

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 30, 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. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research
and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Bailey, Special Consultant to the Board

Pursuant to the understanding at the meeting on October 24, 1956, further consideration was given to the disposition which should be made of a section of a letter from the American Finance Conference, submitted in connection with the current consumer credit study, which contained allegations of monopoly with respect to the position of General Motors Acceptance Corporation in the instalment credit field. It had been suggested by the staff that the section be referred to the Department of Justice as a matter of information and for any use the Department might care to make of it.

Following a review by Mr. Vest of possible alternative procedures in the light of questions raised during the previous discussion of the matter, Mr. Bailey described the form in which he contemplated submitting

10/30/56

-2-

his report on the views expressed by various parties as to whether existing monetary controls should be supplemented by legislative authority to regulate consumer instalment credit. He said that while a few of the more significant replies might be included in full, the report proper would contain for the most part only a summarization of the views expressed, with extracts of letters in selected cases. However, he also had in mind reproducing all of the letters in limited quantity so that they would be available to the Council of Economic Advisers, the interested Congressional committees, and other interested parties. Under this plan, copies would be available at the Board's offices, and perhaps at the Federal Reserve Banks, for any persons who might wish to read them. It was his opinion that the report itself need not deal with extraneous comments, such as allegations of monopoly, which were not responsive to the points on which the respondents were asked to express their views.

Governor Mills inquired whether it was known to be the customary practice of Government agencies to refer matters such as the comments of the American Finance Conference to the Department of Justice as a regular procedure.

In response, Mr. Vest referred to the practice followed by the Board of sending to the Attorney General advices of alleged violations of the criminal provisions of the banking laws. The Board's instructions to the Federal Reserve Banks, he said, reflected a position that

10/30/56

-3-

the Department of Justice was the proper authority to determine whether there had been a crime committed, or a sufficient indication of a crime, to justify the Department in going forward.

Governor Robertson said he had no doubt but that if any allegation of violations of the criminal law came to the attention of any Government agency, that agency would refer the matter to the Department of Justice.

In further discussion, agreement was expressed with the plan which Mr. Bailey intended to follow in preparing his report, including the compilation which would make available to interested parties the full text of each of the letters that had been received. In these circumstances, it was the consensus of the Board that there would be no objection to transmitting a copy of the letter from the American Finance Conference to the Department of Justice in a routine way.

Governor Mills said that inasmuch as an alleged violation of criminal law was involved, he would concur in the view of the other members of the Board, although with considerable reluctance because of a feeling that the Board might be assuming the role of a "rumor monger".

After further comments to the effect that there was reason to suppose that allegations similar to those made by the American Finance Conference were already in the possession of the Department of Justice, Mr. Bailey referred to the question of advising the American Finance Conference that a copy of its letter had been sent to the Attorney General. He described the type of acknowledgement he had been making

10/30/56

-4-

to the parties who responded to his letter and said that he would be somewhat reluctant to reply in a different fashion to this one particular organization.

The members of the Board concurred in the suggestion that the American Finance Conference need not be informed of the referral to the Department of Justice.

Thereupon, unanimous approval was given to a letter to the Attorney General reading as follows:

The Department of Justice may be interested in the allegations of monopoly included in Section IV of the enclosed letter received by the Board from Mr. Thomas W. Rogers, Executive Vice President of the American Finance Conference. Mr. Rogers' letter to the Board was in response to a request from Mr. George D. Bailey, Special Consultant to the Board, for the views of the American Finance Conference on the question whether presently existing monetary controls should be supplemented by legislative authority to regulate consumer instalment credit.

This material is forwarded to your Department for its information and any use you may care to make of it.

Messrs. Fauver, Young, and Bailey then withdrew from the meeting.

At the meeting of the Board on October 24, 1956, preliminary consideration was given to an application by Marine Midland Corporation, Buffalo, New York, for prior approval under the Bank Holding Company Act of the acquisition of the voting shares of The Lake Shore National Bank of Dunkirk, Dunkirk, New York. In a memorandum dated October 2, 1956, which had been circulated to the members of the Board, the Division of Examinations recommended that the Board issue an order granting the

10/30/56

-5-

application. This was in accord with the recommendation of the Federal Reserve Bank of New York, and the Comptroller of the Currency also had recommended approval of the application. However, in a memorandum dated October 15, 1956, which also had been circulated to the Board, the Legal Division questioned whether approval of the pending application would be in conformity with the objectives of the Bank Holding Company Act. It was recommended that a letter be sent to Marine Midland Corporation explaining that the Board had not reached a definite conclusion and affording an opportunity to submit additional information or to request a formal hearing to present its arguments.

Governor Robertson expressed the view that in matters of this kind arising under the Bank Holding Company Act, the Board should proceed very cautiously. In this case, he said, the presentation of the matter by the Federal Reserve Bank of New York would strongly suggest favorable action. However, there was the matter of precedent to be considered and in the circumstances he would be inclined to favor sending to Marine Midland Corporation a letter along the lines suggested in the memorandum from the Legal Division. He would not want to act on the application without the benefit of a very careful analysis and without affording Marine Midland Corporation an opportunity to present its case fully. In other words, he would like to be certain that the Board had not overlooked any phase of the matter which might bear on the ultimate decision.

10/30/56

-6-

Governor Balderston inquired in what respect this acquisition would differ from other recent acquisitions of Marine Midland Corporation, to which Governor Robertson replied by reviewing the substantial percentage of deposits held by Marine Midland group banks in the area concerned. He went on to say that he did not think it was possible to fix any given percentage of deposits of a bank holding company group in a particular area beyond which further expansion would not be permitted, but that on the other hand this aspect should receive due consideration. In this case, for example, he felt that the Board should examine closely the position of Marine Midland group banks in the particular Banking District of the State of New York.

Governor Balderston then asked whether the Banking District was the most logical geographical area to examine and Governor Robertson replied that he would want to look also at the city, the trading area, and the county.

Governor Mills inquired as to the status of the application of Northwest Bancorporation, Minneapolis, Minnesota, under the Bank Holding Company Act for permission to acquire the shares of the proposed Airport Northwestern National Bank of Minneapolis.

Governor Robertson responded that representatives of Northwest Bancorporation had met with members of the Board's staff and that more recently a representative of the holding company advised him informally that, if it would not prejudice the application, the holding company would like to have the matter held in abeyance pending the preparation

10/30/56

-7-

of additional information. Governor Robertson said his reply was to the effect that the next move in the matter appeared to be entirely at the discretion of Northwest Bancorporation.

At the conclusion of the discussion, there was unanimous agreement that the procedure suggested by Governor Robertson in connection with the application of Marine Midland Corporation should be followed and it was understood that an appropriate letter would be prepared and sent to the Corporation through the Federal Reserve Bank of New York.

Secretary's Note: Pursuant to the foregoing action, the following letter was sent to Marine Midland Corporation on October 31, 1956:

Reference is made to the application now pending before the Board of Governors pursuant to the Bank Holding Company Act of 1956 for approval of the acquisition by your company of voting shares of The Lake Shore National Bank of Dunkirk, New York.

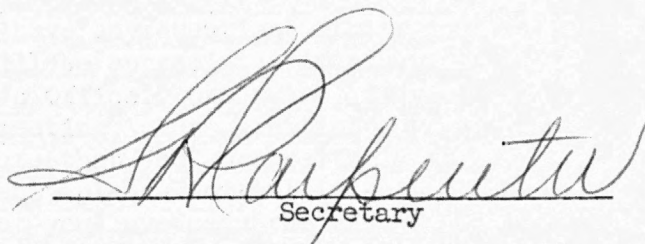
Preliminary consideration of this application indicates that there are important questions involved, particularly in view of the size and extent of the present holdings of Marine Midland Corporation and of the areas which it serves. The Board has not reached any conclusion in this matter and before doing so it wishes to afford your institution an opportunity to present any additional pertinent material that it may desire. The statements and information submitted with the application have been noted, but the Board would be glad to have you submit any further information on any point, and particularly with reference to the fourth and fifth factors enumerated in section 3(c) of the Bank Holding Company Act of 1956, i.e., "the convenience, needs and welfare of the communities and the area concerned" and "whether or not the effect of such acquisition * * * would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking". If you should prefer, the Board would be glad to consider a request that it hold a formal hearing before acting on the application.

10/30/56

-8-

The meeting then adjourned.

Secretary's Note: During the day Governor Shepardson noted on behalf of the Board the statement contained in a memorandum dated October 26, 1956, from Mr. Sloan, Director, Division of Examinations, that William D. Smith, Supervisory Review Examiner in that Division, had submitted his application for retirement under the Civil Service Retirement System effective November 1, 1956.



Secretary