Minutes for January 14, 1958

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	x	
Gov. Szymczak	x	
Gov. Vardaman 1/		x
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, January 14, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Sammons, Associate Adviser, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations

Presentation for Banking and Currency Committees. Mr. Shay having reported that the Senate Banking and Currency Committee would like to have a visual-auditory economic presentation by the Board's research staff in the near future and it appearing that the Board's staff could have such a presentation ready by the twenty-third or twenty-fourth of this month, Mr. Shay was requested to work out with the Committee a date which would

be agreeable. In addition, it was understood that Chairman Martin would advise Chairman Spence of the House Banking and Currency Committee of the presentation to be given to the Senate Committee and offer to provide the same program for the House Committee if it so desired.

Mr. Shay then withdrew from the meeting.

Application of Bank of Encino to establish branch (Item No. 1). There had been circulated to the members of the Board a file containing a favorable recommendation from the Division of Examinations with respect to an application by Bank of Encino, Los Angeles (Encino), California, to establish a branch in Thousand Oaks, a community in Ventura County.

In commenting on the application, Governor Robertson pointed out that a similar application submitted by a large national bank in Los Angeles was on file with the Comptroller of the Currency but that the application of the smaller State bank had been filed earlier and therefore was entitled to preference pursuant to the interagency understanding. After commenting that the Bank of Encino, control of which had been acquired by Mr. Walter Cosgriff of Salt Lake City, seemed to be in fairly good condition except for some weakness in its capital position and that the State authorities had insisted on the injection of new capital in the amount of $750,000 prior to establishment of the branch in Thousand Oaks, Governor Robertson expressed some doubt whether the bank would be willing to add that much capital. His opinion was that the Board should stand firm on the amount of additional capital which

the State had requested if the matter should come into question. He also commented that the Comptroller of the Currency at some time probably would approve the competing application filed by the larger national bank.

Thereupon, unanimous approval was given to the letter to the Bank of Encino of which a copy is attached hereto as Item No. 1, for transmittal through the Federal Reserve Bank of San Francisco.

At this point Mr. Hexter, Assistant General Counsel, entered the room.

Proposed absorption of The Citizens Bank, Attica, New York (Item No. 2). In the light of the comments and views expressed at the meeting on January 6, 1958, by Mr. Sherwin Haxton and another director of The Citizens Bank, Attica, New York, concerning the proposed absorption of that bank by The Marine Trust Company of Western New York, Buffalo, New York, further consideration was given to the decision of the Board on December 27, 1957, to deny the application.

Governor Shepardson, who had originally voted in favor of granting the application, said that as a matter of general principle he would ordinarily be opposed to a transaction of this kind because such an absorption would result in a further accumulation of banking power in the hands of a large bank holding company organization. In the circumstances surrounding this particular application, however, he continued to feel that there was justification for approving the transaction. Both the file on the matter and Mr. Haxton's presentation indicated that The Citizens Bank

was possibly on the verge of going out of business if the owners did not have an opportunity to sell the institution, since the controlling stockholders seemed definitely to desire to dispose of their shares in the institution. While the bank apparently had a somewhat more favorable earning record than the competing branch of Marine Trust Company, it had operated with limited personnel and a low scale of salaries, and at present there did not appear to be personnel available to carry on effectively if the principal shareholders withdrew. The town itself was a small agricultural community with little or no prospect of substantial industrial growth and the current shift of population away from agriculture would seem to indicate stagnancy or a decline in the population of the bank's trading area. These circumstances seemed to him to justify approving the proposed absorption in spite of his general feeling about acquisitions of this kind.

Governor Balderston said that he thought Mr. Haxton had explained his personal situation quite well, but that his comments did not give the Board a basis to support the acquisition of his bank by the Marine Midland organization. Had Mr. Haxton been arguing on behalf of acquisition of the bank by a competing Buffalo organization, Governor Balderston said, he might have come to a different conclusion, but he felt that approval by the Board of the current proposal would merely lead to the elimination of banking competition in Attica. Therefore, he would not favor approving the application.

After Governor Szymczak stated that he also favored denial of the application, Chairman Martin said that he would support the majority view in this case although in terms of the public interest he doubted very much whether this was the type of situation where harm would result from the proposed absorption. Unless one took the position that the preservation of small unit banks was more important than the element of service to the community, he felt that a good case could be made in favor of the absorption of this bank by the Marine Midland organization, for that organization could do a job of public service superior to that available through a small independent bank. However, the Congress in passing the Bank Holding Company Act had indicated a desire to lean over backward to protect the unit bank and he felt that the Board must take this into consideration. Personally, he said, he was not completely convinced of the soundness of such an approach.

Governor Robertson responded that Marine Midland would not be precluded in any way from furthering the public interest in the community, for it had all of the facilities at its disposal to provide for the needs of the area and would not be held back in any way through denial of the current application. He went on to say that competition generally works to the benefit of the public as a whole and that, in this instance, parties would have an opportunity to go to the small independent bank if the Marine Trust Company branch was not meeting the needs of the people. To put it another way, he did not think that there would be any

gain from the standpoint of the public interest by letting the Marine Midland organization operate without competition in the town of Attica. With regard to the points raised by Governor Shepardson, he recalled that Mr. Embt, one of the directors of The Citizens Bank who appeared before the Board, indicated that he intended to continue his affiliation with the banking business, and Mr. Embt, as he pointed out, was one of the principal stockholders. Also, as far as the people running the bank were concerned, nothing unfavorable to them had been developed in examinations of the institution. In summary, where a small bank was competing in a community with a branch of a large institution, he felt that it was generally in the public interest not to permit the large bank to take over the smaller one.

Mr. Masters commented that although the proposed absorption admittedly would eliminate banking competition in the town of Attica, itself, there would still be a substantial number of independent banks in the surrounding area serving a total population of less than 100,000. In response to a question by Governor Robertson, he verified, however, that the nearest banking office outside of Attica would be located about 10 miles from that community.

Governor Mills expressed agreement with the majority of the Board that the application should be denied, but said that in attempting to analyze this case it seemed to him that the problem was much broader in scope than might at first appear. He went on to say that if it

were possible to devise some kind of ground rules to guide institutions like Marine Midland and also independent banks which might be considering merger offers, he felt that this would represent a long-range service to the banking community, particularly because the Board, in denying an application of this kind, would be interposing a Governmental authority against the voluntary disposition of private property.

Governor Mills then read the following statement containing his general reflections on this subject:

> Recognition of the quasi-public characteristics of commercial banking goes back for a great many years and is highlighted by the public regulation to which commercial banking is subjected. The fact that entrance into the commercial banking field is limited by the chartering rights vested in Federal and State bank supervisory agencies evidences the public sentiment that exists for commercial bank regulation and which is soundly based in view of the semimonopolistic nature of commercial banking and the fact that those engaged in it are granted the right to employ for their advantage funds entrusted to them by the general public.
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> Under the scheme of commercial bank operation, this means that those who are permitted to operate commercial banks as financial corporations are granted the unusual earning power of operating for profit on a far larger proportion of depositor funds than the funds represented by invested capital. This feature of commercial banking emphasizes the justification for its public regulation and equally features the qualities of trusteeship that are properly expected of bankers.
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> The quasi-public character of commercial banking is clearly outlined against the conditions recited above, with the exception of one final condition which exists but has not as yet become fully recognized. This last condition is that having been authorized to embark on the operation of a commercial bank, its owners -- and especially in view of the privileges granted them by public charter -- do not have

> the same rights to dispose of their property as is the case of the owners of other types of corporations that are not vested with a public interest. Such being the case, it is within the province of the bank supervisory authorities to prohibit the sale of a bank if that action is deemed to infringe the public interest with regard to such factors as undesirable prospective ownership of a bank or the sale of a bank which would have the effect of extinguishing competition in a community sizable enough to justify the operation of two or more commercial banks.

After finishing the statement, Governor Mills said that the line of reasoning contained therein had led him to the conclusion that if the Board could develop some guidelines and make them known to the banking community, this might tend to eliminate the embarrassment arising out of a situation such as denial of the proposed absorption of the bank in Attica.

Governor Shepardson then supplemented his previous comments by saying that to him it would be possible to agree with what Governor Mills had said and still make an exception in a case such as the one now before the Board. In a community with a population of only 3,000, he questioned whether the operation of two banks could be justified, and in this connection he brought out that one of the offices was a branch of a large banking system which could absorb losses from the local operation if necessary. The independent bank currently was making some profit, but only at the expense of an inadequate scale of compensation for its staff; if the basis of compensation was equal to that of the other organization, it seemed questionable whether the independent bank would be operating profitably. As he had said before, in principle he

favored curbing the expansion of the large banking organizations, but he felt definitely that an exception could be made in this case. One reason was that this was primarily an agricultural area and the shift in agricultural enterprises to larger units was calling more and more for credit facilities which a small bank cannot provide. While it might be suggested that such a situation could be taken care of through participations, the recent agricultural loan survey showed little evidence of the use of participations. Rather, it seemed to indicate that the small banks tended to limit themselves to the credits which they could handle, and in this particular district there was only a very small percentage of participated loans.

Chairman Martin said that he thought Governor Mills had made a contribution through his statement but that he would be inclined to make an exception in this particular case if he were to follow the line of reasoning suggested in it. Therefore, he was inclined to feel that it might be futile to release a general statement on the subject to the banking community. He then reiterated that he could support denial of the current application only on the basis that the Congress had expressed a desire to preserve the maximum number of unit banks. Whether this was a sound policy, he did not know. The difficulty with the whole situation, he said, was that, at least in his opinion, it might be the public which ultimately would suffer.

Thereupon, it was voted to sustain the previous decision of the Board to deny the application of The Marine Trust Company of Western

New York, Governor Shepardson dissenting from the decision for the reasons he had stated at this meeting and in previous discussion of the application. Pursuant to this action, there was sent to the Federal Reserve Bank of New York the letter which was approved by the Board on December 27, 1957, but was not actually mailed because of the developments which occurred subsequent to that meeting. A copy of the letter is attached as Item No. 2.

Mr. Nelson then withdrew from the meeting.

Purchase of bankers' acceptances for foreign account (Item No. 3). In a letter dated January 10, 1958, the Federal Reserve Bank of New York requested an increase from $100 million to $150 million in the aggregate amount of bankers' acceptances which it is authorized to purchase and guarantee at any one time for the account of foreign central banks, including the Bank for International Settlements. The request arose out of the fact that within the past few days substantial purchase orders had been received from the Swedish central bank, thus increasing to $99.8 million the amount of acceptances carrying the New York Bank's guarantee. It appeared that the increased volume of orders was attributable primarily to the disparity between the yields on Treasury bills and bankers' acceptances.

There had been distributed to the members of the Board copies of a memorandum from Mr. Marget dated January 13, 1958, discussing the situation and recommending favorable action on the request. The memorandum also noted that since the date of the letter the New York Bank had received

further orders which it would be unable to execute unless the limit was raised immediately. In this connection, question was raised whether the Board might also wish to consider, as suggested in the New York Bank's letter, abolishing the maximum limitation altogether, subject to the understanding that the Division of International Finance would continue to report to the Board regularly on developments in the acceptance market.

Following comments on the matter by Mr. Marget, during which he referred to the consideration which had been given by the Board to this subject during 1956, Governor Robertson said that he favored approving the requested increase in authorization, that the $150 million limitation seemed more than ample to meet the existing situation, and that he would favor continuing to maintain a limitation for the present.

This led to a discussion of the reasons for maintaining a maximum limitation during which the view was expressed that there seemed to be no urgent reason for eliminating it at this time if there was any feeling to the contrary on the part of members of the Board.

Accordingly, unanimous approval was given to the letter to the Federal Reserve Bank of New York of which a copy is attached as Item No. 3.

Messrs. Marget, Furth, and Sammons then withdrew from the meeting and Messrs. O'Connell, Assistant General Counsel, and Davis, Assistant Counsel, entered the room.

General Contract Corporation matter. General Contract Corporation, a bank holding company of St. Louis, Missouri, had filed with the Board requests for determinations that 24 of its nonbanking subsidiaries were

of such a nature as to be exempt under section 4(c)(6) of the Bank Holding Company Act from the divestment requirements of that Act. As required by the statute, a formal hearing was held on these requests, and the Hearing Examiner's Report and Recommended Decision was filed with the Board in September 1957. The request as to one of the subsidiaries was withdrawn during the course of the hearing after the Board expressed the opinion that the subsidiary was exempt under other provisions of the Act. With respect to 21 of the remaining 23 subsidiaries, the Hearing Examiner recommended in effect that determinations adverse to the bank holding company be made, and General Contract Corporation did not file exceptions to the Hearing Examiner's conclusions with respect to those subsidiaries. In the case of two remaining small loan companies, the Examiner concluded that although they were functionally integrated and operated much as though they were departments of two of the applicant's subsidiary banks, they should not be regarded as a "proper incident" to the business of the banks because, as he saw it, the very types of transactions that made the companies "closely related" to the banks were unlawful under section 6 of the Bank Holding Company Act. These transactions consisted of the sale by the loan companies to the subsidiary banks, without recourse, of notes representing personal loans made by the loan companies. Such sales were made at a discount, that is, for an amount less than the face amount of the notes. The Hearing Examiner concluded that the purchase by the subsidiary banks

of this personal loan paper at a discount, but without recourse, involved a violation of section 6(a)(4) of the Act, which makes it unlawful for a subsidiary bank to make any "loan, discount or extension of credit" to its bank holding company or to any subsidiary of the holding company. Applicant filed exceptions in these two cases and, at its invitation, three other bank holding companies (First Bank Stock Corporation, Marine Midland Corporation, and Northwest Bancorporation) submitted amicus curiae briefs on the "discount" question.

In memoranda dated January 9, 1958, which had been distributed to the members of the Board, Messrs. Hackley, Solomon, and Hexter presented their views on the applications of General Contract Corporation, and in particular their views as to whether the word "discount," as used in section 6 of the Act, should be interpreted to include a purchase of paper at a discount but without recourse to the seller. As indicated in the memoranda, a difference of opinion had developed with the Legal Division, Messrs. O'Connell and Davis agreeing with Mr. Solomon's view that the transactions in question should be held to be discounts within the meaning of section 6 of the statute, while Messrs. Hackley, Hexter, and Rolph had reached an opposite conclusion. If it should be decided by the Board that the transactions did not violate the statute, the members of the legal staff then would agree with the conclusion of the Hearing Examiner that the two loan companies qualified for exemption under section 4(c)(6).

At the request of the Board, Mr. Hackley reviewed the factual situation, developments to date in connection with the case, and the point on which there was a difference of opinion within the Legal Division. He then summarized the reasons for his own opinion, following which he discussed one point not developed in any of the memoranda; that is, that the sections of the Bank Holding Company Act should be construed as harmoniously as possible. If transactions such as involved in this case were held to be discounts in violation of section 6(a)(4), then it was difficult for him to see how there was any real significance left for section 4(c)(6), since the close subsidiary bank-loan company relationship in this case appeared to be the type of situation which the Congress had in mind in providing for exemptions pursuant to section 4(c)(6). This, he felt, lent some support to the thought that, irrespective of how discounts might be defined under other statutes, these transactions should not be regarded as discounts for the purposes of the Act.

Mr. Hackley also pointed out that the "discount" question was a fundamental one, the determination of which would constitute a precedent in other cases and would affect transactions between subsidiary banks of the same holding company in addition to transactions between bank and nonbank subsidiaries. He then referred to a letter addressed to Chairman Martin under date of January 10, 1958, by the President of First Bank Stock Corporation which expressed the belief that a reading

and study of the applications filed by that Corporation for determinations under section 4(c)(6) with respect to two nonbank subsidiaries might be of assistance to the Board in determining the issues presented by the applications of General Contract Corporation and also Otto Bremer Company. The letter, copies of which had been distributed to the members of the Board, requested, therefore, that the Board review the First Bank Stock applications before making decisions on the earlier applications.

Mr. Hackley said that he was not sure whether this suggestion had a great deal of merit because an amicus curiae brief had been filed by First Bank Stock in the General Contract case and had become a part of the record of the proceeding. Nevertheless, in view of the letter the Board might wish to postpone making its determination in the General Contract case until its staff had analyzed and reported to the Board the facts and circumstances in the First Bank Stock case.

Messrs. Solomon and Hexter then commented in support of their respective conclusions on the discount question, the statement of each being based on the memorandum which he had submitted.

Following these statements, the Chairman inquired concerning the degree of urgency involved in the General Contract matter and Mr. Hackley replied that he did not think there was any real urgency except for the fact that the case had been going on for some time. He had assumed that the parties involved in the First Bank Stock case would be glad to have the Board's decision on the General Contract applications for their

guidance. However, since it appeared to be the feeling of First Bank Stock that a study of its applications might have some influence on the Board's thinking in the General Contract case, the Board might wish to defer a decision pending such a study.

In response to a question, Mr. Solomon estimated that it would take about a week to prepare for the Board a memorandum on the First Bank Stock applications. Only one of them, he noted, involved the discount question.

A discussion ensued regarding the advisability of following a procedure such as the letter from First Bank Stock Corporation suggested. While no strong feelings were expressed by the members of the Board, Governor Robertson suggested that it might be unwise to make public a decision by the Board to review the First Bank Stock applications at this time, since such a procedure might be taken to indicate premature consideration of that Corporation's applications and preconceived notions on the part of the Board. It was pointed out by Chairman Martin that in studying the applications before completion of the hearing the Board would be doing what had been formally requested by First Bank Stock Corporation, and it was therefore his view that this might contribute to a better record from the public relations standpoint. In this connection, Mr. Hackley commented that the Board was required by law to make its decision in the General Contract case solely on the basis of the record made at the hearing. By the same token, he said, it would be possible for the Board to study the applications of First Bank Stock

Corporation and yet not prejudge that case, because those applications would likewise have to be decided on the basis of the hearing record.

Governor Mills then made a statement having applicability to both the General Contract and First Bank Stock cases in which he proposed taking a broad perspective, going beyond the bare facts, and as far as possible proceeding according to a rule of reason. After saying that both of the organizations were reputable and well managed to the best of his knowledge, he went on to say that the Board should consider the practical results if it were to make decisions which would compel dissolution of the relationships between a holding company and its subsidiary finance companies. It seemed to him quite possible that in such event the most that would be accomplished would be to reestablish the same type of operation under some different guise, perhaps through a merging of the finance company activities with those of the subsidiary banks or through some other method which would leave the general direction and control of the operations virtually unchanged. If there was a good foundation for that type of reasoning, he said, the Board might well ask itself whether anything of substance would be accomplished by a very rigid interpretation of the law or whether the public interest would be better served by interpreting the law more flexibly in accordance with the line of thought expressed by Mr. Hexter. As he saw it, the root of the problem was not in the character of the relationships but actually went back to the ownership of the commercial

banks involved. It was obviously the intent of the Congress, he said, as indicated by the legislative history of the Bank Holding Company Act, to prevent any sort of undertaking that would affect the operations of a commercial bank to the disadvantage of its depositors, and the correction of that kind of problem seemed essentially to rely upon adequate control of bank chartering and the proper kind of bank supervision. Another means of correction seemed to him to rest in a tightening of the Act in such a manner that the definition of a bank holding company would comprehend any company which owned control of a single bank. Also, if possible, there might be a revision of the Act that in some manner would prevent the ownership of banks from falling into the hands of unrelated financial organizations such as insurance companies, which sometimes use banks as check collection agencies. In summary, it seemed to him that it would be desirable for the Board to give attention to broad considerations of this nature in deciding a matter such as the General Contract case.

Governor Balderston inquired of Governor Mills whether he would prefer to see functions of the kind performed by the two loan companies in the General Contract case carried on by the consumer loan department of a subsidiary bank or under an arrangement whereby an unlimited number of finance company offices could make loans and then discount the paper with one or more of the holding company's subsidiary banks.

Governor Mills responded that he could not see any great distinction unless a holding company operated finance company offices in communities where it was not represented by a subsidiary bank. This, he said, was a situation which probably should be controlled because it would lead in effect to branch operations in a particular field of finance. For this reason, he felt that a bank holding company should be required to confine its finance company operations to communities in which it was represented by a subsidiary bank. Within this framework, the holding company could decide whether, for various reasons, it was more convenient to have separate companies (a bank and a loan company) or to combine the activities.

Along these lines, Mr. Hackley said that the legal staff had discussed whether favorable section 4(c)(6) determinations might suggest that holding companies could go out and establish finance companies throughout the country. It was concluded, however, that this was not a great hazard. In the General Contract case, the loan companies were actually located on the premises of subsidiary banks, and there would be a different factual situation if a holding company established finance companies all over the country. Under such circumstances, the Board might conclude that, even though the transactions between a subsidiary bank and the loan companies were not prohibited by section 6, the loan companies nevertheless would not be a "proper incident" to the banking business. In the General Contract case it was not necessary to meet the charge that the subsidiary banks were doing something through the loan companies that they could not do themselves.

This concluded the discussion and it was understood that further consideration of the General Contract Corporation case would await the receipt of a memorandum from the Legal Division summarizing the applications which had been submitted by First Bank Stock Corporation.

During the foregoing discussion Mr. Thomas withdrew from the meeting. At its conclusion Messrs. Thurston, Assistant to the Board, Johnson, Director, Division of Personnel Administration, Kelleher, Director, Division of Administrative Services, and Daniels, Assistant Controller, entered the room along with Miss Burr, Associate Adviser, Division of Research and Statistics.

Status of Republic National Bank as a bank holding company (Item No. 4). In a memorandum dated January 10, 1958, copies of which had been sent to the members of the Board, Mr. Davis discussed the question whether Republic National Bank of Dallas, Dallas, Texas, should be regarded as a bank holding company within the meaning of the Bank Holding Company Act. In view of the circumstances involved, the view was expressed that Republic was a bank holding company under clause (3) of section 2(a) of the Act. This would be in accord with the opinion of Counsel for the Federal Reserve Bank of Dallas, while Counsel for Republic had taken the position that the bank would not qualify as a bank holding company under any of the definitions set forth in section 2(a) of the Act. A draft of letter to the Reserve Bank which might be used if the Board concurred in the view expressed by Mr. Davis was submitted with the memorandum.

At the request of the Board, Mr. Davis reviewed the factual situation and described similarities between the circumstances involved here and in the case of the Fort Worth National Bank, Fort Worth, Texas, which the Board held to be a bank holding company on June 17, 1957. He said it was the unanimous view of those members of the Board's legal staff who had considered the matter that the same conclusion appeared to be warranted with respect to Republic National Bank of Dallas. In fact, there seemed to be even more basis in the Republic case for the Board to hold that the intermediate investment companies which actually held the majority of the shares of each of eight banks were merely corporate "shells." Any other conclusion as to the status of Republic, he suggested, would lead to an almost absurd result, namely, that a company would be a bank holding company if trustees held bank shares directly for the benefit of its shareholders but not if trustees indirectly held and controlled such bank stock through an intermediate wholly-owned corporation. Mr. Davis also said that the grounds for holding Republic to be a bank holding company under section 2(a)(1) of the Act would not appear to be as strong as in the Fort Worth case and that therefore it seemed desirable for the Board to base its decision, if it agreed with the legal staff, on the provisions of section 2(a)(3), which state that a company is a bank holding company if 25 per cent or more of the voting shares of each of two or more banks is held by trustees for the benefit of the shareholders of

such company. He also said that in order to allow Republic a reasonable time within which to register, it would seem appropriate for the Board to grant a period of 90 days for the filing of a registration statement.

In a supplemental comment, Mr. Hackley said that in suggesting technical amendments to the Bank Holding Company Act, the Board might want to suggest changing the language of section 2(a)(3) to make it clear that the clause was applicable to shares held or controlled by trustees either directly or indirectly. In response to a question, he said that a published opinion on the Republic National Bank matter was not contemplated because it involved only an interpretation of the language of the statute and not a decision by the Board concerning an application under the Act.

Thereupon, unanimous approval was given to a letter to the Federal Reserve Bank of Dallas in the form attached as Item No. 4.

Messrs. Hexter, O'Connell, Hostrup, and Davis then withdrew from the meeting.

Applicability of Regulation U (Item No. 5). There had been distributed to the members of the Board copies of a memorandum from Mr. Solomon dated January 10, 1958, regarding a question which had been raised by a member bank with the Federal Reserve Bank of St. Louis as to whether Regulation U would be applicable to a certain bank loan the proceeds of which would be used to margin a short sale of a registered stock. In this particular case, the loan would be secured by unregistered

stock which was exchangeable under a merger agreement into the number of shares to be sold short. The memorandum recommended concurring in the opinion of the Reserve Bank that the particular loan was exempt from the Regulation and not expressing any opinion on the broader question of whether a bank loan to provide margin for a short sale of registered stock is subject to the Regulation.

In commenting, Mr. Solomon pointed out that this was one of the questions arising out of the fact that Regulation U is less specific in many places than Regulation T. He then described how the circumstances of the loan mentioned by the St. Louis Reserve Bank made this transaction somewhat different from an ordinary short sale. For this reason, while the question of the applicability of Regulation U to loans to provide margin for a short sale might be debatable, he considered it appropriate to advise the Reserve Bank that a loan such as described was not covered by the Regulation. Such a position, he pointed out, would be in harmony with the provisions of section 3(d)(3) of Regulation T under which a broker is not required to obtain the usual margin on a short sale when there are held in an account securities exchangeable or convertible within a reasonable time into securities sold short.

In a brief discussion which followed, Governor Mills suggested an editorial change in the proposed letter to the St. Louis Reserve Bank to eliminate from the concluding paragraph reference to the fact

that the Board was not expressing any opinion at this time on the broader question of an ordinary bank loan to margin an ordinary short sale.

There being agreement with this suggestion, unanimous approval was given to a letter to the Federal Reserve Bank of St. Louis in the form attached as Item No. 5.

Meetings with representatives of the Investment Bankers Association. Chairman Martin referred to the periodic meetings of the Board with the committee of the Investment Bankers Association which confers with the Treasury on Government financing problems and said that he had discussed with the new chairman of that group a change in procedure under which, rather than meeting with the members of the Board, the group would meet with members of the Board's research staff for an economic presentation. Since it appeared that such an arrangement would be agreeable to the committee, plans had been made for a program of the kind described on Monday, January 27.

Chairman Martin said that he wished to ascertain whether the proposed arrangement met with the approval of the other members of the Board, and he added that any Board member who desired could of course join the meeting to listen to the economic presentation or engage in discussion with the visitors to the extent that he wished.

Following a discussion of reasons favoring the change in procedure, it was agreed unanimously that the plan should be put into effect on an experimental basis beginning with the visit of the committee of investment bankers on January 27.

Distribution of Federal Reserve Bulletin. Following discussion within the staff over a period of time with regard to the policy which should be followed in making copies of the Federal Reserve Bulletin available to branches of member banks, Governor Shepardson recommended in a memorandum dated December 26, 1957, which had been circulated to the members of the Board, discontinuing the policy established in 1939 of sending the Bulletin free to each domestic branch of a member bank, the business of which was sufficiently important in the opinion of the Federal Reserve Bank concerned to justify making a copy available to the managing officer, with a limit of 50 copies for any one bank. In lieu of this procedure, he recommended a policy of making a charge of $2 per year for subscriptions to the Bulletin sent to a member bank or any of its branches, in addition to the one free copy sent to the head office, with the understanding that the new policy would become effective as soon as the necessary arrangements could be made.

In reviewing the background of the matter, Governor Shepardson brought out that a suggestion had originated early last year at the Federal Reserve Bank of San Francisco that any domestic branch of a member bank be sent a complimentary copy of the Bulletin each month

upon request of the parent bank, thus discontinuing the limitation of 50 free copies for each member bank. This suggestion, he said, pointed up the lack of logic in the current policy but it also gave rise to questions concerning cost and the lack of comparable treatment as between banks with a large number of branches and banks which, although also large, do not operate branches. Accordingly, the compromise proposal had been offered and he concurred in it. Although he did not regard the question of cost as a highly significant factor, it occurred to him that the recommended procedure would place the distribution of the Bulletin on a more logical basis by substituting a preferred rate for an artificial formula.

Mr. Thurston said that, as Governor Shepardson had indicated, the present policy was illogical. It was a question, therefore, of how far the Board wished to go in subsidizing the distribution of the Bulletin to those who would be interested in it. Personally, he would be agreeable to trying the procedure recommended by Governor Shepardson unless there were strong arguments against it which he did not immediately perceive.

A discussion ensued during which agreement was expressed by the members of the Board that the primary objective should be to make the Bulletin available on a reasonable basis to persons having a legitimate use for it. While some feeling was expressed that this objective might be achieved best by liberal distribution to member banks on a complimentary basis, the prevailing view was to the effect that offering the

Bulletin at a substantially reduced rate would perhaps effect a more equitable distribution. It was also felt that such a policy might actually stimulate more interest in the Bulletin than liberal free distribution.

Accordingly, unanimous agreement was expressed with the recommendation contained in Governor Shepardson's memorandum, with the understanding that the policy could be reexamined at any time if developments indicated the desirability of revising it.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated January 10, 1958, from Mr. Masters, Director, Division of Examinations, recommending acceptance of the resignation of William S. Wait, Review Examiner in that Division, effective January 31, 1958.

Memorandum from the Division of Examinations dated January 13, 1958, recommending an arrangement for making currency available for training purposes at each session during 1958 of the School for Assistant Examiners of the Inter-Agency Bank Examination School. A copy of the memorandum is attached as Item No. 6.

It having been ascertained pursuant to action taken by the Board on January 8, 1958, that Mr. Victor S. Johnson, Chairman and President of Aladdin Industries, Nashville, Tennessee, would accept appointment, if tendered, as a director of the Nashville Branch, Federal Reserve Bank of Atlanta, for the unexpired portion of the term ending December 31, 1958, a telegram notifying Mr. Johnson of his appointment was sent on January 13, 1958.

Secretary

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

Item No. 1
1/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1958

Board of Directors,
Bank of Encino,
17031 Ventura Boulevard,
Encino, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in Thousand Oaks, Ventura County, California, by Bank of Encino, Los Angeles (Encino), California, provided the branch is established within six months from the date of this letter and that formal approval of the Superintendent of Banks of the State of California is effective at the time the branch is established.

It is understood that prior to establishment of the branch, capital funds of the bank will be increased by not less than $750,000 through the sale of additional capital stock and that approval of the State authorities will be obtained if fixed assets are to exceed 50 per cent of capital and surplus.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 2
1/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1958.

Mr. H. H. Kimball, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Kimball:

Reference is made to your letters of October 31, 1957, and December 12, 1957, regarding the application of The Marine Trust Company of Western New York, Buffalo, New York, for (1) the Board of Governors' consent to its absorbing, by merger, The Citizens Bank, Attica, New York, and (2) permission by the Board to establish a second branch in Attica.

As brought out in your letters, the banking facilities in Attica now consist of The Citizens Bank and a branch of The Marine Trust Company of Western New York (the applicant). Consequently, the proposed merger would result in the absorption of one of these competitors by the other, leaving only one banking institution represented in the town. In view of the circumstances, the Board of Governors has denied the application on the ground that the proposed merger would unduly diminish banking competition in the town of Attica and its vicinity. 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. 3
1/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1958.

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

Dear Mr. Hayes:

In response to the request of your Bank submitted in Mr. Exter's letter of January 10, 1958, the Board approves an increase to $150 million of the maximum amount of bankers' acceptances that may be purchased with your Bank's guarantee of payment and held by your Bank at any one time for the account of foreign central banks, including the Bank for International Settlements.

Sincerely yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

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

Item No. 4
1/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1958

Mr. L. G. Pondrom,
Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

This refers to your letter of September 11, 1957, and Mr. Irons' letter of August 21, 1957, to Mr. Sherman, with their enclosures, regarding the status of Republic National Bank of Dallas, Dallas, Texas, as a bank holding company under the Bank Holding Company Act.

On the basis of the information submitted with the foregoing letters, it is understood that the factual situation is substantially as follows:

There are nine investment companies organized under the law of Texas, each of which companies, except one, is the registered owner of 37 per cent of the outstanding shares of a bank; that all of the shares of the investment companies are held in trust, for the benefit of shareholders of Republic National Bank, by three trustees under trust indentures which are in all material respects the same; that in each case the three trustees are the Chairman of the Board, Chairman of the Executive Committee and Chief Executive Officer, and President of Republic National Bank; that these three individuals are also the Chairman of the Board, President and Vice President of each of the investment companies; and that each of the investment companies has an identical slate of officers, both as to title and as to individual, and each of the officers is either a director or officer of Republic National Bank. It is also understood that the only assets of the investment companies, in addition to the bank stock indicated, are a relatively nominal amount of cash and, in the case of four of the investment companies, a small amount of funds invested in State of Texas revenue bonds.*

Under clause (3) of section 2(a) of the Bank Holding Company Act, a company is a bank holding company if 25 per cent or more of the voting shares of each of two or more banks is held by trustees for the benefit of the shareholders of such company. While

*Technical error. Should have read "turnpike bonds". See minutes of February 24, 1958.

the trustees in the present case do not directly hold the shares of the eight banks, they hold all the stock of the investment companies that directly own stock of the eight banks, and the eight companies are engaged in no activities other than the holding of the bank stock. In the circumstances of this case, it is the Board's opinion that 25 per cent or more of the stock of each of the eight banks is "held" by trustees for the benefit of the shareholders of Republic National Bank. Any other conclusion would contravene the intent of the statute, would lead to an almost absurd result, and might open the door to widespread evasion of the purposes of thelaw. It is the Board's conclusion, therefore, that Republic National Bank is a bank holding company within the meaning of the Act and must comply with its provisions.

In order to allow the Bank a reasonable time within which to prepare its registration statement, the Board grants (pursuant to section 5(a) of the Act) a period of 90 days from the date of receipt by Republic National Bank of your forwarding letter for the filing of a registration statement by the Bank as required by the Act.

It will be appreciated if you will advise Republic National Bank of the Board's views and action, as stated 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. 5
1/14/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1958

Mr. George E. Kroner,
Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 2, Missouri.

Dear Mr. Kroner:

This refers to your letter of December 20, 1957, presenting a question raised by First National Bank, Louisville, Kentucky, as to whether a certain loan would be subject to Regulation U. The proceeds of the loan would be used to margin a short sale of a registered stock, and the loan would be secured by unregistered stock which is exchangeable (under a merger agreement) into the number of shares to be sold short.

Regulation U applies to a loan which is secured by any stock and is "for the purpose of purchasing or carrying any stock registered on a national securities exchange." Since the present loan would be secured by stock, the question is whether it should be considered to be "for the purpose of purchasing or carrying" any registered stock.

In view of section 3(b)(1) of the regulation, the loan would not be considered to be for the purpose of "carrying" a registered stock under the present provisions of the regulation. That section provides that:

> "No loan, however it may be secured, need be treated as a loan for the purpose of 'carrying' a stock registered on a national securities exchange unless the loan is [to purchase or carry certain 'redeemable securities'] or the purpose of the loan is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or a dealer, to carry such stock for customers."

The question whether the loan should be considered to be for the purpose of "purchasing" a registered stock is more difficult. A short sale ordinarily involves the "borrowing" of the stock to be delivered on the sale and also involves the later purchase of the stock

to be "returned". It appears, however, in the present case that the loan will be secured by unregistered securities exchangeable into the registered securities sold short, and that such an exchange would provide the registered stock to close out the transaction, rendering the later purchase unnecessary.

In this connection it may be noted that under the more detailed provisions of section 3(d)(3) of Regulation T, a broker is not required to obtain the usual margin on a short sale "when there are held in the account securities exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into such securities sold short ...."

In the circumstances, the Board agrees with the view of yourself and your counsel that the particular loan here involved would not be subject to the present provisions of Regulation U.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Item No. 6
1/14/58

Date January 13, 1958.

To Board of Governors

From Division of Examinations

Subject: Inter-Agency Bank Examination School -- Provision of cash for training purposes.

Pursuant to arrangements initiated by Governor Robertson with the Office of the Comptroller of the Currency and the FDIC, it has been agreed that four sessions of the School for Assistant Examiners will be conducted in 1958 as follows: 1/

Nineteenth Session	Beginning January 20
Twentieth Session	Beginning May 19 (tentative)
Twenty-first Session	Beginning September 2 (tentative)
Twenty-second Session	Beginning November 10 (tentative)

As authorized for previous sessions, currency in the amount of approximately $9,000 will be required to provide currency to represent tellers' "cash" in the "Inter-Agency Bank" and for other instruction purposes.

Accordingly, it is recommended that the Office of the Controller be authorized to make available for training during each session of the School for Assistant Examiners in 1958 sums not to exceed $9,000 in currency (paper and metallic) with the understanding that while the currency is in use it will be under the responsibility of Charles H. Bartz, Federal Reserve Examiner, or, in his absence, M. Patricia McShane, Training Assistant, and that when not in use for the purposes specified, and in any event at the end of each day, it will be returned to the Fiscal Section of the Office of the Controller.

Respectfully submitted,

Glenn M. Goodman,
Assistant Director,
Division of Examinations.

1/ A session of the senior school has been scheduled to commence April 14 with the second session starting about October 13 but no currency will be required for training purposes.