

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 26, 1952. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations

There was further discussion of an inquiry concerning membership in the Federal Reserve System made by Land Title Bank & Trust Company, Philadelphia, Pennsylvania, an insured bank operating a title insurance business. Preliminary consideration had been given to this matter at the meeting of the Board yesterday.

During the discussion it was brought out that three State banks in Pennsylvania which were admitted to membership in the System prior to 1933 continue to operate title insurance departments; that two other State banks admitted to membership prior to 1933 transferred their title business to a title insurance company and received stock in that company which they have retained; that one trust company which was admitted to membership in 1945, while holding stock in a title insurance company, was permitted to exercise token title powers to prevent their lapse under the Pennsylvania Banking Code; that one New Jersey trust company, a member bank, was permitted by

11/26/52

-2-

the Board in 1938 to acquire, through absorption of another trust company, all of the stock of a title insurance company, the majority of which it continued to own; and that some 8 or 10 nonmember insured banks in the State of Pennsylvania which operate title insurance departments might apply for membership in the System if it should be decided that the Board would follow a policy under which they would be permitted to continue the title business as member banks.

Governor Robertson reiterated the opinion which he expressed at the meeting yesterday that Land Title Bank & Trust Company should not be admitted to membership and permitted to retain its title business, either direct or through a subsidiary company. In support of his position he made the following points:

The Board would have to reverse a position which it adopted in 1935 when an inquiry regarding membership was made by the same trust company (then known as Real Estate-Land Title Bank & Trust Company) and to which it had adhered since that time with only two minor exceptions.

A reversal of that position would be contrary to the Board's general policy against the combination of banking and nonbanking functions.

A reversal of that position would be inconsistent with the Board's position in relation to proposed bank holding company legislation, that is, that a bank holding company should divest itself of nonbanking enterprises.

The State member bank would be placed in a preferred position as compared with national banks, which are not permitted to conduct a title business.

11/26/52

-3-

If the Board were to admit a bank to membership and allow it to continue a title business, other member banks might be encouraged to request permission to conduct other types of nonbanking businesses.

As a matter of equity, the Board would have to reconsider the limitation placed on another trust company which, at the time it was admitted to membership in 1945, agreed to exercise its title insurance authority only sufficiently to keep that authority alive under State law.

The Federal Reserve System has had no substantial supervisory experience with banks operating title insurance departments.

Governor Robertson also said that he was not impressed with the contention of the Federal Reserve Bank of Philadelphia, as set forth in Vice President Hill's letter of November 21, 1952, that it would not be practical for Land Title Bank & Trust Company to transfer the title business to another corporation and trustee or distribute to its stockholders the stock of that company, which would result in a substantial reduction in the capital account and operating earnings of the trust company. He stated that the trust company was amply capitalized and had good earnings from its banking business and that under a trustee arrangement the shareholders would not be deprived of income they now receive from their shareholdings.

It was Governor Robertson's opinion that if the Board responded unfavorably to the current inquiry, the trust company would divest itself of its title business and would become a member of the System,

11/26/52

-4-

either as a national or State member bank, following its contemplated consolidation with a national bank.

Governor Vardaman said that on the basis of the facts brought out so far, he would be inclined to favor the admission of Land Title Bank & Trust Company without requiring it to dispose of the title insurance business. He noted that the State of Pennsylvania Banking Code adopted in 1933 provided that those institutions which were conducting a title business at that time should be permitted to continue, thus indicating that the legislature recognized the legality and soundness of the function, and that there were now three member banks engaged in the title business. Governor Vardaman repeated the comment which he made at the meeting yesterday that there might be some benefit in bringing the banks operating a title business under the supervisory authority of the System. He also thought that as a matter of equity the Board would have to reconsider any case where it imposed a limitation on a bank's title business as a condition of membership if it acted favorably in the instant case. He went on to say that his views concerning membership of Land Title Bank & Trust Company should not be taken to mean that other banks operating a title business should be admitted to membership automatically. However, if they applied for membership and there were no other adverse factors, he felt they should be admitted.

Governor Vardaman thought that the Board should be fully informed of the reasons why the Federal Reserve Bank of Philadelphia favored admission

11/26/52

-5-

of Land Title Bank & Trust Company without a requirement that it dispose of the title business, stating that the problem was peculiar to the Third Federal Reserve District, that the Philadelphia Bank had a background of experience in the matter, and that in the circumstances he would hesitate to vote contrary to the Bank's recommendation.

Governor Mills said that he did not believe a title insurance business was a proper activity for a commercial bank, that the views which he expressed at the meeting yesterday were in the light of his understanding at that time that Land Title Bank & Trust Company was a single, isolated case, that if such were the fact he would feel that the language of the Pennsylvania Banking Code might justify the Board in making an exception to its general policy against the combination of banking and nonbanking functions, but that the fact that there were a number of other banks in the same category, some perhaps not as sound as the subject institution, raised doubt in his mind whether the Board should take a step which would place it in a position where it would be more difficult to impose conditions of membership upon any other banks which applied.

At the request of Chairman Martin, Mr. Vest commented that the Board might want to give some consideration to the statement of the Philadelphia Reserve Bank that it felt the provisions of paragraph 13 of section 9 of the Federal Reserve Act were designed to encourage State banks to apply for membership with assurance that they might retain their full charter and statutory rights as State banks subject to the provisions of

11/26/52

-6-

the Federal Reserve Act and the regulations of the Board. He pointed out, however, that these provisions had not been construed as limiting the right of the Board to impose conditions of membership on banks joining the System. Mr. Vest also felt that the Board would want to consider what its position would be with respect to the other nonmember banks in Pennsylvania that conduct a title business should they apply for membership following favorable action by the Board in the case of Land Title Bank & Trust Company.

Chairman Martin then stated that there might be personal factors and certain interrelationships involved which would not make it practical for the trust company to separate itself from its title business, either completely or through the establishment of a subsidiary company, that he questioned whether the Board should act without having before it all of the facts of the case, and that he would suggest, in the circumstances, that Mr. Williams, President of the Federal Reserve Bank of Philadelphia, be invited to come to Washington in the near future and discuss with the Board not only the particular case in question but the over-all situation with respect to Pennsylvania banks that carry on title operations.

Chairman Martin's suggestion was approved unanimously, with the understanding that he would talk to Mr. Williams and arrange a meeting to which Mr. Williams would be invited to bring with him such other officers of the Reserve Bank as he might desire.

11/26/52

-7-

At this point Mr. Sloan withdrew from the meeting.

There was presented a memorandum dated November 25, 1952, from Mr. Bethea, Director, Division of Administrative Services, recommending, for reasons stated, that the Board's public liability insurance policy, expiring today, be renewed on a three-year basis with the same insurer, General Accident Fire and Life Assurance Corporation, Ltd., at a premium of \$2,162.93, including a premium of \$22.80 to place the coverage on a comprehensive basis. The memorandum stated that in view of the sharp increase in rates quoted for this type of policy, the amount provided for this purpose in the 1952 budget of the Division of Administrative Services would be exceeded by approximately \$1,200.

The memorandum also stated that self-insurance had been considered but was believed to be inadvisable because the Board would have to defend itself against any claims by the public, the awards for settlement of claims in public liability suits are often large in amount, and the Board would have to pay the cost of elevator inspection, which is provided without charge under the insurance policy.

Following a brief discussion, the recommendation was approved unanimously.

At this point Mr. Thurston, Assistant to the Board, and Mr. Young, Director, Division of Research and Statistics, entered the room.

11/26/52

-8-

Reference was made to a memorandum dated November 13, 1952, from Messrs. Thurston and Young, which had been circulated among the members of the Board, recommending that the Board authorize (1) a revision of the booklet, "The Federal Reserve System -- Its Purposes and Functions", in order to bring it up to date and permit certain other textual changes, and (2) the retention of Mr. Warren Chappell on a consultant basis to study the format of the booklet. Attached to the memorandum were two supplemental memoranda, as follows:

Memorandum dated November 6, 1952, also from Messrs. Thurston and Young, recommending the appointment of Mr. Chappell as a Consultant to the Division of Research and Statistics on a temporary contractual basis until December 31, 1953, with compensation at the rate of \$50 per day for each day worked for the Board, either in Washington or outside the city, plus per diem in lieu of subsistence at the rate of \$15 while in travel status in connection with his assignment. The memorandum also recommended that, if engaged as a consultant, Mr. Chappell receive transportation expenses in accordance with the Board's travel regulations applicable to assistant division directors and that his official headquarters for purposes of travel be Norwalk, Connecticut. The memorandum further stated that it was not anticipated that Mr. Chappell's services would be required for more than 10 days during the remainder of 1952 and all of 1953.

Memorandum addressed to Messrs. Thurston and Young under date of October 23, 1952, by Miss Burr, Assistant Director, and Miss Butler, Economist (Editorial), Division of Research and Statistics, submitting a plan for revising the text of the booklet.

At the request of the Board, Mr. Thurston and Mr. Young discussed the public demand for the booklet, which was last revised in 1947, the

11/26/52

-9-

desirability of undertaking a further revision before the present supply of copies was exhausted, probably in the early part of 1953, the nature of the textual changes contemplated, and the conclusion of the staff that it would be helpful to obtain professional advice as to changes in format which would make the presentation more effective.

During the ensuing discussion, members of the Board spoke of the need for a second booklet designed for groups such as students at the pre-college level and the difficulties involved in working out an easily understandable publication of this sort. Mr. Thurston was requested to consider the possibility of undertaking such a publication, and it was also suggested that he obtain the views of Mr. Chappell with respect to the Board's Annual Report and the brochure describing the Federal Reserve Building.

Thereupon, the staff was authorized by unanimous vote to proceed with the revision of the System booklet along the lines proposed and unanimous approval was given to the appointment of Mr. Chappell on the terms recommended in the memorandum of November 6, 1952, from Messrs. Thurston and Young.

At this point Messrs. Thurston, Vest, and Young withdrew and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 25, 1952, were approved unanimously.

11/26/52

-10-

Memorandum dated November 21, 1952, from Mr. Carpenter, Secretary of the Board, reading as follows:

"It will be recalled that Robert H. Craft, Technical Consultant, returned to the Guaranty Trust Company in New York the latter part of September on the condition that he would be available to the Federal Open Market Committee from time to time in connection with the report prepared by the ad hoc subcommittee appointed to study the Government securities market. Mr. Craft was requested to come to Washington on three occasions during October and November 1952 for this purpose. It will be necessary that he make several additional visits to Washington in connection with the report, and a continuation of his service as Technical Consultant is requested for such period as is necessary while the report is under consideration. Under this arrangement the Board would continue to reimburse Mr. Craft for travel and other expenses incurred in the discharge of his official duties on the same basis as approved May 8, 1952, i.e., in accordance with the provisions of the Board's official travel regulations applicable to the members of the Board except that it would not be required that his vouchers set forth such expenses in detail or be supported by hotel or other receipts.

"It is also recommended that the attached voucher requesting reimbursement of \$86.01 for hotel bills and incidentals, as well as the transportation requests listed for the three trips to Washington made by Mr. Craft during October and November, be approved for payment."

Approved unanimously.

Letter to the Board of Directors, The Vienna Trust Company, Vienna, Virginia, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves the establishment and operation of a branch in McLean, Virginia, by The Vienna Trust Company, Vienna, Virginia, provided that formal approval is first obtained from the appropriate State authorities, that prior to establishment

11/26/52

-11-

"of the branch your capital stock is increased to an amount not less than \$100,000, and provided further that such branch is established within six months after the date of this letter."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Richmond.

Letter to the Board of Directors of the Security State Bank, Hartley, Iowa, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago. The letter also contained the following paragraph:

"It appears that the bank is authorized to exercise trust powers but that such powers are not being exercised at this time. Attention is invited to the fact that if the bank should desire to exercise any powers not actually exercised at the time of admission to membership, it will be necessary, under condition of membership numbered 1, to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of corporate powers exercised by the bank since the time of its application for membership."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Chicago.

Letter to the Board of Directors, American State Bank, Lansing, Michigan, reading as follows:

11/26/52

-12-

"Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment and operation of a branch in Holt, Michigan, by the American State Bank, Lansing, Michigan, provided the consolidation with the Holt State Bank is effected substantially as proposed and that prior formal approval of the appropriate State authorities is obtained with respect to the consolidation and the establishment of the branch.

"In recognition of the fact that the growth in capital accounts of the bank has not kept pace with the increase in the volume of its business, it is understood the board of directors has approved a plan for increasing the common stock of the consolidated bank from \$675,000 to \$1,000,000, including the sale of not less than \$170,000 par value of new stock at a premium of \$127,500, and that this program will be submitted to the shareholders at their annual meeting in January 1953. The Board feels that this increase in capital funds is very desirable; however, since it will not altogether correct the deficiency in capital, it is assumed that the directors will continue their stated policy of not reinvesting maturing municipal or general market bonds in risk assets, as well as the policy of conserving a substantial portion of earnings."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Chicago.

Letter to Mr. Purrington, Assistant Vice President, Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of November 19, regarding the penalty of \$54.25 incurred by The Farmers Bank, Mount Pulaski, Illinois, on a deficiency in its reserves for the period ended October 31, 1952.

"It is noted that the deficiency resulted from a delay in receiving reserve credit of \$150,000 due to the fact that the subject bank's request for a transfer was lost or was mislaid at its correspondent bank; that the bank normally carries an excess reserve of from 10 to 20 per cent; and that it has been assessed but one penalty in the last three years.

11/26/52

-13-

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

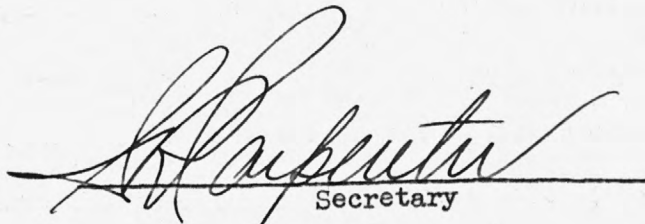
Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"There is enclosed a copy of the Board's letter of October 27, 1952, addressed to the Vice President of a Federal Reserve Bank with respect to limitations on proposed investments by a member bank in its wholly-owned subsidiary which became such through acquisition of a majority of the stock in satisfaction of debts previously contracted.

"This letter should not, of course, be interpreted as meaning that stock acquired in satisfaction of debts previously contracted may be retained for an indefinite period. In the case referred to, the stock, with the approval of the State Bank Commissioner, had been transferred to bank premises account and the affiliate's operations confined to holding property for that purpose."

Approved unanimously.



Secretary