

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 29, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Sloan, Director, Division of Examinations  
Mr. Marget, Director, Division of International Finance  
Mr. Solomon, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Dembitz, Assistant Director, Division of International Finance  
Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance

Reference was made to the application of Union Trust Company of Maryland, Baltimore, Maryland, submitted through the Federal Reserve Bank of Richmond, for permission to establish a branch at the corner of York Road and Walker Avenue, Baltimore County, Maryland. The State banking authorities had approved the branch, which was to be located on the second floor in a branch of a Baltimore department store. The Federal Reserve Bank of Richmond recommended approval of the application by the Board of Governors, but the Division of Examinations, for reasons related to the location of the proposed branch which were set forth in a

9/29/54

-2-

memorandum dated September 14, 1954, recommended disapproval.

Governor Vardaman made a statement in which he referred to the fact that, aside from the location of the proposed branch within the department store, all factors involved appeared to point toward approval of the application. In line with his previously stated philosophy as to the general policy which the Board should follow in bank supervisory matters, Governor Vardaman expressed the view that in this case the Board's disapproval might constitute unwarranted interference in commercial banking affairs. He noted that the applicant's board of directors presumably had reviewed the matter thoroughly and that the State banking authorities apparently were satisfied. Governor Vardaman then mentioned two cases in the St. Louis area which he considered pertinent. In one of these, a bank was located for many years in a department store with results which Governor Vardaman termed successful and valuable, especially for the women of the community. The other case involved a bank situated in the stock yards of East St. Louis, with the operations of the institution highly specialized in nature. Governor Vardaman declared himself as interested in having the Board do everything possible to foster the normal and healthy development of banking, referred in this connection to competition received by banks from organizations such as savings and loan associations and credit unions, and stated that there did not appear to him to be a great deal of difference between the operation of a branch in a department store and one in a fringe parking area, if the matter was to be considered from the standpoint of competitive advantage.

9/29/54

-3-

Governor Robertson stated that the question presented by the application of the Union Trust Company was not a new one. After relating examples of similar requests which had come before the Comptroller of the Currency in the past, he said that so far as he knew it had been the general policy of the three Federal bank supervisory agencies not to approve such applications, on the grounds that an unfair advantage would be accorded and that banking institutions should have their offices in public rather than private locations. He also said that in his opinion the supervisory agencies must not permit competition to reach the point where smaller banks in a community would be weakened by allowing the larger banks to become situated in places such as department stores and thus obtain business not available to smaller institutions which could not afford similar arrangements. After referring to the supervisory policy as one which he considered sound, Governor Robertson said that the supervisory authorities had been given certain duties to perform and that they must endeavor to carry out those duties in a manner providing the greatest benefit to all banking institutions and to the general public.

Chairman Martin indicated that his views were similar to those expressed by Governor Robertson. He felt that in the case of a fringe parking area of the type referred to by Governor Vardaman, the bank supervisory agencies must be cautious in permitting the establishment of bank branches where the area was controlled by one party or where there would be an interlocking relationship between the ownership of the parking area and the ownership of the bank. He considered an airport quite

9/29/54

-4-

different from a department store, however, in that an airport is a public facility used by all travelers.

Governor Mills stated that he would favor disapproving the application under consideration because the bank presumably could obtain facilities in the shopping center area where it wished to operate which would be available to the general public and not only to those entering the department store. He suggested, however, that there might be occasions where banks should be permitted to operate in a specialized type of building, such as an airport building or a stock yard building of the kind mentioned by Governor Vardaman. The typical case of this kind would be one where the general public funnels into a single area. On the other hand, Governor Mills said, he would not place as much emphasis as Governor Robertson upon interbank competitive factors, or at least would not consider such factors controlling in a particular case.

Governor Szymczak noted that the location of a bank in a department store might cause the general public to draw erroneous conclusions as to the relationship between the bank and the owners of the department store.

Following additional discussion, approval was given, with Governor Vardaman voting "no", to a letter to the Board of Directors, Union Trust Company of Maryland, Baltimore, Maryland, reading as follows, for transmittal through the Federal Reserve Bank of Richmond, along with a letter of transmittal to the Federal Reserve Bank stating that if the trust company

9/29/54

-5-

was able to arrange for suitable separate quarters in the area, the Board would reconsider the application:

The Board of Governors of the Federal Reserve System has received your request, submitted through the Federal Reserve Bank of Richmond, for permission to establish a branch to be located on the second floor of a branch store of Stewart and Company, now under construction, at the corner of York Road and Walker Avenue, Baltimore County, Maryland.

After considering all the information submitted, you are hereby advised that the Board of Governors does not feel justified in approving the application since the proposed location in a department store is believed to be undesirable and not in the public interest. It is felt that a banking facility should have its own separate quarters with its own outside entrance available for its customers and not located so as to be identified in the public mind as a part of another commercial enterprise.

At the meeting on August 6, 1954, the Board authorized publication in the Federal Register of a notice inviting comments on a proposed amendment to Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act. The amendment, developed in connection with the proposed organization of a foreign finance company by The Chase National Bank of the City of New York, would (1) permit an Edge corporation to issue unsecured obligations if the corporation does not receive deposits and meets certain specified conditions, and (2) relax somewhat the limitations on loans which such a nondeposit Edge corporation may make to one borrower.

Prior to this meeting, there had been sent to the members of the Board copies of a memorandum from Mr. Solomon dated September 15, 1954, recommending that the proposed amendment to Regulation K be adopted by

9/29/54

-6-

the Board in the same form as published in the Federal Register except for two minor clarifying changes which would not alter the substance. To the memorandum were attached copies of letters received from the twelve Federal Reserve Banks and from Bank of America, New York, New York, these representing the only comments received following publication of the proposed amendment in the Federal Register.

In discussing the comments received, Mr. Solomon's memorandum brought out the following points:

- (1) The amendment would meet the needs of the Chase National Bank in organizing its proposed foreign finance company.
- (2) Some of the suggestions received related to additional changes in Regulation K, but the Board's staff felt it preferable not to go further at this time than to meet the immediate situation arising out of the Chase National Bank's proposal.
- (3) Upon receipt of the report currently being prepared by the Special Committee on Foreign Operations of American Banks headed by Mr. Neal, First Vice President of the Federal Reserve Bank of Boston, the Board could consider what other changes in Regulation K would be desirable. This might include consideration of a suggestion by Bank of America, New York, that an Edge corporation be permitted to issue unsecured bonds, debentures, etc., even though it also receives deposits.
- (4) The suggestion by Bank of America might have reflected a failure on the part of that institution to understand that the presently proposed amendment was not intended as a general revision of Regulation K but merely to meet a particular proposal that had been presented to the Board.
- (5) The Neal Committee had indicated that the proposed amendment would in no way conflict with the views of the Committee.

At the request of the Board, Mr. Solomon reviewed the circumstances which had given rise to the proposed amendment and stated reasons why it was deemed preferable not to go further for the present than to make those changes in Regulation K which would meet the needs of the Chase National Bank in connection with the organization of the proposed foreign finance

9/29/54

-7-

company. He noted that if additional changes were considered desirable at a later time, it would be easier to broaden the regulation further rather than to act in a restrictive way.

Inquiry was made as to when the Neal Committee's report might be expected, and reference was made to a letter from Mr. Neal to Governor Szymczak dated September 27, 1954, in which Mr. Neal stated that the Committee expected to have a draft by October 15 and hoped to have its final report ready by the middle or end of November.

In response to a question by Governor Vardaman, Mr. Solomon confirmed that no one would be "hurt" by the proposed amendment in that its effect was to liberalize rather than to restrict. Governor Vardaman then inquired whether the Board would be morally bound not to modify the language of the proposed amendment when it considered other amendments to Regulation K on the basis of the Neal Committee report. Mr. Solomon responded that it was for that reason that the views of the Neal Committee on the proposed amendment were sought and that the Committee was unanimously of the opinion that nothing granted by the amendment would conflict with the Committee's recommendations.

Governor Vardaman suggested that if the Board adopted the amendment, it be made clear to the Chase National Bank that, as already had been pointed out in discussions with the Bank's representatives, the amendment was merely intended to deal in a limited fashion with certain specific problems and that the Board might wish to make changes in the amendment or other provisions of Regulation K in the light of further

9/29/54

-8-

developments, such as the recommendations of the Neal Committee. The other members of the Board indicated that they agreed with Governor Vardaman's suggestion.

During a further discussion, Governor Robertson referred to section 1(c)(2) of the proposed amendment and suggested a change to conform to the language of exception 10 to section 5200, United States Revised Statutes. He stated that otherwise the impression might be gained that the difference in language was intentional for some particular reason. Following a statement by Mr. Solomon that he felt such a change could be made without republishing the proposed amendment in the Federal Register, the other members of the Board indicated that they favored the change.

Mention was made of the general policy of the United States Government to promote American foreign trade and to the fact that the proposed amendment would be consistent with that general policy.

At the conclusion of the discussion, unanimous approval was given to an amendment to Regulation K in the following respects, effective September 29, 1954, with the understanding that an appropriate notice would be sent to the Federal Register:

1. By adding the following new subsection (c) after subsection (b) of section XI, and relettering the present subsection (c) to (d):

(c) Notwithstanding subsections (a) and (b) of this section, a corporation may, at its option, comply with the following requirements in lieu of those stated in said subsections (a) and (b):

(1) The corporation shall not engage, either within the United States or abroad, in the business of receiving deposits.



9/29/54

-9-

(2) Loans or other credits acquired or guaranteed by the corporation shall have a maturity of not more than 5 years at the time they are so acquired or guaranteed: Provided, however, That this limitation shall not apply (i) to a loan or other credit, or any scheduled installment of a loan or credit, maturing within 10 years, but the aggregate amount of loans or credits or installments of loans or credits excepted under this clause (i) shall not exceed 100 per cent of the corporation's capital and surplus; or (ii) to other loans or credits, or scheduled installments of loans or credits, maturing within 10 years to the extent that they are secured or covered by unconditional guaranties, commitments or agreements to take over or purchase made by the United States or by any department or establishment of, or corporation wholly owned by, the United States.

(3) The corporation shall carry on its business in accordance with sound financial policies including, among other considerations, a proper regard to the relationship between its assets and the maturities of its obligations, so as to give reasonable assurance that the corporation will be in a position to pay its obligations as they mature.

(4) All obligations of any kind, regardless of maturity or payee, issued by the corporation shall contain a provision, or shall be issued under an agreement, which shall provide that the corporation will not, during the time any such obligations remain outstanding:

(i) Issue any obligations if immediately thereafter the assets of the corporation, excluding notes, drafts, bills of exchange and other evidences of indebtedness that are in default as to either principal or interest, would be less than 110 per cent of the aggregate principal amount of all obligations of the corporation;

(ii) Mortgage, pledge or otherwise subject any of its assets to any lien or charge to secure any indebtedness for borrowed money or to secure any other obligation of the corporation, unless each person holding any of the corporation's unsecured obligations, which would remain outstanding after such transaction, either grants his consent or is provided with security substantially equivalent in value to that provided by such mortgage, pledge, lien or charge;

(iii) Sell, lease, assign or otherwise dispose of all or substantially all its assets; or

9/29/54

-10-

(iv) Declare or pay any dividend (other than a dividend payable in stock of the corporation) or authorize or make any other distribution on any stock of the corporation otherwise than out of the earned surplus of the corporation as determined in accordance with generally accepted accounting principles.

2. By adding the following sentence at the end of the first paragraph of section XV:

In the case of a corporation which does not engage, either within the United States or abroad, in the business of receiving deposits, the limitations contained in this paragraph regarding the total liabilities of one borrower (1) shall be increased from 10 per cent to 20 per cent, and (2) shall not apply to the extent that the liabilities are secured or covered by unconditional guaranties, commitments or agreements to take over or to purchase, made by the United States or by any department or establishment of, or corporation wholly owned by, the United States.

In this connection, unanimous approval also was given to a letter to the Presidents of all Federal Reserve Banks in the following form:

Attached for your information is a copy of an amendment to Regulation K. The amendment, which is effective September 29, 1954, is substantially the same as the proposed amendment which was forwarded to you with the Board's letter of August 6, 1954, but the wording of some provisions, such as the one relating to the pledging of assets while unsecured obligations are outstanding, has been modified in an effort to make the meaning more readily apparent.

It should perhaps be mentioned that the amendment was designed merely to meet certain specific problems and was not intended as a general revision of the regulation. For this reason the amendment does not attempt to deal with certain aspects of the regulation which were referred to in the comments of some Reserve Banks. For example, the amendment does not delete the obsolete "gold clause" provision in section XI(a)(1) of the regulation, since none of section XI(a) would apply to obligations authorized by the amendment.

Please make whatever distribution of the amendment you think is desirable in your district. The Board will be glad to furnish you printed copies of the amendment if you will indicate the number you desire.

9/29/54

-11-

Unanimous approval also was given to a letter in the following form to Mr. Roy C. Haberkern, Jr., Milbank, Tweed, Hope & Hadley, 15 Broad Street, New York, New York, for transmittal through Mr. Tiebout, Vice President and General Counsel of the Federal Reserve Bank of New York:

There is enclosed for your information a copy of an amendment to Regulation K which the Board has approved effective September 29, 1954.

It is hoped that the amendment may be of assistance in connection with the proposals of the Chase National Bank, which have been discussed with representatives of the Board, for organizing a foreign finance company.

You will recognize, of course, as was pointed out in discussions of this matter, that the amendment is merely intended to deal in a limited fashion with certain specific problems relating to those proposals, and that the Board may wish to make changes in the amendment or other provisions of Regulation K in the light of further developments such as any recommendations which may be made by the Board's special committee on foreign operations of American banks. You will recall that you discussed this and other matters with that committee.

All of the members of the staff then withdrew and the Board went into executive session.

Following the meeting, Chairman Martin informed the Secretary's Office that the following actions were taken during the executive session:

1. Assignments to individual members of the Board were discontinued effective October 1, 1954, with the understanding that service of members of the Board on the following list of committees would be continued until further action by the Board:

9/29/54

-12-

Chairman Martin:

1. Chairman of Policy Group on Foreign Interests.
2. Member of Special Advisory Committee in connection with the preparation of a history of the Federal Reserve System under a grant from the Rockefeller Foundation.

Governor Szymczak:

1. Alternate for Chairman on National Advisory Council.
2. Member of Policy Group on Foreign Interests.
3. Member of high level policy committee appointed to make a study of the possibility of continued additional requests for the System to take over depository or fiscal agency operations.
4. In charge of special study of the proper scope of activities of Edge Act corporations.

Governor Mills:

1. Chairman of ad hoc committee to direct a study of the discount and discount rate mechanism.
2. Member of the Advisory Board on Economic Growth and Stability.
3. Trustee of the Retirement System and associate of the Investment Committee of the Retirement System.
4. Member of committee on objectives of System research.

Governor Robertson:

1. Member of interagency committees working on problems arising from possible enemy attack.
2. Member of interagency committee on bank supervisory matters.
3. Chairman of committee making a study of consumer credit.
4. Chairman of informal advisory committee on interagency bank examination school.

9/29/54

-13-

2. It was agreed that the agenda for meetings of the Board would be prepared by Chairman Martin and Governor Szymczak with the assistance of the Secretary, that all matters requiring Board action would be brought before the Board at a meeting at which, in so far as possible, all members are present, and that the procedure for presenting matters to the Board would be as follows:

1. Items requiring Board action, when ready for consideration by the Board, will be circulated among the members of the Board for discussion at a meeting. Circulation to members of the Board will be in order of their seniority, except that they will go to the Chairman last. Since items will not be circulated for approval, the initialing of a memorandum or proposed letter by a member of the Board will be an indication that he has seen the item and understands that it will be placed on the agenda for consideration at a meeting. (In some cases, memoranda will be duplicated and copies furnished to each member of the Board, thus obviating the need for circulation of a single copy of the memorandum.) In the absence of exceptional circumstances items to be placed on the agenda will be circulated (or copies distributed) at least 24 hours in advance of the meeting at which they are to be considered. From the standpoint of procedure, items will fall into two broad general categories as follows:

- (a) Items which involve proposed action which would be in accordance with established policy or which raise no new questions and which ordinarily could be acted upon at the meeting at which they are first presented.
- (b) Items which involve new or special considerations or which require determination of policy and which may or may not be acted upon at the meeting at which they are first presented.

In the case of any item on which further work is required as a basis for action by the Board, the matter will be referred on an ad hoc basis to a member or members of the Board or the staff or both for report or recommendation.

2. In some cases because of exceptional circumstances it may be necessary that a matter be considered by the Board, at least on a

9/29/54

-14-

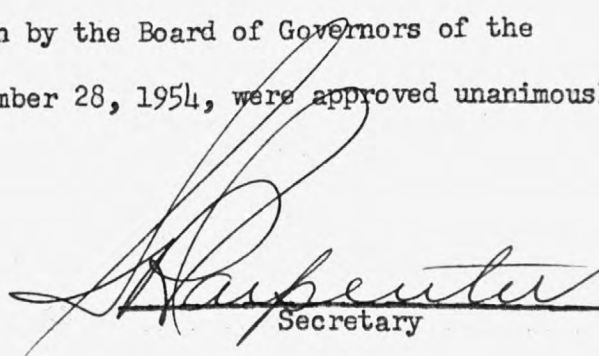
preliminary basis, without having had a memorandum circulated prior to a meeting and without having listed the item on the agenda. In these exceptional cases, and depending upon the circumstances, the matter may either be acted upon by the Board at the meeting at which it is first discussed or may be referred on an ad hoc basis to a member or members of the Board or the staff or both for report or recommendation.

Chairman Martin also advised the Secretary's Office that during the executive session he reported to the Board that, in accordance with the understanding at the meeting on September 28, he had discussed with Treasury Department officials the request contained in a letter dated September 20, 1954, from Mr. Burgess, Under Secretary for Monetary Affairs, that the Board pay the cost of a luncheon on November 8, 1954, for those attending the annual conference of State chairmen, State directors, and top volunteers in the savings bond program.

Chairman Martin stated that the Board approved unanimously paying the cost of the luncheon, which it was understood would be held at a local hotel and at which he (Chairman Martin) would make a brief address.

The meeting then adjourned. During the day the following additional action was taken by the Board with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 28, 1954, were approved unanimously.

  
Secretary