

Minutes for October 29, 1957

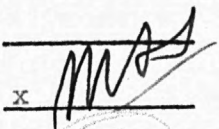
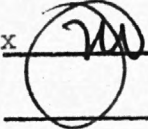

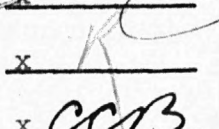
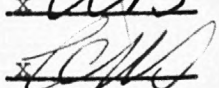



To: Members of the Board

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

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

	A	B
Chm. Martin	<u> </u> 	X <u> </u> 
Gov. Szymczak	X <u> </u> 	<u> </u>
Gov. Vardaman	X <u> </u> 	<u> </u>
Gov. Mills	X <u> </u> 	<u> </u>
Gov. Robertson	X <u> </u> 	<u> </u>
Gov. Balderston	X <u> </u> 	<u> </u>
Gov. Shepardson	X <u> </u> 	<u> </u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 29, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Benner, Assistant Director, Division
of Examinations

Certification filed by Hearing Examiner in Continental Bank and Trust Company matter (Item No. 1). Following discussion at the meeting of the Board yesterday concerning the certification of the question of holding conferences for settlement or simplification of issues which had been filed with the Board by the Hearing Examiner in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, Mr. Solomon was requested to submit a draft of statement and order reflecting views expressed by the Board. Such a draft was distributed at the beginning of this meeting.

In the course of review of the proposed statement and order, a few minor changes were agreed upon in the interest of presenting the Board's position clearly and precisely.

Governor Robertson then inquired whether the statement and order had been seen by Special Counsel to the Board. When the reply was in the negative but it was stated that the content was understood to be in line

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with Special Counsel's general thoughts on the matter, the suggestion was made that the statement and order be shown to Special Counsel before being issued.

Thereupon, unanimous approval was given to a Statement and Order in the form attached to these minutes as Item No. 1, subject to its being seen by Special Counsel to the Board, with the understanding that copies would be sent to the Hearing Examiner, to Respondent, to Counsel for Respondent and Special Counsel to the Board, and to the Federal Reserve Bank of San Francisco.

Secretary's Note: Advice having been received that Special Counsel to the Board had no comments with respect to the Statement and Order in the form approved by the Board, copies were sent to the aforementioned parties on October 29, 1957.

Messrs. O'Connell and Benner withdrew from the meeting at this point and the following members of the staff entered the room: Messrs. Masters, Director, Hostrup, Assistant Director, and Thompson, Supervisory Review Examiner, Division of Examinations, Hexter, Assistant General Counsel, and 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 hereto under the respective item numbers indicated, were approved unanimously:

Letter to Old Kent Bank and Michigan Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in Paris Township. (For transmittal through the Federal Reserve Bank of Chicago)

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Item No.

- Letter to Old Kent Bank and Michigan Trust Company, Grand Rapids, Michigan, approving a change in the location of its Bridge Street Office. (For transmittal through the Federal Reserve Bank of Chicago) 3
- Letter to the Federal Reserve Bank of Dallas regarding the applicability of section 32 of the Banking Act of 1933 to interlocking relationships between The First National Bank and Canadian Investment Group, both of Canadian, Texas. 4
- Letter to The First National Bank, Palestine, Texas, with further regard to the payment of interest on demand deposits. (With a copy to the Federal Reserve Bank of Dallas) 5
- Letter to the Federal Reserve Bank of San Francisco concurring in the view that a proposed change in the location of the Wilshire-Shatto office of the California Bank, Los Angeles, California, would constitute the mere relocation of an existing branch. 6

Applications to organize national banks at Grants, New Mexico.

The Comptroller of the Currency had requested the Board's views with respect to applications to establish national banks at Grants, New Mexico, filed by Mr. Phil C. Bennett and associates and by Mr. Sterling F. Black and associates, respectively. On the basis of field investigation, the Federal Reserve Bank of Kansas City suggested a favorable recommendation with respect to the Bennett application and an adverse recommendation concerning the other application. This being the conclusion of the Board's Division of Examinations also, letters to the Comptroller of the Currency to such effect had been circulated to the members of the Board for consideration.

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Governor Shepardson noted that the papers submitted by the Kansas City Reserve Bank regarding the Black application put some emphasis on the fact that a number of the proposed directors were from outside the Grants area. However, he said, the same situation prevailed in the case of the Bennett application, several of the proposed directors having places of residence, in fact, outside the State of New Mexico. He therefore raised the question whether, if the situation pertaining to the places of residence of the directors was considered to constitute an adverse factor bearing upon the suggested recommendation in the one case, the same thing would not be equally true in connection with the other application.

In response, Mr. Masters commented that the investigation made by the Reserve Bank developed favorable findings on the Bennett application from the standpoint of ownership, management, and capital, while the findings on the Black application concerning those factors were not so favorable. In the case of the latter application, it appeared from the data submitted by the Kansas City Bank that the proposed management was lacking in banking experience, while the organizers of the other bank apparently would provide fully competent management.

At the suggestion of Governor Robertson, it was then agreed to defer action on the proposed letters until he had had an opportunity to review the files relating to the respective applications, particularly in the light of the question raised by Governor Shepardson.

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Question relating to certain subsidiaries of Beneficial Finance Co. (Item No. 7). Because of a proposed expansion of the operations of two subsidiaries, namely, Beneficial Industrial Bank, Denver, Colorado, and Beneficial Industrial Bank, Pueblo, Colorado, the Board had been asked by Beneficial Finance Co., Wilmington, Delaware, to review the status of the two Colorado banks, for if either one were deemed to constitute a "bank" within the meaning of the Bank Holding Company Act of 1956, this would mean that Beneficial Finance Co. would be a bank holding company and would be required to register under the Act. According to the information submitted to the Board through the Federal Reserve Bank of Philadelphia, it appeared that under Colorado law the two industrial banks in question were entitled to accept savings deposits, but that they were specifically forbidden to carry commercial or demand bank accounts. When the Board on November 28, 1956, held that six subsidiaries of Beneficial Finance Co. were not, on the basis of operations conducted at that time, to be regarded as banks within the meaning of the Bank Holding Company Act, it was understood that the two industrial banks in question limited their business to lending money and did not accept deposits or issue investment certificates. Under the proposed expansion plan, both banks were understood to contemplate, in addition to a larger volume of loans, the issuance of investment certificates.

In a memorandum from Mr. Davis dated October 25, 1957, copies of which had been distributed to the members of the Board, the view was expressed that the two Colorado industrial banks apparently would continue,

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under the proposed plan, to operate essentially as lending agencies specializing in small loans and that the issuance of the investment certificates would not change the essential character of their business. The purchase of an instalment investment certificate would seem to be merely security for a loan and the purchase of a fully-paid certificate would appear to constitute an investment rather than a deposit. Accordingly, it did not appear to the Legal Division that the proposed operations, as described, would cause the institutions to be regarded as banks within the meaning of the Act, although admittedly the question involved was a troublesome one. This conclusion, the memorandum stated, would be in accord with the opinion of counsel for the Federal Reserve Bank of Kansas City. Submitted with the memorandum was a draft of letter to the Federal Reserve Bank of Philadelphia reflecting this point of view.

Governor Robertson stated that although the question was a close one, he thought that the conclusion of the Legal Division was correct. Since the problem of defining a "bank" under the Bank Holding Company Act would arise again in the future, he felt that it should be given consideration in connection with recommendations by the Board to the Congress concerning the Act.

Governor Balderston agreed, stating that the present situation seemed to contain the possibility of arrangements being made to circumvent the provisions of the Bank Holding Company Act. He then inquired whether,

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assuming a change in the statute, the Board by its rulings might have created some situations that could not be eliminated at such time.

Governor Robertson replied that this would depend on how the statute was changed. On the basis of the existing statute, however, he felt that the Board had no option except to follow the recommendation of the Legal Division.

At the conclusion of the discussion, unanimous approval was given to the proposed letter to the Federal Reserve Bank of Philadelphia, a copy of which is attached to these minutes as Item No. 7, with the understanding that the problem involved in this case would be considered by the Legal Division in presenting to the Board possible recommendations to the Congress for amendments to the Bank Holding Company Act.

Application of Northwest Bancorporation. After considering the application of Northwest Bancorporation, Minneapolis, Minnesota, filed pursuant to the Bank Holding Company Act, for prior approval of the acquisition by it of 1,450 out of a total of 1,500 voting shares of the proposed Northwestern State Bank, Rochester, Minnesota, the Board decided on August 20, 1957, to defer action on the application and request the Federal Reserve Bank of Minneapolis to furnish any additional information, views, and comments it might have, particularly with respect to the matter of the convenience, needs, and welfare of the community and area concerned in relation to the competitive situation. An opportunity was also extended to Mr. F. J. O'Brien, attorney for Olmsted County Bank & Trust Company,

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of Rochester, to submit a statement in writing in opposition to the application. While no response was received from Mr. O'Brien, the Reserve Bank submitted additional information, on the basis of which its favorable recommendation remained unchanged.

There had been distributed to the members of the Board prior to this meeting copies of a memorandum from the Division of Examinations dated October 23, 1957, reviewing the application in the light of all of the data now available. While it was felt that the additional information received from the Reserve Bank made a stronger case for the application from the standpoint of the convenience, needs, and welfare of the area, it was noted that Northwest Bancorporation was already represented in the city of Rochester, that approval of the current application would give it 50 per cent of the banking offices in the city, that Northwest Bancorporation and First Bank Stock Corporation now have a dominant position in Rochester, and that, if this application should be denied, it was possible that an independent bank would be established in the area where the proposed Northwestern State Bank would be located. Since it appeared to the Division that the adverse factors outweighed the favorable considerations when considered within the meaning and purposes of the Bank Holding Company Act, it was recommended, as it had been previously, that the application be denied. However, if an independent bank should not be established within a reasonable time and if the need for an additional bank should

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become very strong, it was suggested that a new application by Northwest Bancorporation could be considered under circumstances which might not involve the question of running counter to the apparent intent and purpose of the bank holding company legislation.

In a memorandum dated October 24, 1957, copies of which also had been sent to the members of the Board, the Legal Division expressed the opinion that the issue continued to turn on whether the Board in its judgment felt that the showing of convenience, needs, and welfare of the area was sufficient to outweigh the resulting increase in the size and extent of the applicant bank holding company's system, the dominant position of the two bank holding companies in the Rochester area, and the possible deterrent effect on the establishment of independent unit banks in the particular area. In the view of the Division, denial of the application on the basis of the evidence now available would be a reasonable exercise of the Board's discretion and probably would be sustained by the courts in the event of judicial review. On the other hand, it was believed that approval of the application would probably likewise be sustained by a reviewing court as a reasonable exercise of the Board's discretion.

In reviewing the matter, Mr. Masters said that, from the Division of Examinations' analysis, as presented in its memorandum, the additional information received from the Minneapolis Reserve Bank gave somewhat stronger support to considerations relating to the convenience, needs,

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and welfare of the area, the information pointed up community growth and industrial development in the area where the proposed bank would be established, and the situation with respect to downtown traffic congestion and parking difficulties appeared a little more acute than previously pictured. However, the information did not make it appear that an urgent need for a bank existed in the area in question. He then referred to the already dominant position of two bank holding companies in the city of Rochester and presented pertinent statistical data bearing on that point. With regard to deposit percentages, he said that although an analysis of deposit ownership had not been made, in view of the size of the city of Rochester, its location, and its general makeup, it seemed fair to conclude that the deposits were predominantly of local origin.

It did seem, Mr. Masters said, that at some time there would be a bank in the area where the proposed Northwestern State Bank would be located, and this bank possibly would be of independent origin. Should an independent bank not be established within a reasonable time, during which the need for banking facilities became more urgent, a new application from Northwest Bancorporation might be considered by the Board, and perhaps on a more favorable basis. He also said that the Division of Examinations might have been more inclined to recommend approval of the current application if Northwest was the only bank holding company in the area. However, it was the Division's view, based on its concept

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of the intent and purposes of the bank holding company legislation, that the total picture should be taken into consideration from the standpoint of the discouraging influence which might be exerted on the establishment of an independent bank or banks. In that sense, favorable action on the current application would seem to defeat the purpose of the Bank Holding Company Act.

Governor Balderston, after asking a series of questions relating to the position of the two bank holding companies in the Rochester area, said it seemed to him that the argument of the Division of Examinations turned in large part on the extent of control that would be in the hands of those companies if the application were approved and the difficulty which that would create for any independent group wishing to establish a bank in the area. At present, he pointed out, the percentage of deposits controlled by the subsidiary banks of the two holding companies was very substantial.

Governor Vardaman inquired whether there was now any known plan to establish an independent bank in the area. When the response was in the negative, he suggested that denial of the current application might amount to stopping the wheels of progress. He asked how long it would be expected that the Board should wait to ascertain whether any independent bank was to be established.

Governor Vardaman then stated that although he wished to compliment the Division of Examinations on the thoroughness of its analysis of the application, he was in disagreement with the Division's position almost

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from start to conclusion. He felt that the Board would be making a grave mistake by injecting its opinions into the affairs of a community like Rochester contrary to the recommendation of the Federal Reserve Bank in the district. This, he suggested, would amount to an effort to regulate in a paternalistic fashion the interests of the community over an indefinite period of time. Therefore, he would vote to sustain the recommendation of the Federal Reserve Bank of Minneapolis.

In response to a request for the views of the Legal Division, Mr. Solomon said that, as indicated in the Division's memorandum, this appeared to be a decision falling within the area of the Board's judgment and discretion since the law did not require that the matter be resolved either favorably or unfavorably. It could be argued that the existence of the other holding company (First Bank Stock Corporation) in the area was not relevant to the situation involving Northwest Bancorporation. However, the Legal Division, after weighing that argument very carefully when the application first came before the Board, reached the conclusion that it would be appropriate to take into account the entire banking picture. On that basis, the Division continued to feel that it would be a valid legal position for the Board to take if it should decide to turn down the application. On the other hand, this would seem to be true also if the Board should decide to approve the application.

Governor Balderston then inquired of Mr. Solomon regarding differences between this case and the application of Baystate Corporation to acquire control of the Union Trust Company of Springfield, Massachusetts,

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and the latter said that there was quite a bit of difference from the standpoint of the facts involved. If the Baystate transaction were completed, the bank holding company would have a subsidiary bank which would be the largest in the community, and an existing bank would have been wiped out through the stock acquisition and subsequent merger. While there were some points of similarity in the two cases, he felt that the facts were clearly distinguishable.

In response to a further question by Governor Balderston, Mr. Solomon said that because of the factual differences, he would not be particularly concerned from a legal standpoint if the Board's decision should be favorable in the one case and unfavorable in the other.

Governor Mills stated that, like Governor Vardaman, he was in favor of approving the application of Northwest Bancorporation. He said that in a community the size of Rochester, it seemed almost inevitable that there would be relatively few banks and that there would be a concentration of banking assets in one or two banks. Therefore, to take a position that the expansion of a bank holding company in a community of this size, where it was already operating, would unduly lessen competition did not seem to him entirely consistent in the light of the situation commonly found in such communities. As touched upon in the memorandum from the Division of Examinations, the population and businesses of the area apparently would welcome an additional banking facility, and in terms of convenience of the public, in many of these cases it did not appear that the public was fundamentally interested

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in the ownership of the banking facilities as much as in accessibility and efficiency of service. He did not believe that denial of the application would be warranted in this local instance where the Rochester community would welcome the proposed facility and its establishment would not foster the kind of tendency toward unfair banking practices and the restriction of competition that can conceivably occur in situations where an overwhelming concentration of assets is already in the hands of bank holding companies operating over a wide geographic area who wish to extend still further their area interests. In this connection, he noted that the part of the city where the new bank would be located was a growing neighborhood, of such size that the establishment of a banking facility would seem justified.

Governor Robertson said that he agreed almost verbatim with the statement made by Mr. Masters. He would disagree only with the emphasis placed on the fact that two bank holding companies were operating in the Rochester area, for he did not think that this was relevant. In his opinion, the Board would be flying squarely in the face of the statute if it authorized Northwest Bancorporation, with its dominant position at the present time, to establish the proposed new bank in the community. At some time, he thought, there would be a bank established in the area in question, but if the Board should permit Northwest to go into the area before the need was sufficiently great to outweigh the factor of dominance, independent banks would be put in a very difficult position. He went on to say that he had talked with representatives of the Federal Reserve Bank of Minneapolis about this matter and that the Bank appeared to have no strong feelings. With respect to the charge

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of paternalism raised by Governor Vardaman, he suggested that this was the purpose of bank supervision and the purpose of the statute. Therefore, for the reasons he had mentioned, he would concur in the recommendation of the Division of Examinations.

Governor Shepardson stated that he had studied cases of this kind carefully in an effort to ascertain at what point the factor of competition should be regarded as the dominant factor in reaching a decision. It seemed to him that the Congress, in passing the Bank Holding Company Act, intended to restrain the expansion of bank holding companies except where there were sufficient overriding considerations to justify expansion. This particular case seemed to him to be one where the Board should draw the line, and he would therefore concur in the recommendation of the Division of Examinations.

Governor Szymczak said that he also favored the recommendation of the Division of Examinations. All of these cases, he said, were going to be very difficult to decide, but unless a line was drawn at some point the holding companies would gradually take over more and more of the banking industry. If what was wanted was the continuation of a system of independent banking, then the Board must make adverse decisions in cases where the factors developed by the Division of Examinations indicated grounds for the Board to vote against a proposed bank acquisition.

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There ensued a discussion of the situation that might develop from continued bank holding company expansion as contrasted with the present status of the banking industry, following which Governor Vardaman said that the application of Northwest Bancorporation did not appear to him to involve undue expansion. He stated that there was nothing in the statute to indicate that sound and logical expansion on the part of bank holding companies should be stopped, and he saw nothing in this application which would violate the intent of the statute. Admittedly, he said, there was a degree of need for another bank, and in fact the Division of Examinations had indicated the possibility that another application by Northwest Bancorporation might be considered favorably if the need was not filled over a period of time.

Governor Robertson expressed the view that the factors of need and convenience at this time were not strong enough to warrant approval of the application, although of course the situation might appear differently at some future date.

Governor Balderston then referred again to the application of Baystate Corporation and raised the question whether action on the application of Northwest Bancorporation should be deferred so that the two applications could be considered together. It was the view of the other members of the Board that action on the Northwest Bancorporation application should not be deferred for that reason, Governor Mills expressing the opinion that to link the two applications would be inconsistent with the provisions of the Bank Holding Company Act which require

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that each application under the Act to acquire bank stock shall be considered in the light of five factors. He felt that each such application should be considered independently on the basis of those factors, even though there might be similarities between certain applications.

Accordingly, Governor Balderston made a statement of his position on the application of Northwest Bancorporation in which he said that his analysis of the case failed to convince him that, even with the additional information furnished by the Minneapolis Reserve Bank, the need for the new bank was such as to justify supporting the recommendation of the Reserve Bank. The statute seemed to him almost to require the Board to give attention to the total banking picture in a community, and in this case the total picture involved looking at the operations of two bank holding companies. While he saw some merit to the suggestion that if, with the passage of time, the need for banking services was not met by the establishment of an independent bank the decision perhaps should be reconsidered, at the present time his vote would be to support the recommendation of the Division of Examinations.

Governor Shepardson supplemented his earlier comments by saying that if the need for banking services in the community grew and that need was not filled by some other application to establish a bank, there would always be an opportunity to reconsider the situation. On the other hand, if the application of Northwest Bancorporation were approved and

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the holding company were permitted to move into the territory, it seemed quite certain that this would preclude, for a considerable time at least, any opportunity for an independent bank to enter the area.

Governor Mills recalled, with regard to the legislative history of the Bank Holding Company Act, that there had always been some debate on whether the legislation should contain a "death sentence" which would completely prohibit bank holding company expansion or whether expansion within prescribed limits should be allowed. The decision, he noted, was to permit limited expansion, and therefore the problem was to determine the boundaries appropriate to those limits. The Board, he suggested, should not drift into a position or frame of mind such that the Bank Holding Company Act would be construed as a "death sentence".

It appearing that the majority of the Board avored denial of the application, with Governors Vardaman and Mills dissenting from the decision, the discussion turned to procedural questions, including the manner of advising the applicant bank holding company. During this discussion, agreement was expressed with the view that the statement of reasons for denial of the application should not contain reference to the possibility of reconsideration of the application at a later date.

Mr. Solomon pointed out that in previous cases involving similar applications when the Board was in doubt concerning the disposition of the matter, the Board had so advised the applicant, stating generally

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the reasons and giving the applicant an opportunity to show cause why a decision to disapprove might be wrong. Such a procedure, he pointed out, was not required by law, but it might make for a little better record, for the applicant could not say that there was a lack of opportunity to state its case.

In connection with a question by Governor Balderston as to whether such a procedure was likely to lead to a request for a hearing before the Board, Mr. Solomon said that if the applicant were furnished an indication of the reasons for which the Board was inclined to deny the application and submitted additional information in support of its request, the Board of course would have to give the matter further consideration, which might or might not involve hearing representatives of the applicant.

Governor Mills expressed his opinion that a preliminary adverse advice to the applicant would be inadvisable if it could be interpreted to mean that the Board did not know its own mind. He also indicated that he had some question whether a decision to deny an application should be formally published.

Governor Robertson said that, while the procedure of advising an applicant of the Board's tentative position might be proper practice in cases where the Board had doubts, in cases where the Board had come to a definite decision he felt that it should advise the applicant in the form of a definite denial with reasons. Then, if the applicant should seek reconsideration, the Board could consider whether to grant such a request.

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Governor Robertson noted also that it had been the practice of the Board, in cases where its proposed decision was contrary to the recommendation of the Federal Reserve Bank concerned, to offer the Bank an opportunity to have its representatives meet with the Board. He suggested that it would seem appropriate to extend such an invitation to the Minneapolis Bank in this instance.

At the conclusion of the discussion, the Legal Division was requested to prepare, in consultation with the Division of Examinations, a draft of notification of denial of the Rochester application for the Board's consideration. In accordance with Governor Robertson's suggestion, it was understood that the Secretary would communicate with the Federal Reserve Bank of Minneapolis by telephone to ascertain whether the Bank wished to have its representatives meet with the Board for further explanation of the Bank's recommendation on this matter.

The members of the staff then withdrew from the meeting and the Board went into executive session.

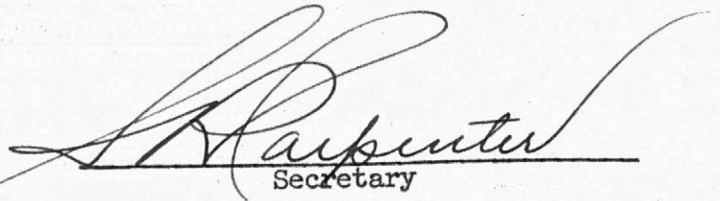
Attendance at Brookings Conference (Item No. 8). Governor Shepardson later informed the Secretary that the Board, during the executive session, considered an invitation from The Brookings Institution to nominate one or more key officials from the Board's organization to attend the first Brookings Conference, to be held in Williamsburg, Virginia, in December 1957, and that the Board agreed to nominate Mr. Masters, Director of the Division of Examinations, and Mr. Farrell,

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Assistant Director of the Division of Bank Operations. A copy of the letter sent to The Brookings Institution pursuant to this action of the Board is attached hereto as Item No. 8.

The meeting then adjourned.



Secretary

UNITED STATES OF AMERICA

Item No. 1
10/29/57

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of

THE CONTINENTAL BANK
AND TRUST COMPANY
Salt Lake City, UtahSTATEMENT AND ORDER ON TRIAL EXAMINER'S
CERTIFICATION OF QUESTION OF HOLDING CONFERENCES
FOR SETTLEMENT OR SIMPLIFICATION OF ISSUES

The Trial Examiner in the above-entitled matter, under date of October 22, 1957, has filed with the Board of Governors "Trial Examiner's Certification to the Board of the question of holding conferences for settlement or simplification of issues."

In his Certification the Examiner quotes that portion of section 7 of the Administrative Procedure Act and Rule III(f) of the Board's Rules of Practice for Formal Hearings which specifically authorizes the Trial Examiner to "hold conferences for the settlement or simplification of the issues by consent of the parties." The Notice of Institution of Proceeding and of Hearing Therein, dated June 29, 1956, provides in part that the proceedings be conducted in accord with the applicable requirements of the Administrative Procedure Act and the Board's Rules of Practice for Formal Hearings.

On this recitation of statutory and regulatory provision, there can be no doubt as to the authority of the Trial Examiner to convene and preside over conferences at which may be discussed settlement or simplification of issues.

With respect to "consent of" the Board to participation by one or more of its representatives in any conferences for the "simplification of the issues", the Board's special counsel has, from the initiation of this hearing, been under the Board's mandate that every effort be made to produce a record which accurately and fairly reflects the positions of the parties involved and which would result in the formation of findings, conclusions of law and a recommended decision consonant with the public interest and the proven interests of the parties involved. As an incident of such mandate, Board's special counsel has had, and continues to have, full authority to participate in such manner, at such time or times, and to such extent as will in his considered judgment best serve the public interest, in conferences for the simplification of issues of law and fact, and to that end, to choose one or more persons to assist him in this regard.

Similarly, with respect to "consent of" the Board to participation by one or more of its representatives in any conferences for "settlement . . . of the issues", the Board's special counsel has had, and continues to have, suitable authority for participating in such conferences to consider a reasonable and fair basis of settlement based upon the preponderance of relevant evidence. It should be clearly understood, however, that should a basis of settlement be reached, or should any offer thereof be presented to him, special counsel has no authority to agree to any amount of capital addition or terms incident thereto; but he must forward to the Board for its

consideration and decision any such proposed settlement accompanied by any recommendation he feels can appropriately be made.

The exercise of these authorizations by Board's special counsel in any such conference is, of course, conditioned upon at least as great authority having been granted by Respondent to its counsel or other specified representative. A statement on the record by Respondent's counsel or other representative that he has such authority will be sufficient to satisfy this condition. It is also to be understood, in accordance with usual principles of law in such circumstances, that any unaccepted offers of settlement or simplification of issues, or any discussions thereof, are privileged communications and are not admissible in evidence for any purpose.

In reaffirming the authority of Board's special counsel to participate on behalf of the Board in "conferences for the settlement or simplification of the issues", the Board expresses no opinion as to any of the statements in the Examiner's certification regarding the basis for the Examiner's recommendation and expresses the hope that due diligence will be exercised by the Examiner in completing the proceeding and filing with the Board his Report and Recommended Decision as contemplated by the Administrative Procedure Act and the Board's Rules of Practice for Formal Hearings.

ORDER

For the reasons set forth in the foregoing Statement,

IT IS ORDERED,

That the authority of the Trial Examiner to hold conferences for the "settlement or simplification of the issues by consent of the parties" in accordance with the Administrative Procedure Act is reaffirmed; and that the authority of Board's special counsel to participate in such conferences, under the conditions and qualifications indicated in the foregoing Statement, is likewise reaffirmed.

This 29th day of October 1957.

By order of the Board of Governors.

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

(SEAL)

Washington, D. C.
October 29, 1957.

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

Item No. 2
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957



Board of Directors,
Old Kent Bank and Michigan Trust Company,
Grand Rapids, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Old Kent Bank and Michigan Trust Company at the northwest corner of Kalamazoo Avenue and 44th Street, S. E. in the unincorporated community of Bowen Station, Paris Township, Kent County, Michigan, provided the branch is established within one year from the date of this letter, and that approval of the State authorities is effective as of the date the branch is established.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 3
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957



Board of Directors,
Old Kent Bank and Michigan Trust Company,
Grand Rapids, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the removal of the Bridge Street Office of Old Kent Bank and Michigan Trust Company from 321 Bridge Street, N. W., to 700 Bridge Street, N. W., both sites in Grand Rapids, Michigan, provided the branch is established at the new location within nine months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 4
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957

Mr. Harry A. Shuford,
Vice President and General Counsel,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Shuford:

This is with further reference to your letters of August 28 and October 8, 1957, concerning the question whether section 32 of the Banking Act of 1933 prohibits Mr. A. V. McQuiddy, Mr. H. S. Wilbur, Sr., and Mr. Harry S. Wilbur, Jr., from serving at the same time as officers and directors of The First National Bank, Canadian, Texas, and as officers and directors of Canadian Investment Group, Canadian, Texas.

It appears that Canadian Investment Group is an unincorporated association, the assets of which are securities purchased with funds obtained from the initial membership payments and regular monthly payments of each member of the association. The resulting interest of each member is his pro rata share in the current net value of the association's portfolio; and each member's interest appears to be redeemable at that value at any time.

The Articles of Agreement originally limited membership to 50 persons, but this maximum has recently been increased to 75, and, under the Articles of Agreement and Bylaws, may be increased further at any time. The total membership is now 65. The membership is not drawn from any limited group of persons, but is open to the general public. No compensation is paid to officers or directors. The national bank handles the transactions of the association gratis, apparently because it feels that the relationship will be a "good will builder" for the bank.

As you point out, the Board of Governors has consistently taken the position that section 32 is applicable to an open-end investment company of the usual kind on the ground that such a company must continue to sell its shares in order to survive, and that making such sales is therefore one of its primary activities. Although you regard the present case

Mr. Harry A. Shuford

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as a close one, you believe that the statute is applicable to the interlocking relationships listed above because the interest of each member is a "security" within the meaning of section 32 and because the manner of acquiring members constitutes a public sale or distribution within the meaning of the statute.

The Board, after carefully reviewing the matter, is of the same opinion.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 5
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957



Mr. C. L. Hufsmith,
Chairman,
The First National Bank,
Palestine, Texas.

Dear Mr. Hufsmith:

In your letter of October 15, 1957, you asked for a list of services a member bank may render to its demand depositors which the Board would regard as not constituting payments of interest contrary to section 19 of the Federal Reserve Act and the Board's Regulation Q, and for the reasons why the rendering of such services would be so regarded. These requests were made in further reference to your letters of March 7 and September 20, 1957, and the Board's replies of April 8 and October 9, 1957, concerning a possible offer by your bank to pay interest on demand deposits.

The Board believes that it would not be feasible to undertake the preparation and distribution of any such list. The Board's experience with respect to a detailed definition of the term "interest" following the Banking Act of 1935 was related in its letter to you of October 9. As you will appreciate, banking practices, including the matter of services rendered to depositors, are not uniform throughout the country, and sometimes are not even the same among banks in a given locality, since such matters involve many variable factors. Furthermore, even where such practices or services may seem to be much the same superficially, the detailed facts and circumstances of the two situations may require that they be viewed as quite different in fundamental respects.

These are some of the reasons why it has been the Board's general policy since 1937 not to attempt to determine whether particular practices involve a payment of interest, except in flagrant or obvious cases, unless all of the pertinent

Mr. C. L. Hufsmith

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facts have been fully developed in the course of examination of the member bank involved. Such questions necessarily depend on all relevant information as to each particular case.

The Board is convinced by its experience in this connection that adherence to its general policy provides the most satisfactory way of handling matters of the kind in question.

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
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957



Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

Reference is made to your letter of October 10, 1957, advising of the proposal of California Bank, Los Angeles, California, to move its Wilshire-Shatto office from 3143 Wilshire Boulevard to 3348 Wilshire Boulevard, Los Angeles, California.

It appears that this proposal would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served, and, accordingly, the approval of the Board of Governors is unnecessary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 7
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957



Mr. Murdoch K. Goodwin,
Assistant General Counsel,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Goodwin:

This will acknowledge your letter of October 9, 1957, addressed to Mr. Howard H. Hackley, General Counsel, containing enclosures relative to the request by Beneficial Finance Co., Wilmington, Delaware, for the Board's opinion as to whether two of the company's subsidiaries in Colorado would, under a proposed expansion of operations, be regarded as falling within the definition of a bank under section 2(c) of the Bank Holding Company Act.

It is understood by the Board that under the proposed plan the Beneficial Industrial Bank, Denver, Colorado, and the Personal Industrial Bank, Pueblo, Colorado, contemplate, respectively, (1) the making of a larger volume of loans and (2) the issuance of certain investment certificates. It is further understood that neither of the Industrial Banks now receives, nor contemplates receiving, commercial or demand deposits.

The Board has given consideration to the facts in this matter as presented by the letter and its enclosures, in the light of the intent of the statute and its legislative history. The question presented is a troublesome one, as was the question presented by the Company in 1956 with respect to the operations of six of its subsidiaries. However, it is the opinion of the Board that neither of the two subsidiaries is, on the basis of the information presented with respect to the proposed plan, to be regarded as a bank within the meaning of section 2(c) of the Bank Holding Company Act.

It will be appreciated if you will advise Beneficial Finance Co. of the Board's views as expressed in this letter.

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. 8
10/29/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1957

Mr. Robert D. Calkins, President,
The Brookings Institution,
722 Jackson Place, N. W.,
Washington 6, D. C.

Dear Mr. Calkins:

The Board of Governors appreciates very much the privilege extended in your invitation of October 3, 1957, to nominate one or more key officials from our organization to attend the first Brookings Conference which will be held in Williamsburg, Virginia, on December 1-13, 1957. The announcement of the Conference Program for Executives indicates that the proposed conferences have been well planned and they should go far to increase the competence of the executives who participate.

In accordance with the suggestion contained in your letter, we have today in a telephone conversation with Mr. Stover of your office nominated the following. Information with regard to salaries and ages were given during that conversation:

Robert C. Masters, Director,
Division of Examinations.

John R. Farrell, Assistant Director,
Division of Bank Operations.

If further information is desired in connection with these nominations, we shall be pleased to supply it.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.