

Minutes for April 7, 1958

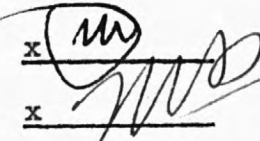
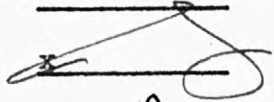
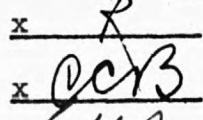
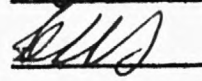
To: Members of the Board

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	<u>x</u> 	_____
Gov. Szymczak	<u>x</u> _____	_____
Gov. Vardaman <u>1/</u>	_____	<u>x</u> _____
Gov. Mills	<u>x</u> 	_____
Gov. Robertson	<u>x</u> _____	_____
Gov. Balderston	<u>x</u> 	_____
Gov. Shepardson		_____

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 Monday, April 7, 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. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
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. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations

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

Item No.

Letter to the Federal Reserve Bank of San Francisco
interposing no objection to an expenditure to convert
the elevators in the Portland Branch building to self-
service operation.

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Item No.

Letter to the Eastern Trust and Banking Company, Bangor, Maine, granting an extension of the period within which it may retain shares of the Castine Water Company. (For transmittal through the Federal Reserve Bank of Boston)

2

Letter to the Federal Reserve Bank of Cleveland expressing the opinion that ownership by BancOhio Corporation of the shares of Real Estate Service, Inc., falls within the exemptive provisions of section 4(c)(1) of the Bank Holding Company Act.

3

Letter to the Federal Reserve Bank of St. Louis expressing the opinion, in response to a request from General Contract Corporation, that the proposed acquisition and ownership by Bank of St. Louis of shares of 901 Washington Realty Corporation would not violate section 4(a) of the Bank Holding Company Act.

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Letter to First Security Corporation, Salt Lake City, Utah, granting an extension of time within which to comply with the provisions of section 4(a)(2) of the Bank Holding Company Act. (For transmittal through the Federal Reserve Bank of San Francisco)

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In a discussion preceding approval of the foregoing Item No. 5, Governor Mills raised certain questions having to do with the reasons which would justify granting an extension of time to a bank holding company to comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956. He expressed doubt whether an extension, particularly for as long as a year from May 9, 1958, should be granted on a perfunctory basis merely because a request was received from a bank holding company, since this might tend to discriminate against others who had proceeded more expeditiously.

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Messrs. Hostrup and Hackley responded that First Security Corporation had apparently been making a sincere effort to develop a plan of reorganization looking toward compliance with the provisions of the Act but that the corporation had found it necessary to reconsider this plan in the light of the Board's decision in the General Contract Corporation case. In these circumstances and in view of the complex factors involved in this case, they felt that the request for an extension of time until March 1, 1959, was justified. As to general policy, agreement was expressed with the view of Governor Mills that the circumstances surrounding each request for an extension of time should be borne in mind in determining whether the request should be granted.

Opening of account for the Bank of Rhodesia and Nyasaland (Item No. 6). On the basis of material which had been distributed to the members of the Board with a memorandum dated April 4, 1958, from Mr. Marget, Director of the Division of International Finance, unanimous approval was given to a telegram to the Federal Reserve Bank of New York approving the opening and maintenance of an account on the books of that Bank in the name of the Bank of Rhodesia and Nyasaland. A copy of the telegram is attached as Item No. 6.

Messrs. Furth and Sammons then withdrew from the meeting and Mr. Koch, Associate Adviser, Division of Research and Statistics, entered the room.

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Interpretation requested by The National Shawmut Bank of Boston
(Item No. 7). In a memorandum dated April 2, 1958, which had been distributed to the members of the Board, Mr. Davis, Assistant Counsel, discussed the request of The National Shawmut Bank of Boston, Boston, Massachusetts, a registered bank holding company, for an interpretation under section 4(c)(1) of the Bank Holding Company Act with respect to Devonshire Financial Service Corporation, a nonbanking subsidiary. The desired interpretation would hold that Devonshire was a company engaged "solely in the business of furnishing services to or performing services for such holding company". From the available information, it appeared that Devonshire, a corporation with 12 offices in five States, was engaged in soliciting new business, investigating credit standings, receiving, inspecting, and transmitting installment paper, and making collections of delinquent paper, all in the name of The National Shawmut Bank, that it also transmitted installment payments to Shawmut, and that all of its expenses were reimbursed by Shawmut. In this connection, the Comptroller of the Currency had ruled in 1956 that the activities of Devonshire at that time did not appear to constitute branch banking. While the question now presented was not regarded as free from doubt, it was the opinion of the Legal Division that the exemption in section 4(c)(1) of the Bank Holding Company Act would permit the retention of shares of Devonshire by National Shawmut Bank, and there was submitted with the memorandum a draft of letter to the bank holding company reflecting that view.

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Following comments by Mr. Hackley on the activities of Devonshire in the light of the provisions of section 4(c)(1), he said that, despite arguments which might be made to the contrary, it seemed to the Legal Division after considerable study that in this case the activities of the subsidiary were of a "servicing" nature such as contemplated by the Act. He went on to point out that this was not a question of "closely related" activities under section 4(c)(6), although in many respects the situation seemed somewhat similar, so that the Board was required to interpret the law rather than exercise discretion in reaching a decision.

After supplemental comments by Mr. Solomon, Governor Mills said that he was troubled by the recommendation of the Legal Division. While it seemed that a literal interpretation of section 4(c)(1) would justify the recommendation, this would in effect permit National Shawmut Bank, through Devonshire, to engage in what was tantamount to an interstate business in developing consumer paper for the bank. Therefore, it appeared to him that a favorable interpretation would open the door to a situation under which a bank holding company subsidiary could operate in a manner which in a very real sense would be contrary to the spirit of the Bank Holding Company Act. Accordingly, he felt that the full import of a favorable interpretation under section 4(c)(1) should be recognized and that consideration ought to be given to whether the case should really fall under section 4(c)(6). If considered from the standpoint of that section, it was his tentative view that divestment

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of the ownership of shares of Devonshire should be required. While the Comptroller of the Currency had held in 1956 that the activities of Devonshire did not constitute branch banking, the matter now came before the Board under the provisions of the Bank Holding Company Act and this put the matter in a somewhat different light. The interpretation sought by National Shawmut Bank would appear to have broad ramifications extending to situations such as the pending request of First Bank Stock Corporation for a section 4(c)(6) determination with respect to First Bancredit Corporation, which also conducts an interstate business. Fundamentally, he said, the problem was similar to that arising under the revised Regulation K, on which he had taken the position that the relationships authorized thereunder were tantamount to conducting interstate branch banking under the guise of an Edge Act corporation.

In reply to a question by Chairman Martin, Mr. Hackley said that a negative interpretation under section 4(c)(1) conceivably could lead to a request by National Shawmut Bank for judicial determination of the statute, or possibly to a request for a section 4(c)(6) determination by the Board. However, a section 4(c)(6) request would be on an entirely different basis, for it would then be within the Board's discretion on the basis of a hearing to determine whether the activities of Devonshire were so related to those of the bank holding company as to make continued ownership of its shares consistent with the purposes of the Act. He added that in this case, unlike the case of General Contract Corporation

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and the First Bank Stock (First Banccredit) matter, there was no question of possible violation of section 6 of the Act, for Devonshire did not make loans or buy and sell paper to The National Shawmut Bank. Rather, this was solely a question whether the activities of Devonshire were "services" within the meaning of section 4(c)(1).

There followed a detailed discussion of the operations of Devonshire, including the extent of their similarity to the services performed by traveling representatives of the large commercial banks, following which Governor Robertson said that he considered this a very close case and that he saw a great deal of merit to the position taken by Governor Mills. However, as he analyzed the case, he doubted seriously whether section 4(c)(1) was intended to interfere with the type of relationship existing between National Shawmut Bank and Devonshire. Therefore, although he had doubts, he would be inclined to concur in the recommendation of the Legal Division.

In further discussion, it was suggested that a favorable interpretation in this case might result in other bank holding companies being encouraged to modify the operations of certain subsidiaries along the lines of those performed by Devonshire, but some doubt was expressed whether such modifications would be found feasible in other situations because of the practical problems involved. In this connection, it was mentioned that the relationship between National Shawmut Bank and Devonshire was one which had been in existence for a long period of time.

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The other members of the Board then made statements indicating that although, like Governor Robertson, they felt that the request for an interpretation involved elements of doubt, they also would be inclined to go along with the conclusion of the Legal Division. Accordingly, approval was given to a letter to The National Shawmut Bank of Boston in the form attached as Item No. 7, for transmittal through the Federal Reserve Bank of Boston, Governor Mills voting "no" because of the importance he attached to the aspects of the matter to which he had referred.

Question was raised about publication of this interpretation in the Federal Reserve Bulletin and the Federal Register on the grounds that it would be of interest to other parties and, after some discussion of this question, it was agreed that the text of the interpretation would be published, along with an earlier interpretation involving a situation where the subsidiary actually purchased installment paper.

Small business legislation. Chairman Martin called upon Mr. Young to summarize a conversation which the latter had last Friday afternoon with Assistant Secretary of the Treasury Robbins.

Mr. Young said that Mr. Robbins was familiar with the Board's comments to the Bureau of the Budget on the small business bill introduced by Congressman Talle (H.R. 11576) but indicated that within the Administration some reservations were developing about the approach taken therein, because, among other reasons, the bill would have the effect of setting

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up the Small Business Administration as a permanent organization. Mr. Robbins then asked, Mr. Young said, for the Board's views regarding legislation such as introduced by Senator Sparkman which would establish national investment companies, chartered and supervised through the Federal Reserve System. Under that bill, he recalled, there would be at least one such company established in each Reserve district, with the Federal Reserve Bank making an investment from its surplus to provide the initial capital. The investment companies would also obtain capital by sales of stock to the public and to financing institutions; member banks would have permission to subscribe to the capital of these organizations and insurance companies likewise would be authorized to invest. The investment companies would make long-term loans or acquire equities in small business ventures; they would be essentially venture capital institutions.

Mr. Young said he told Mr. Robbins that the approach in the Sparkman bill had been discussed by the Board last year at which time the Board made a statement before the Senate Banking and Currency Committee in which it took the position that it would be all right to establish the national investment companies but that the Federal Reserve should have no part in the program. Mr. Robbins expressed the view that the Federal Reserve was in a better position than other agencies from the standpoint of manpower to engage in the development of such facilities and then renewed his inquiry about the attitude of the Board at this time.

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Mr. Young said he replied that he would report the conversation to the Chairman and also to the Board with a view to ascertaining the Board's present attitude.

Mr. Shay stated, in response to a question, that hearings before the Senate Banking and Currency Committee on small business legislation were scheduled to begin on Monday, April 21, and that the subject also would come up before the House Banking and Currency Committee in the near future.

Chairman Martin then expressed the view that it seemed important for the Board to reach a position on the subject of small business legislation as promptly as possible. Along these lines, he asked Mr. Koch when the staff evaluation of the Board's small business financing study might be expected to be available, and Mr. Koch indicated that it should be available within a matter of days.

At this point Governor Robertson referred to a letter which he had received under date of April 3, 1958, from Mr. Patman, as Chairman of the House Select Committee on Small Business, which indicated that the Committee would benefit from the advice and information that he and other members of the Board could provide regarding the problems of small business financing and extended an invitation to Governor Robertson to appear before the Committee in executive session on April 17.

It developed that the other members of the Board, except Chairman Martin, also had received letters of this kind, and there ensued a discussion of what response it would be appropriate to make.

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At the conclusion of the discussion, Chairman Martin suggested that this seemed to be a matter for each member of the Board to handle in his own best judgment. However, he expressed the opinion that as a matter of principle one person, or two at the most, should represent an agency before the Congress in respect to pending legislation rather than a group of individuals. He went on to say again that the important thing was for the Board to try to reach a position on the subject of small business legislation.

There was agreement with the need for prompt consideration of the subject and, after a check had been made with regard to the availability of the members of the Board over the course of the next few days, it was agreed to set down a discussion of small business legislation for a meeting of the Board on Monday, April 14. At the same time it was understood that, if any member desired, further consideration would be given at the meeting tomorrow to the responses which the individual members of the Board would make to the letters received from Congressman Patman.

Messrs. Thomas and Koch then withdrew from the meeting.

Proposed amendments to the Bank Holding Company Act. At the meeting on April 4, 1958, there was preliminary discussion of a memorandum dated March 31, 1958, with which Mr. Hackley submitted a draft of recommendations for amendments to the Bank Holding Company Act.

The matter was discussed further at this time from the standpoint of what procedure would be most suitable for expeditious consideration of

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the proposed amendments in order to permit transmittal of the Board's report to the Congress before May 9, 1958. Pursuant to a suggestion made by the Chairman, it was agreed that the members of the Board would continue to study the proposed amendments and that the Board would begin its consideration of them at a meeting on Monday, April 14, running into the afternoon so that as much progress as possible could be made on the matter.

All of the members of the staff except Mr. Riefler then withdrew from the meeting.

Trip by Mr. Riefler. At its meeting on February 26, 1958, the Board authorized Mr. Riefler to go to London, England, to testify before the Committee on the Working of the Monetary System (the Radcliffe Committee) and to answer such questions as the Committee might wish to ask, with the understanding that Chairman Martin would clear the matter with the State and Treasury Departments. At this meeting the matter was considered further in the light of a letter received by Mr. Riefler from Lord Radcliffe under date of March 31, 1958. In view of the information contained in that letter, Mr. Riefler was authorized to make the trip to London during the period between June 15, 1958, and July 5, 1958, with per diem in lieu of subsistence at the rate of \$15 per day for the entire trip.

The meeting then adjourned.

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

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Appointment

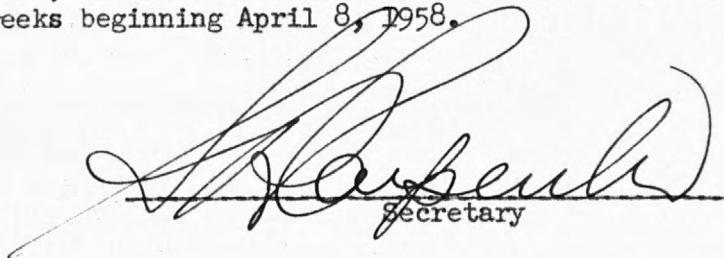
Margaret F. Cleveland as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$3,415, effective the date she assumes her duties.

Transfer and salary increase

Shirley V. Register, from the position of Clerk-Stenographer in the Legal Division to the position of Secretary in the Office of the Controller, with an increase in her basic salary from \$3,670 to \$3,805 per annum, effective April 20, 1958.

Additional advance of sick leave

Margaret Dalton, Charwoman, Division of Administrative Services, for a period not to exceed six weeks beginning April 8, 1958.


Secretary



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

Item No. 1
4/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1958

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

This refers to your letter of March 27, 1958, which contains a proposal for the conversion of the two passenger elevators in the Portland Branch building to self-service operation.

It is noted from your letter that the recommended change should result in improved service and an estimated saving of approximately \$8,500 in operating expenses per year.

The Board will interpose no objection to the expenditure of approximately \$18,500 for this improvement as stated in your 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. 2
4/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1958

Mr. Frederic S. Newman,
Assistant to the President,
Eastern Trust and Banking Company,
2 State Street,
Bangor, Maine.

Dear Mr. Newman:

This refers to Eastern Trust and Banking Company's application, pursuant to section 4(a) of the Bank Holding Company Act of 1956, for an extension, for one year from May 9, 1958, of the period within which it may retain ownership of 100 shares of the Castine Water Company.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extension.

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
4/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1958



Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

This is in reference to your letter of February 17, 1958, in which you enclose a request from BancOhio Corporation, a registered bank holding company, that the Corporation's ownership of the shares of Real Estate Service, Inc. comes within the exemptive provisions of section 4(c)(1) of the Bank Holding Company Act.

It is understood that Real Estate Service, Inc. was incorporated July 31, 1931, for the purpose of liquidating assets acquired from banking subsidiaries of BancOhio Corporation; that the major portion of its activities involves the disposition of property acquired in satisfaction of debts previously contracted in good faith by the Ohio National Bank and several other banking subsidiaries of the Corporation; that among such property so acquired was title to unimproved Louisiana "acreage" which was subsequently transferred to a new corporation, the Prairie Land Company; that since 1940, Real Estate Service, Inc. has been "practically inactive", its sole assets being cash and stock of the Prairie Land Company. It is assumed that the stock of Prairie Land Company is being held by Real Estate Service, Inc. for purposes of liquidation.

Section 4(c)(1) of the Act provides for the exemption from the divestment requirements of the Act of all the shares of any company engaged "in liquidating assets acquired from such bank holding company and such banks". On the basis of the information submitted, it appears that the business of Real Estate Service, Inc. is that of liquidating, or holding for liquidation, assets acquired from BancOhio Corporation and its subsidiary banks. Accordingly, it is the opinion of the Board that the provisions of section 4(c)(1) of the Bank Holding Company Act are applicable to the ownership by BancOhio Corporation of shares of Real Estate Service, Inc.

Mr. Paul C. Stetzelberger.

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The Board's view, as herein stated, is based on its understanding of the nature of the activities of Real Estate Service, Inc. and, of course, would not apply if that organization's business should cease to be that of liquidating, or holding for liquidation, assets acquired from BancOhio Corporation and its subsidiary banks.

It will be appreciated if you will transmit to BancOhio Corporation the substance of 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. 4
4/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1958

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

Dear Mr. Kroner:

This is with reference to your letter of March 4, 1958, forwarding a letter, dated February 28, 1958, from Mr. Daniel S. Hapke, General Counsel and Secretary of General Contract Corporation. Mr. Hapke requests an opinion of the Board as to whether the proposed acquisition and ownership by Bank of St. Louis (the "Bank"), a subsidiary of General Contract Corporation, of all of the shares of capital stock of the 901 Washington Realty Corporation ("Realty Corporation") would violate section 4(a) of the Bank Holding Company Act.

Mr. Hapke's letter indicates that the Bank conducts its banking business in approximately 41 per cent of the total floor space of the Bank of St. Louis Building, which is located at 901 Washington Avenue, St. Louis, Missouri; that the Bank of St. Louis Building is presently owned by General Contract Corporation which proposes to sell that Building, without profit, to Realty Corporation; that the sole purpose of Realty Corporation is "to acquire title to, hold, lease, manage and in all other respects deal with all real property now and in the future occupied or used by Bank of St. Louis . . . its successors and assigns"; that at the time of the sale by General Contract Corporation to Realty Corporation of the Bank of St. Louis Building, the Bank will acquire all of the capital stock of Realty Corporation. Mr. Hapke further states that the Bank will continue to own the stock of Realty Corporation so long as (1) Realty Corporation continues to own the Bank of St. Louis Building, and (2) the Bank of St. Louis Building continues to be used substantially by the Bank in its operations.

In an interpretation published at page 21 of the January 1957 Federal Reserve Bulletin, the Board expressed the view that the exemptive provisions of section 4(c)(1) of the Act are applicable "to shares owned indirectly by a bank holding company through a bank subsidiary as well as to shares held directly by a bank holding company." Consequently, the proposed purchase by the Bank of all the stock of Realty Corporation would be exempted under section 4(c)(1) if it is



Mr. Geo. E. Kroner.

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"engaged solely in holding or operating properties used wholly or substantially by [the bank] in its operations or acquired for such future use".

On the basis of the information presented in Mr. Hapke's letter, it appears to the Board that the proposed acquisition and ownership by Bank of St. Louis of shares of 901 Washington Realty Corporation come within the purview of section 4(c)(1) of the Act and consequently, such proposed acquisition and ownership would not violate section 4(a) of the Act.

It will be appreciated if you will transmit to Mr. Hapke the substance of 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
4/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1958



Mr. George S. Eccles, President,
First Security Corporation,
79 South Main Street,
Salt Lake City, Utah.

Dear Mr. Eccles:

This refers to First Security Corporation's application for an extension, from May 9, 1958, to March 1, 1959, of the period within which it must comply with the provisions of section 4(a)(2) of the Bank Holding Company Act of 1956.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extension.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 6
4/7/58

April 7, 1958.

EXTER - NEW YORK

Your wire April 3. Board approves the opening and maintenance of an account on your books in the name of the Bank of Rhodesia and Nyasaland, subject to the usual terms and condition upon which your Bank maintains accounts for foreign Central Banks and Governments.

It is understood that you will in due course offer participation in this account to other Federal Reserve Banks.

(Signed) S. R. Carpenter

CARPENTER

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

Item No. 7
4/7/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 7, 1958



Mr. A. B. Tyler, Vice President,
The National Shawmut Bank of Boston,
Boston, Massachusetts.

Dear Mr. Tyler:

This is in reference to your letter of December 30, 1957, and your supplementary letter of February 4, 1958, relating to the request by The National Shawmut Bank ("Shawmut") for an interpretation by the Board that section 4(c)(1) of the Bank Holding Company Act exempts Shawmut's retention of shares of Devonshire Financial Service Corporation ("Devonshire"), a nonbanking subsidiary of Shawmut, from the nonbanking divestment requirements of section 4(a) of the Act. The request relates to that portion of section 4(c)(1) which exempts shares of a company engaged "solely in the business of furnishing services to or performing services for" its bank holding company or subsidiary banks thereof.

On the basis of the information submitted with your request, it is understood that Devonshire is a Massachusetts corporation having its principal office in Boston; that all the outstanding shares of Devonshire are owned by five individuals all of whom are officers of Shawmut; that Shawmut has control over the transfer and the voting of such shares; that Devonshire's only assets consist of cash and deposits in banks and that it has no undivided profits account.

It is further understood that the activities of Devonshire are as follows: (1) it solicits business from dealers throughout New England who make time sales and who desire to convert their time sales paper into cash; (2) it investigates credit standings of purchasers obligated on time sale contracts to be acquired by Shawmut; (3) it receives from dealers the papers offered by them and it inspects such papers to see that they are in order, and it transmits to Shawmut for its determination to purchase, including, in some cases, issuance of drafts in favor of dealers in order to facilitate their prompt receipt of payment for installment paper purchased by Shawmut; and (4) it makes collections of delinquent paper or delinquent installments, which may involve repossession and resale of the automobile or other property which secures the paper. Also, upon request of purchasers obligated on paper held by Shawmut, Devonshire transmits installment payments to Shawmut.

Mr. A. B. Tyler

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The Board further understands that no loans or purchases of sales contracts are made by Devonshire; that Devonshire does not discount or advance money for time sales obligations; that Devonshire has 99 paid officers and employees and 12 offices located in Massachusetts, Maine, New Hampshire, Connecticut, and Rhode Island; that Shawmut reimburses Devonshire for its actual costs and expenses in performing the services mentioned above, including the salaries and wages of all Devonshire officers and employees.

While the term "services" is sometimes used in a broad and general sense, the legislative history of the Bank Holding Company Act indicates that in section 4(c)(1) the word was meant to be somewhat more limited in its application. The Senate Banking and Currency Committee stated that the types of services contemplated are "in the field of advertising, public relations, developing new business, organization, operations, preparing tax returns, personnel and many others". (84th Cong., 2d Sess., Senate Report 1095, Part 2, p. 3) This statement and the context in which the term "services" is used in section 4(c)(1) seem to suggest that the term was intended to refer generally to servicing operations which a bank could carry on itself, but which the bank or its holding company chooses to have done through another organization.

Some of the activities engaged in by Devonshire are clearly within the range of servicing activities contemplated by section 4(c)(1). There is some question as to whether or not some of the other activities of Devonshire mentioned above can meet the test, but on balance, it would seem that all such activities probably are activities in which The National Shawmut Bank could itself engage, at the present locations of Devonshire, without being engaged in the operation of branches at those locations. In the circumstances, while the question is not free from doubt, the Board is of the opinion that the activities of Devonshire are those of a company engaged "solely in the business of furnishing services to or performing services for" The National Shawmut Bank within the meaning of section 4(c)(1) of the Act, and that, accordingly, the control by that bank of shares in Devonshire is exempted under that section.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.