FR 609
Rev. 10/59

Minutes for January 23, 1961

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 C&B

Gov. Shepardson _____

Gov. King _____

Minutes of the Board of Governors of the Federal Reserve System on Monday, January 23, 1961. 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 1/
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Marget, Director, Division of International Finance
Mr. Johnson, Director, Division of Personnel Administration
Mr. Masters, Associate Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Rudy, Special Assistant, Legal Division
Mr. Furth, Adviser, Division of International Finance
Mr. Hersey, Adviser, Division of International Finance
Miss Hart, Assistant Counsel
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations

International financial developments. At the request of the Chairman, Messrs. Marget, Furth, and Hersey commented briefly on international gold and dollar movements, United States exports, and the reduction of the discount rate of the German Central Bank.

Messrs. Molony, Marget, Furth, and Hersey then withdrew from the meeting.

1/ Entered meeting at point indicated in minutes.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, Kansas City, and San Francisco on January 19, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 Manufacturers Trust Company, New York City, approving an extension of time to establish a branch at 607 Soundview Avenue, Clason Point, Bronx.	1
Letter to The Bank of Georgia, Atlanta, Georgia, approving an extension of time to establish a branch at Moreland and Custer Avenues, S. E.	2
Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, regarding proposed action to effect dismissal of its suit against the Board.	3

Interest of Continental Bank and Trust Company in stock of Paramount Life Insurance Company (Item No. 4). There had been distributed to the members of the Board a memorandum from the Legal Division dated December 6, 1960, concerning the question whether The Continental Bank and Trust Company, Salt Lake City, Utah, had purchased stock of Paramount Life Insurance Company, a Texas corporation, in violation of

paragraph 20 of section 9 of the Federal Reserve Act, which makes applicable to State member banks the provision of section 5136 of the Revised Statutes forbidding a national bank to "purchase *** for its own account *** any shares of stock of any corporation", with certain exceptions not applicable in this case.

The fact that Continental had acquired an interest in the stock of Paramount first came to the attention of the Federal Reserve Bank of San Francisco as the result of an examination of Continental made in December 1957. In June 1958, the Reserve Bank requested Continental to divest itself of its interest in such stock. Continental subsequently instituted a suit against the Reserve Bank in the Federal District Court for the District of Utah, challenging the Reserve Bank's authority to require such divestment, but in April 1959 the suit was dismissed on jurisdictional grounds. Then, under date of June 9, 1959, the Reserve Bank submitted to the Board of Governors a report setting forth the facts of the entire matter and expressing the opinion that Continental had violated the law. The report ended with a statement that it was being submitted to the Board "for such action by it as may be deemed advisable in the premises".

As summarized in Mr. Hackley's memorandum and in a supplemental memorandum prepared in the Legal Division under date of November 24, 1959, which also had been distributed to the Board, the principal facts were as follows: Paramount Life Insurance Company was organized under the

laws of Texas in March 1955, with an initial paid-in capital and surplus of $37,500, for the purpose of conducting a life insurance business. The Manager of the Credit Life Insurance Division of American National Insurance Company, another Texas company, acquired ownership of, or the right to sell, all of the stock of Paramount, and in July 1955 he granted to "Walter E. Cosgriff & Associates" an option to purchase the stock of Paramount for $38,500. "Walter E. Cosgriff & Associates" consisted of Walter E. Cosgriff, K. J. Sullivan, and Emerson S. Sturdevant, all officers and directors of Continental. The option was expressly made contingent upon the execution of a contract between Continental and American National under which the latter would write credit life insurance on loans made by Continental. On the same day the option was granted, Continental applied for group credit life insurance with American. Three days later a "reinsurance treaty" was executed between American and Paramount, under which Paramount agreed to reinsure 100 per cent of the credit life insurance written by American for Continental and American agreed to pay over to Paramount from 80 to 88 per cent of the premiums paid by Continental for such insurance. On February 29, 1956, Messrs. Cosgriff, Sullivan, and Sturdevant executed a declaration of trust under which they, as trustees, were to hold the option on behalf of and for the benefit of Continental and its shareholders. Under the terms of the trust, the trustees were authorized to borrow such sums as might be necessary to exercise the option and to pledge the stock of

Paramount so acquired as security for such borrowing. However, the trust expressly provided that the trustees should have no personal liability to creditors of the trust or to Continental. The trustees were required to pay all dividends on the Paramount stock directly to Continental "to be used in the business of the Bank as its own funds, and in such manner as its Board of Directors may determine". However, the trust declaration provided that "upon a determination by the appropriate banking authority, state or federal, that it is illegal for such dividends to be paid direct to The Continental Bank and Trust Company, then and in that event, ipso facto, the shareholders of said Bank, as of such determination, shall cease to use said Bank as a conduit for the receipt of the income from the trust estate and shall come into direct benefit and enjoyment of their existing interest herein". By its terms, the trust could be terminated upon sale by the trustees of the Paramount stock, by sale of the assets of Continental, by the dissolution or liquidation of Continental, or by action of the Board of Directors of Continental terminating the trust. In the event of termination of the trust, the trust estate would be distributed to Continental "for the benefit of its shareholders to be used as its own funds in such manner as its Board of Directors may determine". The trust instrument further provided that if the holding of the assets of the trust by the bank should "be illegal under the applicable laws of the State of Utah, or of the United States of America or any regulations

of any banking authorities having jurisdiction over said Bank, then such assets shall be distributed directly to the shareholders of the Continental Bank and Trust Company, as of the date of distribution by the trustees in proportion to their holdings of stock in said Bank". Finally, Continental was authorized by the trust instrument to alter, amend, or modify the terms of the trust, except that it could not be made revocable, no change could be made in the classes of beneficiaries, and the duties and liabilities of the trustees could not be increased without their consent. On March 12, 1956, the trustees borrowed $38,750 from the Republic National Bank of Dallas, Texas. On the same date, and with the borrowed funds, they exercised their option and acquired the stock of Paramount, which at the time had a cash balance of $80,000, its sole asset. The trustees, together with two other persons, constituted the directors and officers of Paramount. On July 26, 1956, and February 1, 1957, dividends were declared by the directors of Paramount, and from the proceeds the trustees repaid their debt to the Republic National Bank of Dallas. However, on advice of counsel, Continental considered these dividends as income to it and paid income taxes thereon. According to Continental's report to its shareholders for the year 1958, all subsequent earnings of Paramount, totaling about $300,000, were being retained pending a determination as to whether they should be paid to Continental or to its shareholders.

After reviewing the legal and policy considerations involved, Mr. Hackley's memorandum pointed out that inasmuch as this matter had

been publicized by the court proceeding in 1959 and by Continental's statement in its report to shareholders for 1958, it would seem difficult for the Board to refrain from taking any action whatever. Thus, there appeared to be three alternative courses open to the Board. First, the Board could institute termination of membership proceedings, as suggested by the San Francisco Reserve Bank. However, in the view of the Legal Division such proceedings would not be warranted unless and until Continental was advised of the Board's opinion that its acquisition of an interest in the Paramount stock constituted a violation of law, and unless it failed to correct the violation within a reasonable time. A second possible course would be to advise Continental that in the Board's opinion it was not clear that the acquisition of the interest in the Paramount stock involved a violation of law and that consequently the Board would not require any further action to be taken by Continental. However, it was the view of the Legal Division that this course of action would constitute a precedent that would tend to frustrate the objectives of the statutory prohibition against the purchase of corporate stocks by member banks. A third course would be to advise Continental that in the Board's opinion the transactions had resulted in a violation of law and request Continental to take such action, within a specified period of time, as would result in effective divestment of Continental's interest in the Paramount stock. It was the view of the Legal Division that Continental should be advised to such effect, with the comment

that correction of the violation could be accomplished by (a) a bona fide sale of the stock by the trustees; (b) termination of the trust and distribution of the stock pro rata to shareholders of Continental; or (c) modification of the trust instrument to provide that dividends on the Paramount stock were to be paid directly to the shareholders of the bank and that the stock itself was to be held by the trustees solely for the benefit of such shareholders. A draft of letter to The Continental Bank and Trust Company reflecting the recommendation of the Legal Division was submitted with the memorandum.

At the request of the Board, Mr. Hackley reviewed the facts of the case and the legal considerations involved, his comments being based substantially on the memoranda that had been distributed. As to the course of action that might be taken by the Board, he pointed out that this question was complicated by the fact that the Board's capital adequacy proceeding against Continental was now in the process of litigation. If the Board should take the position that the acquisition by Continental of an interest in the stock of Paramount was in violation of the statute, Continental might charge that this was merely another instance of harassment and persecution, especially since a rather close legal question was involved. In this connection, Continental might point to certain instances in the past in which the Board had refrained from taking action with respect to stock acquisitions by member banks. On the other hand, if the Board should say that the question was a close one

and therefore it would not require Continental to take any action, that would seem to create an undesirable precedent, particularly in view of the fact that the practice of associating credit life insurance companies with banks apparently had developed in various parts of the country under various kinds of arrangements. This development had come to the attention of the Comptroller of the Currency, and it was understood that the Comptroller was somewhat concerned, particularly when the arrangement was one where directors and officers of a national bank had set up the related insurance company. In this case, under the terms of the trust instrument there appeared to be a suggestion of a possible solution, although of course it was not certain whether such a solution would be accepted by Continental. The trust instrument seemed to contemplate the possibility that Continental's interest in the Paramount stock might some day be considered a violation of law. Therefore, the instrument specifically provided that upon a determination by the appropriate banking authority, Federal or State, that the holding of the stock was illegal, dividends on the Paramount stock would be paid directly to shareholders of Continental, and Continental would cease to have an interest in the stock.

Mr. Hackley noted that under decisions of the Board and the Comptroller of the Currency, if stock is held by trustees solely for the benefit of the shareholders of a bank, that will not constitute a violation of section 5136. If the Board should take the position that a

violation had occurred, but that it might be corrected in the manner indicated, possibly Continental might acquiesce. On the other hand, this might lead to new controversy, perhaps new litigation. Conceivably, in a psychological way it might even prejudice the Board's position in the capital adequacy proceeding, even though legally the two matters had no connection.

Mr. Hackley added that if the Board took the position that was recommended, this would not necessarily mean that it would institute termination of membership proceedings at some time in the future. The Board might want to consider how it would proceed if Continental refused to divest itself of the Paramount stock. If Continental did refuse, one possibility would be to defer the matter for further consideration in the light of whatever circumstances might exist at a given time.

At this point Governor Shepardson joined the meeting.

There followed comments by other members of the legal staff on various factual and other aspects of the matter, during the course of which Mr. Hackley brought out that he had not discussed this question with the Department of Justice. However, he had discussed it with Mr. Powell, Special Counsel to the Board, who agreed that there was no legal connection between this matter and the capital adequacy proceeding now in litigation. If the Board should so desire, Mr. Hackley said, the matter could be discussed with the Department of Justice before any letter was sent to Continental.

Mr. Hexter commented that in his opinion there was no real doubt about the legal question. The consideration given for the stock was principally the valuable insurance right that Continental had to offer. However, the question as to the course of action to be taken presented an extremely difficult problem. One of the arguments by Continental might well be that, although the Board was pushing vigorously to have Continental strengthen its capital position, here the Board was saying that Continental must get rid of valuable stock which had already strengthened its capital position by $300,000. Nevertheless, he agreed with the recommendation of Mr. Hackley that the bank should be required to divest itself of the stock because he felt that the problem was sufficiently important. Otherwise, the door might be left open to the acquisition of corporate stock by State member banks and national banks where the consideration was a valuable right of one kind or another, and this would be contrary to the specific purpose of the law. In other words, if the Board should take the position that this kind of involved arrangement was within the statute, perhaps it would open the door to wholesale violations of the law.

Messrs. O'Connell and Chase suggested that a court, having been advised of the Board's concern about the adequacy of the capital of Continental, might conclude that the Board must have been strongly convinced that in this instance a violation of law was involved, or else the Board would not have required divestment and would have permitted Continental to retain the income from the Paramount stock.

There followed questions, to which members of the staff replied, concerning the status of the capital adequacy litigation, the purposes of the provisions of law here under consideration, and the facts of the Paramount matter.

Question was raised as to what disadvantage would be seen in holding the matter in abeyance, particularly in the light of the pendency of the litigation relating to the adequacy of the bank's capital, and Mr. Hexter said he could not see that much benefit would flow from holding the matter in abeyance. Regardless of which way the capital adequacy matter might go, the Board at some point would have to face the Paramount question. If the Board should find that a violation of the law had occurred, he felt that it should so inform Continental. However, if Continental should refuse to divest itself of its interest in the stock, then the Board might consider postponing further action. Bank supervisors, he pointed out, not infrequently criticize violations of law or unsound practices, and then decide for various reasons that administrative proceedings or termination of membership proceedings are not justified. The Board might well come to such a conclusion in this case.

Question was raised as to the time within which Continental should be requested to divest itself of all interest in the stock of Paramount, and it was noted that the proposed letter to Continental would allow 30 days or such additional period of time as the Board might for good cause shown allow for the accomplishment of such divestment.

Mr. Hexter suggested that in view of the time that had elapsed the Board might feel that two or three months would not be excessive.

In a further comment, Mr. Hackley noted that this matter had been submitted to the Board by the Federal Reserve Bank of San Francisco after the Hearing Examiner had rendered his Report and Recommended Decision in the capital adequacy proceeding against Continental, and only shortly before the oral argument in that matter. Therefore, it did not seem advisable to bring up the Paramount matter at that time. In addition, the Legal Division had had considerable difficulty in resolving its views on the matter. However, the capital adequacy proceeding had now gotten out of the administrative stage and was in the process of litigation, and there seemed less chance that the Board would be accused of harassment and persecution than when the capital adequacy proceeding was in the administrative stage.

Governor Mills said he was persuaded that there had been a violation of law. He agreed with the view that it would be a mistake to institute a second section 9 proceeding, and therefore he felt that the appropriate course would be to follow the recommendation of the Legal Division. As to the proposed letter that would advise Continental of the Board's opinion, he raised a question regarding inclusion of the paragraph that would invite modification of the manner in which the shares were held, since he felt that in a sense this would tend to legitimatize the transaction. He believed there were important and

broader issues at stake than this particular case. The fundamental problem was the extent to which member banks may through trustee arrangements, or through other side arrangements, engage in activities otherwise prohibited to them under the law. In this case the activity happened to be credit life insurance. However, there had been before the Board in the past a long series of questions relating to member banks and their engaging in the insurance business, particularly the writing of insurance in connection with automobile paper held by the bank. This was a means of attracting the business of dealers and a means whereby premiums could be shared between the bank and the dealer. It provided devious ways of increasing a bank's earnings and served as a lever to obtain additional business that was not desirable. Also, within the past few days, the Board had found in a case brought before it that there was no legal barrier to prevent a group of shareholders of a bank from organizing a real estate investment trust and engaging in the distribution of securities of the trust. Thus, if the Board were to condone the practice indicated in the Paramount case, there would be a wide range of practices that it would be tempting for banks to engage in outside of the normal banking business. It appeared to him that it was as important to take the position recommended in this case as it was to go to Congress for legislation that would make a corporation controlling only one bank subject to the provisions of the Bank Holding Company Act. This case pointed up a gap in the legislative field that should have much

more attention on the part of the Board and deserved remedial action. He would not worry too much about the problem of being open to criticism for harassing Continental because the violation of law seemed evident. On the other hand, he was worried about the capital adequacy case now in litigation; he hoped that it would be settled on points of law. If it was not, he thought there were many controversial points that, if set forth by Counsel for Continental to a court, might cause the court to hold that the Board had been vindictive in the means by which it had pressed its case.

Governor Robertson noted that he had voluntarily withdrawn from participation in the capital adequacy proceeding against The Continental Bank and Trust Company. However, he did not think that that action justified him in refraining from participation in any other matter involving Continental, particularly now that the principal case involving alleged prejudice on his part was before the courts. Therefore, he would feel free to participate in the matter now before the Board, and in any other matter involving Continental, just as he would participate in any case that might come before the Board in the regular order of business.

Governor Robertson then said that he agreed with the conclusion of the Legal Division and with the proposed letter to Continental, except that he thought the 30-day period that would be given to Continental to divest itself of its interest in the Paramount stock was too short. He would suggest at least 60, perhaps 90 days.

Mr. Hackley agreed that an extension of the time given to Continental would be desirable. He went on to say that the Legal Division had tried hard to make the proposed letter a reasonable one. In fact, he thought the San Francisco Reserve Bank probably would feel that the Board was being too liberal if it indicated that Continental might achieve correction merely by amending the trust instrument. It was even possible, of course, that such an arrangement would be considered undesirable as a supervisory matter; the Comptroller's Office apparently was somewhat concerned about that kind of an arrangement. As a legal matter, however, he could not say that there would be a violation of law if the stock were held solely for the benefit of the shareholders of the bank.

Governor Shepardson said that he concurred in the recommendation of the Legal Division and that he agreed with the suggestion to extend the time given to Continental to effect correction.

Governor King said that he also would concur in the recommendation of the Legal Division. However, in the particular circumstances involved, including the pendency of the capital adequacy litigation, he raised for consideration the possibility of advising Continental that the Board, having concluded that there had been a violation of law, requested divestment within a reasonable period of time, rather than any exact number of days. At the end of any stated period, say 90 days, the Board might find that even if Continental had failed to comply with the

Board's request, nevertheless the Board wished to take no further action. On the other hand, if no specific date was included in the letter, the Board itself could determine when a reasonable period of time had elapsed. In making this suggestion, he realized that the failure to set a definite time limit might cause the Board's request to lose any real meaning.

Mr. Hexter commented that the Legal Division had tried to provide some leeway in the letter by stating that the divestment should occur within 30 days or such further time as the Board might see fit to provide for good cause shown. He felt that some time limit should be specified and that the bank should be called upon to ask for an extension if it so desired.

Governor Szymczak said that he agreed with the recommendation of the Legal Division and that he would suggest a longer time limit than 30 days, with the understanding, also, that such time might be extended for good cause shown upon request to the Board.

Governor Balderston stated that he would agree with the recommended course of action and that he would be inclined to be rather liberal in specifying the time allotted to Continental to effect correction.

Chairman Martin said that he concurred in the recommendation of the Legal Division. He indicated that he would favor including some specified time limit for divestment and that in his opinion a requirement for divestment "within a reasonable time" would be practically meaningless. A period of 90 days would be satisfactory to him.

At this point Governor King said that he agreed with the view expressed by Governors Szymczak and Balderston, and by the Chairman. He had been interested principally in hearing what comments other members of the Board might make regarding his original suggestion.

Accordingly, the proposed letter to The Continental Bank and Trust Company was approved unanimously, subject to the understanding that the letter as transmitted would request that Continental take appropriate steps to divest itself of its interest in the stock of Paramount within 90 days of the date of letter or such additional period of time as the Board of Governors might for good cause shown allow for the accomplishment of such divestment. A copy of the letter sent to Continental pursuant to this action is attached as Item No. 4.

All of the members of the staff except Messrs. Sherman and Johnson then withdrew from the meeting.

Appointments at Boston and Richmond Reserve Banks (Items 5 and 6). There had been circulated to the members of the Board letters from the Federal Reserve Banks of Boston and Richmond advising that, subject to the approval of the Board of Governors, the Boston directors had appointed George H. Ellis as President and Earle O. Latham as First Vice President, each for a term of five years beginning March 1, 1961, with salaries at the annual rates of $30,000 and $25,000, respectively, for the period March 1, 1961, through December 31, 1961; and the Richmond directors had appointed Edward A. Wayne as President and Aubrey N. Heflin as First

Vice President, each for a term of five years beginning March 1, 1961, with salaries at the annual rates of $35,000 and $25,000, respectively, for the period March 1, 1961, through December 31, 1961. The files that had been circulated included drafts of replies which would advise the Chairmen of the respective Banks of the Board's approval of the appointments and the payment of salaries at the proposed rates for the period March 1, 1961, through December 31, 1961.

After discussion, the proposed letters were approved unanimously. Copies are attached as Items 5 and 6, respectively.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated January 18, 1961, from Mr. Solomon, Director, Division of Examinations, Governor Shepardson today approved on behalf of the Board the appointment of Ted Edward Garner as Assistant Federal Reserve Examiner in that Division, with basic annual salary at the rate of $4,830, effective the date of entrance upon duty.

Secretary

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

Item No. 1
1/23/61

January 23, 1961

Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to August 19, 1961, the time within which Manufacturers Trust Company may establish a branch at 607 Soundview Avenue, Clason Point, Bronx, New York, under the authorization contained in the Board's letter of August 19, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
1/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 23, 1961

Board of Directors,
The Bank of Georgia,
Atlanta, Georgia.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System extends the time within which The Bank of Georgia may establish a branch at the corner of Moreland and Custer Avenues, S. E., Atlanta, Georgia, to May 15, 1961, under the authorization contained in the Board's letter dated September 14, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
1/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 23, 1961

Wachovia Bank and Trust Company,
Corner of Third and North Main Streets,
Winston-Salem, North Carolina.

Gentlemen:

This refers to the case entitled Wachovia Bank and Trust Company v. William McC. Martin, Jr., et al., Civil Action No. 45-59, presently pending in the United States District Court for the District of Columbia.

It is understood that conversations have been held between Mr. J. J. Smith, Jr., your Washington Counsel, and Mr. Andrew P. Vance, Civil Division, United States Department of Justice, representing the Board of Governors, looking toward the entry of an order dismissing the above-entitled case. In this connection, it is the Board's view that the decision of the United States Court of Appeals for the District of Columbia Circuit, in the case of Old Kent Bank and Trust Company v. William McC. Martin, Jr., et al., No. 15-244, decided April 28, 1960, is controlling as to the issues in Wachovia Bank and Trust Company's suit against the Board, and that in view of the decision of the Court of Appeals in the Old Kent Bank case, the Board's approval of the continued operation by Wachovia Bank and Trust Company of offices formerly operated by the Wilmington Savings and Trust Company is not required.

It is understood that upon the basis of this expression by the Board, your Washington Counsel will be authorized to take appropriate action to effect entry of an order dismissing Civil Action No. 45-59.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
1/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

CABLE ADDRESS: "FEDRESERVE"

January 23, 1961

Board of Directors,
The Continental Bank and Trust Company,
Salt Lake City, Utah.

Gentlemen:

Reports of examination of your Bank indicate that on July 18, 1955, Mr. W. L. Harlan, Manager of the Credit Life Insurance Division of American National Insurance Company, granted to "Walter E. Cosgriff & Associates" an option to purchase the stock of Paramount Life Insurance Company, a Texas corporation, contingent upon the execution of a contract between your Bank and American under which the latter would write credit life insurance on loans made by your Bank; that on the same day your Bank applied to American for such credit life insurance on a group basis; that on July 21, 1955, a Reinsurance Treaty was executed between the two insurance companies under which Paramount agreed to reinsure 100 per cent of the credit life insurance written by American for your Bank and American agreed to pay to Paramount from 80 to 88 per cent of the premiums paid by your Bank for such insurance; that on February 29, 1956, Messrs. Walter E. Cosgriff, K. J. Sullivan, and Emerson S. Sturdevant executed a Declaration of Trust, under which these individuals were to hold the Harlan option, as trustees, for the benefit of your Bank and its shareholders; and that on March 12, 1956, the above-named trustees borrowed $38,750 from the Republic National Bank of Dallas, Texas, and on the same date, with the funds so borrowed, exercised the Harlan option and purchased the stock of Paramount.

It is noted that the persons named above as the settlors and trustees under the Declaration of Trust are officers and directors of your Bank and that, with two other persons, they are also directors and officers of Paramount.

As you know, section 5136 of the Revised Statutes (12 U.S.C. 24) makes it unlawful, with certain exceptions not applicable here, for a national bank to "purchase * * * for its own account * * * any shares of stock of any corporation", and this

prohibition is made applicable by the 20th paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335) to any State bank that is a member of the Federal Reserve System.

It is the Board's opinion that the stock of Paramount acquired by the trustees in the exercise of the Harlan option was purchased for the account of your Bank. The Declaration of Trust expressly stated that the option was acquired for the benefit of your Bank and its shareholders and required the trustees to pay all dividends on such stock directly to your Bank "to be used in the business of the Bank as its own funds and in such manner as its Board of Directors may determine." The trust instrument further provided that, upon termination of the trust, the trust estate should be distributed to your Bank "for the benefit of its shareholders to be used as its own funds in such manner as its Board of Directors may determine." It is understood that all dividends declared on the Paramount stock have been considered to be income received by your Bank.

It also appears that, while the Harlan option was acquired by Walter E. Cosgriff & Associates, the real consideration given for the option was the execution by your Bank of a contract with American National Insurance Company for the writing of credit life insurance on loans made by your Bank. It also appears that the stock was acquired by the trustees with funds borrowed by them from the Republic National Bank of Dallas and that this loan was repaid by the trustees from the proceeds of dividends declared on the Paramount stock which were considered by your Bank as income received by it.

In these circumstances, it is the opinion of the Board that the stock of Paramount here in question was not only purchased for the account of your Bank but was, as a matter of law, purchased by your Bank, and that, consequently, such purchase constituted a violation by your Bank of the 20th paragraph of section 9 of the Federal Reserve Act.

It is requested, therefore, that your Bank take appropriate steps to divest itself of all interest in stock of Paramount within 90 days from the date of this letter or such additional period of time as the Board of Governors may, for good cause shown, allow for the accomplishment of such divestment.

Compliance with this request could be accomplished by a bona fide sale of the Paramount stock by the trustees (as authorized by paragraph 1(c) of the Declaration of Trust) or by termination of the trust by action of the Board of Directors of your Bank and

distribution of the trust estate directly to shareholders of your Bank in proportion to their holdings of stock in your Bank (as authorized by paragraph 6(b) of the Declaration of Trust).

It is noted that paragraph 2(b) of the Declaration of Trust provides that, upon a determination by the appropriate banking authority, State or Federal, that it is illegal for dividends on the stock to be paid directly to your Bank, the shareholders of your Bank shall thereupon "come into direct benefit and enjoyment of their existing interest herein." While the Board cannot regard this provision as sufficient in itself to provide clear and effective divestment of your Bank's interest in the stock, nevertheless, in view of this provision, the Board would consider such divestment as having been accomplished if your Bank, as permitted by paragraph 6(c) of the Declaration of Trust, should in writing amend the terms of the trust so as to provide that dividends on the stock shall be paid to shareholders of your Bank and that the trustees shall thereafter hold such stock solely for the benefit of such shareholders.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
1/23/61

OFFICE OF THE CHAIRMAN

January 23, 1961

CONFIDENTIAL (FR)

Mr. Nils Y. Wessell,
Chairman of the Board,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Wessell:

The Board of Governors has approved the appointment of Mr. George H. Ellis as President and Mr. Earle O. Latham as First Vice President of the Federal Reserve Bank of Boston, each for a term of five years beginning March 1, 1961, in accordance with the action taken by the Board of Directors as reported in Mr. Erickson's letter of January 11, 1961.

The Board of Governors has also approved the payment of salaries to Messrs. Ellis and Latham at the rates of $30,000 and $25,000 per annum, respectively, for the period March 1, 1961, through December 31, 1961.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
1/23/61

OFFICE OF THE CHAIRMAN

January 23, 1961

CONFIDENTIAL (FR)

Mr. Alonzo G. Decker, Jr.,
Chairman of the Board,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors has approved the appointment of Mr. Edward A. Wayne as President and Mr. Aubrey N. Heflin as First Vice President of the Federal Reserve Bank of Richmond, each for a term of five years beginning March 1, 1961, in accordance with the action taken by the Board of Directors as reported in your letter of January 12, 1961.

The Board of Governors has also approved the payment of salaries to Messrs. Wayne and Heflin at the rates of $35,000 and $25,000 per annum, respectively, for the period March 1, 1961, through December 31, 1961.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.