

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 21, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman

Mr. Szymczak

Mr. Mills

Mr. Robertson

Mr. Balderston

Mr. Carpenter, Secretary

Mr. Sherman, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Vest, General Counsel

There was presented a request from Mr. Leonard, Director, Division of Bank Operations, for authority to travel to St. Louis, Missouri, as associate member of the Subcommittee on Collections during the period January 9-12, 1955, inclusive.

Approved unanimously.

The following matters, which had been circulated among the members of the Board, were presented for consideration and the action taken in each instance was as indicated:

Memorandum from the Division of Personnel Administration dated December 15, 1954, recommending that the following employees be authorized to participate in a three-day school at the Internal Revenue Bureau in January 1955, in order to enable them to assist other members of the Board's staff in completing income tax returns:

Mary M. Durkan, Technical Assistant,
Division of Bank Operations,
John Kakalec, Accountant, Office of
the Controller,
John N. Lyon, Assistant Federal Reserve
Examiner, Division of Examinations.

Approved unanimously.

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Letter to The Chenango County National Bank and Trust Company of Norwich, Norwich, New York, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Chenango County National Bank and Trust Company of Norwich is now authorized to exercise will be forwarded to you in due course.

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

Messrs. Sloan, Director, Division of Examinations, Nelson, Assistant Director, Division of Examinations, Hexter, Assistant General Counsel, and Hooff, Assistant Counsel, entered the room at this point.

In accordance with the understanding at the meeting on December 13, 1954, Messrs. Hill, Vice President, and Vergari, Counsel and Assistant Secretary, of the Federal Reserve Bank of Philadelphia met with the Board on Monday, December 20, 1954 for the purpose of discussing the proposed arrangement whereby the Montgomery Norristown Bank and Trust Company, Norristown, Pennsylvania, a member bank, would transfer its title insurance plant and operations to a newly formed title insurance company, receiving

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in return approximately 40 per cent of the stock of such company.

Mr. Vest stated that he felt the opinion expressed in Mr. Hexter's memorandum of November 12, 1954 to the effect that the proposed transaction was prohibited by section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act was not open to serious question. However, he said that he could see no public policy against permitting the transaction except as implied in the statute and, in fact, there was much to be said in favor of permitting the member bank to dispose of its title insurance business in the manner suggested if the Board could find a way to do so. Mr. Vest was of the opinion that comments made by Messrs. Hill and Vergari did not add anything to the legal views previously expressed, and he (Mr. Vest) did not think that the Board should take a position indicating that the law would permit a transaction whereby the member bank would acquire stock in the proposed separate title insurance company in return for its title insurance business. Mr. Vest went on to suggest that the Board might either "interpose no objection" to the bank proceeding along the lines it proposed, or, preferably, the Board might decide not to reply to the letter received from the bank requesting permission to effect the transaction, but to advise the Federal Reserve Bank of Philadelphia by telephone that the Board would not reply to the letter.

Mr. Hexter stated that he agreed with the views expressed by Mr. Vest. It seemed clear that any acquisition of stock in the title company by the member bank in exchange for assets of the bank was covered by the

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law, he said, and if the Board was not prepared to follow up an interpretation of the law by appropriate action in the event the member bank proceeded with the transaction, a course such as Mr. Vest suggested would be an alternative.

Mr. Hooff stated that he did not think the transaction contemplated by the Montgomery Norristown Bank and Trust Company was the kind of situation Congress had in mind in enacting the applicable provision of the law but that there appeared to be no question but that the proposed transaction was prohibited by the statute. Under the circumstances, Mr. Hooff felt the Board would not be justified in forcing the bank out of the System if it were to go ahead with the transaction.

Mr. Sloan stated that from the standpoint of policy he felt the proposed separation of the title business from the member bank would be desirable and if the Board found a way of permitting it, he would be glad to have the transaction completed. Mr. Sloan noted that there appeared to be some inequities involved in such situations since a member bank would be precluded by the statute from disposing of its title business in return for stock in the separate title company, whereas a nonmember bank would not be precluded from doing so.

Chairman Martin stated that he felt it would be a mistake for the Board to take a position that would either preclude the transaction or force the member bank out of the System, if there was any reasonable way to avoid doing so. He felt that there was an inequity in the position of

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the member bank as compared with that of a nonmember bank. To point this up could result in unfortunate misunderstandings which should be avoided if at all possible. Chairman Martin also said that in his judgment, the proposed transaction was an isolated instance and would not set a precedent for other cases.

Governor Szymczak stated that there appeared to be no doubt about the correctness of the legal opinion expressed in Mr. Hexter's memorandum and that in his view the question was whether the Board should make any reply to the request of Montgomery Norristown Bank and Trust Company for permission to acquire and hold a 40 per cent interest in the separate title company to be formed. Governor Szymczak favored making no reply to the letter in question.

Governor Mills stated that he shared the views expressed by Chairman Martin.

Governor Robertson stated that if the matter were to be voted upon he would find it necessary to take the position that the transaction was prohibited by the statute, but he would not object if the Board decided to follow the course of making no reply to the letter received from Montgomery Norristown Bank and Trust Company.

Governor Balderston stated reasons why he felt it would be appropriate and desirable to inform the Federal Reserve Bank of Philadelphia that the Board would not reply to the inquiry of Montgomery Norristown Bank and Trust Company.

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After further discussion, it was agreed unanimously that no reply would be made to the letter received from Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, under date of October 26, 1954, transmitting the request of Montgomery Norristown Bank and Trust Company, dated October 11, 1954. In taking this action, it was understood that Mr. Sloan would call Mr. Hill on the telephone and advise him of the Board's decision.

All of the members of the staff with the exception of Messrs. Carpenter and Thurston withdrew at this point and Mr. Fauver, Special Assistant to the Board, joined the meeting.

Further consideration was given to appointments of directors of Federal Reserve Banks and branches and the following actions were taken:

1. It was agreed to send the usual telegram to Chairman Woodward, and that Governor Balderston would talk with him over the telephone, asking him to ascertain whether Mr. George Matthews Modlin, President of the University of Richmond, would accept appointment as a Class C director of the Federal Reserve Bank of Richmond for the term beginning January 1, 1955, if tendered.

2. It was understood that Governor Balderston would discuss with Chairman Harris circumstances surrounding the suggestion that Mr. A. Carter Myers, Vice President of the Knoxville Fertilizer Company, Knoxville, Tennessee, be appointed a director of the Nashville Branch of the Federal Reserve Bank of Atlanta for the term beginning January 1, 1955, and that if Chairman Harris had no objection Mr. Myers would be appointed if it were ascertained that he would accept.

3. It was understood that Governor Szymczak would call Chairman Perrin at the Federal Reserve Bank of Minneapolis and inform him that it might be 10 days or two weeks before an appointment would be made of a Class C director to fill the vacancy at the Minneapolis Bank.

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4. It was agreed to ask Chairman Hall to ascertain whether Mr. George Bailey, lawyer and rancher, of Walden, Colorado, would accept appointment as director of the Denver Branch of the Federal Reserve Bank of Kansas City for the term beginning January 1, 1955, Mr. Harold K. Linger having advised that it would not be possible for him to accept appointment to serve in that capacity.

Secretary's Note: It having been ascertained that Mr. Myers would accept the appointment, the following telegram was sent to him on December 23, 1954:

Board of Governors of Federal Reserve System has appointed you director of Nashville Branch of Federal Reserve Bank of Atlanta for three-year term beginning January 1, 1955, and will be pleased to have your acceptance by collect telegram.

Understand you are not a director of a bank and do not hold public or political office. Should situation in these respects change during tenure of your appointment, please advise Chairman of Federal Reserve Bank of Atlanta.

Board will issue later press statement on appointments at all Federal Reserve Banks and Branches. Would be appreciated if announcement of your appointment could be deferred until release of Board's statement.

Governor Szymczak referred to informal discussions that had taken place recently with respect to the report of the Special Committee (Neal Committee) on Foreign Operations of American Banks which was submitted to the Board under date of November 22, 1954. It was stated that the report received by Governor Szymczak had been distributed to the members of the Board and interested members of its staff and that the suggestion was made yesterday that copies be sent to the Presidents of the Federal Reserve Banks, the members of the Federal Advisory Council, the Export-Import Bank, and the Comptroller of the Currency asking for any views that they might have

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to offer with respect to the report. Question was raised whether the better procedure with respect to the members of the Federal Advisory Council would be to defer sending the report until the Board had formulated its tentative views as to the action that might be taken, at which time a draft of statement of the Board's views together with a copy of the Committee report, could be sent to the members of the Council for any comments that they might have.

At the conclusion of the discussion, it was agreed that copies of the report should be sent to the Presidents of the Federal Reserve Banks, the Export-Import Bank, and the Comptroller of the Currency for any comments that they might wish to make, and that a letter should be sent to the Secretary of the Federal Advisory Council asking for his views as to whether it would be preferable to send the report to the members of the Council for comment now or to defer it until the Board's tentative views had been formulated when the draft of the Board's views could be sent with a copy of the report for the comments of the members of the Council.

It was also agreed that Governor Szymczak should call Mr. Neal, Chairman of the Special Committee, and invite him to come to Washington for a preliminary discussion of the report next week.

Governor Robertson reviewed the State member banks which, on the basis of analyses by the Federal Reserve Banks and the Board's Division of Examinations, constituted problem cases. He also reviewed briefly the principal reasons why the banks were regarded as problems and what was being done to correct the matters subject to criticism. He stated that

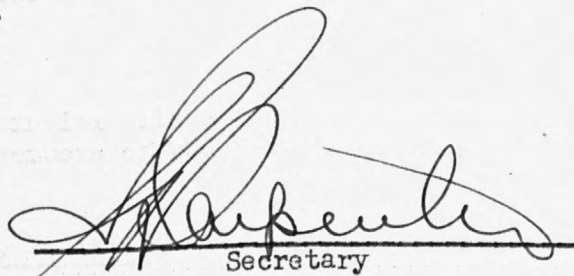
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the Federal Reserve Banks by and large were giving good cooperation in working with the banks and that everything was being done and would continue to be done to correct these situations. He pointed out that of the 71 cases, there were only 15 that had been on the list for more than three years.

At the conclusion of the discussion, it was agreed that the list of problem State member banks would be circulated among the members of the Board with the thought that, if any member of the Board wished to discuss further the situation with respect to any of the banks, that would be done.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 20, 1954, were approved unanimously.

The meeting then adjourned.


Secretary

[Faint, mostly illegible text from the reverse side of the page, including names and titles like 'Reserve Bank', 'Secretary', 'Assistant Secretary', 'Clerk', 'Assistant Clerk', 'Technical Assistant']