Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 21, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration

The following draft of letter for the signature of Chairman Martin to Messrs. Drury, Lynham & Powell, Colorado Building, Washington, D. C., which had been circulated to the members of the Board, was presented for consideration:

> I have your letter of November 4, 1955 relating to the question of whether Mr. Scott B. Appleby may serve as a director of the National Savings and Trust Company, Washington, D. C., despite the fact that he is a limited partner in the firm of Johnston, Lemon & Co.
>
> The question relates to the applicability of section 32 of the Banking Act of 1933, as amended (12 U.S.C. § 78) which prohibits a partner of a firm primarily engaged in underwriting and distributing securities from being at the same time a director of a member bank. I understand that the question was discussed with the Board's Counsel some days ago, and that at that time it was stated that there appeared to be no question but that Johnston, Lemon & Co. was "primarily engaged" in the business described in section 32.

With respect to the question whether section 32 is applicable to a special or limited partner, it should be noted that as originally enacted in 1933, section 32 was applicable to "an officer, director, or manager" of an organization of the kind described therein, and in its regulations the Board construed this phrase to include a general partner but not a special partner. However, the section was amended in 1935 so as to be applicable to certain relationships including "a partner * * * of any partnership" primarily engaged in the specified types of business. The amended statute authorized the Board to make exceptions "by general regulations" and in revising its Regulation R which deals with this subject, the Board gave particular consideration to the question whether there should be an exception in the case of a special or limited partner. It was decided at that time that no exception should be made, and although the matter has since been reconsidered the Board has not felt that it should make the exception.

I note your statement that Mr. Appleby is one of the principal stockholders of the National Savings and Trust Company and your request that in view of this circumstance an exception be made in Mr. Appleby's case. However, the law is directed at specified types of relationships in which the opportunity for improper or harmful action may be present, regardless of whether abuses actually result in specific cases, and the fact that Mr. Appleby is one of the principal stockholders in the trust company does not alter the fact that the relationship is of the kind specified in the statute. In the only case involving section 32 which has been considered by the Supreme Court of the United States (Board of Governors v. Agnew, 329 U. S. 441), the court said:

> "Section 32 is not concerned, of course, with any showing that the director in question has in fact been derelict in his duties or has in any way breached his fiduciary obligation to the bank. It is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationships to the bank is therefore immaterial."

The Board is not authorized to make exceptions in individual cases, but, as indicated above, it can make exceptions only by general regulations. Regulation R now prescribes one minor exception and the Board has consistently declined to amend the

regulation to make other exceptions. Consequently, the Board could make an exception in Mr. Appleby's case only by amending the regulation so as to exclude a special or limited partner, which, as I have already stated, the Board has decided on several occasions that it should not do. In the circumstances I know of no way in which your request could be granted, and it would appear that Mr. Appleby may not continue as a director of the trust company and as a limited partner of Johnston, Lemon & Co.

Following a discussion of the circumstances involved, the letter was approved unanimously, with a copy to the Federal Reserve Bank of Richmond.

Reference was made to a request from the Comptroller of the Currency for a recommendation with respect to an application to organize a national bank at Cleveland, Ohio, under the title of The Society National Bank of Cleveland. The proposed bank would take over the commercial business conducted by the Society for Savings, a mutual savings bank which would purchase all of its capital stock, except directors' qualifying shares, under recent State legislation authorizing a mutual savings bank until December 31, 1956, to invest in the stock of a commercial bank. The Federal Reserve Bank of Cleveland recommended favorable consideration of the application. The Board's Division of Examinations submitted a draft of letter to the Comptroller of the Currency which would state that the Board did not feel justified in recommending approval for the reason that as a general policy the Board would not look with favor on savings banks owning and operating commercial banks as subsidiaries, and because it is opposed to the joint occupancy of quarters by two financial institutions as

proposed in this case. When the file was in circulation to the members of the Board, Governor Mills attached a memorandum in which he expressed agreement with the conclusions reached in the draft of letter. He pointed out, however, that since the demand deposit business which would be taken over by the proposed national bank already exists, it might be inconsistent for the letter to state that there did not appear to be any need for the new bank in the community. He also pointed out that commercial banks can legally operate savings departments, while the draft of letter would seem to deny in a sense the right of a mutual savings bank to operate indirectly a commercial department. As an alternative, he suggested referring in the letter to pertinent Ohio State statutes.

Governor Robertson said that he had discussed the matter with Governor Mills and that there was agreement on the deletion of the sentence regarding the need for the new bank in the community. He also said that after a review of the provisions of Ohio law which allow mutual savings banks until December 31, 1956, to invest in the stock of commercial banks and which defer until July 1, 1956, the effective date of the prohibition against performance of a commercial banking business by savings banks, Governor Mills stated that he would be agreeable to withdrawing the second suggestion made in his memorandum. The matter was on the docket in the absence of Governor Mills, Governor Robertson said, because the Office of the Comptroller of the Currency was pressing for a reply.

In referring to the contemplated joint occupancy of quarters by the Society for Savings and the proposed national bank, Governor Robertson said that for many years the bank supervisory authorities have taken a position against such a practice and that he felt the Board's letter should be firm on that point. He also pointed out that it would be difficult to provide additional capital for the national bank except out of retained earnings, because after December 31, 1956, the mutual savings bank would be prohibited from investing in capital stock of a commercial bank and it probably would not want to sell additional stock to outside parties since that would dilute its control of the national bank.

Governor Vardaman expressed the opinion that there was a great deal of merit in Governor Robertson's statements from the standpoint of general principles and said that he would be willing to go along with the position stated in the draft of letter to the Comptroller if that were the view of a majority of the Board. However, he regretted that the inflexibility involved in adhering to general principles militated against making exceptions in particular cases. He failed to see any strong objection to having the two institutions operate under the same roof and felt that concessions must be granted to commercial banks in unusual circumstances in order to enable them to compete with other types of financial institutions. He also failed to see any more reason for objecting to a savings bank operating a commercial bank indirectly than for objecting to the operation of a large savings department by a commercial bank.

Following further discussion, unanimous approval was given to a letter to the Comptroller of the Currency in the following form:

Reference is made to a letter from your office dated October 20, 1955, enclosing copies of an application to organize a national bank at Cleveland, Ohio, under the title of The Society National Bank of Cleveland, and requesting a recommendation as to whether or not the application should be approved.

Information supplied by the Federal Reserve Bank of Cleveland discloses favorable findings with respect to the proposed capital structure of the bank, its earnings prospects and proposed management.

It is noted that the authority of the Savings Society under recent legislation to invest in the stock of a commercial bank will expire on December 31, 1956, and it would appear that thereafter the Savings Society would be prohibited from providing more capital for the national bank in the event of need. In many States savings banks are restricted as to investments in stock, including the stocks of commercial banks, and as a general policy the Board would not look with favor on savings banks owning and operating commercial banks as subsidiaries.

It is noted also that the proposed bank is to be located in the quarters of the Society for Savings and that branch offices will be maintained in the quarters of each of the eight existing branches of the savings institution. In the main office the tellers' windows for the savings bank will be on one side of the lobby and tellers' windows for the national bank on the opposite side. At the branches the only distinguishing feature will be a label on each teller's window. The Board of Governors is opposed to this type of joint occupancy of quarters by two financial institutions.

After considering all of the factors in this situation, the Board of Governors 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.

In a letter dated April 7, 1955, the Board advised the Comptroller of the Currency that it did not feel justified in recommending approval of an application to organize a national bank in Washington, D. C., under the title of Republic National Bank of Washington. After the application, which contemplated the establishment of a national bank at 5037 Connecticut Avenue, N. W. was denied by the Comptroller, substantially the same group of organizers submitted an application to organize a national bank at 1415 "K" Street, N. W. In a letter dated September 29, 1955, the Board advised the Comptroller that it did not feel justified in recommending approval of the new application.

After reviewing the reasons for the Board's adverse recommendations, Governor Robertson reported that last Friday he received a telephone call from the Office of the Comptroller of the Currency inquiring whether there would be any objection to including in a letter from that office to the proponents of the proposed bank a statement that in arriving at a decision to deny the application the Comptroller had requested recommendations from the Board and the Federal Deposit Insurance Corporation and had received an adverse recommendation from each agency. He said he told Mr. Jennings that he would take the matter up with the Board.

Governor Robertson then said that although the final decision regarding the content of the letter was, of course, one for the Comptroller of the Currency, he would suggest the Board take the position that it would not look with favor on referring in such a letter to the recommendations

which had been received from the other bank supervisory agencies. He pointed out that it was not the practice of the Federal bank supervisory agencies to make public recommendations received from other agencies, that to do so in cases like the one now before the Board would result in the publication of only adverse recommendations and would establish an undesirable precedent, and that the making public of such recommendations might gradually break down their value.

Following a discussion of the application and the procedure followed in responding to requests of the Comptroller of the Currency for recommendations with respect to applications for new national bank charters, Governor Robertson was authorized by unanimous vote to express views to Mr. Jennings along the lines which he had stated at this meeting and to indicate that the Board concurred in those views.

Mr. Vest then withdrew from the meeting.

Reference was made to a memorandum dated November 8, 1955, from Mr. Sloan, Director, Division of Examinations, recommending that Lawrence W. Waller, Jr., be appointed as Assistant Federal Reserve Examiner in that Division with basic salary at the rate of $3,670 per annum and with official headquarters in Washington, D. C., effective as of the date he assumes his duties following the completion of a satisfactory employment investigation.

Governor Robertson discussed certain aspects of the application from the standpoint of Mr. Waller's scholastic record and the standards which should be maintained in selecting members of the Board's field

examining staff. At his request, Mr. Sprecher then stated reasons which had led the Division of Personnel Administration to conclude that in spite of the scholastic record Mr. Waller's application possessed sufficient merit to qualify him for consideration.

Following a discussion based on the comments made by Governor Robertson and Mr. Sprecher, the recommendation contained in Mr. Sloan's memorandum was approved unanimously.

In accordance with the procedure followed last week, it was understood that if advice was received this week from the Federal Reserve Banks of Boston, Richmond, St. Louis and Dallas that the directors of the respective banks had acted to increase the discount rate to 2-1/2 per cent and to establish appropriate subsidiary rates of discount and purchase, the Reserve Bank would be notified that the Board approved the action taken by its directors effective as of the beginning of the next business day; a statement would be issued to the press in the usual form; advice would be sent by telegram to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of branches; and the usual notice would be sent to the Federal Register.

Secretary's Note: In accordance with this understanding, the following telegrams were sent today:

To Mr. Erickson, President, Federal Reserve Bank of Boston

Reurtel today. Board approves effective November 22, 1955, rates of 2-1/2 per cent on discounts for and advances

to member banks under Sections 13 and 13a, 3 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

To Mr. Leach, President, Federal Reserve Bank of Richmond

Reurtel today. Board approves effective November 22, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on advances to member banks under Section 10(b), and 3-1/2 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 3:30 p.m. EST today for immediate release.

To Mr. Johns, President, Federal Reserve Bank of St. Louis

Reurtel today. Board approves effective November 22, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, 3 per cent on advances to member banks under Section 10(b), and 3-1/4 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Board also approves establishment of rates from 2-1/2 to 3 per cent on advances under Section 13b on portion for which financing institution is obligated. Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board's announcement on change in discount rate is being given to press at 4:30 p.m. EST today for immediate release.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 18, 1955, were approved unanimously.

The meeting then adjourned.

Secretary