

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 22, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Sloan, Director, Division of Examinations  
Mr. Hackley, Assistant General Counsel  
Mr. Cherry, Legislative Counsel

There was presented a memorandum from Mr. Thomas, Economic Adviser to the Board, dated July 21, 1954, requesting authorization to make a trip to Canada to attend the annual meeting of the American Statistical Association in Montreal from September 10 to 12, to attend the meeting of the Conference of Business Economists in Ottawa from September 16 to 18, and to visit the Bank of Canada during the days between the meetings of the American Statistical Association and the Conference of Business Economists.

Approved unanimously.

Governor Robertson stated that a letter had been received from the Federal Reserve Bank of Richmond dated July 9, 1954, transmitting a request by the United Mine Workers of America that the Board reaffirm its 1952 determination that the union is not engaged as a business in

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holding the stock of, or managing or controlling, banks. Governor Robertson said that Mr. Hackley had prepared a memorandum with respect to the request dated July 21, 1954 and a draft of proposed reply, neither of which had been circulated among the members of the Board, but that he felt it desirable to have a preliminary discussion at this meeting in view of the fact that he was leaving today on vacation. Governor Robertson went on to say that the request of United Mine Workers for reaffirmation by the Board of its 1952 determination resulted from a condition set by the Comptroller of the Currency that, prior to consolidation of The National Bank of Washington, which had been controlled by the union since 1952, with the Hamilton National Bank of Washington, control of which was recently acquired indirectly by Mr. Barnum Colton with money borrowed from United Mine Workers, the union obtain a ruling from the Board as to whether the union, by reason of these new developments, would be considered a holding company affiliate, and if so, that the union request a voting permit in connection with the proposed consolidation.

Governor Robertson reviewed the conditions which existed in January 1952 when the Board made a determination pursuant to Section 301 of the Banking Act of 1935 that United Mine Workers of America, which had acquired a majority of the stock of The National Bank of Washington, was not then engaged as a business in holding the stock of, or managing or controlling, banks. That determination, Governor Robertson pointed

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out, reserved the right to make a further determination if the facts should change, and he described the changes that had taken place in the interim. He noted that, whereas in 1952 4.8 per cent of the union's assets were represented by bank stocks, that proportion had now increased to more than 29 per cent. Furthermore, about 17 per cent of the banking resources of the District of Columbia now appeared to be controlled by the union. He also called attention to the fact that the recent acquisition of control of a majority of the stock of Hamilton National Bank was admittedly for the purpose of obtaining better and more numerous banking office locations and increasing the volume of certain types of banking business which The National Bank of Washington wished to expand. Governor Robertson stated that he did not see how on the basis of these facts the Board could make a determination under Section 301 of the Banking Act of 1935 that the United Mine Workers of America was not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks.

Governor Robertson went on to say that the draft of letter which had been prepared for the consideration of the Board took the position that there had been a substantial change since the Board's 1952 determination, that on the basis of the information available the Board felt that it could not make the determination requested by United Mine Workers, but that before it took final action on this request the Board would be glad to have the benefit of any additional information which United Mine Workers might wish to submit. While he was not requesting

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Board action on this matter at this meeting, Governor Robertson felt the Board should bear in mind that if the position indicated in the draft of letter is taken, it might be subject to litigation, and that the outcome of such litigation could not be foretold with assurance.

There followed discussion of the proposed letter and of the reasons why the Board should or should not reaffirm the determination made in 1952 when United Mine Workers controlled only the stock of The National Bank of Washington. During the discussion reference was made to the modification of the Board's position during the past year whereby it recently had made a number of determinations under Section 301 that companies which controlled only one bank were engaged as a business in managing or controlling banks.

During this discussion, Governor Mills raised the question whether the Congress intended, in enacting Section 301 of the Banking Act of 1935, that all labor unions owning banks would be exempted from the requirements of holding companies except for purposes of Section 23A of the Federal Reserve Act, and it was pointed out that the legislative history did not clearly indicate that labor unions which were holding company affiliates should automatically be exempted.

Governor Vardaman said that he would like to get away from comparisons relating to volume of banking resources in an area controlled by a single holding company since it was his view that the factor to be considered was the percentage of business of the holding company devoted

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to the banking business and whether such control was "accidental" or "incidental".

In the course of the discussion various alternatives were suggested for handling the matter including a suggestion by Governor Robertson that the proposed letter be revised to say that the Board had determined that United Mine Workers was now engaged in the business of managing or controlling banks; that it would thus have to have a voting permit in order to vote the stock of The National Bank of Washington and Hamilton National Bank in connection with the proposed consolidation of those institutions, and that the Board would authorize the issuance of such a voting permit upon receipt of the necessary application and accompanying forms.

Following discussion, this suggestion was approved unanimously, with the understanding that the draft of letter would be revised along the lines indicated and sent when in a form satisfactory to Governor Robertson. In taking this action, it was also understood that the Federal Reserve Agent at Richmond, Virginia, would be authorized to issue a limited voting permit under the provisions of Section 5114 of the Revised Statutes of the United States to United Mine Workers of America, Washington, D. C., entitling such organization to vote the stock which it owns or controls of The National Bank of Washington and Hamilton National Bank of Washington, both located in Washington, D. C., provided United Mine Workers shall have executed and delivered the customary application and forms; such permit to be for the purpose of effectuating the

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consolidation of the national banks named and effective from date of issuance until December 31, 1954.

Secretary's Note: In accordance with the foregoing action, the following letter to Mr. Welly K. Hopkins, Counsel, United Mine Workers, was sent under date of July 23, 1954:

This refers to your letter of June 29, 1954, addressed to the Federal Reserve Bank of Richmond, requesting that the Board of Governors of the Federal Reserve System reaffirm its determination of January 3, 1952 pursuant to section 301 of the Banking Act of 1935 that the United Mine Workers of America is not engaged directly or indirectly as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks or trust companies, and is therefore not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. As you know, in making that determination the Board reserved the right to make a further determination at any time on the basis of the then existing facts.

It is understood that the United Mine Workers of America has recently acquired, directly or indirectly, a majority of the capital stock of Hamilton National Bank of Washington, D. C., and that a proposal for the consolidation of this bank with The National Bank of Washington, which is also controlled by United Mine Workers, is now under consideration. It is also understood that your organization desires to be informed as promptly as possible of the Board's action on your request.

In view of the amount of bank stocks now owned by the United Mine Workers, the ratio of such stocks to its total assets, the ratio of the assets of the banks involved to all bank assets in the District of Columbia and all the other facts of this matter as the Board understands them, the Board believes that the facts have substantially changed since the date of its 1952 determination and that United Mine Workers of America is now engaged, directly or indirectly, as a business in the holding of bank stocks or the managing or controlling of banks. Therefore the Board rescinds the determination which it made in 1952 referred to in the first paragraph of this letter. This action, however, has been taken at this time in view of the urgency of the matter on the basis of the facts now before the Board and it is not intended to preclude you or other representatives of the United Mine Workers of America from

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submitting any further information or views regarding this matter to the Board, either in writing or orally if you so desire. In any event, the Board will again consider this question, if you so desire, after the proposed consolidation and in the light of the then existing facts without regard to the present action.

As a holding company affiliate it will be necessary under the law for the United Mine Workers to obtain from the Board a voting permit if it should desire to vote the stock either of the Hamilton National Bank or of The National Bank of Washington. However, in the interest of saving time the Board has considered the question of issuing a voting permit in this case and has decided that it will issue such a permit to United Mine Workers of America authorizing that organization at any time before December 31, 1954 to vote the stock owned or controlled by it of The National Bank of Washington, Washington, D. C. and the Hamilton National Bank of Washington, Washington, D. C., for the purpose of effectuating the consolidation of those banks, provided, however, that an application for such voting permit on Form P-1, together with Exhibits A, C, and O, shall be executed and delivered in duplicate to the Federal Reserve Bank of Richmond prior to the issuance of such permit.

In this connection, the voting permit under the law would be subject to an agreement on the part of United Mine Workers of America to be examined by examiners authorized to examine the controlled banks. However, the Board and the Office of the Comptroller of the Currency have agreed that no such examinations of United Mine Workers will be made pending the proposed consolidation, or thereafter before reconsideration by the Board of the holding company affiliate status of United Mine Workers provided a request for reconsideration is submitted within 90 days after the effective date of the consolidation.

In further pursuance of the foregoing action, a telegram was sent in the usual form to Mr. Woodward, Federal Reserve Agent, Federal Reserve Bank of Richmond, under date of July 26, 1954, authorizing him to issue a limited voting permit to United Mine Workers of America for the purpose, and subject to the terms and conditions, indicated above.

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Messrs. Thurston, Sloan, and Hackley then withdrew from the meeting.

At Chairman Martin's request, Mr. Cherry told of a letter received from Mr. Hoffman, Chairman, Committee on Government Operations, House of Representatives, dated July 21, 1954, enclosing a resolution which Mr. Ikard, a member of that committee, had presented requesting the General Accounting Office to review the reports of examination of the Federal Reserve Banks and the Federal Open Market Committee and inquiring whether the records and information requested by Mr. Patman had been sent to the Committee on Banking and Currency, and also whether Mr. Patman was given an opportunity to examine the same. Mr. Cherry reviewed the circumstances surrounding the delivery of the Board's letter of July 14, 1954, to Mr. Wolcott, Chairman, Committee on Banking and Currency, House of Representatives, which transmitted the reports of examination.

Chairman Martin suggested that the Board respond to Mr. Hoffman's inquiry by writing a letter reviewing the situation along the lines discussed, with a copy to be sent to Mr. Wolcott, and there was unanimous agreement with this suggestion.

Secretary's Note: Pursuant to this understanding, the following letter for the signature of Chairman Martin, was sent to Honorable Clare E. Hoffman, Chairman, Committee on Government Operations, House of Representatives, under date of July 26, 1954:



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This refers to your letter of July 21, enclosing a copy of a resolution which Mr. Ikard presented to your Committee requesting the General Accounting Office to review the reports of examination of the Federal Reserve Banks and the Open Market Committee and inquiring whether the records and information requested by Mr. Patman have been sent to the Committee on Banking and Currency and also whether Mr. Patman was given an opportunity to examine the same.

At the conclusion of the hearings before your Committee on June 2, it was my understanding that the Board would deliver to the House Banking and Currency Committee reports of examination of the 12 Federal Reserve Banks and transactions in the Open Market account for the year 1953, which was the period specified in the bill H. R. 7602. I quote from the transcript of the hearings the statement which Mr. Patman made in this connection:

"If they will deliver the audits to the Banking and Currency Committee, in charge of the Chairman, and let the experts there see them and let me see them in that Committee, it will be perfectly all right to hold up this bill as far as I am concerned."

On June 14, the reports referred to above were delivered to the House Banking and Currency Committee and, in addition, thereto, similar reports for the years 1949 through 1952, which Mr. Patman had requested orally through the Clerk of the House Banking and Currency Committee. A copy of the letter transmitting these documents is attached hereto.

At the time these records were delivered, I am informed that Mr. Patman came to the Committee Room and, after examining one or two of the volumes, stated that they were more comprehensive than he had expected and inquired whether it would be possible for an expert from the Federal Reserve Board to meet with him for the purpose of explaining and interpreting the reports. A meeting was arranged for that afternoon in the House Banking and Currency Room, at which there were present Mr. Patman and Mr. Oakman, members of the House Banking and Currency Committee; the Clerk and Staff Director of the House Banking and Currency Committee; a member of the staff of the Joint Committee on the Economic Report; two representatives from the General Accounting Office; and two members of the staff of this Board, one of whom is the Assistant Director of the Division of Examinations, especially qualified to interpret the reports. I am further informed that after some discussion at this meeting Mr. Patman stated that he intended to offer to the House Banking and Currency

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Committee on the following day a resolution directing the Comptroller General to review the reports of examination of the Reserve Banks and the Open Market Committee for the purpose of ascertaining whether the reports conform generally to the type and scope of examinations which the General Accounting Office would make.

Under date of June 16, Mr. Patman addressed a letter to me stating that he had offered the resolution, a copy of which he enclosed, to the House Banking and Currency Committee and that, after discussion, it was decided that Chairman Wolcott would confer with me before proceeding further with the matter. It is my understanding that the question of this resolution is still pending before that Committee. The copy of the resolution which Mr. Patman sent me on June 16, and which is now pending before the House Committee on Banking and Currency, is identical with the copy of the resolution which you enclosed with your letter of July 21.

The reports of examination of the 12 Federal Reserve Banks and reports of examination of transactions in the Open Market account for five years--1949 to 1953, inclusive--are still in the offices of the House Banking and Currency Committee, where they are available for examination by Mr. Patman or any other member of Congress with such assistance of the experts of the Committee and of the Board of Governors as may be desired.

I want to take this opportunity to assure you again, as I have assured Chairman Wolcott, of the desire of the Board of Governors to cooperate fully at all times with the Committees of Congress, and I wish also to express appreciation of the courtesy of your letter.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members except Governors Szymczak and Evans present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 21, 1954, were approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

This is in further reference to your letter of June 25, 1954, and its enclosures, which presented a question by The National Shawmut Bank of Boston, Boston, Massachusetts, concerning the application of Regulation Q. The question is

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stated to be whether the absorption by a member bank of the cost of armored car transportation of funds to and from a customer of a bank and of the expense of furnishing personnel for the handling of payrolls, the cashing of checks, etc., for the customer would constitute a payment of interest contrary to the provisions of the regulation.

As you know, the Board in 1937 adopted a general policy of not passing upon questions as to whether particular practices involve a payment of interest in violation of Regulation Q except after development of all the pertinent facts and circumstances through examinations of the member bank involved. The Board is not in a position to express a firm opinion in the present case since the arrangement in question has not actually been adopted by the member bank and since all the details of the proposed arrangement are not set forth and presumably have not been determined. It may be pointed out, however, that, in order to justify the position that any arrangement of this kind would involve a payment of interest contrary to the regulation, it would be necessary to establish that the furnishing by a member bank of the services in question without charge to its customer would result in a payment to the customer as compensation for the use of funds on deposit.

It is noted that the Office of the Comptroller of the Currency has advised the national bank that an arrangement of this kind would not be considered by that office as involving the operation of a branch if the entire cost of the arrangement is borne by the customer. As indicated in the national bank's letter, such an arrangement, under which no expenses would be absorbed by the member bank, would not give rise to any question under the Board's Regulation Q.

Approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of July 16, 1954, and enclosures with respect to the retirement of \$5,000 par value preferred stock on August 1, 1954, by The State Trust Company at Plainfield, New Jersey.

After considering the information submitted and your favorable recommendation, the Board gives its prior consent to the proposed retirement of \$5,000 of preferred stock by the trust company. It is noted that in your opinion the

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capital structure of the trust company is somewhat low and that you propose to discuss with the management of the trust company the sale of additional common stock.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in effecting the retirement.

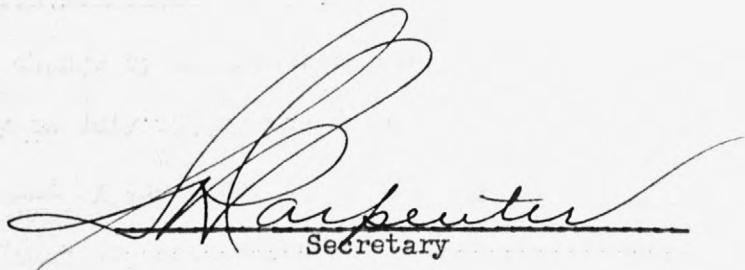
Approved unanimously.

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

Reference is made to your letter of July 16, 1954, submitting request of the Genesee County Savings Bank, Flint, Michigan, for an extension of time in which to establish a branch at the southeast corner of South Saginaw and Bergin Streets, Burton Heights, Michigan.

In view of the delay in construction and your favorable recommendation, the Board of Governors extends until August 23, 1954, the time within which to establish the branch.

Approved unanimously.

  
Secretary