is further increased

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"to \$600,000 prior to the establishment of such branch. Approval is further conditioned upon the 2 de novo branches being established within the time limits imposed by the State Superintendent of Banks or within 6 months from December 15, 1951 if such period is within any extension of time granted by the State authorities. It is understood the applicant bank will acquire from the Long Beach National Bank only those assets approved by the State banking authorities and that counsel for the Reserve Bank will review and satisfy himself as to legality of all steps taken to effect the proposed absorption and to establish each of the branches."

Approved unanimously.

Letter to Mr. Cook, Vice President and Cashier, Federal Reserve Bank of Dallas, reading as follows:

"This is in further reference to your letter of October 10, 1951, which was acknowledged October 26 and subsequently discussed informally with Mr. Shuford, concerning the status under Regulation W of certain transactions of vendors of listed articles who, in varying degrees, take some part in the securing of instalment credit for purchasers of such articles, but who feel that they are not themselves extending instalment credit.

"Briefly, you indicate that at one extreme the vendor merely sends the purchaser to a financial institution for instalment credit, while at the other extreme the vendor prepares credit forms supplied by the financial institution and takes an instalment obligation payable either directly to such institution or to the vendor himself who then negotiates it to the financial institution.

"The summary-interpretation which appears at 856 of the Regulation W Service and to which you referred, is still applicable. It is based on S-531 of July 14, 1942, as you may know. S-531 was issued following a lengthy and thorough study of the various aspects of the problem, including situations very much like those related

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"in your letter. We recognize, however, that the comprehensive approach of S-531 may not be so readily apparent from the summary in the Regulation W Service.

"As indicated in S-531, a transaction constitutes an instalment sale, rather than an instalment loan, not only where the vendor of a listed article receives from the customer an instalment obligation payable to the vendor himself, but also where the instalment obligation so received is payable to a financial institution. Consequently, in the latter as well as in the former situation, the record keeping requirements of the regulation concerning instalment sales would be applicable.

"In accordance with these principles, transactions wherein the vendor, although assisting the customer in obtaining credit from a financial institution, does not receive the instalment obligation, would constitute instalment loans and not instalment sales. While the vendor's activity in such a case might be sufficient in fact to establish him as agent for the financial institution, as indicated in the Board's telegram of November 26, 1948, to which you also referred, such an agency would be in connection with an instalment loan. The primary responsibility for compliance with the regulation in such cases would rest upon the principal, the financial institution. If records necessary to determine compliance with the regulation are available at the office of the principal, it would be unnecessary in the ordinary case for such records to be also available at the office of the agent.

"The foregoing, we believe, will provide the answers to the first four numbered questions in your letter.

"With respect to your question number 5, it would appear that the contractor was actually extending instalment credit by taking the single-payment note with an agreement or understanding that the debt thereby represented would be refinanced on an instalment basis. Under the principles stated above, such a transaction would be an instalment sale. Since it would appear also that the single-payment note was for the full amount of the job, the pre-July 31, 1951 regulation would have been violated by the contractor's failure to obtain the required 10 per

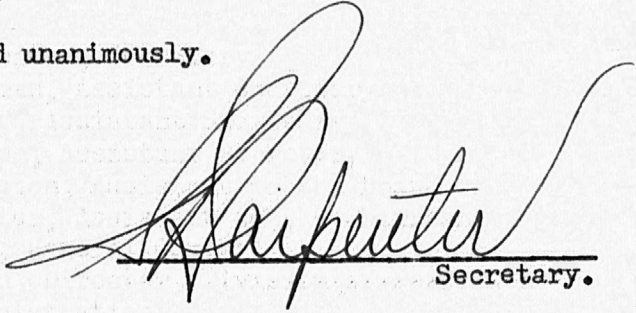


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"cent down payment at or before the beginning of the work. Subsequent to July 31, 1951, the transaction also would have violated the regulation because the contractor, the instalment seller, would have known that the down payment required no later than upon completion of the job was borrowed. In either case, the lending institution also would have violated the regulation if it knew or had reason to know that part of the obligation held by it was to enable the borrower to make the required down payment to the contractor."

Approved unanimously.



Secretary.