

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 27, 1953. The Board met in the Board Room at 10:40 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Evans
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, Assistant General Counsel
Mr. Nelson, Assistant Director, Division
of Examinations
Mr. Chase, Assistant Solicitor

Reference was made to the following memoranda, submitted under date of March 25, 1953:

(1) Memorandum from the Division of Examinations concurring in a recommendation of the Federal Reserve Bank of Chicago that action be taken immediately under section 9 of the Federal Reserve Act to terminate the membership of Devon-North Town State Bank, Chicago, Illinois, in the Federal Reserve System.

(2) Memorandum from Mr. Chase, Assistant Solicitor, recommending that the Board adopt the recommendation made by the Federal Reserve Bank of Chicago.

After reviewing the facts of the case, as related in the two memoranda, Governor Robertson recommended: (1) that the Board issue a Complaint and Notice of Hearing pursuant to the provisions of section 9 of the Act, and (2) that upon assembly of the necessary facts, the Federal Reserve Bank of Chicago be authorized to issue a warning as a preliminary step in a proceeding under section 30 of the Banking Act

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of 1933 looking toward the removal from office of Henry J. Beutel as president and director of Devon-North Town State Bank.

Regarding the proposed section 30 proceeding, Governor Robertson said that probably it would never reach the stage of a hearing because Mr. Beutel might choose to resign his positions with the bank and, even if he did not, because the action under section 9 of the Act presumably would be concluded before the steps could be completed that are required in connection with a proceeding under section 30. The real purpose of the latter proceeding, he said, would be to set down a record of Mr. Beutel's activities which might serve to keep him out of other banks in the future. In this connection, Governor Robertson referred to Mr. Beutel's questionable activities in three other banks with which he was currently associated or had been associated in the past, namely, the Belmont National Bank and the West Irving State Bank, both of Chicago, Illinois, and the First State Bank of Elmwood Park, Illinois.

Governor Robertson went on to comment concerning Bankers Discount Corporation, of Dallas, Texas, holding company affiliate of Devon-North Town State Bank by virtue of the majority stock interest which it acquired in February 1953, and principal stockholder of

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certain other banks. In the course of his comments, Governor Robertson described the circumstances under which the Corporation, which operates 19 wholly-owned finance companies in the States of Texas, Tennessee, and California, borrowed \$85,000 from Devon-North Town State Bank on February 3, 1953, on an unsecured basis, and following acquisition of the majority stock interest in the member bank later in the same month, sold to the bank without recourse a substantial amount of installment loan paper, a large proportion being past due at the time of sale to the member bank. Citing the annual report of the Corporation for the year ended June 30, 1952, which was submitted with the Corporation's request for a determination of its holding company affiliate status following purchase of the State Bank of Whiting, Whiting, Indiana, he pointed out that if the Corporation had been able to liquidate its assets as of June 30, 1952, at 100 cents on the dollar, the common shareholders would have received nothing and the preferred shareholders less than par. Action by the Board under section 9 of the Act might, he thought, discourage Bankers Discount Corporation from attempting to expand its bank shareholdings.

Mr. Chase commented that in a telephone conversation this morning, Mr. Pondrom, Vice President of the Federal Reserve Bank

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of Dallas, stated that the Banking Commissioner of Texas was taking steps to verify the bank shareholdings of Bankers Discount Corporation after which he would cite the Corporation for violation of its charter powers and, if the facts warranted, order the Corporation to divest itself of the stock. If it refused, the Banking Commissioner intended to turn the case over to the Attorney General of the State for consideration in the light of a recent holding of the State Banking Commission that branch banking violates the constitution and statutes of the State and that a holding company which holds the stock of two competing banks is violating those provisions.

Following a discussion, unanimous approval was given to a Complaint and Notice of Hearing in the following form, with the understanding that a copy would be sent today to Devon-North Town State Bank and that representatives of the Board and the Federal Reserve Bank of Chicago would proceed with the preparation of a warning to Mr. Beutel under section 30 of the Banking Act of 1933:

"UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

In the Matter Of :

DEVON-NORTH TOWN STATE BANK, :
CHICAGO, ILLINOIS

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"COMPLAINT

"Pursuant to the provisions of Section 9 of the Federal Reserve Act and by virtue of the authority vested in it by said Section, the Board of Governors of the Federal Reserve System (hereinafter referred to as the Board), having reason to believe that Devon-North Town State Bank (hereinafter referred to as the respondent) a member bank of the Federal Reserve System, has violated the provisions of said Section or the regulations of the Board made pursuant thereto, hereby issues its complaint, stating its charges as follows:

"PARAGRAPH ONE. On or after February 17, 1953, and while an unsecured loan by respondent to Bankers Discount Corporation, Dallas, Texas, in the amount of approximately \$85,000 was outstanding respondent purchased from said Bankers Discount Corporation, a holding company affiliate of respondent, instalment obligations in the aggregate amount of approximately \$971,974.23 of which an aggregate amount of over \$290,000 was past due at the time of purchase and of which an aggregate amount of over \$93,000 was past due sixty days or more at the time of purchase, in violation of U. S. Code Title 12, Section 371c, and respondent's Condition of Membership No. 1 (Board's Regulation H, Section 7).

"PARAGRAPH TWO. While an unsecured loan by respondent to said Bankers Discount Corporation in the amount of approximately \$85,000 was outstanding respondent permitted overdrafts by said Bankers Discount Corporation in the amount of \$12,366.16 on February 23, 1953, and in the amount of \$35,139.01 on March 7, 1953, in violation of U. S. Code Title 12, Section 371c, and respondent's Condition of Membership No. 1 (Board's Regulation H, Section 7).

"PARAGRAPH THREE. Respondent between about January 20, 1953 and about March 2, 1953, purchased from Belmont National Bank of Chicago, Illinois, loans aggregating approximately \$77,092.47, which had been guaranteed by respondent's president and which had been criticized or adversely classified by the national bank examiner, in violation of respondent's Condition of Membership No. 1 (Board's Regulation H, Section 7).

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"WHEREFORE, THE PREMISES CONSIDERED, The Board of Governors of the Federal Reserve System on this 27th day of March, 1953, issues its complaint against said respondent.

"NOTICE

"Notice is hereby given to you, Devon-North Town State Bank, respondent herein, that the 29th day of April, 1953 at 10 o'clock, A. M., is fixed as the time, and the Federal Reserve Bank of Chicago building, Chicago, Illinois, as the place when and where a hearing will be had before a Trial Examiner to be appointed by the Board of Governors of the Federal Reserve System, on the charges set forth in this Complaint, at which time and place you will have the right under said Act to appear and show cause why an Order should not be entered requiring you to surrender your stock in the Federal Reserve Bank and to forfeit all rights and privileges of membership in the Federal Reserve System.

"You are hereby notified that the opportunity is afforded you to file with the Board an answer to this Complaint on or before the twentieth day after service of it upon you. Such answer, if one is filed, should contain a concise statement of the facts which constitute the ground for defense and should specifically admit or deny each of the facts alleged in the Complaint unless you are without knowledge, in which case you should so state. Failure to file an answer or to plead specifically to any allegation of the Complaint shall constitute an admission of such allegation.

"If you desire to waive hearing on the allegations of facts set forth in the Complaint and not to contest the truth of said allegations, the answer may consist of a statement that respondent admits that all the material allegations of fact charged in the Complaint are true. Said answer will constitute a waiver of any hearing as to the facts alleged in the Complaint; and thereupon, without any intervening procedure, findings as to the facts and conclusions based upon such answer and such findings will be made and an order will be entered disposing of the matter. The respondent may, however, reserve in such answer the right to submit proposed findings and conclusions of facts or of law under Rule V (b) of the Board's Rules of Practice for Formal Hearings.

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"Failure to file answer within the time provided and failure to appear at the time and place fixed for hearing, shall be deemed to authorize the Board, without further notice, to find the facts to be as alleged herein and to issue an order requiring respondent to surrender its stock in the Federal Reserve Bank and to forfeit all rights and privileges of membership in the Federal Reserve System.

"IN WITNESS WHEREOF, the Board of Governors of the Federal Reserve System has caused this, its Complaint, to be signed by its Secretary and its official seal to be annexed at Washington this 27th day of March, 1953.

"By the Board.

(SEAL)

(Signed) S. R. Carpenter
S. R. Carpenter,
Secretary."

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members except Chairman Martin and Governor Vardaman present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 26, 1953, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 24, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on March 26,

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1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 13, 1953, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of Dora R. Kriel as Clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$3,335 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated March 23, 1953, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending the appointment of Hanvey Stanford as Assistant Federal Reserve Examiner in that Division, on a temporary indefinite basis, with basic salary at the rate of \$5,435 per annum, and with official headquarters in Washington, D. C., effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

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Memorandum dated March 25, 1953, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending the appointment of John P. Donovan as Assistant Federal Reserve Examiner in that Division, on a temporary indefinite basis, with basic salary at the rate of \$4,205 per annum, and with official headquarters in Washington, D. C., effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated March 24, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending the re-employment of Mary C. Tippett as Telephone Operator in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,950 per annum, effective as of the date upon which she enters upon the performance of her duties, and with the understanding that no physical examination or repayment for leave would be required.

Approved unanimously.

Memorandum dated February 11, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division

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in the amounts indicated, effective March 29, 1953:

| <u>Name and Title</u> | <u>Salary From</u> | <u>Increase To</u> |
|--------------------------------|--------------------|--------------------|
| Howard G. Smith, Economist | \$4,455 | \$4,580 |
| Monica F. Jones, Clerk | 3,785 | 3,910 |
| Winofred C. Racz, Clerk | 4,035 | 4,160 |
| Vera F. Small, Clerk-Typist | 3,270 | 3,350 |
| Ruth D. Stone, Secretary | 4,420 | 4,545 |

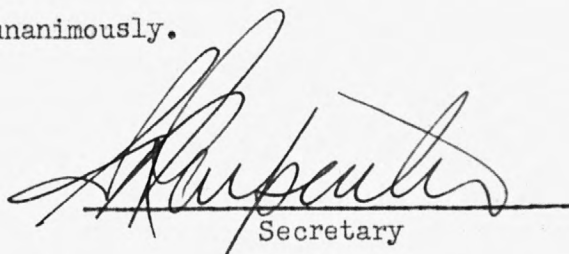
Approved unanimously.

Memorandum dated March 24, 1953, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending that sick leave in an amount not to exceed 45 days, beginning April 2, 1953, and ending May 29, 1953, be advanced to Att W. Hammons, Jr., Assistant Federal Reserve Examiner in that Division.

Approved unanimously.

Memorandum dated March 26, 1953, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending that a leave of absence without pay for a period not to exceed three months, beginning March 30, 1953, be granted to Alexander S. Barnes, Assistant Federal Reserve Examiner in that Division.

Approved unanimously.


Secretary