Minutes for August 20, 1957

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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 18	Approval of a discount rate of 3-1/2 per cent for the Federal Reserve Banks of Richmond and St. Louis.

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	x	
Gov. Szymczak		x
Gov. Vardaman	x	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson		x

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 20, 1957. The Board met in the Board Room at 2:00 p.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Horbett, Associate Director, Division of Bank Operations
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Davis, Assistant Counsel

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to the Federal Reserve Bank of New York interposing no objection to reductions in capital stock by Bank of Passaic and Trust Company, Passaic, New Jersey.	1
Letter to the Federal Reserve Bank of Atlanta regarding the exercise of rights held by Trust Company of Georgia and Trust Company of Georgia Associates to purchase additional shares of stock of Continental Gin Company.	2
Letter to the Federal Reserve Bank of Dallas regarding a question raised by First National Bank of Dumas, Dumas, Texas, under Regulation Q.	3

	Item No.
Letter to the Federal Reserve Bank of Dallas regarding certain benefits and services offered by Jacksboro National Bank, Jacksboro, Texas, in relation to Regulation Q.	4
Letter to Pacific State Bank, Hawthorne, California, approving the establishment of a branch in temporary quarters at 4520 West Imperial Highway, Los Angeles, California. (For transmittal through the Federal Reserve Bank of San Francisco)	5
Letter to the Comptroller of the Currency regarding a proposed merger of The First National Bank of Remsen, Remsen, New York, and The Farmers National Bank and Trust Company of Rome, Rome, New York.	6

Discount rates. Telegrams to the Federal Reserve Banks of New York and Philadelphia approving the establishment without change by those Banks on August 15, 1957, of the rates of discount and purchase in their existing schedules were approved unanimously.

At this point Mr. Young, Director, Division of Research and Statistics, entered the room.

Reporting of repurchase transactions (Item No. 7). Effective August 16, 1957, the Comptroller of the Currency issued amended regulations pertaining to investment securities and to loans of national banks secured by direct obligations of the United States, and copies of these regulations had been sent to the Federal Reserve Banks as well as to member banks. In the investment securities regulation the Comptroller ruled that purchases and sales of securities by banks under repurchase and resale agreements would henceforth be treated as loan and borrowing transactions governed by sections 5200 and 5202 of the Revised Statutes.

This gave rise to questions regarding the reporting of such transactions by weekly reporting member banks, and there had been distributed to the members of the Board prior to this meeting a proposed telegram to the Reserve Banks dealing with this matter.

Following comments by Mr. Horbett, the proposed telegram, of which a copy is attached hereto as Item No. 7, was approved unanimously.

Applications for limited voting permits (Items 8 and 9). There had been distributed to the members of the Board copies of a memorandum from the Division of Examinations dated August 13, 1957, relating to applications received from The First Virginia Corporation and Old Dominion Bank, both of Arlington, Virginia, for limited permits to vote stock owned or controlled of The National Bank of Manassas, Manassas, Virginia, for the following purposes: (1) to amend the articles of association of the Manassas bank; (2) to increase its capital stock; (3) to elect directors of the bank; and (4) to rescind the actions taken at the meeting of the bank's shareholders on January 8, 1957, with respect to the election of directors and an increase in capital stock. The memorandum pointed out that on June 5, 1957, the Board ruled that The First Virignia Corporation owned or controlled a majority of the outstanding shares of the Manassas bank, that Old Dominion Bank owns all of the capital stock of The First Virginia Corporation, that control of the Manassas bank was held prior to the shareholders' meeting in January, and that, since the shares owned or controlled were voted without obtaining voting permits, the actions to amend the articles of association and to increase the bank's capital stock, both of which required a two-thirds vote, therefore were

apparently of no legal effect. On the other hand, it appeared that the directors were legally elected by the votes of other shareholders. While the actions to increase the capital stock and amend the articles of association were not acted upon properly and appeared to be a nullity, it was the view of the Office of the Comptroller of the Currency that a cleaner transaction would result if permission were given to the applicants to vote on a resolution which would rescind the earlier actions with respect to these matters. Although the condition of The First Virginia Corporation was not regarded by the Division of Examinations as particularly good because of the large amount of its short-term loans in relation to its quick assets, the Division recommended that the limited voting permits be granted in view of the purposes for which they were desired and particularly because the effect of granting such permits would be to improve the capital position of The National Bank of Manassas. Since the directors of the bank seemed to have been legally elected at the meeting in January, the recommended voting permits would not cover the election of directors, and the applicants would be advised also that the granting of the permits did not constitute an expression of opinion as to whether the action taken in January to increase the capital stock of the bank was then or was now legally effective.

In commenting on the matter, Mr. Hostrup said it was understood that Old Dominion Bank and The First Virginia Corporation would soon apply for general voting permits covering stock owned or controlled in

the Manassas bank, at which time a close look would be taken at the condition of The First Virginia Corporation on the basis of an examination by the Federal Reserve Bank of Richmond before a recommendation was made to the Board.

Thereupon, the issuance of the requested limited voting permits was approved unanimously. Copies of the telegrams sent to the Federal Reserve Agent at Richmond pursuant to this action are attached hereto as Items 8 and 9.

Report on S. 1201 (Item No. 10). The views of the Board had been requested by the Senate Banking and Currency Committee with respect to S. 1201, a bill to repeal the Silver Purchase Act of 1934 and other laws pertaining to the purchase of silver. A draft of reply which had been circulated to the members of the Board would take essentially the same position as reported by the Board in 1955 with respect to similar proposed legislation. When the file was in circulation, Governor Balderston suggested that the final paragraph be changed so as to state specifically that the Board would have no objection to S. 1201.

Following a discussion of Governor Balderston's suggestion, agreement was expressed that it would be appropriate to indicate that there was nothing in the bill to which the Board would have objection. Accordingly, the letter was approved unanimously in a form reflecting the suggested change, with the understanding that a copy would be sent to the Bureau of the Budget. A copy of the approved letter is attached hereto as Item No. 10.

Decision and Order in Transamerica--Occidental matter (Items 11, 12, and 13). Pursuant to the understanding at the meeting on July 11, 1957, there had been prepared for the Board's consideration a draft of Decision and Order denying the application of Transamerica Corporation for a determination under section 4(c)(6) of the Bank Holding Company Act which would exempt from the provisions of section 4(a)(2) of the Act shares of Occidental Life Insurance Company of California, all of which are owned directly by Transamerica. The draft of Decision and Order was distributed to the members of the Board with a memorandum from Mr. Solomon, Assistant General Counsel, dated August 13, 1957. Also submitted was a draft of separate statement by Governor Vardaman in explanation of his vote.

In commenting on the matter, Mr. Hackley said that the Decision and Order were intended to be in accord with the views previously expressed by the Board and that he assumed the only remaining questions therefore would be those relating to the language of the opinion and editorial style. He pointed out that the Order would be published in the Federal Register and, along with the Decision, would be made available to the press and the public. He felt that it would also be desirable to publish the Decision and Order in the Federal Reserve Bulletin.

Governor Balderston raised certain questions for the purpose of clarification regarding various parts of the Decision, as did Governors

Vardaman and Mills, and discussion of these questions resulted in agreement on certain minor changes. It was understood that in addition the Legal Division desired to make a few minor corrections of a technical nature.

Further discussion of the matter related to the procedure to be followed in releasing the Decision and Order, and Mr. Molony stated reasons why he considered it desirable that the action of the Board be followed as promptly as possible by public release of the documents. Agreement was expressed by the Board with this point of view and Mr. Molony was authorized to work with other appropriate members of the staff in revising the documents to the extent agreed upon at this meeting and arranging for their release to the press later this afternoon.

Thereupon, unanimous approval was given to the Decision and Order in the form attached to these minutes as Items 11 and 12, with the understanding that the Order would be published in the Federal Register and that the Decision and Order would be published in the Federal Reserve Bulletin. A copy of Governor Vardaman's statement in explanation of his vote is attached hereto as Item No. 13.

During the foregoing discussion Mr. Brill, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics, entered the room.

Study of small business financing (Item No. 14). Pursuant to the understanding at the meeting on August 12, 1957, there had been distributed to the members of the Board a revised draft of letter to

Senator Fulbright, Chairman of the Senate Banking and Currency Committee, regarding the study to be made by the Board concerning the financing problems of small business. Copies of the letter would be sent to Chairman Spence of the House Banking and Currency Committee, to Senators Sparkman and Clark, and to Congressman Patman.

Governor Vardaman said he was not impressed that the letter as drafted set forth fully the case for making the study, and he noted that it did not refer to the conversations which had taken place between Chairman Martin and Senator Fulbright. However, he said, if the proposed letter was satisfactory to the other members of the Board, he would be willing to go along with it.

The other members of the Board then expressed agreement with the letter, subject to an editorial change suggested by Governor Balderston. Accordingly, the letter was approved unanimously in the form attached hereto as Item No. 14.

Messrs. Molony, Noyes, and Brill then withdrew from the meeting.

Application of Northwest Bancorporation under the Bank Holding Company Act (Items 15 and 16). Pursuant to section 3(a) of the Bank Holding Company Act, Northwest Bancorporation of Minneapolis, Minnesota, had submitted an application for the Board's prior approval of the acquisition of 1,450 of the 1,500 shares of capital stock of the proposed Northwestern State Bank, Rochester, Minnesota. An analysis of the application was submitted in a memorandum from the Division of

Examinations dated August 6, 1957, which had been distributed to the members of the Board. Although the Commissioner of Banks of the State of Minnesota had advised that he would have no objection to the granting of the application and the Federal Reserve Bank of Minneapolis had recommended favorably, the Division of Examinations recommended that the application be denied, principally on the basis that the proposed acquisition would give two bank holding companies (Northwest Bancorporation and First Bank Stock Corporation) a predominant position in the area with respect to both banking offices and deposits. It was pointed out that if the new bank were permitted to open, Northwest would have 50 per cent of the banking offices and in excess of 30 per cent of the deposits of all Rochester banks, along with 25 per cent of the banking offices and in excess of 27.5 per cent of the deposits of all banks in Olmsted County. The two holding companies' Rochester banks would have 75 per cent of the banking offices and, based on estimated deposits of the proposed bank, in excess of 68 per cent of the deposits of Rochester banks. They would have 37.5 per cent of the banking offices in Olmsted County, and more than 61 per cent of the bank deposits in the County. The increase in the already dominant position of the two holding companies was felt to outweigh the favorable factors with respect to convenience, needs, and welfare of the area, which did not appear to the Division of Examinations to be strong in themselves.

There had also been distributed to the members of the Board a memorandum from the Legal Division dated August 19, 1957, which took the

position that denial of the application for reasons suggested by the Division of Examinations would be consistent with the discretion permitted the Board by the Bank Holding Company Act. Because of the possibility that the decision of the Board would be subjected to judicial review, the Legal Division suggested procedural steps which might be taken if the Board should be disposed to deny the application and steps which might be considered if the Board should approve the application, or be disposed to approve it.

At the request of the Board, Mr. Hostrup made a statement in explanation of the staff recommendation in which he said that in this case there were no adverse considerations regarding the condition or management of the holding company, the prospects of the proposed bank, or the convenience of the community. The bank would be situated in a shopping center in an area where development was taking place, and it appeared certain that the area would expand further. However, he said, there did not seem to be a strong or urgent need for these additional banking facilities, the shopping center being only about 1-1/4 miles from the downtown area where three banks are located. The downtown banks appeared to have ample parking facilities and the city had a population of only about 35,000. While the Federal Reserve Bank of Minneapolis had expressed the view that there was room for the proposed bank, this was not regarded as a strong supporting statement on the part of the Reserve Bank. In the circumstances, the Division had

concluded that the factor of convenience and needs was not strong enough to overbalance the undesirable results if the application were approved.

Mr. Hostrup then brought out that two of the three banks in Rochester are owned by large and powerful bank holding companies, while there is one independent bank. If only Northwest Bancorporation were represented in Rochester, he said, the Division might have been inclined to recommend approval of the application. However, it felt that the legislative history of the Bank Holding Company Act was so strongly flavored with the apparent underlying purpose of fostering independent banking that consideration should be given to the representation of two bank holding companies in the city of Rochester and the dominant position they would hold if the new bank were approved. Undoubtedly, some of the deposits of the new bank would be taken from existing bank deposits of the independent bank or would come from additional deposits that the independent bank might otherwise obtain from the area being developed.

In response to a question by the Chairman, Mr. Hostrup stated that the Federal Reserve Bank had not been asked for further views in support of its recommendation, pending initial consideration of the matter by the Board.

Governor Vardaman then made a statement in which he questioned whether the Division of Examinations should attempt to interpret the legislative intent of the Bank Holding Company Act, particularly through

statements made in Congressional debate preceding passage of the Act. He expressed the view that the Division's recommendation should be based only on facts and then said that in this case he would be inclined to go along with the Reserve Bank's favorable recommendation.

Following a comment by Chairman Martin that he considered it very important for the staff to express itself fully at all times, Mr. Hostrup remarked that in matters of this kind the Division of Examinations works in cooperation with the Legal Division to the extent that it may appear advisable to give consideration to legislative history and intent.

Governor Mills then stated that he also would favor accepting the recommendation of the Federal Reserve Bank and the State Commissioner of Banks in this case. He saw a substantial distinction between, on the one hand, the expansion of a bank holding company within a community where it is already represented and where an additional unit is tantamount to establishment of a branch and, on the other hand, entrance of a holding company into a community for the first time. A theory that representation of two holding companies in a community constituted a barrier that would prevent them from bringing additional banking services to a growing area of the community would not in his opinion be in harmony with certain factors required to be considered in applications of this kind. He also felt that one must give some weight to the judgment of the applicant that the contemplated operation presented an opportunity for profitable operations, and that if a community was growing the Board

should be very careful about setting up a procedure that would prevent additional banking services from becoming available. In this connection, he noted that in the western part of the United States particularly, a city with a population of 35,000 is a very substantial community.

Governor Robertson stated that he would not be inclined to act on the application before giving both the proponents and the opposition an opportunity to present their views. On the basis of the factors presented thus far, he would oppose the application, but he did not want to act without hearing representatives of both sides. In this connection, he noted that counsel for the independent bank in Rochester had requested an opportunity to be heard in opposition to the application. He felt that such an opportunity should be afforded and that before acting the Board should also receive any further views which the applicant, the Reserve Bank, or the State Commissioner of Banks might wish to present. If the Board was disposed to approve the application, he was inclined to think that a formal hearing would be in order.

Mr. Hackley stated that while, in general, the Legal Division was disinclined to suggest formal hearings, certain advantages are derived from a hearing, particularly when there are opposing parties, since they can appear and there is an opportunity for cross examination.

Governor Mills questioned the desirability of a formal hearing, expressing the view that in a sense it would constitute reopening the Bank Holding Company Act. After noting that a formal hearing was not

required by law in this case, he suggested that it was not a part of the Board's responsibility to investigate whether or not the State authorities were acting wisely in granting a charter for the new bank.

When Governor Robertson and Mr. Hackley commented that a formal hearing would provide a better record in the event of judicial review, Governor Mills said he was disturbed about the frequency of proposals for hearings and also about offering various parties an opportunity to come before the Board from one case to another to present opinions and views. This procedure carried the implication, he felt, that almost anybody should have the privilege of appearing whenever there was a shadow of doubt about the Board's judgment.

Governor Vardaman said it would be his inclination to go ahead and approve this application without a hearing or anything else, but that he would not oppose calling in the interested parties informally. He realized that a formal hearing would produce a good record, but he noted that such hearings are expensive and time-consuming.

Governor Mills suggested that it might be possible to build up the record, if necessary, by arranging for the appearance of interested parties before a designated member of the Board or members of the Board's staff. It was his view that previous experience in having parties appear before the full Board in connection with applications in the bank supervisory field had not been satisfactory and that the Board might find itself in a position of catering too much to dissenting opinions.

Mr. Hostrup then commented further concerning the hearing on the chartering of the proposed new bank in Rochester which was held before the State authorities, referring particularly to the fact that all interested parties had been afforded an opportunity to present their views and that the record of the hearing was extensive. In his remarks he also referred to certain litigation which had been brought by the independent bank in Rochester in the State courts.

After further discussion, Governor Balderston suggested inviting counsel for the independent bank to submit his views in writing to the Board, stating that he felt this would discharge the Board's commitment to receive the views of the independent bank. At present, his own opinion on the application coincided with that of Governor Mills. He said that when a State has laws that prevent the establishment of branches and a city of substantial size needs additional banking offices, he thought that the Board should take account of the situation and permit new banks to be established to the extent that they are required.

At the conclusion of the discussion, it was agreed unanimously to write letters to counsel for the Olmsted County Bank and Trust Company and to the President of the Federal Reserve Bank of Minneapolis inviting them to furnish such views and comments as they might care to submit, and that further consideration of the application by the Board would await the receipt of replies. Copies of the letters sent pursuant to this action are attached hereto as Items 15 and 16.

Purchase of corporate stock by The Chase Manhattan Bank (Item No. 17). At the meeting on August 14, 1957, the Board gave preliminary consideration to a proposed letter to the Federal Reserve Bank of New York which would take the position that purchase by The Chase Manhattan Bank of stock in a corporation organized to act as nominee to hold title to certain mortgages held in labor union trusts for which the bank acts as custodian for a group of individual trustees would not be permissible under section 5136 of the Revised Statutes.

In a further discussion of the matter, Governor Balderston referred to the practice of trust companies to have individuals as nominees and said it had occurred to him that, in view of changes in banking procedures, the Board perhaps would want to take notice of the fact that there might be some other appropriate way of handling transactions of this kind. Perhaps, he said, a bank would in fact be better off to have as nominee a corporation rather than an individual person. He added that he did not feel strongly, however, with respect to the matter currently before the Board and that the position taken in the letter was no doubt correct from a legal standpoint.

Agreement having been expressed by the other members of the Board that the legal position was correct, unanimous approval was given at the conclusion of the discussion to the proposed letter to the New York Reserve Bank, of which a copy is attached at Item No. 17.

Federal Advisory Council topics (Item No. 18). There had been distributed to the members of the Board a draft of letter to the

Secretary of the Federal Advisory Council suggesting topics for discussion at the joint meeting of the Council and the Board scheduled for September 17, 1957.

Following a brief discussion the proposed letter, of which a copy is attached as Item No. 18, was approved unanimously, with the understanding that a copy would be sent to the President of the Federal Advisory Council.

Deposit pickup services (Item No. 19). In a letter dated August 6, 1957, the Secretary of Banking of the Commonwealth of Pennsylvania stated that he proposed to issue a bulletin advising State banks in Pennsylvania that deposit pickup services rendered to customers off bank premises at bank expense were illegal under the State Banking Code. He indicated that he was seeking the cooperation of the Federal bank supervisory agencies, and in that connection he referred to discussion at the April 10, 1957, meeting of the Standing Interagency Committee of Federal and State bank supervisory representatives, at which time it was indicated that any State wishing to stop the practice would receive cooperation from the Federal agencies.

Governor Robertson read a draft of proposed reply which would refer to the opinion heretofore expressed by the Board regarding this practice and would give assurance that the cooperation of the Board in the application of the State policy could be expected. He stated that the Comptroller of the Currency was taking the same position and that the Federal Deposit Insurance Corporation was withholding a favorable reply until it was informed of the Board's position.

In response to a question by Governor Vardaman, Governor Robertson stated that the proposed letter was entirely consistent with the position taken by the Board in the past on this subject.

Thereupon, the letter to the Secretary of Banking, of which a copy is attached hereto as Item No. 19, was approved unanimously, with the understanding that copies would be sent to the Federal Reserve Banks of Philadelphia and Cleveland.

The meeting then adjourned.

Secretary's Notes: On August 16, 1957, the Federal Reserve Bank of Richmond advised that its directors, at a meeting that day, had established, subject to review and determination by the Board of Governors, a rate of 3-1/2 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, along with appropriate subsidiary rates of discount and purchase. Pursuant to authority given on August 12, 1957, the Secretary sent to the Reserve Bank a telegram in the form attached hereto as Item No. 20.

On August 19, 1957, the Federal Reserve Bank of St. Louis advised that its directors, at a meeting that day, had established, subject to review and determination by the Board of Governors, a rate of 3-1/2 per cent on discounts and advances under sections 13 and 13a, along with appropriate subsidiary rates of discount and purchase. Pursuant to the aforementioned authority given on August 12, 1957, the Secretary sent to the Reserve Bank on August 20, 1957, a telegram in the form attached hereto as Item No. 21.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston, acting in the absence of Governor Shepardson, approved on behalf of the Board on the dates indicated the following items affecting the Board's staff:

August 15

Appointment

Gladys W. Garber as Mailing List Clerk in the Division of Administrative Services, with basic annual salary at the rate of $3,260, effective the date she assumes her duties.

Sick leave

Bricen Barnes, Bindery Helper and Mimeograph Operator, Division of Administrative Services, for a period not to exceed 30 days beginning August 27, 1957.

Acceptance of resignations

Peter Black, Laborer, Division of Administrative Services, effective August 9, 1957.

Frances P. Burton, Secretary, Board Members' Offices, effective August 27, 1957.

John M. Culbertson, Economist, Division of Research and Statistics, effective September 6, 1957.

August 16

Salary increases, effective August 25, 1957

Marjorie B. Beattie, Manager, Cafeteria, Division of Administrative Services, from $6,250 to $6,455 per annum.

Lois E. Miller, Assistant Manager, Cafeteria, Division of Administrative Services, from $3,805 to $4,080 per annum.

Acceptance of resignation

John D. O'Berg, Operator, Key Punch, Division of Administrative Services, effective August 16, 1957.

August 19

Change in basis of employment

Georgine Winslett, Clerk-Typist, Division of Research and Statistics, from a full-time to a half-time basis, effective September 9, 1957.

On August 15, 1957, Governor Balderston noted on behalf of the Board memoranda from appropriate individuals concerned advising that Helen R. Dyer, Librarian, Division of Research and Statistics, would retire under the Retirement System of the Federal Reserve Banks effective October 1, 1957, and that Helen L. Sweeney, Clerk, Division of Administrative Services, had retired under the Civil Service Retirement System effective August 13, 1957.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Mr. A. Phelan, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Phelan:

Reference is made to your letter of July 30, 1957, submitting with a favorable recommendation the request of the Bank of Passaic and Trust Company, Passaic, New Jersey, for the Board's approval under paragraph 11 of Section 9 of the Federal Reserve Act of a net reduction of $428,610 in capital stock resulting from six conversions of preferred stock into common stock during the past eighteen months. You also recommend that the Board at this time give prior consent to a further net reduction of $143,325 in capital stock which will occur when the remaining preferred stock of the trust company is converted into common stock. It is noted no reduction in the total capital structure of the trust company is involved in the conversion program.

In view of all the circumstances, the Board interposes no objection to the net reduction of $428,610 in capital stock of the Bank of Passaic and Trust Company which has occurred during the past eighteen months, and herewith also gives its prior consent to the further net reduction of $143,325 in capital stock which will result when the remaining preferred stock of the trust company is converted into common stock. Please advise the trust company accordingly.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Mr. Harold T. Patterson,
Vice President and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Patterson:

Receipt is acknowledged of your letter of August 8 enclosing a letter dated August 6, 1957, from Mr. John A. Sibley, Chairman of the Board of Trust Company of Georgia, regarding the conclusion by the Board of Governors that the proposed arrangement for the exercise of the rights held by Trust Company of Georgia and Trust Company of Georgia Associates to purchase additional shares of the common stock of Continental Gin Company would violate section 4(a) of the Bank Holding Company Act of 1956.

Mr. Sibley requests that the Board grant a hearing on the matter, or, if not, that it give consideration to the method of obtaining a ruling by a court of competent jurisdiction.

You recommend that Mr. Sibley be requested to submit a brief with respect to the merits of his position, so that the Board can then determine, on the basis of his brief, whether it is necessary or desirable for the Board to grant the companies an opportunity for presenting oral argument to the Board in Washington.

The Board has adopted your recommendation; and it will be appreciated if you will advise Mr. Sibley accordingly.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 13, Texas.

Dear Mr. Pondrom:

Your letter of August 5, 1957, and its enclosures, presented on behalf of the First National Bank of Dumas, Dumas, Texas, the question whether the supplying of certain benefits and services by a member bank pursuant to its bid for designation as depository of city funds would constitute indirect payments of interest on deposits under the Board's Regulation Q.

It is related that, in its bid for selection as depository for funds of the City of Dumas, the national bank offered the maximum rates of interest permissible under the regulation for time deposits. It is related further that the same offer was made in the competitive bid of the First State Bank, Dumas, Texas, which, in addition, offered to the City free imprinted checks, free night depository service, and free endorsement stamps, money bags, coin wrappers, and bill straps for use in connection with the City's accounts with the bank. The national bank seems to believe that the supplying of these additional services would constitute indirect payments of interest on deposits within the provisions of Regulation Q.

The Board's general policy with respect to questions as to indirect payments of interest is set forth in the Board's letter S-1577, September 23, 1955 (F.R.L.S. #6230.1). That continues to be the Board's policy.

However, the additional benefits and services in question appear to be either identical with or very similar to some of those involved in the Board's interpretation S-1617-a, January 23, 1957 (F.R.L.S. #6244). Accordingly, on the basis of the information submitted, the Board believes that the question involved may be properly regarded as one to which the principles and conclusion stated in the 1957 interpretation just mentioned are applicable. You apparently had the 1957 interpretation in mind in indicating to the national bank, in your letter of July 11, 1957, that the supplying of the additional benefits and services in question would not seem to constitute indirect payments of interest on deposits within the provisions of the regulation.

Aside from the particular question presented, if paragraphs (1) and (2) of the national bank's bid as set forth in its letter of July 10, 1957, might be construed as permitting withdrawal at any time prior to the fixed maturity date on 30 days' advance written notice, the maximum permissible interest rate applicable to such a withdrawal would be 1 per cent. There is also a misleading suggestion that Regulation Q forbids payment of any time deposit at the expiration of its fixed maturity unless the depositor gives to the bank at least 30 days' advance written notice. You may wish to bring these points to the bank's attention.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 4
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 13, Texas.

Dear Mr. Pondrom:

This refers to your letter of August 1, 1957, and its enclosures, concerning whether the several benefits and services offered by the Jacksboro National Bank, Jacksboro, Texas, in a bid submitted by it for selection as depository for funds of Jack County, Texas, might constitute indirect payments of interest on deposits under the Board's Regulation Q. It appears that the Chief National Bank Examiner for the Eleventh District has requested advice on the matter for use in connection with the next examination of the national bank.

From the copy of the bid enclosed with your letter, it appears that the bank has agreed to pay the County the maximum permissible rates of interest on time deposits, and also to make available to the County the following benefits and services: loans, without interest, on County warrants; no charge for short-term overdrafts; free endorsement stamps, rubber stamps, and printed checks; bonded safekeeping of County securities, apparently without charge; free safe deposit box and night depository facilities; free shipping and insurance in connection with transfers or collections of County bonds or bond coupons; no charge for reports required of the bank by the County; and maintenance of a permanent record of all checks and deposits, apparently without charge.

In addition, the bank's bid states that " . . . we agree to remit the interest for the years 1957 and 1958 and agree that you may pay any or all of the above warrants at any time prior to Jan. 1st 1959 at par with no further interest charge, at your election. This will save your County not less than $144.50". (The warrants just mentioned are eight Jack County warrants held by the bank in an aggregate principal amount of $12,500 and bearing interest at the rate of 2 per cent per annum.) The bank's bid also states that ". . . we will protect the County against any loss by reason of forgery or alteration . . ." of its checks.

As indicated in your letter, the Board's general policy, as set forth by its letter S-1577, September 23, 1955 (F.R.L.S. #6230.1), is to refrain, except as to questions involving obvious or flagrant cases or proposals, from ruling in this kind of situation unless the facts have been fully developed in the course of examination of the member bank involved.

However, most of the benefits and services available to the County under the bank's bid would appear to be either the same as or similar to some of the services and benefits involved in the Board's interpretation S-1617-a, January 23, 1957 (F.R.L.S. #6244). Accordingly, while additional facts would be necessary for a definitive answer, the Board is inclined to view the bid as one within the principles and conclusion stated in the 1957 interpretation referred to above, except for the matters discussed in the following paragraph.

The exceptions are the above-quoted provisions of the bid relating to the remission or cancellation of interest on County warrants held by the bank and the protection of the County against forgery or alteration of checks. The Board believes that it should not attempt to indicate any views on these matters without as complete, detailed information as possible as to how they have been, or would be, actually handled and effected in practice. In this connection, it is noted that your Counsel, on the basis of some further information, has concluded that remission or cancellation of interest pursuant to the provision in question would constitute the indirect payment of interest. In addition, the portion of the bid concerning protection of the County against loss from forgery or alteration of checks suggests that the answer as to it, depending on all the facts and circumstances, might be affected by the Board's interpretation S-1556, January 6, 1955 (F.R.L.S. #6243).

The Board, of course, will be glad to consider the aspects of the bank's bid discussed in the above paragraph on the basis of the facts as fully developed in the course of examination of the national bank.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 5
8/20/57

August 20, 1957

Board of Directors,
Pacific State Bank,
Hawthorne, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment by Pacific State Bank of a branch in temporary quarters at 4520 West Imperial Highway, Los Angeles, California, provided the branch operations at this location will be discontinued simultaneously with the opening of the branch in the vicinity of the intersection of Inglewood Avenue and Imperial Highway, Los Angeles, California, as approved by the Board on April 19, 1957.

It is noted that Pacific State Bank is proceeding with plans to increase capital and surplus by not less than $180,000 through sale of additional stock, and it is assumed that the aggregate investment in bank premises, furniture, fixtures, and equipment will not exceed 50 per cent of the combined capital and surplus, as required by the State Banking Department.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 6
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. L. A. Jennings,
Deputy Comptroller of the Currency.

Dear Sir:

The proposal to merge The First National Bank of Remsen, Remsen, New York, with and into The Farmers National Bank and Trust Company of Rome, Rome, New York, under the charter and title of the latter, to which reference is made in your letter of July 23, 1957, does not appear to come within the purview of the Bank Holding Company Act of 1956. However, the enclosed information may be helpful in your consideration of the matter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
8/20/57

August 20, 1957

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Referring Board's letter of August 1 regarding Comptroller's letter of July 23, 1957.

With respect to weekly reporting member banks, it should be sufficient at this time to remind them that, in weekly reports of condition beginning August 21, purchases of securities under resale agreements should be reported as loans, rather than being included with securities owned as heretofore. Selling bank should continue to report such transactions as borrowings, and continue to report the securities as owned.

Expect to have revisions in call report instructions cleared among the Federal bank supervisory agencies before next call. Your suggestions regarding these instructions, based on the types of inquiries received from banks, would be helpful.

Would appreciate it if your Bank would contact a few of the larger banks known to have made these purchases in the past to learn how much of a shift in figures this change would make and, if large, whether back data would be readily available as of prior Wednesdays or call dates and for how long a period, and advise by telegram. An overlap for statistical purposes could, of course, be provided by having

these loans reported separately on both bases for a number of weeks but this type of overlap would not seem to be as significant as one covering earlier dates.

(Signed) S. R. Carpenter

CARPENTER

Item No. 8
8/20/57

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 20, 1957

WOODWARD - RICHMOND

KECEA

A. The First Virginia Corporation, Arlington, Virginia

B. The National Bank of Manassas, Manassas, Virginia

C. None

D. At any time prior to October 1, 1957, to act upon proposals (1) to increase the capital stock of such bank, (2) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, and (3) to adopt a resolution rescinding action taken by shareholders of such bank on January 8, 1957, to provide for an increase in capital stock of such bank, provided that all actions taken shall be in accordance with plans satisfactory to the Comptroller of the Currency. STOP. Please advise applicant that granting of this permission does not constitute any expression of opinion as to whether action taken by shareholders on January 8, 1957, to increase the capital stock of such bank was or is legally effective. Also, please advise applicant that since it appears that directors received votes of some stock which clearly was eligible to be voted at the last election, no new election of directors seems necessary.

CARPENTER

(Signed) S. R. Carpenter

T E L E G R A M
LEASED WIRE SERVICE

Item No. 9
8/20/57

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 20, 1957

WOODWARD - RICHMOND

KECEA

A. Old Dominion Bank, Arlington, Virginia

B. The National Bank of Manassas, Manassas, Virginia

C. None

D. At any time prior to October 1, 1957, to act upon proposals (1) to increase the capital stock of such bank, (2) to amend the articles of association of such bank to conform to articles recommended by the Comptroller of the Currency, and (3) to adopt a resolution rescinding action taken by shareholders of such bank on January 8, 1957, to provide for an increase in capital stock of such bank, provided that all actions taken shall be in accordance with plans satisfactory to the Comptroller of the Currency. STOP. Please advise applicant that granting of this permission does not constitute any expression of opinion as to whether action taken by shareholders on January 8, 1957, to increase the capital stock of such bank was or is legally effective. Also, please advise applicant that since it appears that directors received votes of some stock which clearly was eligible to be voted at the last election, no new election of directors seems necessary.

CARPENTER
(Signed) S. R. Carpenter

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
8/20/57

OFFICE OF THE CHAIRMAN

August 20, 1957

The Honorable J. W. Fulbright, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

My dear Mr. Chairman:

This is in response to a telephone request from your committee for a report on S. 1201, a bill "To repeal certain legislation relating to the purchase of silver, and for other purposes."

This bill would repeal the Silver Purchase Act of 1934, Section 4 of the Act of July 6, 1939, the Act of July 31, 1946, and certain sections of the Internal Revenue Code. It would provide for the maintenance by the Treasury Department of certain reserves in silver bullion or silver dollars against outstanding silver certificates and for the exchange of silver certificates on demand for silver dollars; and it would authorize the Secretary of the Treasury to coin silver dollars and to provide for subsidiary silver coinage.

The principal effect of the bill would be to eliminate from the law provisions fixing the price at which silver is purchased by the Secretary of the Treasury. In the past few years the New York market price for silver has varied between 85-1/4 cents and 92 cents per ounce. The Treasury buys silver at 90-1/2 cents and is currently selling silver to United States consumers out of its non-monetized stock at prices of 91 cents in San Francisco and of 92-1/4 cents in New York. Although the New York market price is currently higher than the buying price of the Treasury, most domestic producers find that the difference does not exceed the shipping costs from Western mines to New York, and therefore continue to sell the bulk of their production to the Treasury.

To the extent that silver purchased by the Treasury may be monetized through coinage or through the issue of silver certificates, such purchases have the effect of increasing the country's money supply with a resulting increase in bank reserves and in the base for credit expansion. Such arbitrary additions have no relation to the need for bank reserves and, from a credit point of view, are unnecessary as long as the supply of gold and Federal Reserve credit continues to be ample.

Additions to bank reserves through monetization of silver have been relatively small in amount, however, and can be offset, if necessary, so that the purchase of silver does not substantially affect the general credit or monetary situation at this time.

The Federal Reserve has expressed the view on several occasions in the past that it would not be desirable to extend the role which silver plays in our monetary system. Due to the factors pointed out above, it would appear that sound reasons continue to exist for revision of the present silver purchase laws. Accordingly, the Board would interpose no objection to S. 1201.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 11
8/20/57

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of the
Application of
TRANSAMERICA CORPORATION
relating to
OCCIDENTAL LIFE INSURANCE COMPANY
OF CALIFORNIA

Docket No.
BHC-28

DECISION AND ORDER

Statement of the Case

This is a proceeding under the Bank Holding Company Act of 1956 (70 Stat. 133; 12 U.S.C. 1841 et seq.), which is entitled "An Act To define bank holding companies, control their future expansion, and require divestment of their nonbanking interests."

As indicated by its title, one of the major purposes of the Act is to require bank holding companies to divest themselves of their nonbanking interests. That purpose is implemented by section 4 of the Act, which provides that no bank holding company shall acquire any voting shares of nonbanking organizations, and that after a specified period:

> "... no bank holding company shall ... retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company ...."

To this general prohibition against acquisition or retention of nonbanking shares, however, Congress has provided a number of exceptions, enumerated in section 4(c) of the Act. The exception involved in this proceeding is that prescribed by section 4(c)(6), which excludes from the prohibition:

> "... shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act;" ...

Transamerica Corporation, a corporation organized under the laws of Delaware, is a bank holding company as defined in the Act. In addition to its ownership of a majority of the shares of a number of banks in the western States of the United States, Transamerica owns all or a majority of the shares of a number of nonbanking organizations. The largest of these is Occidental Life Insurance Company of California, all of the shares of which are owned directly by Transamerica.

Transamerica applied to this Board for a determination which would exempt Occidental pursuant to section 4(c)(6). As required by that section, a hearing was held on this matter after due notice, before a duly appointed and qualified Hearing Examiner, at which opportunity was provided for presentation of evidence by the applicant and others. Thereafter Transamerica submitted to the Hearing Examiner proposed Findings of Fact and a brief in support thereof.

On May 21, 1957 the Hearing Examiner submitted his Report and Recommended Decision, which is appended hereto. On the basis of his Findings of Fact and upon the entire record in the case, he reached the conclusion of law that:

> "Occidental is not -- within the meaning of Section 4(c)(6) of the Act -- so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of Section 4(a)(2) of the Act to apply in order to carry out the purposes of the Act."

In accordance with this conclusion of law, the Hearing Examiner recommended that the Board:

> "Deny the request of Transamerica Corporation for an order under Section 4(c)(6) of the Act exempting Occidental Life Insurance Company of California from application of the prohibitions of Section 4(a)(2) of the Act."

On July 9, 1957 counsel for Transamerica presented before the Board an oral argument with respect to the pending application and the Hearing Examiner's Report and Recommended Decision.

Findings of Fact

The relevant facts in this matter, as developed in the record, are presented in the Findings of Fact of the Hearing Examiner, which are not disputed by Transamerica,

and therefore they need not be fully restated here. Occidental is engaged in the business of writing life, accident and health insurance, both ordinary and group. The general character of its business does not differ significantly from that of other leading life insurance companies engaged in writing the same classes of insurance. In terms of insurance in force, Occidental ranks twelfth in the United States and is by far the largest life insurance company domiciled in the western States. At the end of 1956, Occidental had $6,707,322,930 life insurance in force, of which individual policies accounted for $3,755,056,058 and group coverage amounted to $2,952,266,872.

Only a relatively insignificant part of Occidental's business has a direct relationship to the business of Transamerica's subsidiary banks. For example, at the end of 1956 Occidental's credit life insurance in force for Transamerica banks was only about six-tenths of one per cent of Occidental's total outstanding life insurance. Other relationships between Occidental and Transamerica's banks are likewise of relatively slight significance as compared with either Occidental's total business or that of Transamerica's subsidiary banks. Relationships of Occidental with nonaffiliated banks are also a relatively small part of Occidental's total business.

The Statutory Provision

Under section 4(c)(6) the ownership by a bank holding company of shares of a nonbanking organization is exempted from the provisions of the Act only if it meets the following requirements:

(1) All of the activities of the organization must be of a financial, fiduciary, or insurance nature; and

(2) The company must be determined by the Board to be so closely related to the business of banking or of managing or controlling banks (a) as to be a proper incident thereto and (b) as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act.

There is no question in the present case but that all of the activities of Occidental are of an insurance nature. Consequently, the only question is whether Occidental is so closely related to the business of banking or of managing or of controlling banks as to meet both the additional requirements that Congress has specified with respect to the kind of closeness that will qualify a company for exemption under section 4(c)(6).

As the Hearing Examiner stated on page 27 of his Report:

> "Section 4(c)(6) itself circumscribes the area of the Board's allowable discretion. Thus, it superimposes upon the requirement that a financial, fiduciary or insurance company, to be qualified for exemption, must be 'closely related to the business of banking or of managing or controlling banks', two additional requirements. One is that the Board must find that the close relationship is such as to make the nonbanking subsidiary a 'proper incident' to the business of banking or managing or controlling banks. The other is that the Board must find that the relationship is such as to make it unnecessary for the divestiture provisions of the Act to apply in order to carry out the purposes of the Act. Both of these additional requirements, serve, in my view, to qualify and restrict the sense in which 'closely related' may be considered."

The two additional requirements are somewhat similar in character and tend to reinforce each other. It is helpful to analyze each separately as well as to consider their relationship to each other.

"Proper Incident". - As the Hearing Examiner has pointed out on pages 27 and 28 of his Report, both legal and nonlegal dictionaries show that the term "incident" is used to describe something that "usually" or "naturally" "depends upon", "appertains to", or "follows" another more important thing. It is clear that section 4(c)(6) is intended to exempt only those nonbanking businesses that "usually" or "naturally" "depend upon" or "appertain to" the business of banking or of managing or controlling banks. The section requires that a nonbanking business, in order to be exempted under the provision, must be not merely an "incident" but a "proper incident" to banking or managing or controlling banks.

"Purposes of This Act". - In the absence of more specific enumeration in the Act itself of "the purposes of this Act" as they relate to section 4(c)(6), it is appropriate to resort to the history of the legislation prior to its enactment. The Report of the Hearing Examiner includes a careful description of relevant portions of the legislative history, which need not be repeated here.

The Act and its history demonstrate that Congress recognized that whenever a holding company controls both banks and nonbanking organizations the nonbanking organizations may thereby occupy a preferred position over that of their competitors in obtaining bank credit and that, in critical times, the holding company which controls nonbanking organizations may be subjected to strong temptation to cause the banks which it controls to make loans to its nonbanking affiliates even though such loans may not at that time be in accord with current banking standards (for example, see H. Rep. No. 609, 84th Cong., 1st Sess. 16 (1955)).

Thus it seems evident that Congress was of the view that, in general and subject to only limited exceptions, bank holding company systems should be restricted to banking activities and should not engage in other types of business for the reason that common control of banks and nonbanking organizations could give rise to evils of several kinds. For example, Congress apparently considered the possibility that a bank holding company might enter into transactions with a nonbanking affiliate of risky character that would not be entered into if the other party were an unrelated company, and that this might involve undue hazard to the bank, its depositors, and the public interest generally. Although section 6 of the Act prohibits some such dealings, it would not necessarily reach all such practices. The legislative history of the Act also indicates that Congress considered that, in order to help its nonbanking affiliates, a holding company bank might deny justified credit to competitors or prospective competitors of such affiliates, thereby restricting the vigor of competition and denying deserved credit accommodation to legitimate businesses; or that a holding company, in extending credit, might exert pressure on borrowers to do business with the lending bank's affiliated corporations rather than with their competitors, thus denying those borrowers an appropriate freedom of choice.

To put the matter another way, Congress has recognized that banking is a unique business, with unique economic power and responsibilities. Banks hold the current funds of the economy and the demand deposits that serve as the nation's principal medium of exchange. The public interest requires that decisions as to whether or not a bank extends credit in a particular case should be based, as far as possible, solely on credit worthiness. Congress apparently felt that this objective could be furthered by laying down a general rule, subject to only limited exceptions, that no company should own or control both banks and nonbanking enterprises.

"Potential Sources of Evil". - It is noteworthy that Congress, in ordering this separation of functions, did not make the requirement depend upon whether or not a particular nonbanking business of a particular bank holding company had resulted in actual abuses. The language and history of the Act make it clear that Congress intended to eliminate potential evils by correcting what it considered to be unsound corporate structures in bank holding company systems, and that it did not wish to require proof of the existence of actual evil in each particular situation. In other words, as the United States Supreme Court stated in North American Co. v. S.E.C., (1946) 327 U.S. 686, 711, with respect to the Congressional intent in enacting a somewhat similar provision in the Public Utility Holding Company Act of 1935:

> "... [the provision was] not designed to punish past offenders but to remove what Congress considered to be potential if not actual sources of evil."

This clear purpose of section 4, namely, "to remove ... potential ... sources of evil", provides a helpful guide in applying the requirements of section 4(c)(6). If a nonbanking business is a "proper incident" to banking or to managing or controlling banks, that is, if it properly and "naturally appertains" thereto, it is less likely to cause a bank to be influenced by the "unnatural" or extraneous considerations or temptations that are "potential sources of evil". Hence, it is more likely to accord with the "purposes of this Act".

In other words, when section 4(c)(6) refers to "proper incident" and to the "purposes of this Act" it uses the terms jointly to limit the exemption in the section to situations which substantially escape the "potential sources of evil" against which the general prohibition was directed.

Section 5(b) of the Board's Regulation Y, issued pursuant to the Bank Holding Company Act, provides in part as follows:

> "Any bank holding company which is of the opinion that a company all the activities of which are of a financial, fiduciary, or insurance nature is so closely related to the business of banking or of managing or controlling banks, as conducted by such bank holding company or its banking subsidiaries, as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4 of the Act to apply in order to carry out the purposes of the Act, may request the Board for such a determination pursuant to section 4(c)(6) of the Act." (emphasis supplied)

In view of the discussion above, it will be seen that the underscored words merely explain and implement the general purpose of section 4(c)(6).

Further Considerations. - As part of the analysis of section 4(c)(6) it is proper to consider two other contentions of Transamerica.

Among other things, Transamerica contends that the exemption provided by section 4(c)(6) should not be so narrowly construed as to make it in effect indistinguishable from the "servicing" exemption provided by section 4(c)(1) of the statute. That exemption covers companies engaged solely in the business of furnishing services to, or performing services for, the bank holding company and its subsidiary banks. Its legislative history clearly indicates that this exemption was intended

to cover companies engaged in furnishing such services as appraising, investment counsel, advertising, public relations, etc. It may be conceded that the 4(c)(6) exemption was intended, as argued by Transamerica, to go beyond such ordinary servicing activities. Considering this point, it cannot alter the fact that an organization can qualify for exemption under section 4(c)(6) only if it is able to meet the requirements of 4(c)(6) as heretofore discussed.

Transamerica also contends that the Act and its legislative history show that Congress intended to grant to the Board, under section 4(c)(6), a discretion that is qualified only by the requirement that all the activities of the subsidiary company must be of a "financial, fiduciary, or insurance nature". The section does require that an organization be of the nature indicated, and it also requires the Board to exercise a certain degree of judgment. However, as shown above in considering the references in 4(c)(6) to "proper incident" and to "the purposes of this Act", the section prescribes limits, bounds and guides which the Board must follow in exercising its judgment under the provision.

Occidental's Relationships To Banking and Managing of Banks

Having reviewed the general facts of this case and the applicable statute, it is necessary to consider more specifically whether or not these facts bring Occidental reasonably within the scope of the exemption.

As previously indicated, Occidental's business does not differ significantly from that of other leading life insurance companies. Only a relatively insignificant part of Occidental's business has a direct relationship to the business of Transamerica's subsidiary banks or of other banks.

Similarities Between Banking and Insurance. - Transamerica cites various elements common to the business of life insurance and the business of banking or of managing banks, such as the receipt of deposits in connection with insurance policies, similarities in investments, similarities of management skills and experience, and similarities in the extent to which insurance companies and banks are subject to Government supervision.

It may be conceded that a number of such similarities exist. However, it should also be noted that banks and insurance companies differ in certain important respects. For example, the so-called deposits that insurance companies receive are limited to those connected with annuity or insurance policies they issue. Commercial banks receive

general deposits, including demand deposits subject to check, while insurance companies do not. Insurance companies are primarily interested in long-term loans and investments, while the typical commercial bank is primarily interested in short-term loans because of the need for liquidity. Furthermore, insurance companies have a specific product to sell -- annuity and insurance policies -- which banks, except in a few limited situations, are not in a position to offer.

Although Transamerica does not expressly state the point, its contentions seem to be directed toward the conclusion that life insurance companies generally possess characteristics of such nature that ownership of their shares by bank holding companies would not be adverse to the public interest and should be permitted. Needless to say, even if we were satisfied as to the validity of such arguments, they could not affect our decision in this matter except to the extent that they accord with the requirements of section 4(c)(6). Beyond that point they are arguments to be addressed to Congress rather than this Board.

Whatever its reasons, it is clear that Congress, in section 4(c)(6), did not provide a general exemption for shares of insurance companies owned by bank holding companies. All the activities of the company must be of an "insurance nature" (or "financial" or "fiduciary"), but that is simply a prerequisite to eligibility for exemption under section 4(c)(6). The company must also meet the further requirements that have been discussed above.

In view of those further requirements, it is clear that the mere fact that some of Occidental's operations resemble or are kindred to some of the operations of banks is not enough to warrant the kind of determination intended by section 4(c)(6). Functions may be similar to banking or to managing or controlling banks without necessarily being a "proper incident thereto", that is, without "naturally appertaining thereto".

Stated differently, mere similarity of some functions is not enough to eliminate the "potential sources of evil" against which the general prohibition of section 4 was aimed. This is especially the case when, as here, there are also substantial differences in functions which could give rise to such "potential sources of evil".

Occidental's Direct Relations With Banks. -- Since the similarities of functions shown in this case are not enough to justify exemption of Occidental under section 4(c)(6), it is necessary to consider the arguments offered as to Occidental's direct relations with Transamerica's banks and other banks.

As explained more fully in the attached Report of the Hearing Examiner, Occidental has several different relationships with affiliated and unaffiliated banks. These include insurance (credit life and employee

group) and investment and lending activities. However, they are a relatively insignificant part of Occidental's business and of the business of Transamerica's banks. These direct relations are not sufficient to justify an exemption under section 4(c)(6), either in their own right or when considered in connection with the general similarities between banking and insurance which were discussed above.

Conclusions

For the reasons discussed above, the Board concludes as follows:

1. All the activities of Occidental are of a financial, fiduciary or insurance nature.

2. Occidental is not -- within the meaning of section 4(c)(6) of the Act -- so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4(a)(2) of the Act to apply in order to carry out the purposes of the Act.

3. The issue in this proceeding and Transamerica's exceptions and proposed findings and conclusions shall be, and hereby are, determined in accordance with the above findings and conclusions, and

4. The request of Transamerica Corporation under section 4(c)(6) of the Act for an Order exempting shares of Occidental Life Insurance Company of California from application of the prohibitions of section 4(a)(2) of the Act shall be, and hereby is, denied.

August 20, 1957.

UNITED STATES OF AMERICA

Item No. 12
8/20/57

BEFORE THE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the
Application of
TRANSAMERICA CORPORATION
relating to
OCCIDENTAL LIFE INSURANCE COMPANY
OF CALIFORNIA

Docket No.
BHC-28

ORDER DENYING APPLICATION FOR EXEMPTION OF
OCCIDENTAL LIFE INSURANCE COMPANY

In the matter of the application of Transamerica Corporation, San Francisco, California, a bank holding company, for a determination by the Board of Governors of the Federal Reserve System that Occidental Life Insurance Company of California and its activities are of the kind described in section 4(c)(6) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843), and section 5(b) of the Board's Regulation Y (12 CFR 222.5(b)), so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to retention of shares in non-banking organizations to apply in order to carry out the purposes of the Act,

A hearing having been held pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y (12 CFR 222.5(b), 222.7(a)); the recommended decision of the Hearing Examiner having

been filed with the Board; exceptions to the recommended decision of the Hearing Examiner, together with a brief, having been filed with the Board by applicant; counsel for applicant having made oral argument before the Board; the Board having given due consideration to all relevant aspects of the matter; and all such steps having been in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR Part 263) and applicable law:

IT IS HEREBY ORDERED that the request of Transamerica Corporation under section 4(c)(6) of the Bank Holding Company Act of 1956 for an Order exempting shares of Occidental Life Insurance Company of California from application of the prohibitions of section 4(a)(2) of the said Act shall be, and hereby is, denied.

This 20th day of August 1957.

By order of the Board of Governors.

(Signed) S. R. Carpenter
S. R. Carpenter,
Secretary.

(SEAL)

Item No. 13
8/20/57

Separate statement by Governor Vardaman in the matter of the application of Transamerica Corporation relating to Occidental Life Insurance Company of California.

Study of the Hearing Examiner's record in this case, and of his able Report and Recommended Decision, raises in my mind some interesting and pertinent questions relative to the Bank Holding Company Act of 1956, the regulations promulgated by this Board under the Act, and the record and history of operations of the companies under inquiry.

For instance, the record indicates that control and management of the companies is and has been in the hands of men of integrity, excellent reputation and successful business experience; and that the combined operations of the companies have certainly not been contrary to the public interest. Although the association and operation between the two companies has existed for more than twenty years, the record does not disclose that such association or operation has been in any way unsatisfactory to the law enforcement officers of the United States Government, or of the State of California; or in any way contrary to law, public policy or established custom. Nowhere in the testimony or in the Examiner's Report is there any evidence or accusation, direct or inferential, that these operations have been anything less than entirely proper, ethical, profitable to the shareholders of both corporations, and beneficial to their customers; and nowhere is there evidence, direct or inferential, that these operations have been in any way detrimental to the public good.

Again, it is interesting to note that the statute requires a bank holding company which is not a bank to divest itself of nonbanking organizations, even though such ownership has been satisfactorily in force for many years prior to the passage of the Act; yet, at the same time, the law makes a special exception in the case of a bank holding company which is a bank, so that it can retain stock in non-banking companies acquired at any time prior to the date of the Act, even though a bank holding company that is a bank has many fiduciary and trust responsibilities, such as custody of demand and savings deposits and trust funds, the creation of credit and of demand deposits (equivalent of money) and many other obligations of trusteeship, which do not accrue to the bank holding company that is not a bank.

However, I do not believe it to be my right or duty as a member of the Board to question either the apparent inconsistencies, propriety or constitutionality of an Act of the Congress; but, on the contrary,

I believe myself to be bound as an officer of the United States Government, and as a member of this Board, to enforce the laws enacted by the Congress, and the rules and regulations adopted by the Board of Governors of the Federal Reserve System.

Therefore, under the circumstances, I feel constrained to vote to sustain the Recommended Decision of the Hearing Examiner.

August 20, 1957.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 14
8/20/57

OFFICE OF THE VICE CHAIRMAN

August 22, 1957

The Honorable J. W. Fulbright, Chairman,
Senate Banking and Currency Committee,
United States Senate,
Washington 25, D. C.

Dear Senator Fulbright:

As you know, for some time we have been giving consideration to a study of the financing problems of small business. The Board has now authorized such a study in the hope that it will afford a basis for a solution to at least some of the problems in this field that confront the Congress and the financial authorities.

The Board has sent the attached report, which was prepared by a System committee, to the Federal Reserve Banks with a request for their comments and suggestions as to the nature and scope of the study. The report suggests a study which would consist of three parts, (1) an analysis of the existing material on the subject, (2) a study of the operations and policies of the principal types of lenders to small business, and (3) a comprehensive survey of the recent borrowing experiences of small business concerns and their financing practices. Should the nature of the study be changed as a result of the comments of the Federal Reserve Banks you will be informed promptly.

You will note from page five of the attached report that the first two parts of the study will probably be completed by the spring of 1958, but that the third part, the survey of small business borrowing, which the Board regards as the most significant part of the project and which it hopes will be a most useful addition to our understanding of small business financing, cannot be finished before the end of 1958. Even though this part of the study will not be ready for use by your Committee by the time desired, the Board believes it should be made so that the borrower as well as the lender aspects of the subject may be explored thoroughly.

Because of their interest in the problem of small business financing, a copy of this letter is being sent to Chairman Spence, Senators Sparkman and Clark, and Congressman Patman.

Sincerely yours,

C C Balderston

C. Canby Balderston,
Vice Chairman.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 15
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 22, 1957

Mr. F. J. O'Brien,
Attorney and Counselor at Law,
First National Bank Building,
Rochester, Minnesota.

Dear Mr. O'Brien:

This refers further to your letter of May 23, 1957, in which you referred to the application under the Bank Holding Company Act relating to the acquisition of stock of Northwestern State Bank, Rochester, Minnesota, and requested permission to appear before the Board.

If you desire to submit a statement in writing of information and your views and comments regarding this matter, the Board will be glad to receive such a statement at this time. It is suggested that a copy of the statement be furnished to the Federal Reserve Bank of Minneapolis.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 16
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 22, 1957

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

This refers to the application of Northwest Bancorporation, Minneapolis, Minnesota, for prior approval of the acquisition of shares of the proposed Northwestern State Bank, Rochester, Minnesota.

In the light of the Bank Holding Company Act of 1956 there may be reasons why this application should not be approved. Therefore the Board would like to have any additional information, views, and comments that your Bank may have, particularly with respect to the matter of the convenience, needs, and welfare of the communities and the area concerned in relation to the competitive situation in Rochester.

It is not contemplated that Northwest Bancorporation should be contacted or requested to furnish additional information at this time.

For your information, we are enclosing copies of a letter dated May 23, 1957, received from Mr. F. J. O'Brien and the Board's reply dated May 31, together with a copy of a letter which is being sent today to Mr. O'Brien. Mr. McConnell is familiar with the exchange of correspondence last February between Mr. O'Brien and the Board.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary

Enclosures 3.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 17
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

It has come to the Board's attention that The Chase Manhattan Bank plans to invest $25,000 in the stock of Manch, Inc., a corporation formed to act as nominee to hold title to FHA and VA mortgages held in certain labor union trusts for which the bank acts as custodian for a group of individual trustees.

As you know, section 5136 of the Revised Statutes, which is applicable to State member banks, provides that "except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association [national bank] for its own account of any shares of stock of any corporation." The words "hereinafter provided" refer to a provision in the same statute dealing with the investment in the capital stock of a corporation conducting a safe deposit business. Any other investment in corporate stock must be "otherwise permitted by law", and permission is found in such statutes as section 24A of the Federal Reserve Act relating to investments in the stock of corporations holding the bank premises and section 25 of the Federal Reserve Act pertaining to investments in the capital stock of banks or other corporations principally engaged in international or foreign banking.

The Board is aware of no provision of law which would permit a national bank or a State member bank to invest in the stock of a corporation merely for the convenience of a customer for whom the bank acts as custodian. Although only a relatively small investment is contemplated, neither this circumstance nor the desire to accommodate a customer justifies a violation of the statute. It will be appreciated if you will notify the bank of the Board's opinion with respect to this matter.

As you are aware, divergent interpretations of the banking laws by the Federal Reserve Banks should be avoided. Therefore, in any future case involving the purchase of corporate stock where there is no specific provision of law permitting such purchase, it is suggested that the matter be taken up with the Board before any opinion is given as to the legality or propriety of the proposed action.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 18
8/20/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1957

Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
38 South Dearborn Street,
Chicago 90, Illinois.

Dear Mr. Prochnow:

In response to the request contained in your letter of August 15, 1957, the Board would like to suggest the following topics for discussion by the Federal Advisory Council at the joint meeting of the Council and the Board on September 17, 1957:

1. What are the views of the members of the Council as to the existing economic situation, particularly with respect to its trend during the rest of the current year? What are the prospects with respect to construction (industrial, commercial, and residential), and the demand for funds for this purpose? What effects are the recently announced terms on FHA and VA mortgages having on the residential mortgage market?

2. What changes in the over-all demand for bank credit and in the sources of demand can be expected during the next six months or a year?

3. What is the public thinking in the various sections of the country with respect to inflation; that creeping inflation is inevitable; that it will be stopped? What effect is this thinking having on the financial plans of business and investors?

4. At the last meeting of the Council there was a discussion of the effects of the payment by banks of higher interest rates on savings deposits. The Board would appreciate any further comments that the members of the Council might wish to make on this subject.

5. What are the Council's views with respect to (a) the credit policies followed by the Federal Reserve System since the last meeting of the Council, and (b) the policies that would be appropriate for the balance of this year?

6. (a) As stated at the meeting on May 14, 1957, the topic of changes to be suggested in the Bank Holding Company Act of 1956 is to be carried on the agenda for each meeting of the Council until the spring of 1958.

(b) Does the Council have any changes to suggest in existing law other than the Bank Holding Company Act?

7. What was the effect of the call this year for reports of condition as of June 6 rather than June 30?

Should the members of the Council wish, Chairman Martin will be glad to comment on the recent hearings before the House Banking and Currency Committee on the Financial Institutions Act and the hearings before the Senate Finance Committee at which Secretary Humphrey, Mr. Burgess, and Chairman Martin appeared as witnesses.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 19
8/20/57

August 20, 1957

Mr. Robert L. Myers, Jr.,
Secretary of Banking,
The Department of Banking,
Commonwealth of Pennsylvania,
Harrisburg, Pennsylvania.

Dear Mr. Myers:

This will acknowledge receipt of your letter of August 6, 1957, to Governor J. L. Robertson, enclosing a copy of your letter to the Comptroller of the Currency and a copy of a proposed Bulletin to be sent to all Pennsylvania State banks regarding the illegality of deposit pick-up services of State banks.

The Board of Governors has heretofore expressed the opinion that the operation of an armored truck by a State member bank of the Federal Reserve System to collect moneys and checks from customers of the bank at their places of business constitutes the receiving of deposits by the bank within the meaning and intent of section 5155 of the Revised Statutes at a place other than the regular offices of the bank, and that therefore the practice in question involves the operation of a branch without the approval of the Board in violation of Section 9 of the Federal Reserve Act. This opinion coincides with the policy which you propose to adopt with respect to State banks in the Commonwealth of Pennsylvania, and you may be assured that you will have the cooperation of the Board of Governors in the application of this policy.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 20
8/20/57

August 16, 1957

Wayne - Richmond

Reurtel today. Board approved, effective August 19, for your Bank (a) rate of 3-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, (b) other rates as set forth in your telegram of today, and (c) establishment by your Bank without change of remaining rates in Bank's existing schedule.

(Signed) S. R. Carpenter

Carpenter

The rates referred to in (b) above were as follows:

On advances to member banks under Section 10(b)--4 per cent;

On advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13--4-1/2 per cent;

On advances direct to industrial and commercial businesses under Section 13b, including advances made in participation with financing institutions--a range of 4 per cent to 6 per cent;

On commitments under Section 13b to financing institutions--10 to 25 per cent of rate charged borrower, with minimum of 1/2 per cent, provided that no commitments shall be given on loans on which borrower is charged more than 6 per cent.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 21
8/20/57

August 20, 1957.

Johns- St. Louis

Reurtel August 19. Board approved, effective August 21, for your Bank (a) rate of 3-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, (b) other rates as set forth in your telegram of August 19, and (c) establishment by your Bank without change of remaining rates in Bank's existing schedule.

(Signed) S. R. Carpenter

CARPENTER

The rates referred to in (b) above were as follows:

On advances to member banks under Section 10(b)--4 per cent;

On advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13--4-1/2 per cent;

On advances and commitments under Section 13b, as follows:

(a) on advances direct to industrial and commercial businesses, including advances made in participation with financing institutions--a range of 4 to 6 per cent;

(b) on advances taken over from financing institutions under commitments--3-1/2 to 4 per cent on portion on which financing institution assumes risk;

(c) on commitments to financing institutions--10 to 25 per cent of loan rate charged borrower with minimum of 1/2 per cent.

For memoranda covering meetings of the Board on August 23, 27, and 30, 1957, see minutes of September 3, 1957

August 23 - - Item No. 1 - - 9/3/57 (Pages 2372-2398)

August 27 - - Item No. 2 - - 9/3/57 (Pages 2399-2412)

August 30 - - Item No. 3 - - 9/3/57 (Pages 2413-2425)