

Minutes for September 14, 1959

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.

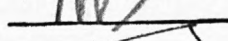
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

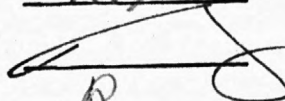
Chm. Martin



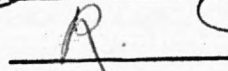
Gov. Szymczak



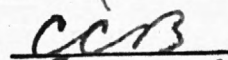
Gov. Mills



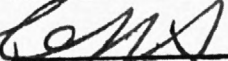
Gov. Robertson



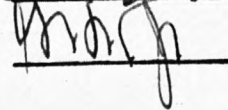
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System on
Monday, September 14, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak 1/
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Shay, Legislative Counsel
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Hooff, Assistant Counsel
Mr. Davis, Assistant Counsel

Interest rates on Series E and H savings bonds. Mr. Shay reported that the conference report on H.R. 9035 setting a ceiling of 4-1/2 per cent on interest rates payable on Series E and H savings bonds and authorizing advance refunding of Treasury bonds with exemption from capital gains taxes of such exchanges had been approved by the Congress and sent to the President for his signature on Saturday, September 12, 1959.

1/ Withdrew from meeting at point indicated in minutes.

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

- | | <u>Item No.</u> |
|---|-----------------|
| Letter to the State Bank of Albany, Albany, New York, approving the establishment of five branches incident to its merger with The National City Bank of Troy. | 1 |
| Letter to The Chase Manhattan Bank, New York, granting permission to acquire the assets of West Indies Bank & Trust Company, and to establish four overseas branches in the Virgin Islands. | 2 |

Request of Union Bond & Mortgage Company (Items 3 and 4).

Union Bond & Mortgage Company, Port Angeles, Washington, a registered bank holding company, had asked the Board through the Federal Reserve Bank of San Francisco whether section 4(c)(1) of the Bank Holding Company Act exempted from the divestment requirements of the Act its ownership of shares of certain nonbanking organizations and, if not, whether section 4(c)(6) of the same Act involved such exemption. In a memorandum to the Board dated September 9, 1959, the Legal Division found that the share ownership referred to did not qualify for exemption under section 4(c)(1) of the Bank Holding Company Act and that any

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determination under section 4(c)(6) would necessitate a hearing. Mr. Davis indicated that the Legal Division had taken preliminary steps necessary for such a hearing by inquiring informally as to whether the Interstate Commerce Commission could make a hearing examiner available to the Board for this purpose and that if the Board approved, formal arrangements would be completed.

After brief discussion concerning the reason for requiring a hearing in this instance and the method of selecting a qualified examiner, the Board unanimously approved (a) the letter to the Federal Reserve Bank of San Francisco in this matter, attached as Item No. 3, (b) the publication in the Federal Register of an appropriate order for the hearing on October 2, 1959, pursuant to section 4(c)(6), attached as Item No. 4, and (c) completion of the arrangements outlined for a hearing examiner.

Messrs. Nelson and Goodman then withdrew from the meeting.

Application by Diversa, Inc., Dallas, Texas, for a section 301 determination (Items 5 to 9, inclusive). Before this meeting there had been distributed a memorandum from the Division of Examinations dated September 8, 1959, presenting a request from Diversa, Inc., Dallas, Texas, submitted through the Federal Reserve Bank of Dallas, for a determination under section 301 of the Banking Act of 1935 exempting it from all holding company affiliate requirements excepting

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section 23A of the Federal Reserve Act. Taking Diversa by itself, the memorandum said that it appeared that this was a one-bank case involving no extraordinary circumstances such as to warrant denial of the requested determination. This was because Diversa's business is primarily that of an oil company, its holdings of bank stock are said to be limited to ownership of 88 per cent of the shares of Chicago City Bank and Trust Company, Chicago, Illinois, and its holdings of stock of that bank are said to be for investment purposes. Thus, if only Diversa were to be considered, the Board would be warranted in determining that it was not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

The memorandum went on to say, however, that information had been developed indicating that Diversa, Inc., is one of a chain of organizations involving Bankers Life and Casualty Company, Chicago, which owns and controls Citizens Bank and Trust Company, Park Ridge, Illinois, and National Drilling Company, Chicago, Illinois. In turn, National Drilling Company owns more than 40 per cent of the shares of Murmanill Corporation, Dallas, Texas, which corporation owns in excess of 80 per cent of the voting shares of Diversa. As indicated, Diversa owns 88 per cent of the shares of Chicago City Bank and Trust Company. This information, which was based in part upon an examination of Chicago

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City Bank and Trust Company made by examiners for the Federal Reserve Bank of Chicago as of May 4, 1959, was the basis for a request from the Federal Reserve Bank of Chicago dated July 6, 1959, for a Board interpretation and ruling as to whether, in view of the recent change in ownership of Chicago City Bank and Trust Company, Bankers Life and Casualty Company was now a bank holding company as defined by section 2(a) of the Bank Holding Company Act of 1956.

On June 29, 1955, the Board granted Bankers Life and Casualty Company a section 301 determination which, among other things, cited that Bankers did not own or control, directly or indirectly, stock in any bank other than a majority of the shares of Citizens Bank and Trust Company, Park Ridge, Illinois, and a 12.8 per cent interest in Lakeview Trust and Savings Bank, Chicago, Illinois. On January 8, 1958, a section 301 determination was issued to Murmanill Corporation with respect to its indirect ownership of shares of Chicago City Bank and Trust Company. At the time these determinations were issued both Bankers Life and Casualty and Murmanill Corporation appeared to fall within the one-bank cases which the Board considers appropriate for section 301 determinations in the absence of extraordinary circumstances.

The memorandum from the Division of Examinations proceeded to state that, on the basis of the most recent information furnished,

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Bankers Life and Casualty Company now had a direct majority interest in one bank and was believed to have a substantial indirect interest in another bank. The questions involved were (1) whether the section 301 determination granted Murmanill Corporation on January 8, 1958, should continue in effect and such a determination be issued to Diversa, Inc., or (2) whether consideration should be given to possible rescission of the section 301 determinations issued to Bankers Life and Casualty Company and to Murmanill Corporation and to denial of the request of Diversa, Inc., for such a determination.

After stating the reasons why the Division of Examinations had come to the conclusion that the request of Diversa for a section 301 determination should be denied and that steps should be taken looking toward rescission of the earlier section 301 determinations granted Bankers Life and Casualty and Murmanill Corporation, the memorandum stated that members of the Legal Division who had considered the matter concurred generally in the views reached by the Division of Examinations. Accordingly, drafts of letters had been prepared by the Legal Division as follows: (1) a proposed letter to Bankers Life and Casualty Company relating to its status as a bank holding company and informing it why it was believed that the company was required to register under the Bank Holding Company

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Act of 1956; (2) proposed letters to Bankers Life and Casualty Company and to Murmanill Corporation stating why it was believed that those companies were now engaged, directly or indirectly, as a business in holding the stock of banks within the meaning of section 2(c) of the Banking Act of 1933 and, accordingly, why their respective section 301 determinations should be rescinded; and (3) a proposed letter to Diversa, Inc., stating why the Board was considering denying the requested section 301 determination. The Division of Examinations also recommended that, if the Board agreed with the proposed actions indicated in these drafts of letters, a limited voting permit be issued to Diversa, Inc., for the purpose of voting its stock in Chicago City Bank and Trust Company, Chicago, Illinois, at a meeting of shareholders called for September 15, 1959. It also stated that the Federal Reserve Banks of Dallas and Chicago had indicated that they would have no objection to the issuance of such a limited voting permit.

Mr. Thompson commented on the facts of this involved case, elaborating somewhat the reasons why the Division of Examinations believed that the changed circumstances relating to Bankers Life and Casualty Company caused it now to fall in the category of a two-bank case which would justify rescision of the 1955 section 301 determination. He also commented on the factors leading to the Division's conclusions and recommendations with respect to the actions to be taken on Murmanill Corporation and on the request by Diversa, Inc., for a section 301 determination.

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Mr. Thompson added the comment that the Division felt that a reasonable opportunity should be given to the corporations involved to supply any additional information that they might have available before the rescission of the section 301 determinations became effective.

Governor Mills stated that he felt the analysis that had been made of this involved case was convincing and that he was prepared to approve the several proposed letters as recommended by the Division of Examinations and the Legal Division, as well as the issuance of a limited voting permit to Diversa, Inc.

The other members of the Board concurred in this view and, after brief discussion, unanimous approval was given to letters in the form attached to these minutes as Items 5, 6, 7, and 8, and to a telegram to the Federal Reserve Agent at Dallas, Texas, in the form attached as Item No. 9.

Messrs. Thompson and Davis then withdrew and Mr. Noyes, Adviser, Division of Research and Statistics, entered the meeting.

Deposits of New York Housing Authority as "savings deposits" (Item No. 10). There had been distributed to the Board a memorandum from Mr. Hackley dated September 9, 1959, regarding the classification as savings deposits of funds of the Mechanicsville, New York, Housing Authority. This subject had been considered by the Board at its meeting on May 6, 1959, at which time the staff was instructed to study the matter further and to consult with other interested Government agencies.

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After reviewing discussions and correspondence with the Federal Deposit Insurance Corporation, the Public Housing Administration, and the Federal Housing Administration, the memorandum stated that, in the opinion of the Legal Division, deposits of this housing authority qualified as savings deposits under the provisions of Regulation Q, Payment of Interest on Deposits, not only because the regulatory definition does not exclude deposits of a public corporation, but also because the New York State Department of Insurance has held such authorities to be charitable in nature, as have certain other States, and the housing authority is subsidized by the Federal Public Housing Administration. The Legal Division recommended that the Board now take the position that deposits of Mechanicsville Housing Authority may be classed as savings deposits under the present regulation, but that staff be instructed to review the whole problem and to explore the desirability of amending the regulatory definition. The memorandum also presented a draft letter to the Federal Reserve Bank of New York that would hold that the deposits in question may be classed as savings deposits.

There also had been distributed a memorandum from Mr. Conkling dated September 11, 1959, presenting his views regarding a problem in reporting savings deposits that might arise if deposits of housing authorities were accepted as savings deposits.

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Mr. Hackley commented on the staff review that had been made since this question was last considered by the Board at its meeting on May 6, 1959. He stated that, as a result of this review, the Legal Division had again reached the conclusion that under the present regulation, and without regard to whether it was desirable for funds of public housing authorities to be classed as savings deposits, the funds of this particular public housing corporation were eligible for such classification. After giving the reasons for reaffirming this conclusion, Mr. Hackley noted that the question regarding the Mechanicsville Housing Corporation deposit had arisen because an examiner for the Federal Reserve Bank of New York had criticized a member bank for having so classed the Corporation's deposit, that the member bank had objected to the criticism on the grounds that it understood that any public housing unit which qualified for Federal aid under the Federal Housing Act would qualify as a savings depositor under the Board's regulation, and that while the New York Reserve Bank subsequently modified the criticism of the member bank, it had presented the whole matter to the Board for review. Accordingly, Mr. Hackley stated that the Legal Division had prepared another draft of letter to the New York Reserve Bank that would inform that Bank that Mechanicsville Housing Authority may be determined to be a corporation operated primarily for charitable or other similar purposes and not operated for profit, and that, therefore, deposits of the Authority may be accepted as savings deposits by member banks. In later discussion,

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Mr. Hackley stated that, if the Board agreed with the Legal Division's recommendation that the staff undertake a full review of the classification of funds of this type as savings deposits and of the present definition of savings deposits, no letter would need to be sent to New York. This alternative might be preferable since, if the study were to result in a change in the definition of a savings deposit, confusion on the part of the member bank would be avoided by having deferred sending a letter indicating approval of the present classification.

During the discussion of Mr. Hackley's memorandum and his comments, it was pointed out that in the past the Board had held a number of corporations, such as the American Automobile Association and certain firemen's pension funds, to be eligible for a savings deposit classification, and that what was called for was a policy determination. In the light of the discussion, there was general concurrence that a review along the lines suggested by the Legal Division should be made. This should include a resume of what the Board had done to date in such cases as well as a memorandum from the Division of Research and Statistics regarding certain problems to be considered in this area. Governor Shepardson underscored the importance of having the review present the reasoning that led to the 1936 amendment to the regulation when the Board removed the subjective test of a "bona fide thrift purpose" for distinguishing a savings deposit by making the definition of a savings deposit depend upon the nature of the depositor rather than

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the purpose for which the depositor intended to use the funds. It was also suggested that it might be desirable to discuss this question with the Federal Advisory Council at its November meeting, by which time preliminary results of the study should be available.

It was then agreed that the staff should proceed with the proposed review, it being understood that a letter would be sent to the Federal Reserve Banks seeking their views on the desirability of permitting public funds to be classed as savings deposits and of limiting savings deposits to individuals. The letter also would request the Reserve Banks to furnish any available information as to the identity of the various groups holding savings deposits in their Districts. A copy of this letter is attached as Item No. 10.

Governor Szymczak and Messrs. Noyes, Conkling, and Hooff then withdrew from the meeting.

Letter to the Bureau of the Budget (Item No. 11). Mr. Shay commented on a draft letter to the Bureau of the Budget that would express the views of the Board on enrolled bill, H.R. 8305, "To amend the Federal Credit Union Act." During a discussion of the form that this letter should take, it was indicated that grounds for the Board's objection to an earlier draft of the bill had not been completely removed in the new version. It was understood that Mr. Hackley would reword the Board's reply to the Bureau of the Budget so as to convey

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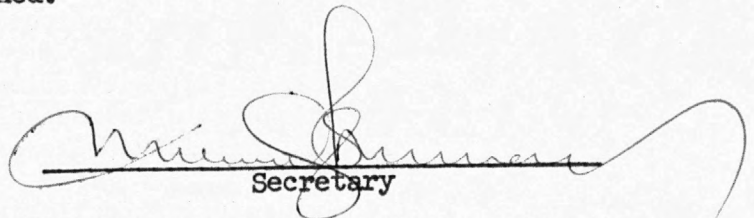
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this thought but to state that the Board would not recommend disapproval of the bill by the President.

A letter in the form carried as attached Item No. 11 was then approved.

Setting of dates for Chairmen's Conference. Chairman Martin stated that it appeared from information received since the meeting on September 8 that more conflicts would be raised than would be resolved by scheduling the Chairmen's Conference for earlier or later than the proposed dates of December 3 and 4, 1959. Therefore, it seemed best that the Conference be held on these dates, with the understanding that the Boston Bank could send a Class C Director to the meeting if neither Mr. Sprague nor his Deputy Chairman were able to attend.

The meeting then adjourned.


Secretary

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

Item No. 1
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1959.



Board of Directors,
State Bank of Albany,
Albany, New York.

Gentlemen:

On the basis of and subject to the circumstances described in your request, submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment by State Bank of Albany, Albany, New York, of branches at present locations, as listed below, of offices of The National City Bank of Troy, Troy, New York, following consummation of the proposed merger:

59 Third Street, Troy, New York
91 Remsen Street, Cohoes, New York
15 South Main Street, Port Henry, New York
100 Montcalm Street, Ticonderoga, New York
Latham Shopping Center, Latham, New York.

This approval is given provided:

- (a) shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition; and
- (b) the branches are established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 14, 1959.

Board of Directors,
The Chase Manhattan Bank,
Eighteen Pine Street,
New York 15, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to The Chase Manhattan Bank to acquire substantially all of the assets and assume substantially all of the liabilities of West Indies Bank & Trust Company, Charlotte Amalie, St. Thomas, Virgin Islands.

Pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, the Board of Governors authorizes the establishment of four branches of The Chase Manhattan Bank at the present locations of the Head Office and branches of West Indies Bank & Trust Company; namely, 1 Queen's Quarter, Charlotte Amalie, St. Thomas; 1 Strand Street, Frederiksted, St. Croix; 22-23 Market Street, Christiansted, St. Croix; and 20 Cruz Bay, Cruz Bay Quarter, St. John. The Board of Governors also grants its consent to the exercise by The Chase Manhattan Bank at such branches in the Virgin Islands of any of the fiduciary powers now or hereafter authorized by its charter, the laws of the State of New York, and the laws of the Virgin Islands.

This approval is given provided:

- (1) the acquisition of assets and assumption of liabilities are effected substantially in accordance with the Agreement dated July 15, 1959, a copy of which was submitted with your request;
- (2) no securities acquired by The Chase Manhattan Bank are carried on its books in excess of the market value of the securities at the time of purchase; and
- (3) the acquisition and assumption and the establishment of branches are effected within six months from the date of this letter.

Board of Directors,
The Chase Manhattan Bank.

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Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branches are opened for business. The location of the branches may not be changed without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1959



AIR MAIL

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

Dear Mr. Millard:

This refers to your letter of July 14, 1959, transmitting a letter dated July 7, 1959 from Mr. F. O. Fountain, Secretary, Union Bond & Mortgage Company.

The Board considers as withdrawn the Company's petitions for tax certifications and its request for a determination of status referred to in Mr. Fountain's letter. In lieu of those petitions and that request, the Board notes that Union Bond requests the Board for the following interpretations and determinations, respectively:

(1) Whether section 4(c)(1) of the Bank Holding Company Act exempts from the divestment requirements of the Act its ownership of shares of the following organizations:

Forks Building Corporation (Forks, Washington),
The Peninsula Investment Company (Port Angeles,
Washington),
Citizens Building Corporation (Port Angeles,
Washington), and
First American Insurance Agency (Port Townsend,
Washington).

(2) Whether in the alternative, section 4(c)(6) of the Act exempts its ownership of shares of each of the organizations mentioned above.

With respect to the applicability of section 4(c)(1) to ownership by Union Bond of shares of the Forks Building Corporation, it is understood that Union Bond owns 23.5 per cent of the outstanding shares of Forks Building Corporation; that the Corporation is engaged exclusively in operating a piece of residential property which is used as living quarters, on a rental basis, by the manager of Forks State

Mr. E. R. Millard

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Bank (Forks, Washington), a banking subsidiary of Union Bond; that the property is near the premises of the Forks State Bank and the holding company's ownership of the property is stated to be for the purpose of making it available to the bank's manager whose services, because of the housing situation in Forks, Washington, could not otherwise be obtained unless this arrangement were possible.

On the basis of the information presented, the generally understood meaning of the word "services", and the statements regarding section 4(c)(1) in the legislative history of the Act, it is the opinion of the Board that the servicing exemption under section 4(c)(1) is not applicable to ownership of shares in Forks Building Corporation. Furthermore, in view of what is generally understood to constitute proper banking operations, in the Board's opinion there would seem to be no basis for holding that shares owned by Union Bond in Forks Building Corporation should be exempted on the ground that that Corporation is a "company engaged solely in holding or operating properties used wholly or substantially by" one of Union Bond's banks "in its operations" within the purview of the first clause of section 4(c)(1) of the Act.

With respect to the applicability of section 4(c)(1) to ownership by Union Bond of shares of The Peninsula Investment Company ("Peninsula") and Citizens Building Corporation ("Citizens"), it is understood that Peninsula is engaged, in part, in holding stock of Citizens which constructed and is now operating a hotel which is adjacent to the main office of one of Union Bond's banking subsidiaries, the First National Bank in Port Angeles, whose banking premises were also constructed by Citizens. It is further understood that Peninsula owns shares in the Downtown Parking Association (Port Angeles, Washington) which operates a parking lot contiguous to a drive-in branch of the First National Bank in Port Angeles; and that Peninsula also owns certain notes receivable amounting to approximately 23 per cent of its assets.

The operation by Citizens of the hotel referred to above is stated to be for the purpose of improving the street on which the First National Bank in Port Angeles is located. However, in the Board's opinion there is nothing in the present language of section 4(c)(1), or its legislative history, which would qualify for exemption the ownership of Citizens on the basis that it is engaged solely in holding or operating property used wholly or substantially by the bank "in its operations". In view of this conclusion, it is not necessary to consider whether Peninsula's ownership in the Downtown Parking Association would otherwise qualify Union Bond's ownership of Peninsula for exemption under section 4(c)(1); nor is it necessary, in the Board's opinion, to ask Union Bond for any arguments they may wish to make to the effect that ownership by Peninsula of

Mr. E. R. Millard

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the notes receivable referred to does not disqualify ownership by Union Bond of the shares of Peninsula from exemption under section 4(c)(1) of the Act. Accordingly, it is the Board's opinion that Union Bond's direct ownership of shares of Peninsula and Union Bond's indirect ownership of shares of Citizens are not exempt under section 4(c)(1) of the Act.

With respect to the applicability of section 4(c)(1) to ownership by Union Bond of shares of First American Insurance Agency, the Board understands that Union Bond owns 31.8 per cent of the outstanding shares of First American Insurance Agency; that the types of insurance written by First American include automobile liability, automobile physical damage, marine insurance, and life insurance.

The only activity of First American Insurance Agency appears to involve an insurance relationship between it and First American National Bank, a banking subsidiary of Union Bond, which relationship the legislative history of the Act clearly indicates does not come within the meaning of "furnishing services to or performing services for" a bank holding company or its banking subsidiaries. As you will recall, the Board discussed a substantially identical situation in its ruling on "services" under section 4(c)(1) of the Act. (Federal Reserve Bulletin, November 1958, p. 1280) Accordingly, it is the Board's view that First American Insurance Agency cannot be regarded as qualifying as a company engaged "solely in the business of furnishing services to or performing services for" Union Bond or banks with respect to which Union Bond is a bank holding company.

With respect to the applicability of section 4(c)(6) to ownership by Union Bond of shares of Forks Building Corporation, The Peninsula Investment Company, Citizens Building Corporation and First American Insurance Agency, it is necessary to hold a hearing in order for the Board to determine whether the closeness and propriety of the relationship of the respective activities of these organizations to the business of Union Bond's subsidiary banks is that contemplated by the provisions of that section.

Pursuant to discussion by telephone between Mr. O'Kane and Mr. Hackley, it is understood that October 15 and 16 are convenient days for the holding of a hearing in this matter in Seattle. The enclosed copy of the Board's order will be published in the Federal Register in the near future.

As soon as arrangements have been completed for obtaining a hearing examiner for this case, a copy of his certification will be forwarded to you.

Mr. E. R. Millard

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In connection with the Union Bond hearing, it is the Board's understanding that Mr. O'Kane of your Bank will act as Board Counsel. The Board appreciates Mr. O'Kane's assistance in this matter and will forward to him in the near future a letter of authorization for him to act as its Counsel.

It will be appreciated if you will transmit to Union Bond & Mortgage Company the original signed copy of the enclosed order and the substance of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
9/14/59

NOTICE OF REQUEST FOR DETERMINATION
PURSUANT TO SECTION 4(c)(6) OF
BANK HOLDING COMPANY ACT OF 1956 AND
ORDER FOR HEARING THEREON

Notice is hereby given that request has been made to the Board of Governors of the Federal Reserve System, pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843) and section 5(b) of the Board's Regulation Y (12 CFR 222.5(b)), by Union Bond & Mortgage Company, Port Angeles, Washington, a bank holding company, for a determination by said Board that the following nonbanking organizations and the activities thereof are of the kind described in those provisions of the Act and the Regulation so as to make it unnecessary for the prohibitions of section 4 of the Act with respect to shares in nonbanking organizations to apply in order to carry out the purposes of the Act:

Forks Building Corporation
The Peninsula Investment Company
Citizens Building Corporation
First American Insurance Agency

Inasmuch as section 4(c)(6) of the Bank Holding Company Act of 1956 requires that any determination pursuant thereto be made by the Board after due notice and hearing and on the basis of the record made at such hearing,

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IT IS HEREBY ORDERED That pursuant to section 4(c)(6) of the Bank Holding Company Act of 1956 and in accordance with sections 5(b) and 7(a) of the Board's Regulation Y (12 CFR 222.5(b), 222.7(a)), promulgated under the Bank Holding Company Act of 1956, a hearing with respect to this matter be held commencing on October 15 at 10 a.m. at the Seattle Branch of the Federal Reserve Bank of San Francisco, 1015 Second Avenue, in the City of Seattle, State of Washington, before a hearing examiner selected by the Civil Service Commission pursuant to Sec. 11 of the Administrative Procedure Act, such hearing to be conducted in accordance with the Rules of Practice for Formal Hearings of the Board of Governors of the Federal Reserve System (12 CFR Part 263). The Board's Rules of Practice for Formal Hearings provide, in part, that "all such hearings shall be private and shall be attended only by respondents and their representatives or counsel, representatives of the Board, witnesses, and other persons having an official interest in the proceedings; Provided, however, That on the written request of one or more respondents or counsel for the Board, or on its own motion, the Board, when not prohibited by law, may permit other persons to attend or may order the hearing to be public."

Any person desiring to give testimony in this proceeding should file with the Secretary of the Board, directly or through the Federal Reserve Bank of San Francisco, on or before October 2, 1959, written request relative thereto, said request to contain a

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statement of the reasons for wishing to appear, the nature of the petitioner's interest in the proceeding, and a summary of the matters concerning which said petitioner wishes to give testimony. Such request will be presented to the designated hearing examiner for his determination in the matter at the appropriate time. Persons submitting timely requests will be notified of the hearing examiner's decision in due course.

Dated at Washington, D. C. this 14th day of September, 1959.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 5
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959.



Bankers Life & Casualty Company,
Chicago, Illinois.

Gentlemen:

This refers to the bank holding company status of Bankers Life & Casualty Company, Chicago, Illinois ("Bankers Life"), under the Bank Holding Company Act of 1956 (the "Act").

The Board understands that Bankers Life owns a majority of the outstanding voting shares of the Citizens Bank & Trust Company, Park Ridge, Illinois; that Bankers Life owns 86.89 per cent (21,722 of the 25,000 outstanding voting shares) of the National Drilling Company, Chicago, Illinois; that the National Drilling Company in turn owns 42.1 per cent (600 of the 1,425 outstanding voting shares) of The Murmanill Corporation, Dallas, Texas; that The Murmanill Corporation owns 71.77 per cent (1,072,073 of the 1,493,828 outstanding voting shares) of Diversa, Inc., Dallas, Texas, and that Diversa in turn owns 88 per cent (22,000 of the 25,000 outstanding voting shares) of the Chicago City Bank and Trust Company, Chicago, Illinois.

Section 2(a) of the Act defines a bank holding company to mean, among other things, any company "which directly or indirectly owns, controls, or holds with power to vote, 25 per centum or more of the voting shares of each of two or more banks". Since Bankers Life directly owns more than 25 per cent of Citizens Bank & Trust Company, the question whether Bankers Life is a bank holding company depends upon whether it may be said to own or control indirectly, through intervening corporations, 25 per cent or more of the stock of Chicago City Bank and Trust Company.

The law contains no definition of indirect ownership or control. It may be argued that indirect ownership or control can exist only through majority ownership of stock and that, since National Drilling Company does not own a majority of the stock of The Murmanill Corporation, there is no indirect ownership or control of Chicago City Bank and Trust Company by Bankers Life. On the other hand, the Bank Holding Company Act itself appears to adopt 25 per cent

Bankers Life & Casualty Company

-2-

stock ownership as a test of "control". Moreover, a company is a "subsidiary" of a bank holding company if 25 per cent or more of its voting shares is owned or controlled by the holding company; and the Board has heretofore taken the position that ownership or control of stock of a corporation by a "subsidiary" of a bank holding company should be regarded as indirect ownership or control of such stock by the parent. (F. R. Bulletin, March 1959, p. 257)

Accordingly, on the basis of the foregoing facts and in view of the Board's interpretation referred to, it is the Board's opinion that 88 per cent of the shares of Chicago City Bank and Trust Company is indirectly owned or controlled by Bankers Life, since that bank is a "subsidiary" of Diversa, Inc., and Diversa is a "subsidiary" of The Murmanill Corporation which is a "subsidiary" of the National Drilling Company which in turn is a "subsidiary" of Bankers Life. It follows, therefore, that the indirect ownership or control by Bankers Life of 25 per cent or more of the voting shares of Chicago City Bank and Trust Company, together with the direct ownership by Bankers Life of 25 per cent or more of the voting shares of Citizens Bank & Trust Company, constitutes Bankers Life a bank holding company within the purview of section 2(a)(1) of the Act. As a bank holding company the Company is required to register under the Act.

In order to permit Bankers Life & Casualty Company 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 this letter for the filing of a registration statement pursuant to the Act.

The Board understands that shares of The Murmanill Corporation were acquired by the National Drilling Company on April 1, 1959. Section 3(a) of the Bank Holding Company Act requires the Board's prior approval for any action which results in a company becoming a bank holding company under section 2(a) of the Act. For the reasons set forth above, Bankers Life became a bank holding company at the time it indirectly acquired shares of The Murmanill Corporation and therefore such action, without the Board's prior approval, was in violation of the Bank Holding Company Act which is a criminal statute. On the assumption, therefore, that the Board's understanding of the facts is correct, please inform the Board promptly as to what steps Bankers Life proposes to take to correct the violation referred to.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959.



Bankers Life & Casualty Company,
Chicago, Illinois.

Gentlemen:

This refers to the Board's letter of June 29, 1955, containing a determination by the Board as to the holding company affiliate status of Bankers Life & Casualty Company. The letter also stated that the Board reserves the right to rescind the determination and make a further determination of this matter at any time on the basis of the then existing facts.

The Board understands that National Drilling Company, a subsidiary of Bankers Life & Casualty Company, has acquired over 40 per cent interest in The Murmanill Corporation which owns over 70 per cent of the voting shares of Diversa, Inc., which in turn owns 88 per cent of the shares of Chicago City Bank and Trust Company. It appears, therefore, that Bankers Life & Casualty Company, having a direct majority interest in one bank (Citizens Bank and Trust Company, Park Ridge, Illinois), and a substantial indirect interest in another bank (Chicago City Bank and Trust Company), is now engaged, directly or indirectly, as a business in holding the stock of banks within the meaning of section 2(c) of the Banking Act of 1933. Accordingly, the Board feels that its determination of June 29, 1955 as to the status of Bankers Life & Casualty Company as a holding company affiliate should be rescinded. However, action to rescind this determination will not be taken by the Board until 60 days from the date of this letter in order to allow your company an opportunity to present any additional information, through the Federal Reserve Bank of Chicago, it believes the Board should have before final action is taken.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959



The Murmanill Corporation,
Dallas, Texas.

Gentlemen:

This refers to the Board's letter of January 8, 1958, containing a determination by the Board as to the holding company affiliate status of The Murmanill Corporation. The letter also stated that the Board reserves the right to rescind the determination and make a further determination of this matter at any time on the basis of the then existing facts.

The Board understands that National Drilling Company, a subsidiary of Bankers Life & Casualty Company, has acquired a substantial interest in The Murmanill Corporation. As you may know, Bankers Life & Casualty Company owns and controls Citizens Bank and Trust Company, Park Ridge, Illinois. Therefore, it appears that The Murmanill Corporation is part of a group of corporations which controls two banks, namely, Citizens Bank and Trust Company and Chicago City Bank and Trust Company. Accordingly, the Board feels that its determination of January 8, 1958, as to the status of The Murmanill Corporation as a holding company affiliate should be rescinded. However, action to rescind this determination will not be taken by the Board until 60 days from the date of this letter in order to allow your company an opportunity to present any additional information, through the Federal Reserve Bank of Dallas, it believes the Board should have before final action is taken.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 16, 1959



Mr. Russell Allen,
Vice President and General Counsel,
Diversa, Inc.,
633 Meadows Building,
Dallas 6, Texas.

Dear Mr. Allen:

This refers to your letter of August 25, 1959, addressed to General Robert J. Smith, Federal Reserve Agent at the Federal Reserve Bank of Dallas, requesting a determination by the Board as to the holding company affiliate status of Diversa, Inc.

The Board understands that the principal activities of Diversa, Inc., involve the investment in and management of oil and gas properties and that its holdings of bank stock are limited to investment in the stock of Chicago City Bank and Trust Company. Nevertheless, the Board also understands that Diversa, Inc., is part of a group of corporations which controls another bank, namely, Citizens Bank and Trust Company, Park Ridge, Illinois. Accordingly, the Board is considering denying the requested determination. However, action to deny the determination will not be taken by the Board until 60 days from the date of this letter in order to allow your company an opportunity to present any additional information, through the Federal Reserve Bank of Dallas, it believes the Board should have before final action is taken.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICE

Item No. 9
9/14/59

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

September 14, 1959.

Robert J. Smith - Dallas

KECEA

- A. Diversa, Inc., Dallas, Texas
- B. Chicago City Bank and Trust Company, Chicago, Illinois
- C. None
- D. At any time prior to November 1, 1959, to vote at a special meeting of shareholders of such bank for the purpose of electing one director to fill a vacancy on the board of directors.

(Signed) Merritt Sherman
SHERMAN

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 10
9/14/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 17, 1959.



Dear Sir:

The Board has been requested by a Federal Reserve Bank for advice as to whether deposits of a municipal housing authority might be accepted as savings deposits by a State member bank under the provision of section 1(e) of Regulation Q, that defines the term "savings deposit" as a deposit consisting of funds deposited to the credit of one or more individuals, or a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit.

Although public housing authorities have certain charitable attributes and might, therefore, be eligible to maintain savings deposits with member banks under the present Regulation, nevertheless, it is questionable, in the Board's opinion, whether deposits of such authorities or any public agencies, regardless of the primary purpose of their operations, should be eligible for classification as savings deposits.

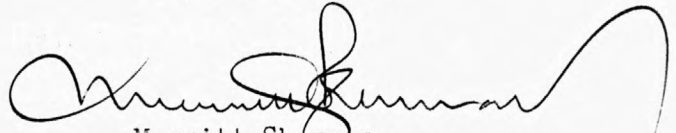
Accordingly, the Board is considering the desirability of amending section 1(e) of Regulation Q so as to exclude deposits of public funds, and will appreciate the views of your Bank, not later than October 15, 1959, as to the desirability of amending the regulatory definition of savings deposits, as now contained in the Regulation, so as to accomplish this purpose. In this connection, it should be noted that some public authorities, such as school districts and poor districts, have for many years been permitted to maintain savings accounts.

Consideration is also being given to whether savings deposits should be restricted solely to individuals and should exclude deposits of all corporations, associations, or organizations regardless of the primary purpose of their operations and the nonprofit aspects of their business. In the past a number of types of private organizations have been declared eligible to maintain savings deposits. These include,

among others, professional and trade associations, recreational and social clubs, labor unions, volunteer fire companies, cemetery associations, police and firemen's pension or relief associations, American Automobile Association, etc. (see Loose-Leaf Service #6350 et,seq.). Your views on this aspect of the subject would also be appreciated.

Any information, statistical or otherwise, that you might be able to furnish as to the amount of savings deposits now carried with member banks in your district by depositors other than individuals would be of interest to the Board, particularly if it were available for types of organizations such as school or poor districts, labor unions, housing authorities, etc.

Very truly yours,



Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
9/14/59

OFFICE OF THE CHAIRMAN

September 14, 1959.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget, Room 253,
Executive Office Building,
Washington 25, D. C.

Attention: Mrs. Garziglia

Dear Mr. Hughes:

This is in response to your communication of September 11, 1959, requesting the views of the Board on an enrolled bill, H. R. 8305, "To amend the Federal Credit Union Act."

The Board's position with respect to Federal credit unions is that they serve a useful and constructive purpose but should be limited to the area of operation for which they were originally authorized. In view of the special privileges which are accorded to credit unions on the basis of their nonprofit and cooperative character, it is important that their activities be required at all times to conform to such character and to avoid undesirable commercialism.

Many provisions of the enrolled bill are of a clarifying nature, most of which appear to be technical or to contain no important substantive changes. The principal substantive changes would increase the maximum maturities of loans from three to five years and would increase the unsecured loan limit from \$400 to \$750.

While the Board has some reservation as to the proposed liberalization of the lending powers of credit unions, the Board would not recommend disapproval of this legislation by the President.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.