Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 29, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson
Mr. Shepardson

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. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Hackley, Assistant General Counsel
Mr. Cherry, Legislative Counsel
Mr. Bass, Chief, Fiscal Section, Office of the Controller

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

Letter to Mr. Woodward, Chairman, Federal Reserve Bank of Richmond, reading as follows:

> The Board of Governors approves the payment of salary to Mr. John G. Deitrick as Assistant Cashier, Federal Reserve Bank of Richmond, for the period July 1, 1955, through December 31, 1955, at the rate of $8,600 per annum, which is the rate fixed by the board of directors as indicated in your letter of June 14, 1955.

Approved unanimously.

Letter to the Board of Directors, The Colonial Trust Company, Waterbury, Connecticut, reading as follows:

The Board of Governors approves the establishment of a branch by The Colonial Trust Company, Waterbury, Connecticut, in the East End of Waterbury on Dune Street just north of Meriden Road, provided the branch is established within nine months from the date of this letter.

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

Letters to the Board of Directors, The County Trust Company, White Plains, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by The County Trust Company, White Plains, New York, at each of the following locations in the City of Yonkers, Yonkers, New York:

38 South Broadway	270 Saw Mill Road
410 South Broadway	2250 Central Park Avenue

provided that (a) the merger of the Central National Bank of Yonkers, Yonkers, New York into The County Trust Company, White Plains, New York, is effected substantially in accordance with the Plan of Merger dated April 26, 1955; (b) formal approval is obtained from the appropriate State authorities and (c) the merger and establishment of the branches are accomplished within six months from the date of this letter.

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by The County Trust Company, White Plains, New York, at No. 4 South Division Street in the City of Peekskill, New York, the present location of The Peekskill National Bank and Trust Company, provided that (a) the merger of The Peekskill National Bank and Trust Company into The County Trust Company, White

Plains, New York, is effected substantially in accordance with the Plan of Merger dated May 20, 1955; (b) formal approval is obtained from the appropriate State authorities and (c) the merger and establishment of the branch are accomplished within six months from the date of this letter.

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

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

This is in further reference to your letter of June 2, 1955, and its enclosures, concerning whether section 32 of the Banking Act of 1933, as amended, prohibits Mr. Gustav P. Heller, a partner in the firm of Heller & Meyer, East Orange, New Jersey, from continuing to serve at the same time as director of The Dover Trust Company, Dover, New Jersey, a State member bank.

So far as relevant to this case, section 32 provides that no "partner" of a firm "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve at the same time as an officer, director, or employee of any member bank." The question, therefore, is whether Heller & Meyer is "primarily engaged" in any business of the kinds described in the statute.

From the information submitted, it appears that Heller & Meyer was formed in February 1954; that the firm's main business is brokerage; that from its formation to February 1955 the firm participated as underwriter or distributor in 52 separate issues of securities, excluding open-end investment company shares distributed by the firm; but that the firm does not maintain a separate department for handling business of the kinds described in the statute, hold itself out as being in such business, or emphasize such business in its advertising.

However, including its business of distributing open-end shares, it appears that for the same period the firm's dollar volume of section 32 business totaled $530,847; that the ratio of such dollar volume to the firm's entire business was 2.8 per cent; that the gross income from section 32

business was $15,807; and that the ratio of such income to the firm's total gross income was 16.1 per cent.

The Board agrees with your view that the firm's sales of open-end shares distributed by it as principal under selling agreements with the national sponsors of several open-end investment companies and for which the firm receives a dealer's discount, plus a distribution charge, should be regarded as included among the kinds of businesses described in the statute.

The Board also agrees that only the net commissions earned by the firm on its brokerage business should be used in computing the firm's total income. As you indicated, under the split-fee arrangement between the firm and Shearson, Hammill & Co. which executes brokerage transactions for Heller & Meyer and which retains 40 per cent of the gross commissions charged to the customers, a contrary view would result in a gross income figure for the firm from its brokerage business in excess of the amount actually received and recorded by the firm.

In view of the foregoing and on the basis of its understanding of the information submitted, the Board is of the opinion that Heller & Meyer is "primarily engaged" in businesses of the kinds described in the statute. It is believed that this opinion not only is in accord with the conclusion in the Board's letter to you of June 16, 1955, concerning Robert Winthrop & Co., but also is harmonious with the result reached by the Board in 1948 with respect to the firm of Nugent & Igoe whose section 32 business at that time was considerably less important than that involved in the present case.

Accordingly, unless there is further information bearing upon the applicability of the statute which the parties concerned may wish to bring to the attention of your Bank and the Board, it is assumed that steps will be taken in due course to bring the matter in question into conformity with the statute.

Approved unanimously.

Letter to The State National Bank of Maysville, Maysville, Kentucky, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor,

administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or 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 Kentucky, the exercise of all such rights to 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 State National Bank of Maysville is now authorized to exercise will be forwarded to you in due course.

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

Letter to The First National Bank of Navasota, Navasota, Texas, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or 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 Texas, the exercise of all such rights to 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 First National Bank of Navasota is now authorized to exercise will be forwarded to you in due course.

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

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. W. M. Taylor, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated March 10, 1955, enclosing photostatic copies of an application to organize a national bank at Miami, Florida, and

requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application, made by an examiner for the Federal Reserve Bank of Atlanta, discloses conflicting opinions from persons interviewed and both favorable and unfavorable factual findings. While the persons interviewed and the investigator were practically unanimous in the opinion that the proposed location was a poor site for a banking facility, largely because of heavy concentration of traffic, the investigator felt that the proponents were too conservative in their estimation of deposit growth; that the proposed institution would have $12,000,000 deposits at the end of the third year and that the proposed capital is inadequate. Earnings prospects are only fair because of lack of loan demand in the community, but it is estimated that the institution would operate in the black in its second year and will nearly break even in the first year. Admittedly, the convenience of the immediate community would be served by the proposed facility, but the need for it is questioned because of the facilities presently available, the nearest of which is within one-half mile. There is a lack of favorable information with respect to the proposed directorate, however, and the proposed operating officer, whose services are not assured, is said to be unfamiliar with the local situation. It is suggested that the proposal may represent a promotional scheme to further the real estate development and other interests of the organizers. In the circumstances, the Board does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Approved unanimously.

In connection with the foregoing letter relating to an application to establish a national bank at Miami, Florida, Governor Vardaman stated that the facts developed during the investigation constituted ample reason, in his opinion, for recommending against approval of the application. The Reserve Bank examiner, he pointed out, added to his report a statement that the proposition had the earmarks of a promotional

scheme to further the real estate development and other business interests of the organizers. It was Governor Vardaman's thought that the Reserve Banks should be careful about including in their reports any statements which were based on supposition and were not fully supported factually.

Chairman Martin suggested that the Division of Examinations bring to the attention of the Federal Reserve Banks in an appropriate way the point mentioned by Governor Vardaman.

Reference was made to a memorandum dated June 22, 1955, from Mr. Johnson, Controller, which had been circulated to the members of the Board, recommending that an assessment of two-hundred and thirteen thousandths of one per cent of the total paid-in capital and surplus of the Federal Reserve Banks as of the close of business June 30, 1955, be levied against the Reserve Banks for the general expenses of the Board for the period July 1 through December 31, 1955, and that the Reserve Banks be instructed to pay in the assessment in two equal instalments, the first on July 1, 1955, and the second on September 1, 1955.

In accordance with the recommendation in Mr. Johnson's memorandum, the following resolution was adopted by unanimous vote, with the understanding that a copy would be transmitted to each Federal Reserve Bank with an appropriate letter over the signature of the Board's Controller:

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1955, it is necessary that a fund equal to two hundred and thirteen thousandths of one per cent (.00213) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and thirteen thousandths of one per cent (.00213) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business June 30, 1955.

(2) Such assessment, rounded to the nearest hundred dollars, shall be paid by each Federal Reserve Bank in two equal installments, the first on July 1, 1955, and the second on September 1, 1955.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

The following draft of letter to Mr. C. L. Little, Vice President, Bankers Life and Casualty Company, 4444 Lawrence Avenue, Chicago, Illinois, which had been circulated to the members of the Board, was presented for consideration:

> This refers to the request contained in your letter of May 12, 1955, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors as to the status of Bankers Life and Casualty Company, Chicago, Illinois, as a holding company affiliate if Citizens State Bank of Park Ridge is admitted to membership in the Federal Reserve System.
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> From the information supplied, the Board understands that the nature of the present activities of Bankers Life and Casualty Company is the sale of life, accident and health insurance; that such Company owns 440 of the 500 outstanding shares of common stock of Citizens State Bank of Park Ridge, Park Ridge, Illinois, and 1284 of the 10,000 outstanding shares of common stock of Lake View Trust and Savings Bank, Chicago, Illinois; that such Company's investment in bank stock is less than 1.7 per cent of its total assets; and that such Company does not, directly or indirectly, own or control any stock of any other banking institution, or manage or control any banking institution other than Citizens State Bank of Park Ridge.
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> In view of these facts, the Board has determined that Bankers Life and Casualty Company will not be engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Bankers Life and Casualty Company will not be deemed to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.
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> If, however, the facts should at any time differ from those set out above to an extent which would indicate that Bankers Life and Casualty Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

At the request of the Board, Mr. Hackley discussed the matter, stating that the case seemed to fall within the Board's current policy relating to situations where only one bank is controlled by a holding company. A somewhat unusual aspect, he pointed out, was that according to the Chicago Reserve Bank a purpose of acquiring the Citizens State Bank, aside from the stated purpose of investment, appeared to be that it would provide a means for handling the large volume of checks received by the insurance company, for which handling the company had been paying service charges to a national bank in Chicago in excess of $50,000 a year. To the extent of the insurance company's stock ownership in Citizens State Bank, any profit on service charges paid to that bank would inure to the benefit of the insurance company, while another possibility would be that the insurance company, through its majority ownership, could prevail upon the controlled bank to give it preferred service at less than cost. The check handling operations, Mr. Hackley brought out, might be supposed to be a reason for desiring to have the controlled bank admitted to membership in the Federal Reserve System, and apparently the bank would not pursue its application for membership unless the requested determination of the insurance company's status as a holding company affiliate was granted.

There was a general discussion of the circumstances outlined by Mr. Hackley and it was agreed that although the control of Citizens State Bank and the use of that bank for check handling purposes presented

possibilities for the institution of practices not consistent with good banking principles, there was nothing involved which would appear to be in violation of the law, or of the Board's regulations, if Citizens State Bank should be admitted to membership. The point was made that even if the requested determination were granted, the bank, if it became a member bank, would be subject to System supervision and examination. In the circumstances, the question was raised as to what practical advantages would accrue from refusing to grant the determination, in which event the bank presumably would remain outside the System. Accordingly, in spite of a recognition of the abuses that conceivably might result from the operation of Citizens State Bank as a "captive" institution, it was the view of a majority of the Board that the Board's decision should be governed by the current policy relating to so-called "one bank" cases and that the requested determination therefore should be made.

Governor Robertson disagreed with that position, stating that the case illustrated why he opposed the Board's policy as to one-bank cases, that even with such a policy in existence an exception should be made in this instance because the Board was placed on notice of the situation as it stood and as it might develop, and that unfavorable action was warranted even though such action caused the bank to withdraw its application for membership in the System. He anticipated that other cases of the same kind would be presented and he said that something of value from a supervisory point of view would be lost by granting the section 301 determination since examination of the insurance company might be essential

in ascertaining facts concerning the company's use of the controlled bank that would not be disclosed from examination of the bank itself.

At the conclusion of the discussion, the letter to Bankers Life and Casualty Company was approved in the form set forth above, for transmittal through the Federal Reserve Bank of Chicago, Governor Robertson voting "no" for the reasons that he had stated.

Mr. Bass then withdrew from the meeting.

Under date of June 28, 1955, Mr. Hackley sent to the members of the Board a draft of statement concerning bank holding company legislation for presentation by Chairman Martin on July 5, 1955, before the Senate Banking and Currency Committee. The draft expressed views substantially the same as those presented before the House Banking and Currency Committee on February 28, 1955. After indicating how it was believed that the major objectives of bank holding company legislation could be accomplished in a bill, it related those views to H. R. 6227, the bank holding company bill introduced by Representative Spence which had passed the House of Representatives. Attached to the statement was a longer memorandum which might be submitted for the record. This memorandum discussed the present provisions of the law, the essential features of legislation, and the Board's views with respect to H. R. 6227. As in the case of the proposed statement, the memorandum presented views similar to those presented to the House Banking and Currency Committee.

In a discussion of the matter, Governor Robertson referred to his statement at the meeting yesterday that he had transmitted to Senator

Robertson of Virginia a draft of bill which would carry out the Board's views with respect to bank holding company legislation, along with a draft of the Spence bill marked to reflect the Board's comments. From statements made by Senator Robertson's office, he believed it would develop that the bill which the Senator introduced yesterday afternoon was substantially similar to the draft bill reflecting the Board's views.

In view of Governor Robertson's comments, it was suggested that the statement before the Senate Committee on July 5 be revised to indicate that the Board favored the bill introduced by Senator Robertson, if it should develop that such bill reflected the Board's position, or substantially so. There being agreement with the suggested approach, comments were made as to how the draft statement now before the Board might be revised.

At the conclusion of the discussion, Mr. Thurston was requested to ascertain whether the bill introduced by Senator Robertson yesterday afternoon was substantially in accord with legislation such as favored by the Board and, if so, to revise the draft of statement to be given by Chairman Martin before the Senate Banking and Currency Committee in the light of the suggestions made at this meeting and distribute copies of the revised draft to the members of the Board prior to consideration at another meeting.

Mr. Carpenter reported having received a letter under date of June 28, 1955, from Mr. L. A. Jennings, Deputy Comptroller of the Currency, who stated that at 9:00 a.m. on July 5, 1955, a call would be made upon

all national banks for reports of condition as of the close of business June 30, 1955. Accordingly, he said, the usual telegram was sent yesterday to the Presidents of all Federal Reserve Banks requesting that on July 5, 1955, a call be made on all State member banks for reports of condition as of the close of business June 30, 1955.

The action reported by Mr. Carpenter was ratified by unanimous vote.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 28, 1955, were approved unanimously.

All of the members of the staff except Messrs. Carpenter, Sherman, Kenyon, and Johnson then withdrew from the meeting.

Reference was made to a memorandum dated June 21, 1955, from the Division of Personnel Administration, which had been circulated to the members of the Board, relating to the proposal of the Board of Directors of the Federal Reserve Bank of Dallas, as stated in Chairman Smith's letter to Chairman Martin dated June 13, 1955, to establish the rate of compensation of President Irons at $30,000 per annum and of First Vice President Gentry at $25,000 per annum, effective July 1, 1955, subject to the approval of the Board of Governors. The memorandum discussed the proposed rates of compensation in relation to salaries for the same offices at other Reserve Banks and considerations in the past bearing upon the fixing of salaries for the respective positions.

Following an explanatory statement by Mr. Johnson, all of the members of the staff withdrew from the meeting and the Board went into executive session.

The Secretary later was informed by the Chairman that during the executive session approval was given to a letter to Chairman Smith in the following form, Governor Robertson voting "no" in respect to the salary proposed for President Irons with the statement that he would vote to approve a salary at the rate of $27,500 per annum for Mr. Irons:

The Board has considered the salary increases mentioned in your letter of June 13 in the light of System policies with respect to the fixing and approval of salaries of officers of the Federal Reserve Banks and has approved the payment of salary to Mr. Watrous H. Irons as President of your Bank for the period July 1, 1955 through December 31, 1955, at the rate of $30,000 per annum, if fixed by the Board of Directors at such rate.

In the present circumstances the Board does not feel justified in approving salaries in excess of $22,000 for First Vice Presidents at the Reserve Banks where the duties of the position are comparable to those at the Federal Reserve Bank of Dallas. Accordingly, the Board approves the payment of salary to Mr. W. D. Gentry as First Vice President for the period July 1, 1955 through December 31, 1955, at the rate of $22,000 per annum, if fixed by the Board of Directors at such rate.

The Chairman also advised the Secretary that during the executive session there was discussion, at the request of Governor Vardaman, of the recommendation contained in a memorandum dated June 17, 1955, from Mr. Marget, Director of the Division of International Finance, that the resignation of Henry K. Heuser, Chief, Central and Eastern European Section in that Division, be accepted effective at

the close of business July 15, 1955, so that Mr. Heuser might accept a position with the International Bank for Reconstruction and Development; and that the Board approved Mr. Marget's recommendation.

The meeting then adjourned.

Secretary