

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 18, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.

Mr. Evans

Mr. Vardaman

Mr. Mills

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Vest, General Counsel

Mr. Sloan, Director, Division of Examinations

At the meeting on August 15, 1952 consideration was given to an informal request submitted through the Federal Reserve Bank of New York by The Marine Trust Company of Western New York, Buffalo, New York, a subsidiary of Marine Midland Corporation, that the Board approve a proposal under which the trust company would purchase the assets and assume the liabilities of the Bank of Hamburg, Hamburg, New York, a member bank, and establish a branch in that village. The request was submitted in accordance with the Board's letters of May 14 and August 6, 1951, in which it was suggested that any proposals to merge banks under contracts requiring the consent of the Board pursuant to Section 18(c) of the Federal Deposit Insurance Act be submitted for prior consideration before public announcement.

At this meeting there was presented for consideration a draft of letter to Mr. Crosse, Assistant Vice President of the Federal

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Reserve Bank of New York, prepared pursuant to the action taken at the meeting on August 15, setting forth the conditions on which the Board would be prepared, upon receipt of a formal application, to approve the transaction and indicating the advice which should be given to The Marine Trust Company of Western New York and to Marine Midland Corporation in this connection. There was also presented a draft of letter to President Sproul, of the New York Reserve Bank, requesting that Bank to undertake a survey of the Marine Midland group.

Governor Robertson stated that he had talked with Mr. Pope, Chairman of the Board of Marine Midland Corporation, by telephone following the meeting on Friday, telling him that the Board had decided that upon receipt of a formal application it would approve the absorption of the Bank of Hamburg and the establishment of a branch at Hamburg, but that the Board had some doubts whether the transaction should be undertaken in view of the volume of banking business and the number of banking offices under the control of the Marine Midland group in the western area of New York State. Governor Robertson said he also told Mr. Pope that the Board would be reluctant to approve any further applications which would increase the size of the group until a survey had been undertaken, through the

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Federal Reserve Bank of New York, which would give full information concerning the competitive position of the Marine Midland group in the area. He went on to say that Mr. Pope indicated a desire to come to Washington to discuss the matter with the Board, to which he (Governor Robertson) replied that a visit to discuss any phase of the matter would be welcomed at any time.

Governor Vardaman stated that he would like the record to show that if he had been present at the meeting on August 15 he would have voted to approve the request of The Marine Trust Company.

There followed a discussion of the proposed letter to Mr. Crosse during which Governor Robertson stated that in view of Mr. Pope's recent statement to Chairman Martin concerning additional bank acquisitions currently under consideration by the Marine Midland group, he deemed it essential that a thorough survey be made for the Board's information and that the management of the group be given to understand that, pending completion of the survey, the Board would be reluctant to approve further applications.

Governor Evans suggested that the letter instruct the New York Reserve Bank to advise Marine Midland Corporation that until completion of the aforementioned survey, which might require some time, the Board would not approve any further applications made by

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the Marine Midland group.

Mr. Vest commented that to take such a position might be unduly arbitrary and might prejudice any case which came up in the interim despite the circumstances involved in the particular case. Governor Robertson said that he was in agreement with Mr. Vest's comment and that he felt, therefore, that the letter should not be so worded as to indicate that the Board would deny any application submitted prior to the completion of the survey.

Governor Vardaman stated that he was not entirely in sympathy with the Board's request for a survey since he saw no more occasion for it than for requesting other Reserve Banks to make surveys of bank holding company groups situated within their respective districts.

After further discussion the letter to Mr. Crosse was approved in the following form, Governor Evans voting "no" for reasons stated at the meeting on August 15 and also because he felt that the letter should state that no additional applications received from the Marine Midland group would be approved pending completion and review by the Board of the study to be undertaken by the Federal Reserve Bank of New York:

"This is in reply to your letter of August 7, 1952, having reference to an application filed by The Marine Trust Company of Western New York, Buffalo, New York, for the Board's informal consideration of the trust company's proposal to absorb the Bank of Hamburg, Hamburg, New York, and to establish a branch in Hamburg. The proposal has been submitted in accordance with the Board's letters of May 14, 1951,

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"and August 6, 1951, in which it was suggested that any proposals to merge banks under contracts which required consent under Section 18(c) of the Federal Deposit Insurance Act should be submitted for prior consideration before public announcement is made of the proposal.

"After consideration of the matter and on the basis of the facts as submitted, the Board is prepared, upon receipt of a formal application, to approve the absorption of the Bank of Hamburg by The Marine Trust Company of Western New York and the establishment of a branch by the trust company in the present quarters of the Bank of Hamburg, provided (1) such absorption is effected substantially in accordance with the provisions contained in the plan of merger agreement enclosed in your letter, (2) the banking premises acquired by the trust company are not carried on its books at a value in excess of \$50,000, and (3) formal approval is obtained from the appropriate State authorities.

"In informing The Marine Trust Company of Western New York as above indicated, please include the following statement and also give similar advice to the Marine Midland Corporation: In its consideration of this matter, the Board has not made and should not be deemed to have made any decision as to the application of the Clayton Antitrust Act or any related statutes to Marine Midland Corporation or the banks in the Marine Midland group. The Board understands that additional transactions are in contemplation which may make it necessary for banks in the Marine Midland group to apply to the Board for permission to establish branches or to merge with or assume the liabilities of other institutions or for the Marine Midland Corporation to apply to the Board for voting permits. Accordingly, in view of the number and size of the banking offices in the Marine Midland group in relation to the other banking institutions in the areas served by that group, the Board plans, through the Federal Reserve Bank of New York, to make a careful survey of all facts and circumstances that may have a bearing on any actions which the Board should take in such cases. Pending the completion of such a survey, which of course, will require some time, and consideration by the

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"Board of its results, the Board will not look with favor on any such cases that may be submitted to it involving the Marine Midland group."

Consideration then was given to the proposed letter to Mr. Sproul, and one suggestion for a revision in the draft was agreed upon.

During this discussion Mr. Thurston, Assistant to the Board, and Mr. Townsend, Solicitor, were called into the meeting. At the request of the Board they reviewed the proposed letter to Mr. Sproul, as revised to take into account the suggestion made at this meeting, and stated that they considered its language satisfactory. Mr. Townsend, however, stated that he failed to see what information, other than that already in the possession of the Board, could be obtained from such a survey which would be relevant to consideration of the Clayton Act aspects of the case. In answer to a question by Governor Evans, he said that he continued of the belief that until the applicability of the Clayton Act to the operations of Marine Midland Corporation had been clarified, no more branch applications submitted by the Marine Midland group should be approved by the Board.

Governor Vardaman inquired of Mr. Townsend whether, in his opinion, if the Board asked the New York Reserve Bank to proceed with the proposed survey, it would be morally estopped from asking

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a divestment of the stock of any bank which a bank in the group thereafter acquired with Board approval. Mr. Townsend replied by saying that the question of moral right would be a matter of policy but that legally the United States can never be estopped from taking action in the public interest.

Thereupon, the letter to Mr. Sproul was approved unanimously in the following form:

"The Board is addressing to Mr. Crosse today a letter stating the views of the Board with respect to the proposal of The Marine Trust Company of Western New York to purchase the assets and assume the liabilities of the Bank of Hamburg, Hamburg, New York, and to establish a branch in the quarters of the Bank of Hamburg.

"The Board has been informally advised by Mr. Pope that additional transactions are in contemplation which will probably make it necessary for banks in the Marine Midland group to apply to the Board for permission to establish branches or to merge with or assume the liabilities of other institutions, or possibly for the Marine Midland group to apply to the Board for voting permits. In view of this fact and of the number and size of the banking offices in the Marine Midland group in relation to the other banking institutions in the areas served by that group, the Board, in its consideration of the pending matter, felt that in order to be adequately prepared to act upon future applications which may come to the Board from this group, there should be a careful survey and analysis of all the facts and circumstances which may have a bearing on any action which the Board should take in such cases, in the light of its responsibilities under the specific statutes requiring the Board's approval as well as the policy of the antitrust laws.

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"In the Board's view, one of the considerations that must be kept in mind in connection with the maintenance of a sound banking system is the undesirability of the elimination of any substantial number of independent banks in an area, particularly where this is a part of an expansion program of another bank or banking group. In this connection, the payment of a high premium by an absorbing institution in order to effect an acquisition would seem to suggest a program of expansion rather than a desire of the absorbed bank to go out of business.

"With these various considerations in mind, the Board requests that your bank undertake a survey of all pertinent facts and circumstances with respect to the Marine Midland group on the basis of such information as you may have and by obtaining such other information as may be needed through investigation or otherwise. When the survey has been completed and the results analyzed in consultation with your Counsel, it will be appreciated if you will transmit the survey and the analysis to the Board, together with the views of your bank, on the basis of the survey, as to the general nature of action which should be taken by the Board on future applications of the kind mentioned from the Marine Midland group."

At this point all the members of the staff with the exception of Messrs. Carpenter, Thurston, and Vest withdrew from the meeting.

Governor Vardaman referred to a draft of reply, submitted by Governor Robertson in accordance with the action taken at the meeting of the Board on June 30, to a letter dated June 2, 1952, from Mr. L. K. Elmore, Bank Commissioner of the State of Connecticut, suggesting an amendment to the Federal Reserve Act which would

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remove the prohibition on purchases of bank stock by State member banks in Connecticut pursuant to a State statute which authorizes savings banks and savings departments of State banks and trust companies to purchase bank stocks subject to certain limitations. Governor Vardaman suggested that the draft be amended to eliminate references to restrictions imposed on member banks and to the position of the Board that State banks which in good faith acquired shares of stocks while they were nonmember banks would not be required to dispose of such stocks on joining the Federal Reserve System. He expressed the opinion that, in fairness to banks which had been members of the System for a number of years and were prevented from acquiring stocks, the Board should change its position as stated above and require that in all cases banks applying for membership within a reasonable time shall dispose of any stocks which they would not be authorized to acquire as members of the Federal Reserve System.

Following a discussion of Governor Vardaman's suggestions, it was agreed that the draft of letter would be revised and presented to the Board again for consideration following the return of Chairman Martin, and that consideration would also be given at a later meeting when all the members of the Board were present to the question whether any change should be made in the position of the

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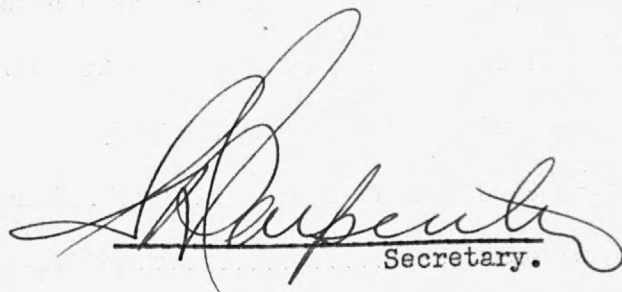
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Board with respect to the retention of stocks by banks applying for membership in the System.

In connection with the above matter, Governor Vardaman suggested that letters of the kind under discussion, in the absence of the Chairman, should be signed by the member of the Board having the assignment involved. This suggestion was discussed, but no action was taken with respect to it.

At this point Messrs. Thurston and Vest withdrew and the following additional action was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 15, 1952, were approved unanimously.



Secretary.