

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 5, 1954. The Board met in the Board Room at 11:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Thompson, Federal Reserve Examiner, Division of Examinations

Chairman Martin referred to the request of United Mine Workers of America, made at a conference with Chairman Martin and Governor Mills and members of the Board's staff on July 28, 1954, for reconsideration of the position taken by the Board in its letter of July 23, 1954, to Mr. Welly K. Hopkins, Counsel for the union. Chairman Martin also referred to the discussion at the meeting on Monday, August 2, 1954, and to the understanding that further consideration would be given to the matter at a meeting today in view of the fact that Governor Robertson had been giving special study to what the policies of the Board should be with respect to determinations under section 301 of the Banking Act of 1935, especially in situations where only one bank was involved. He then called upon Governor Robertson for comment upon the union's request for reconsideration of the position taken in the Board's letter of July 23.

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Governor Robertson made a statement substantially as follows:

My feeling is contrary to what I understand the Board has been thinking while I have been away. As I see it, we acted at our meeting on July 22, 1954, with a view to facilitating the consolidation of The National Bank of Washington and the Hamilton National Bank without putting up any road blocks. I understand that the union feels that we may have eliminated one road block but that we have put up another by requiring that they file an application for a voting permit to vote the stock of the two banks. They state that their trustees are located in different parts of the world and that this agreement can not be filed without getting 32 persons to agree to it. I doubt that they need the vote of all 32 persons in order to file the application. I think they ought to be able to file the application and go ahead with the consolidation after we have issued the voting permit, and I would not make a redetermination of their status under section 301 until later.

The alternative to this procedure - and the only alternative as I see it - is for the Board to make a determination at this time as to whether the union is engaged, directly or indirectly, as a business in the holding of bank stocks, or the managing or controlling of banks. We either have or can get the information needed to make such a determination promptly. Therefore, it is my feeling that the Board should either make the determination at this time or that it should stand on the position taken in its letter of July 23, and let the union work out its internal difficulties. I would stand on our letter of July 23.

Chairman Martin stated that he felt this presented the alternatives. His inclination would be to make a determination at this time that the union is not engaged in the business of holding bank stocks, or managing or controlling banks. He would base this determination on the fact that to make the union a holding company for this purpose would not be consistent with the intention of the legislation in connection

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with which the Congress indicated that a labor union which held bank stock might be exempted from the requirements of a holding company affiliate. Chairman Martin stated that the union is primarily an organization for promoting the welfare of its members and that he could understand its unwillingness to submit its books to examination by a bank supervisory agency. He reiterated the view that the statute was not intended to cover this situation.

During a discussion of the alternatives available to the union and the agreement which the union would be required to make in signing the application for a voting permit, Chairman Martin said that, on further consideration, he felt that the union would have reason for taking the matter to the courts if the Board stood on its letter of July 23, and that he did not feel it wise for the Board to invite litigation unless it felt quite certain of the soundness of the position it was taking in a specific case. In view of the provisions of the law and the statements in the committee reports at the time section 301 of the Banking Act of 1935 was enacted indicating that a labor union might be exempted from compliance with the holding company requirements, and on the basis of all of the facts presented in this case, including the conference with representatives of the union on July 28, it was his view that the Board should rescind its letter of July 23.

Governor Szymczak said that in addition to considering the provisions of the law and its legislative history as well as the fact that

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in 1952 the Board had made a determination that, on the basis of the facts as they then existed, the union should be exempted from the holding company provisions, he felt it was of importance that for many years prior to 1954 the Board had granted exemptions to holding companies in all cases where they owned, managed, or controlled not more than one bank. In the present case it was contemplated that as soon as practicable the union would have an interest in only one bank, the purpose of acquiring the additional banking assets having been to protect the union's original investment in The National Bank of Washington. In addition to this consideration, Governor Szymczak noted that the Federal Reserve Bank of Richmond had recommended that the 1952 determination of the Board be continued. For these reasons and on the basis of the facts available, it was his view that the Board should reaffirm at this time the determination it had made in 1952 that the union was not engaged in the business of owning, or managing or controlling, banks.

Mr. Carpenter suggested that this might be a good occasion for the Board to take another look at the fundamental policy it wished to follow in making determinations under section 301 of the Banking Act of 1935 where only one bank was involved. He felt that the policy the Board had followed for many years prior to 1954 had been a sound one in terms of the fundamental purposes of the statute with respect to bank holding companies, which had been directed at control of group banking and which did not have in mind a single-bank situation. In other words, it appeared

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to be clear that the Board was given authority under section 301 to determine that a holding company which controlled only one bank was not engaged in the business of managing or controlling banks. Mr. Carpenter felt that from the supervisory standpoint the Board and the public interest had not suffered any inconvenience by following the rule in the past where holding companies owning or controlling only one bank were relieved of the holding company requirements, and he did not feel that the Board had gained anything by abandoning that rule earlier this year. He therefore suggested that the Board give consideration at this time to the policy it would follow in the future in this respect.

Governor Robertson stated that he would disagree with such an approach. He felt that to exempt automatically a holding company which controlled only one bank would be going contrary to the wording of the statute, and he did not think the Board should confuse the one-bank rule with other questions raised by the United Mine Workers case. In any event, at the present time two banks were involved in the United Mine Workers case; if the Board were now to determine that United Mine Workers was not engaged in the business of owning, or managing or controlling, banks it would be exempting the union at a time when it actually controlled two separate banks.

Chairman Martin then suggested that inasmuch as Governor Mills, who had been unable to be present at the meeting this morning, would be

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available this afternoon, the Board meet again at 2:30 p.m. with a view to reaching a decision in the matter after further consideration.

There was agreement with this suggestion and with a further suggestion that in the interim Mr. Vest prepare a draft of letter to United Mine Workers which would rescind the position taken in the Board's letter of July 23 and re-affirm the determination stated in the Board's letter of January 3, 1952, that United Mine Workers was not now engaged in the business of owning, or managing or controlling, banks.

There were presented requests for authorization for proposed travel on official business of the Board as follows:

Susan S. Burr, Assistant Director, Division of Research and Statistics. To travel to La Grange, Indiana, August 12-14, 1954, to participate in the Purdue Workshop on Economic Education.

Glenn M. Goodman, Assistant Director, Division of Examinations. To travel to Chatham, Virginia, August 5 and 6, 1954, for the purpose of developing records in connection with the Inter-Agency Bank Examination School.

Glenn M. Goodman, Assistant Director, Division of Examinations. To go to New York for approximately four days to conduct an examination of The Chase Bank, New York.

Approved unanimously.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the close of the morning session except that Governor Mills and Mr. Hexter, Assistant General Counsel, were also present and Mr. Young was not present.

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At Chairman Martin's request, Governor Robertson restated in summary form the views he had expressed during the morning session concerning the request of United Mine Workers, namely, that he felt there were two alternatives for the Board to consider: (1) to permit its letter of July 23 to stand and to leave to United Mine Workers the working out of its internal problems, and (2) to determine on the basis of the facts available whether the union was entitled to exemption under section 301 of the Banking Act of 1935 from the holding company requirements.

Mr. Vest then distributed, at Chairman Martin's request, a draft of a proposed letter to United Mine Workers of America which he had prepared since the close of the morning session and which would state that the Board rescinded the position taken in its letter of July 23, 1954, thus leaving in effect the determination made on January 3, 1952.

Governor Mills said that he felt the Board should relate its decision to the intent of the bank holding company law which, as he understood it, was directed toward the control of unsound banking practices which might develop in holding company-controlled multiunit banking systems which could not be as readily controlled through the usual bank examination and supervision as an individual bank. In an instance where a single bank was involved, Governor Mills felt that the only reason for making the holding company subject to this provision of the law would be to examine into its affairs, in which he felt the Board should have no concern and which possibly would be going beyond the intent of the law.

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There followed further discussion of the alternative positions that the Board might take, during which minor revisions in the letter which had been read by Mr. Vest were suggested.

At the conclusion of the discussion, the Board voted to approve a letter to Mr. Welly K. Hopkins, Counsel, United Mine Workers of America, Washington, D. C., reading as follows, Chairman Martin and Governors Szymczak, Vardaman, and Mills voting "aye" and Governor Robertson voting "no", with the understanding that copies of the letter would be sent to the Federal Reserve Bank of Richmond and the Comptroller of the Currency:

This refers to your letter of June 29, 1954, and the Board's reply of July 23, 1954, with regard to the holding company affiliate status of United Mine Workers of America under section 301 of the Banking Act of 1935. The Board's letter of July 23 was intended to afford a means by which the proposed bank consolidation could go forward, subject to the approval of the Comptroller of the Currency, and to remove any obstacles from such consolidation insofar as any action by the Board under the holding company affiliate statutes was concerned. The Board's letter stated a tentative position, with the thought, as expressed therein, that you might wish to discuss the matter with the Board and present additional information in order that the question might be further considered before the Board expressed a definitive opinion. In response to that letter, you, Mr. Colton, Mr. Whiteford, Mr. Denit, and Mr. Frost discussed this matter in some detail with Chairman Martin, Governor Mills and certain members of the Board's staff at the Board's offices on July 28.

You and your associates pointed out that compliance with the Board's letter would involve a considerable delay, since it would require substantial time to obtain the necessary action to duly authorize an application by United Mine Workers for a voting permit; that this delay would be injurious to the banks involved; and that the consummation of the proposed consolidation with as little delay as possible would be in the interests of the banks involved and in the

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public interest.

Because of these and other considerations which were brought out at the conference on July 28, you and your associates requested that the Board take action which would permit the proposed consolidation to take place without the necessity for obtaining a voting permit at this time. On the basis of the considerations brought out at the conference, the Board has reconsidered and now rescinds the position taken in its letter of July 23, 1954, thus leaving in effect the determination made on January 3, 1952, with respect to United Mine Workers of America pursuant to section 301 of the Banking Act of 1935.

This letter is written with the understanding that action to effect the consolidation is to take place promptly, and the Board reserves the right to reconsider the question of its determination under section 301 with respect to United Mine Workers at any time after such consolidation. Any such reconsideration of the question will, of course, be made on the basis of all the facts and circumstances then existing.

Governor Robertson said that he had been advised informally that, on the basis of a letter such as the foregoing, the Office of the Comptroller of the Currency would permit the consolidation of The National Bank of Washington and the Hamilton National Bank.

Messrs. Vest, Hostrup, Hexter, and Thompson withdrew from the meeting at this point.

Chairman Martin stated that Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston and Chairman of the Conference of Chairmen of the Federal Reserve Banks, had raised the question whether, in conjunction with the meeting of the Chairmen's Conference to be held this fall, it would be desirable to have a meeting to which all head office directors of the twelve Federal Reserve Banks were invited. He said

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that dates tentatively under consideration were Thursday and Friday, December 2 and 3, 1954, with the thought that one of those days would be devoted to a meeting of the chairmen with the Board of Governors, while the other would be used for the proposed meeting of all head office directors.

During a general discussion of the desirability of inviting all head office directors to a meeting and the consideration given in the past to such a meeting, it was suggested that, as an alternative to the suggestion made by Mr. Hodgkinson, consideration might be given to inviting the head office and branch directors of two of three Reserve Banks other than New York and Minneapolis to meet in conjunction with the Chairmen's Conference this fall.

In the course of the discussion, Chairman Martin suggested that, inasmuch as a decision on whether to invite all head office directors to come to Washington need not be reached until around October 1, the Board defer action on this question until the latter part of September when all members of the Board, including Messrs. Miller and Balderston, could give further consideration to the matter. In this connection, Governor Robertson suggested that Mr. Hodgkinson now be advised that the Board concurred in setting December 2 and 3, 1954, as days for the next meeting of the Chairmen's Conference.

These suggestions were approved unanimously.

Mr. Nelson, Assistant Director, Division of Examinations, and Mr. McClelland, Federal Reserve Examiner, Division of Examinations, entered the room at this point.

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Governor Robertson referred to a request submitted by the Federal Reserve Bank of St. Louis in which the Lincoln Bank and Trust Company, Louisville, Kentucky, requested permission to establish a branch on Shelbyville Road, approximately one and one-half miles east of the city limits of Louisville in a growing business community. He stated that the same bank was also requesting approval of the establishment of a branch on Bardstown Road in the city of Louisville. The Federal Reserve Bank of St. Louis recommended approval of the establishment of both branches. Governor Robertson went on to say that consideration of the various factors usually considered in connection with branch applications led him to the conclusion that the Board should approve establishment of the branch on Bardstown Road, provided it was placed in operation within nine months. With respect to the proposed Shelbyville Road branch of the Lincoln Bank and Trust Company, however, Governor Robertson stated that a complicating element was the fact that the Kentucky banking authorities had granted permission to the Bank of Louisville, a nonmember bank, to establish a branch in the Shelbyville Road area. The Lincoln Bank and Trust Company had deposits of some \$63 million and three banking offices, while the Bank of Louisville had deposits of some \$13 million and two banking offices. It was Governor Robertson's view that under all the circumstances it would be desirable for the Board to approve the establishment of the Shelbyville Road branch by the Lincoln Bank and Trust Company, provided the branch

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was not established prior to June 1, 1955, nor later than September 1, 1955. Such a condition, he noted, was without precedent insofar as the Board and the Office of the Comptroller of the Currency were concerned. However, it was his view that in the circumstances, the proposed action would enable the smaller nonmember bank to have a reasonable period within which to become established prior to having the added competition of the proposed branch of the larger Lincoln Bank and Trust Company. At the same time the procedure would not deprive the growing area of needed banking services but would simply defer until at least next June the opening of an additional banking office which was not immediately needed in the community from the standpoint of banking services.

Governor Vardaman raised the question whether the procedure suggested by Governor Robertson would be unduly paternalistic in terms of the consideration that would thus be shown for the smaller nonmember bank. He stated that while he would concur in a decision of the majority of the Board, he was fearful that such an arrangement would set an undesirable precedent from the standpoint of Federal supervision of banking.

At the conclusion of the discussion, unanimous approval was given to letters to the Board of Directors, Lincoln Bank and Trust Company, Louisville, Kentucky, in the following form, for transmittal through the Federal Reserve Bank of St. Louis:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors

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approves the establishment of a branch by Lincoln Bank and Trust Company, Louisville, Kentucky, on Bardstown Road in the vicinity of Gardiner Lane in the City of Louisville, provided the branch is established within nine months from the date of this letter and the approval given by the Department of Banking of the State of Kentucky with respect to such branch is effective at the time it is established.

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors approves the establishment of a branch by Lincoln Bank and Trust Company, Louisville, Kentucky, on Shelbyville Road east of Hubbard's Lane and approximately one and one-half miles east of the limits of the City of Louisville, provided the branch is not established prior to June 1, 1955, nor later than September 1, 1955, and the approval given by the Department of Banking of the State of Kentucky with respect to such branch is effective at the time it is established.

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

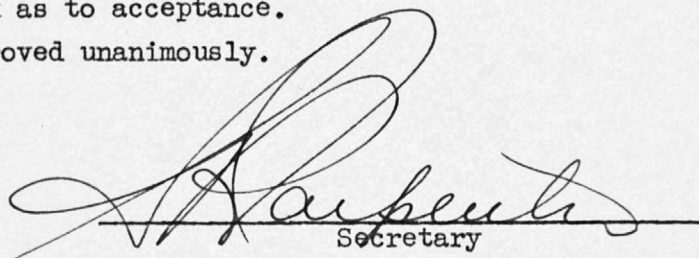
Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 4, 1954, were approved unanimously.

Telegram to Mr. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

Board will interpose no objection to your Bank's calling for bids for proposed addition to and alterations of the Omaha branch building on basis of plans and specifications referred to in your letter of July 30, 1954.

In accordance with customary procedure, a summary report of bids should be forwarded to Board, together with recommendation of Bank as to acceptance.

Approved unanimously.



Secretary