

Minutes for October 1, 1956

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<u><i>mm</i></u>	<u>X <i>mm</i></u>
Gov. Szymczak	<u>X</u>	<u></u>
Gov. Vardaman	<u></u>	<u>X <i>P</i></u>
Gov. Mills	<u>X</u>	<u></u>
Gov. Robertson	<u>X</u>	<u></u>
Gov. Balderston	<u>X <i>CCB</i></u>	<u></u>
Gov. Shepardson	<u>X <i>Colles</i></u>	<u></u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 1, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, Assistant General Counsel
 Mr. Hostrup, Assistant Director, Division of Examinations
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations
 Mr. Davis, member of the legal staff of the Federal Reserve Bank of New York currently assisting the Board in connection with bank holding company matters.

At the meeting of the Board on September 28, 1956, consideration was given to a request from the Comptroller of the Currency for a recommendation with respect to an application to organize a national bank at Rogersville, Tennessee. The Division of Examinations had suggested an adverse recommendation, in line with the view of the Bank Examination Department of the Federal Reserve Bank of Atlanta, but the members of the Board concluded that appraisal of the various factors involved appeared to warrant a favorable recommendation. It was understood, however, that before any letter was sent to the Comptroller of the Currency, Governor Robertson would discuss the matter by telephone with Mr. Bryan, President of the Federal Reserve Bank of Atlanta.

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Governor Robertson reported that he had talked with President Bryan, who was unfamiliar with the matter, that the file subsequently was studied by Mr. Bryan and First Vice President Clark, and that he was now in receipt of a telegram from Mr. Bryan which stated that in the latter's opinion, in which Mr. Clark concurred, the case was a close one but the application should be regarded favorably. The applicants appeared to be responsible people, the new institution seemed to have every opportunity of solvency and satisfactory earnings, and the existence of the new institution would not appear to impair the ability of the existing bank to conduct a satisfactory and profitable banking service. In such a situation, Mr. Bryan concluded that there was no reason to deny the new group the right to enter the banking business.

Thereupon, upon the recommendation of Governor Robertson, unanimous approval was given to a letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., reading as follows, with a copy to the Federal Reserve Bank of Atlanta:

Reference is made to a letter from your office dated June 26, 1956, enclosing photostatic copies of an application to organize a national bank in Rogersville, Tennessee, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta discloses that the proposed capital structure of the bank would be adequate and that sufficient business could be obtained to provide moderately successful operations. It appears that a satisfactory

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group of men has been selected to serve as directors of the bank, and it is reported that the selection of an acceptable executive officer would present no special problem. While it is reported that the banking needs of the community are being met fairly satisfactorily by the existing institution, it appears that sufficient business is available to support another bank, and in view of the desirability of providing banking competition in the community it is believed that favorable consideration may be given the proposal. Accordingly, the Board of Governors recommends approval of the application provided arrangements are made for management satisfactory to your office.

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.

Reference was made to a memorandum from Mr. Hackley dated September 5, 1956, copies of which had been distributed to the members of the Board, concerning a question raised by Otto Bremer Company of St. Paul, Minnesota, as to the status of that company as a bank holding company under the Bank Holding Company Act of 1956. As brought out in correspondence attached to the memorandum, the company contended that it was not subject to the Act on the ground it was a charitable organization and therefore exempt from the definition of a "company" as set forth in section 2(b) of the Act. Also attached to the memorandum were a memorandum from Mr. Davis dated September 5, 1956, summarizing arguments which might be made for and against holding the company to be exempt from the Act, and a second memorandum, also prepared by Mr. Davis, covering a meeting held on August 16, 1956, at which representatives of the company made an oral presentation of their arguments to members of the Board's staff. While the

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question was recognized as an important one and a close one in some respects, it was reported to be the view of the staff that the arguments for holding the company to be subject to the Act outweighed those to the contrary. It was recommended, therefore, that the company be advised that in the Board's opinion Otto Bremer Company should be regarded as a bank holding company within the meaning of the Act. A suggested letter to the company was submitted with the memorandum.

Governor Robertson said that although the case was admittedly a close one, he concurred in the position of the staff. Among other things, he felt that any harm that might be done in taking the position that Otto Bremer Company was a bank holding company within the meaning of the Act was insignificant, whereas taking another position might set a precedent that would be regretted at a later date.

Governor Balderston concurred, stating that although all of the stock of Otto Bremer Company had been turned over to the Otto Bremer Foundation, reported to be an exclusively charitable organization, this appeared to be a case involving the possibility of control being retained by the company over a long period of time, as he understood was the situation with respect to at least one industrial company that had organized a foundation and transferred stock to it. He then suggested a minor change in the language of the proposed letter to Otto Bremer Company and there was agreement that the change should be made.

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Governor Mills stated that the staff was to be complimented on its able presentation of the matter, the file having afforded him a great deal of information and insight into problems of this kind.

Thereupon, unanimous approval was given to a letter to Mr. Rollin O. Bishop, Executive Vice President, Otto Bremer Company, St. Paul, Minnesota, reading as follows, for transmittal through the Federal Reserve Bank of Minneapolis:

This refers to your letter of July 23, 1956, transmitted through the Federal Reserve Bank of Minneapolis, regarding the question whether the Otto Bremer Company is exempt from the provisions of the Bank Holding Company Act of 1956.

It is understood that the Otto Bremer Company owns 25 per cent or more of the voting shares of stock of each of 30 banks located in Wisconsin, Minnesota, Montana, and North Dakota. The Company, therefore, is a "bank holding company" within the meaning of the Act unless, as contended by the Company, it is exempted from the definition of the term "company" by reason of clause (2) of section 2(b) of the Act which excludes any "foundation, organized and operated exclusively for . . . charitable . . . purposes." It is understood that the basis for this contention is the fact that all of the Company's stock is owned by the Bremer Foundation which is stated to be an organization operated exclusively for charitable purposes, and that the Company's entire income, less expenses, is turned over to the Foundation.

The Board has carefully considered the arguments presented in your letter, as well as those presented in Mr. Altman's letter of August 13, 1956, and those presented orally at a meeting between Mr. Altman and you and members of the Board's staff on August 16, 1956, particularly the contention that it was the intent of Congress to grant charitable organizations an exemption similar to that granted such organizations for tax purposes under the Internal Revenue Code. In this connection, it is noted that the Otto Bremer Company has been ruled by the Treasury Department to be exempt from income taxes under

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provisions now contained in section 501(c)(2) of the Internal Revenue Code of 1954 on the ground that the entire amount of the Company's income, less expenses, is turned over to the Foundation, which itself is exempt from taxation as a charitable organization under section 501(c)(3) of the Internal Revenue Code. It appears, however, that, while clause (2) of section 2(b) of the Bank Holding Company Act follows substantially the language of the exemption for charitable organizations contained in section 501(c)(3) of the Internal Revenue Code, the Act does not contain any provisions exempting so-called "feeder" organizations like the provisions of section 501(c)(2) of the Internal Revenue Code under which the Company has been granted tax exemption.

On the basis of the facts presented, it is the opinion of the Board that the Otto Bremer Company is not an organization "organized and operated exclusively for . . . charitable . . . purposes" within the meaning of section 2(b)(2) of the Bank Holding Company Act and that, consequently, the Company is a bank holding company for the purposes of that Act.

Governor Robertson referred to a memorandum dated September 28, 1956, from the Division of Examinations, copies of which had been sent to the members of the Board, submitting a draft of a proposed form of Application Pursuant to Section 3(a)(1) of the Bank Holding Company Act of 1956 for Prior Approval of Action to Become a Bank Holding Company (Form F.R. Y-1). The memorandum recommended that this draft be submitted to (1) the Federal Register, with a Notice of Proposed Rule Making; (2) the Bureau of the Budget for clearance; and (3) the Federal Reserve Banks, accompanied by a copy of the memorandum, for their comments and suggestions. In view of the fact that the proposed form was similar to the two forms already adopted under the Bank Holding

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Company Act, it is felt to be unnecessary to allow more than two weeks for the submission of the views and comments of the Reserve Banks and other interested parties.

Governor Robertson stated that the proposed form had been reviewed carefully by appropriate members of the staff, that its adoption at the earliest possible date would be helpful, and that he would recommend approval of the procedures suggested in the memorandum from the Division of Examinations.

Thereupon, the procedures recommended in the memorandum from the Division of Examinations were approved unanimously.

Messrs. Sloan, Hostrup, and Davis then withdrew from the meeting and Mr. Fauver, Assistant Secretary, entered the room.

In a telegram to the Board dated September 26, 1956, Mr. Swan, First Vice President of the Federal Reserve Bank of San Francisco, stated that Mr. Reese H. Taylor, Class B Director of that Bank, had inquired whether there was any consideration which would render him ineligible to serve as a director of a Canadian life insurance company doing business in the United States. The telegram stated that in the opinion of Reserve Bank Counsel neither the law nor the Board's letter of July 2, 1925 (F.R.L.S. #3095) would prohibit the dual relationship, but it was suggested that there might be a policy question that the Board would wish to consider.

Copies of the telegram from Mr. Swan had been sent to the members

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of the Board together with copies of a draft of proposed wire to Mr. Swan reading as follows:

Reurtel concerning eligibility Class B director to serve as director of life insurance company. Board agrees neither law nor ruling F.R.L.S. #3095 would prohibit Mr. Taylor's service as director Canadian life insurance company.

In a discussion of the matter, Mr. Fauver read the record of insurance company affiliations of the Class B and Class C Reserve Bank directors now serving, as revealed by the biographical sketches of the directors. While this indicated a substantial number of such affiliations, it was pointed out that in none of the cases was the insurance company connection the principal business connection of the individual, as was the case in the matter referred to in the Board's letter of July 2, 1925.

Reference was made to somewhat similar cases that had been presented to the Board for consideration in the past and Governor Mills recalled that in at least one case the Board distinguished between service as a director of an insurance company and service within the company as a member of the finance committee.

Governor Balderston commented that he felt certain the type of men needed on the boards of directors of the Reserve Banks would have many business connections since they would be men well known in their respective communities and probably would have been asked to serve as directors of insurance companies and other enterprises. He thought

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perhaps the Board should be careful in considering each case - particularly those involving Class C directors - to bear in mind the distinction to which Governor Mills had called attention.

At the conclusion of the discussion, unanimous approval was given to the proposed telegram to First Vice President Swan.

Messrs. Sherman, Vest, and Hackley then withdrew from the meeting.

Receipt was reported of a telegram dated September 27, 1956, from Mr. Carl E. Allen, Jr., tendering his resignation as Deputy Chairman and Class C Director of the Federal Reserve Bank of Chicago, effective September 30, 1956.

It having been noted that Mr. Allen was to assume his duties as President of the Chicago Reserve Bank today, his resignation as Deputy Chairman and Class C Director of the Bank was accepted by unanimous vote, effective September 30, 1956, and it was understood that an appropriate telegram would be sent to Mr. Allen.

Mr. Fauver reported that in a telegram dated September 28, 1956, Mr. J. Stuart Russell had accepted appointment as Deputy Chairman of the Federal Reserve Bank of Chicago effective October 1, 1956, for the unexpired portion of the term ending December 31, 1956. He also reported receipt of a telegram of the same date from Mr. Robert P. Briggs accepting appointment as a Class C Director of the Chicago Reserve Bank for the unexpired portion of the term ending December 31, 1958. Mr. Fauver said that a press statement relating to the appointments of Messrs. Russell and Briggs would be issued at 4:00 p.m. today, EDST, for immediate release.

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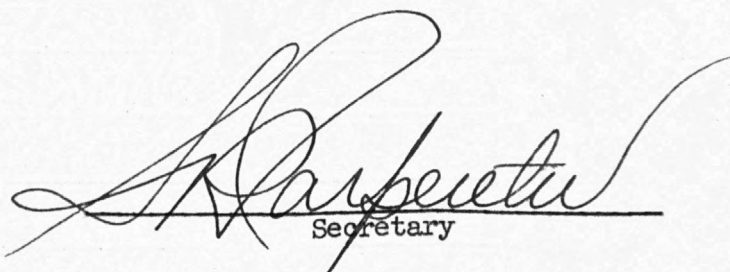
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Mr. Fauver then referred to the fact that all but eight persons currently serving as Reserve Bank Class C directors or as Board-appointed directors of Federal Reserve Bank branches whose terms expire December 31, 1956, appeared to be eligible for reappointment for terms beginning January 1, 1957, pursuant to the policy now followed by the Board relating to length of service.

Governor Balderston suggested to Mr. Fauver that he prepare a memorandum on the matter for the Board's consideration with a view to action on the part of the Board in the near future.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum dated September 19, 1956, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Kathryn Holmes Fortunato, Minutes Clerk in the Office of the Secretary, be accepted effective September 28, 1956.



Secretary