

Minutes for January 31, 1961

To: Members of the Board

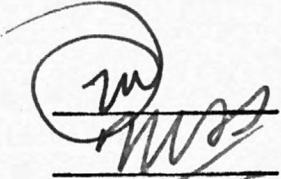
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

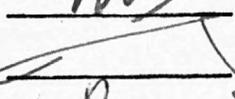
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

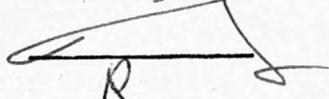
Chm. Martin



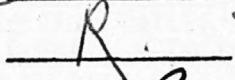
Gov. Szymczak



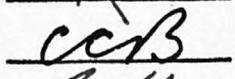
Gov. Mills



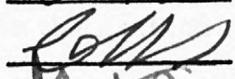
Gov. Robertson



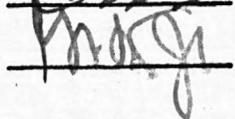
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System on
 Tuesday, January 31, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. King

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Miss Carmichael, Assistant Secretary
 Mr. Hackley, General Counsel
 Mr. Noyes, Director, Division of Research
 and Statistics
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Solomon, Director, Division of
 Examinations
 Mr. Johnson, Director, Division of
 Personnel Administration
 Mr. Hexter, Assistant General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division
 of Examinations
 Mr. Potter, Legal Assistant

Item circulated to the Board. The following item, which had been
 circulated to the Board and a copy of which is attached to these minutes
 as Item No. 1, was approved unanimously:

Item No.

Letter to NABAC, The Association for Bank Audit,
 Control, and Operation, Chicago, Illinois, regard-
 ing a savings deposit not evidenced by a pass book.

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Mr. Hooff then withdrew from the meeting.

Illinois Shares Corporation (Item No. 2). There had been
 distributed to the Board a memorandum from the Legal Division dated

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January 27, 1961, regarding apparent violations of section 4(a)(2) of the Bank Holding Company Act by Illinois Shares Corporation, New York City. Section 4(a)(2) states in part that, except as otherwise provided in the Act, no bank holding company shall after two years from the date of enactment of the Act or from the date as of which it becomes a bank holding company, whichever is later, retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company.

According to the memorandum, the holding company appeared to have retained "direct or indirect ownership or control of...voting shares" of the following companies, which were neither banks nor bank holding companies: Pullman Agency Corporation, Highland Agency Corporation, Blue Island Agency Corporation, Southtown Service Bureau, Inc., and Pullman Safe Deposit Company. Such retention would be in violation of section 4(a)(2) of the Bank Holding Company Act unless such shares should be covered by one of the exemptions of section 4(c). Section 4(c)(1), which exempts from the prohibitions of section 4 shares owned by a bank holding company in any company engaged "solely in conducting a safe deposit business," would seem to apply to the activities of Pullman Safe Deposit Company. Section 4(c)(6) exempts "shares of any company all the activities of which are of a financial, fiduciary, or insurance nature and which the Board after due notice and hearing, and on the basis of the

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record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act." This exemption might be available for the other four companies, but only if the Board should make a determination and issue an order "after due notice and hearing," and no request for a determination had been made by Illinois Shares Corporation.

Under the provisions of section 4(a)(2), nonexempt shares in which Illinois Shares Corporation had an interest could be retained two years after the enactment of the Bank Holding Company Act, and the Board had authority upon application to grant extensions for one year at a time up to a final date of May 9, 1961. However, since no extensions of time had been applied for or granted, the holding company's retention of an interest in the nonexempt shares appeared to be in violation of the Bank Holding Company Act.

The memorandum indicated that the courses of action open to the holding company were: (1) complete disposition of the interests in question, (2) reduction of those interests to comply with the five per cent limitations of section 4(c)(5), or (3) prompt application for a determination by the Board that the shares in question would fall within the exemption of section 4(c)(6).

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Submitted with the memorandum was a draft of letter to the Federal Reserve Bank of New York requesting that Bank to advise Illinois Shares Corporation that: (1) the holding company had, in the opinion of the Board, retained direct or indirect ownership or control of the voting shares of the four companies (other than Pullman Safe Deposit Company) in violation of the provisions of section 4 of the Act; (2) pursuant to section 4(a) of the Act, the Board had granted the holding company an extension until May 9, 1961, of the period for retention of its interests in the four companies, beyond which time the period could not be extended and any retention of the interests would be in violation of the Act unless they had been reduced below the limitations of section 4(c)(5) or unless the shares in question had been determined by the Board, after notice and hearing, to fall within the terms of section 4(c)(6); and (3) if the holding company should not divest itself of its interests in the four companies or reduce those interests below the limitations of section 4(c)(5) by May 9, 1961, the company must immediately take the necessary steps to obtain by such date a determination by the Board, pursuant to notice and hearing, that the shares in question were exempt under section 4(c)(6) from the prohibitions of section 4 of the Act.

It was noted in the memorandum that the Legal Division did not consider it necessary or appropriate to regard the holding company's noncompliance to date as bringing into operation the provisions of

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section 8 of the Bank Holding Company Act with respect to penalty for willful violation. If, however, the holding company should not comply with the directions of the Board and should fail to give sufficient reason therefor, application of the provisions of section 8 might then be considered.

Mr. Potter summarized the facts of the case and the recommendation of the Legal Division, following which he stated, in response to a question, that the apparent violations on the part of Illinois Shares Corporation had been disclosed in the course of a staff review of nonbanking interests of bank holding companies. This review was made in the light of the provision of section 4(a)(2) of the Bank Holding Company Act to the effect that the retention of direct or indirect control of nonexempt interests must be terminated by May 9, 1961.

Question was raised by Governor King as to whether it would be appropriate for the Board to approve an extension of time for the retention of a nonbanking interest in the absence of a request from the holding company concerned, and Mr. Hexter noted in that connection that the statute specifies that the Board may grant an extension upon application. If an application for a section 4(c)(6) determination should be made by Illinois Shares, that company could apply for an extension under section 4(a)(2) at the same time. If, on the other hand, the company chose to follow one of the other courses suggested in the proposed letter, no extension of time would be required.

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Mr. Potter said he had felt that no application for an extension of time was necessary in this situation. Some time had elapsed since the filing of the 1959 annual report of the holding company which disclosed control of the shares of the subsidiary companies, and he believed that it would create a more favorable atmosphere if an extension was granted without requiring an application. Further, the extension, if granted, would be in effect for only the period of time that would be involved in bringing the matter to a conclusion.

Mr. O'Connell suggested that if a section 4(c)(6) hearing should be held, the Board might appear in a better light by having granted an extension of time, since Board action could be taken within the allowable time that had been granted.

Governor Mills expressed the view that in the circumstances the Board could afford to be reasonably lenient. As noted, some time had elapsed since the apparent violations occurred, and there was no definite indication that the violations had been willful. Also, the types of activity in which the nonbanking companies were engaged were similar to those that in some instances had been approved by the Board after hearing.

After further discussion, the recommendation in the memorandum from the Legal Division was accepted, and the proposed letter to the Federal Reserve Bank of New York then was approved unanimously. A copy of the letter is attached as Item No. 2.

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During the foregoing discussion Mr. Fauver, Assistant to the Board, entered the room, and at its conclusion Mr. O'Connell withdrew.

Philadelphia International Investment Corporation (Item No. 3).

There had been distributed to the Board a memorandum from the Division of Examinations dated January 30, 1961, relating to a request, pursuant to section 25(a) of the Federal Reserve Act, that the Board consent to the remainder (\$1.4 million) of the authorized capital stock (\$3.5 million) of Philadelphia International Investment Corporation, Philadelphia, Pennsylvania, being paid in upon call from the corporation's directors. Philadelphia International Investment Corporation, a wholly-owned subsidiary of The Philadelphia National Bank, opened for business on June 1, 1960. In a letter dated January 10, 1961, the Edge corporation certified that as of that date an additional \$175,000 was paid by Philadelphia National Bank against its subscription to \$3.5 million of capital stock. As of January 10, the subsidiary had issued 21,000 shares of its authorized common stock for \$2.1 million, or 60 per cent of its authorized capital. It was noted in the memorandum that Philadelphia International had done very little business and that its paid-in capital was \$100,000 above the minimum required. The Board's Division of Examinations and the Federal Reserve Bank of Philadelphia recommended that the request be granted, and a draft of letter to Philadelphia International Investment Corporation was submitted with the memorandum.

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After discussion, the letter was approved unanimously. A copy is attached as Item No. 3.

Messrs. Hexter, Goodman, and Potter withdrew from the meeting at this point.

Exchange of personnel with Federal Reserve Bank of New York. A memorandum from Mr. Noyes dated January 27, 1961, regarding a proposed exchange of personnel with the Federal Reserve Bank of New York had been distributed to the Board. Mr. Noyes had discussed with officers of the Reserve Bank the possibility of temporary exchanges of personnel between the Research and/or Securities Departments of the Bank and the Government Finance Section of the Board's Division of Research and Statistics. Such an arrangement would familiarize the personnel of the New York Reserve Bank with the functions performed at the Board, and the Board's personnel would become familiar with the work at the Bank. The proposed arrangement, it was noted, would be similar to one involving exchange visits of personnel of the New York Reserve Bank's Foreign Department and the Board's Division of International Finance which had operated satisfactorily for a period of years. As a first step in the program, it was recommended that the Board approve "borrowing" Alan R. Holmes, Manager of the Securities Department of the New York Reserve Bank, to work with the Board's Government Finance Section for a period of about three months, beginning around the first of April 1961. It was understood that the New York Bank would be agreeable to whatever financial arrangement the Board might prefer.

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Following comments by Mr. Noyes, Governor Robertson inquired about plans for sending Board personnel to the New York Reserve Bank, and Mr. Noyes responded to the effect that an exchange of personnel was contemplated. Present conditions in the Government Finance Section would make it difficult to spare personnel at this time, but at a later date it was hoped that members of that Section could spend some time in New York.

Mr. Noyes then referred to the question whether the expenses of personnel involved in this program should be reimbursed by the borrowing institution or whether the institution sending personnel should pay such expenses.

In this connection, Governor Mills noted that any arrangement involving salaries and expenses incident to the exchange of personnel would be subject to approval by Governor Shepardson.

The proposal for exchanges of personnel between the New York Reserve Bank and the Board was then approved unanimously, with the understanding that financial arrangements would be subject to approval by Governor Shepardson on behalf of the Board.

During the foregoing discussion Mr. Kelleher, Director, Division of Administrative Services, joined the meeting.

Inquiry from Senator Clark (Item No. 4). There had been distributed to the Board a letter dated January 18, 1961, from Senator Joseph S. Clark of Pennsylvania, requesting facts regarding a charge by Slater Food Service

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Management, Philadelphia, Pennsylvania, that the food service facilities used by the Federal Reserve Banks were highly subsidized. Also distributed was a draft of reply to Senator Clark.

In the discussion of the matter, Governor Balderston inquired whether the Board's staff had communicated with the Federal Reserve Bank of Philadelphia, and Mr. Johnson indicated that this had been done. Apparently, he said, there had been no contact between that Bank and Slater Food Service Management. The only possible connection seemed to be that a representative of the Federal Reserve Bank of Cleveland had visited the Slater offices last year to look into the possibility of that company's taking over the food concession at the Cleveland Bank.

It was noted that detailed information regarding food services at Federal Reserve Banks had been furnished in 1953 in response to inquiries from Congressman Patman of Texas and Congressman Bennett of Florida. Mr. Johnson indicated that the answers to both of the 1953 inquiries had been taken into consideration in drafting the reply to Senator Clark.

There followed further discussion during which several suggestions were made regarding points that it might be well to cover in the reply to Senator Clark.

It was then agreed that the letter to the Senator would be revised along lines suggested at this meeting and that it would be sent when in a form satisfactory to Chairman Martin. A copy of the letter sent to Senator Clark pursuant to this action is attached as Item No. 4.

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The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 5) approving the appointment of Ronald A. Como as assistant examiner.

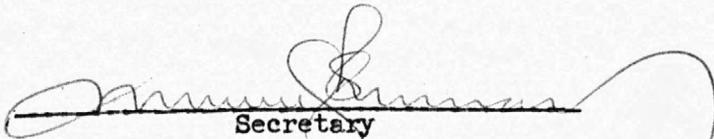
Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Salary increase

Bessie M. McCrae, from \$4,670 to \$4,840 per annum, with a change in title from Statistical Clerk to Statistical Assistant in the Division of Research and Statistics, effective February 5, 1961.

Acceptance of resignation

Sally J. Hart, Clerk-Stenographer, Division of Administrative Services, effective at the close of business February 17, 1961.



Secretary

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

Item No. 1
1/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 31, 1961



Mr. J. N. Raleigh, Director,
Technical Division, NABAC,
Chicago 3, Illinois.

Dear Mr. Raleigh:

This refers to your letter of December 20, 1960, addressed to Governor Mills, presenting inquiries with respect to a savings deposit not evidenced by a pass book.

The 1955 amendment to Regulation Q permits savings deposits of this type provided "withdrawals are permitted only through payment to the depositor himself but not to any other person whether or not acting for the depositor". The purpose of this prohibition is to eliminate the "agency privilege", as you refer to it, the reason being that withdrawal by an agent of the depositor merely by presenting a "written receipt or agreement" for a specific amount deposited with the bank could result in the use of such deposits, in effect, as checking accounts.

For example, in lieu of taking one "receipt" for his deposit of, say, \$100, the depositor could request 20 receipts for \$5 each. Then, when he wished to pay a bill, he could hand his creditor sufficient receipts and the latter, as his "agent", could present them for payment. This procedure is possible with a savings deposit evidenced by a pass book, but the cumbersome and dangerous procedure of turning the pass book over to a third party is a deterrent to the use of such savings accounts for checking purposes. At least not more than one so-called check could be outstanding against the savings account at any time, as the depositor would have to regain the pass book before turning it over to another person for a second withdrawal of funds.

With respect to the use of deposits not evidenced by a pass book as collateral to a loan either by the bank or by a third person, the above quoted provision renders ineffective such use as only the depositor himself may receive payment. This likewise prevents the use of such deposits, in effect, for checking purposes.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
1/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 1, 1961



Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

This is with reference to the question whether Illinois Shares Corporation, New York City, New York, a registered bank holding company, has retained "direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company" contrary to the provisions of section 4 of the Bank Holding Company Act of 1956 ("the Act").

According to information contained in its Annual Report to the Board of Governors for the year ending December 31, 1959 ("Annual Report"), Illinois Shares Corporation ("Holding Company") directly owned at that date voting shares in three banks as follows:

	<u>Total Shares Outstanding</u>	<u>Shares Owned by Holding Co.</u>	<u>Per Cent Owned by Holding Co.</u>
Pullman Trust & Savings Bank	57,289	14,328.44	25.01
Standard State Bank	57,289	16,058.85	28.03
State Bank of Blue Island	22,509	3,196.14	14.20

According to Schedule D of the Annual Report, the above percentages also represent interests of Holding Company in four nonbanking companies owned in the following manner:

Pullman Agency Corporation ("Pullman"), "engaged in the business of placing insurance and acting as real estate agent". All voting shares owned by trustees for the benefit of the shareholders of Pullman Trust & Savings Bank.

Highland Agency Corporation ("Highland"), "engaged in the business of acting as insurance broker or agent". All voting shares owned by trustees for the benefit of the shareholders of Standard State Bank.

Mr. Howard D. Crosse

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Blue Island Agency Corporation ("Blue Island"), "engaged in the business of acting as insurance broker or agent". All voting shares owned by trustees for the benefit of the shareholders of State Bank of Blue Island.

Southtown Service Bureau, Inc. ("Southtown"), "engaged in the business of conducting a credit and collection agency". Voting shares owned by:

Pullman	67%
Highland	16.5%
Blue Island	16.5%

Holding Company also has an interest in Pullman Safe Deposit Company, whose shares appear to be exempt under section 4(c)(1) of the Act if the business of such company as described in the Annual Report is its sole business.

It is the opinion of the Board of Governors, based on the above information and on the assumption that it represents the present situation:

- (1) that Holding Company owns, within the meaning of the Act, voting shares of Pullman, Highland, and Blue Island in the same percentages as it owns voting shares of the respective banks;
- (2) that Holding Company's ownership of more than 25 per cent of the voting shares of Pullman and Highland constitutes "control" of those corporations and, therefore, of stock owned by those corporations, within the meaning of the Act;
- (3) that Holding Company therefore controls 67 per cent of the stock of Southtown through Pullman, and 16.5 per cent of the stock of Southtown through Highland;
- (4) that Holding Company indirectly owns an additional 2.34 per cent of Southtown through Blue Island, because Holding Company has a 14.2 per cent interest in the 16.5 per cent interest which Blue Island has in Southtown;

Mr. Howard D. Crosse

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- (5) that Holding Company accordingly retains "direct or indirect ownership or control" of voting shares in the above nonbanking companies in the following percentages:

Pullman	25.01%
Highland	28.03%
Blue Island	14.20%
Southtown	85.84%

- (6) that such retention is in violation of the Act because no extension of time has been applied for or granted under the provisions of section 4(a) of the Act; and because the activities of such nonbanking companies do not appear to fall within any of the "automatic" exemption provisions of section 4(c); and because no determination has been made by the Board that such activities fall within the terms of section 4(c)(6) and no request for such determination has been made.

For your information there are enclosed copies of a memorandum in which the relevant facts and reasoning are presented in more detail.

You are requested to advise Holding Company of the above conclusions of the Board, and, in accordance therewith:

(1) that pursuant to section 4(a) of the Act, the Board has granted Holding Company an extension until May 9, 1961, of the period for retention of the interests in question;

(2) that since such period cannot under the Act be extended beyond May 9, 1961, Holding Company must by that date either divest itself of such interests or reduce them below the percentage limitations of section 4(c)(5), unless a determination has been requested and obtained from the Board that such interests fall within the exemption provisions of section 4(c)(6);

(3) that in order to obtain a determination under section 4(c)(6) prior to May 9, 1961, any request therefor should be made immediately in view of the statutory requirement of a hearing thereon, and in view of the provisions of Appendix A to the Board's Rules of Procedure, a copy of which is enclosed, prescribing the time periods which must elapse in connection with such a hearing before a determination can be ordered.

Mr. Howard D. Crosse

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If the Board's conclusions as herein stated appear subject to modification by a change in the circumstances existing at December 31, 1959, this should be brought promptly to the Board's attention.

You are also requested to advise Holding Company that the Board considers the Holding Company's interest in Pullman Safe Deposit Company to fall within the exemption of section 4(c)(1) of the Act, on the assumption that the business of "renting, maintaining and servicing safety deposit boxes and vaults", as described in the Annual Report to the Board of Governors for 1959, is the sole business of the company, and that if such assumption is or should become incorrect, the Board should be advised promptly and fully of the facts as they actually exist.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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

Item No. 3
1/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 31, 1961

Mr. Frederick C. Rieck, Vice President,
Secretary, and Treasurer,
Philadelphia International Investment
Corporation,
Philadelphia, Pennsylvania.

Dear Mr. Rieck:

This will acknowledge your letter of January 10, 1961, certifying, in accordance with the requirements of Section 3(c) of Regulation K, that, as of that date, an additional \$175,000 of cash was paid in by the sole shareholder of your Corporation, The Philadelphia National Bank, against its subscription to \$3,500,000 of capital stock. You state that the Corporation has issued 21,000 shares of its authorized common stock, receiving in payment therefor cash in the amount of \$2,100,000.

In accordance with your request and pursuant to the provisions of Section 25(a) of the Federal Reserve Act, the Board of Governors consents that the remainder of the capital stock of Philadelphia International Investment Corporation may be paid in upon call from the Board of Directors of the Corporation, provided that the Board of Governors shall have approved each such increase in paid-in capital not more than ninety days prior to the date on which the increase is paid in.

For your information, the proviso in the preceding paragraph is prescribed in order to bring the situation into conformity with the second sentence of the twelfth paragraph of Section 25(a) of the Federal Reserve Act, which seems to embody the principle that the appropriateness of each increase in paid-in capital shall be considered by the Board of Governors shortly before the increase actually takes place.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
1/31/61

OFFICE OF THE CHAIRMAN

January 31, 1961

The Honorable Joseph S. Clark,
United States Senate,
Washington 25, D. C.

Dear Senator Clark:

This is in reply to your letter of January 18, 1961,
regarding food service facilities at the Federal Reserve Banks.

Beginning in 1926, the Board of Governors authorized the
absorption by the Reserve Banks of a portion of the cost of oper-
ating employee cafeterias. Since 1946 the maximum permissible
absorption has been 50 per cent.

At the present time, the twelve Head Office Reserve
Banks and all but one of the twenty-four Branches have cafeterias
where lunches are available to employees at moderate cost. In
1960, the average cafeteria expense absorbed by the Reserve Banks
was 43 per cent; with an annual average cost of \$74 per employee
that is small in comparison to the advantages derived.

This arrangement to furnish lunches on the premises to
employees at moderate cost is a significant part of the personnel
policies of the Federal Reserve Banks, and is generally recognized
as contributing to the increased productivity of the organization.
The Reserve Banks also find that this is an important factor in
competing for employees with banking and business firms that
provide free or heavily subsidized food service. In Philadelphia,
for example, four large banks and three insurance companies provide
free lunches to employees.

Should you desire any further information, it will be
furnished gladly.

With all good wishes.

Sincerely yours,

(Signed) William McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 5
1/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 1, 1961



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

Dear Mr. Bilby:

In accordance with the request contained in your letter of January 25, 1961, the Board approves the appointment of Ronald A. Como as an assistant examiner for the Federal Reserve Bank of New York. Please advise us of the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.