

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 5, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Koch, Assistant Director, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Furth, Chief, International Financial Operations Section, Division of International Finance.

Questions of Senate Subcommittee on Securities. Pursuant to the understanding at the meeting of the Board yesterday, there had been sent to the members of the Board prior to this meeting copies of an edited draft of replies to be made by Vice Chairman Balderston to questions submitted to him by the Subcommittee on Securities of the Senate Banking and Currency Committee following his recent testimony before that Subcommittee. The questions related generally to the applicability and possible extension of the margin regulations.

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Governor Balderston suggested additional changes of an editorial nature in the answers to certain of the questions, and agreement was expressed with these suggestions. Since some of the members of the Board had not yet had an opportunity to review fully the revised draft of replies which was distributed before this meeting, it was understood that any further suggestions would be sent to Mr. Thurston. In addition, because of the nature of the subject matter, the view was expressed that it would be advisable to give the Securities and Exchange Commission an opportunity to review the proposed replies. Accordingly, it was understood that the Legal Division would get in touch with the staff of the Commission for this purpose.

Thereupon, the proposed answers were approved unanimously in a form giving effect to the suggestions made at this meeting by Governor Balderston, subject to such additional suggestions as might be made by members of the Board to Mr. Thurston and also subject to a check by the Legal Division with the staff of the Securities and Exchange Commission.

Messrs. Shay and Furth then withdrew from the meeting.

Report on bills to amend the Small Business Act of 1953. Pursuant to the understanding reached following discussion at yesterday's meeting, there had been sent to the members of the Board prior to this meeting a revised draft of letter to the Chairman of the Senate Banking and Currency Committee commenting on six pending bills which would amend the Small Business Act of 1953.

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At the request of the Board, Mr. Noyes discussed the principal changes from the previous draft of letter. He also mentioned certain additional changes suggested during a conversation which he had had with Governor Vardaman earlier this morning.

One of the changes proposed by Governor Vardaman would eliminate from the letter certain sentences outlining why, in the Board's opinion, the role of the Federal Government in the provision of financing to small business should be one of encouraging the development of adequate private local or regional facilities. In explaining his suggestion, Governor Vardaman said he believed that the inclusion of this amount of detail tended to detract from the strength of the Board's position as stated in terms of the general principles involved. He went on to suggest for the Board's consideration the possibility of including certain language intended to convey the thought that the types of small business loans which appeared to be contemplated by the proposed legislation were in general not of a nature which could properly be made by commercial banks, at least beyond certain inherent limitations.

After some discussion, agreement was reached on eliminating the portions of the proposed report which Governor Vardaman had suggested for deletion. For various reasons, however, including the fact that the substitute language suggested by Governor Vardaman might seem to constitute an endorsement of the bill (S. 2160) providing for the establishment of national investment companies on which Vice Chairman Balderston

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was scheduled to testify next week before the Small Business Subcommittee of the Banking and Currency Committee, it was decided that language of this kind should not be included in the report.

Attention then was called to the fact that in the draft now before the Board the statement would be made that in the present circumstances the Board felt that the continuance of the Small Business Administration was appropriate. Following a discussion of this point, general agreement was expressed that a qualified statement of this nature should be included in the report, provided that the reference was in terms of an extension of the Small Business Act of 1953 rather than continuance of the Small Business Administration. It was deemed preferable, however, to include this statement near the end of the letter after spelling out the Board's views with regard to the proper role, in principle, of the Federal Government in aiding the financing of small business; that is, that the Government should encourage the development of adequate private facilities rather than to act as a lender itself.

With respect to other portions of the revised draft of letter, it was agreed that it would be appropriate to express doubt concerning the need for the addition of a loan insurance program to the present lending authority of the Small Business Administration. This feature had been proposed in S. 1762, one of the bills covered by the report. As to another of the bills (S. 2185), which would authorize the Small Business Administration to make loans to "local private nonprofit

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organizations...formed to assist, develop, and expand the economy of the area", it was considered desirable to state that in the judgment of the Board it would not be appropriate for the Federal Government to make loans to local development organizations despite the Board's sympathy with the objectives of such organizations.

At the conclusion of the discussion, tentative approval was given to a letter reflecting the changes agreed upon at this meeting. However, it was understood that the letter would not be sent pending consideration by the Board tomorrow of a draft of testimony to be given by Vice Chairman Balderston next week on bill S. 2160, unless it developed that it was imperative for the Board to transmit its report immediately. In this connection, Governor Balderston inquired whether there would be any objection to complying with a request by Assistant Secretary of the Treasury Robbins for a copy of the letter to the Senate Banking and Currency Committee for the Treasury's assistance in drafting its report on the same bills, and it was understood that there would be no objection.

Applicability of section 3(a)(B) of the Bank Holding Company Act (Item No. 1). With Governor Robertson voting "no", approval was given at the meeting of the Board yesterday to a letter to the Federal Reserve Bank of Richmond expressing the opinion that, by virtue of certain contractual arrangements, The First Virginia Corporation, Arlington, Virginia, "owned or controlled" a majority of the voting shares of The National Bank

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of Manassas, Manassas, Virginia, for the purposes of section (3)(a)(B) of the Bank Holding Company Act of 1956 and that it would therefore be unnecessary for the Corporation to obtain the Board's approval prior to the acquisition of additional shares of the Manassas bank.

Mr. Hackley called attention to the fact that the position taken in the letter approved by the Board would make The First Virginia Corporation a holding company affiliate under the Banking Act of 1933. Therefore, it had been suggested that a paragraph be included in the letter to the Federal Reserve Bank of Richmond to bring out that The First Virginia Corporation could not legally vote the stock of the Manassas bank which it owned or controlled without obtaining a voting permit from the Board.

In response to questions by Governor Robertson relating to whether it appeared that The First Virginia Corporation might have violated the provisions of the Banking Act of 1933 by voting its stock of the Manassas bank without having obtained a voting permit, Mr. Hackley indicated that this had not necessarily been the case because the shares of the Manassas bank which the holding company now claimed to control by virtue of certain contractual arrangements did not appear to have been made the subject of such arrangements until after the annual meeting of the Manassas bank in 1956. Therefore, the holding company apparently would not have had occasion to vote the shares except at the 1957 annual meeting, which it was understood was being held open. In response to an additional question, Mr. Hackley said he continued to feel that the

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decision reached by the Board at yesterday's meeting was appropriate.

Governor Robertson then stated that the development mentioned at this meeting appeared to him to constitute a further reason in support of the position which he had taken at the meeting yesterday; that is, that the Board should not express an opinion at this time whether The First Virginia Corporation owned or controlled a majority of the voting shares of the Manassas bank.

With Governor Robertson voting "no", approval was given to a letter to the Federal Reserve Bank of Richmond in the form attached to these minutes as Item No. 1.

Basis of compensation for nonclerical positions at the Federal Reserve Bank of Chicago (Item No. 2). With reference to the discussion at the meeting of the Board yesterday concerning the basis of compensation for certain nonclerical positions at the Federal Reserve Bank of Chicago, Governor Shepardson said that, pursuant to the Board's request, he had gotten in touch with President Allen of the Chicago Reserve Bank who, after looking into the matter, advised this morning that, while there were certain aspects he would like to explore further, he was convinced that the situation in Chicago was one which the Reserve Bank must recognize and that it was necessary to fix the compensation of building maintenance employees on the basis presently in effect. With regard to a question which had been raised by Governor Balderston concerning a relative change in the status of painters and carpenters reflected in the most recent agreements negotiated between the labor unions and the Building Managers Association of Chicago, Governor Shepardson said

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that, according to President Allen, this reflected certain changes in welfare fund contributions. Mr. Allen also explained, he said, that the Reserve Bank was taking some advantage of the fringe benefits offered by the Bank by paying its building maintenance employees at about 90 per cent of the rates called for by the prevailing labor union contracts. Along these lines, it was also brought out that the Reserve Bank was obtaining certain concessions from its full-time maintenance employees in the sense that they were not demanding strict observance of certain limitations called for by the contracts between the labor unions and the Building Managers Association. To summarize, while President Allen was going to look into this matter further and might decide to press for some changes in the current arrangements, in general it was his view that the Chicago Reserve Bank must deal with the situation realistically.

Governor Vardaman then stated that his objection to the present arrangements went to the principle of permitting an outside organization to dictate, in effect, the wage scale of the Federal Reserve Bank for certain positions. He said that at one time in the past he had mentioned to the management of the Federal Reserve Bank of Chicago that it might be feasible for the Bank to contract to have outside service companies do the maintenance work which is presently done by Reserve Bank employees. It was his thought that a suggestion might be made to President Allen concerning the possibility of looking into such an arrangement.

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The suggestion then was made that favorable action be taken by the Board on the specific request which had been submitted by the Chicago Reserve Bank relative to approval of revised salary rates for painters and carpenters, it being understood from Governor Shepardson's report that if President Allen developed any further views on the handling of the general problem, he would discuss them with the Board.

Thereupon, unanimous approval was given to the letter to the Federal Reserve Bank of Chicago of which a copy is attached to these minutes as Item No. 2.

Secretary's Note: The Secretary's Office later was advised by Governor Shepardson that subsequent to the meeting of the Board he had another telephone conversation with President Allen, at which time he passed on to Mr. Allen the suggestion of Governor Vardaman that the Bank consider entering into a contract with some outside company or companies to perform building maintenance work at the Reserve Bank and Mr. Allen indicated that he would include this possibility in his further study of the matter.

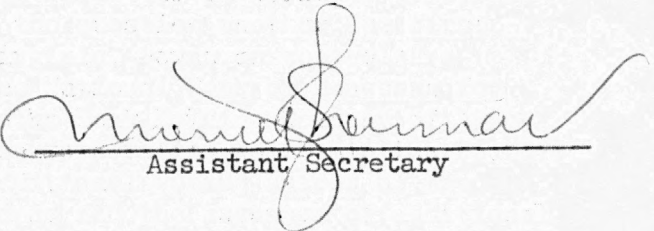
The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from Mr. Young, Director, Division of Research and Statistics, Governor Shepardson approved on behalf of the Board on June 4, 1957, an **increase** in the basic salary of Elizabeth Nell Tyson from \$3,925 to \$4,075 per annum, with a change in title from Library Assistant to Librarian, effective June 16, 1957.

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Pursuant to the recommendation contained in a memorandum dated May 23, 1957, from Mr. Bethea, Director, Division of Administrative Services, Governor Shepardson, acting on behalf of the Board, today authorized that Division to purchase and/or install, at a total cost of \$1,228 certain incidental equipment to complete the new dishwashing and garbage disposal system in the Board's cafeteria.



Merrill J. Sarna
Assistant Secretary

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

Item No. 1
6/5/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1957

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Leach:

This refers to Mr. Pregeant's letter of April 1, 1957, with enclosures, presenting, in effect, the question whether The First Virginia Corporation, Arlington, Virginia, "owns or controls" a majority of the voting shares of The National Bank of Manassas for the purposes of section 3(a)(B) of the Bank Holding Company of 1956, so as to make it unnecessary for the Corporation to obtain the Board's approval prior to acquisition of additional voting shares of the Bank as the result of a stock dividend and the issuance of additional shares of stock.

The Board has given careful consideration to the information presented in Mr. Pregeant's letter and its enclosures. On the basis of the facts presented, it is the Board's opinion that, pursuant to the contractual arrangements described in (A) and (B) on pages 2 and 3 of Mr. Pregeant's letter, the Corporation controls 74 shares of the Bank in addition to the 179 shares directly owned by it; that the Corporation therefore owns or controls a majority of the voting shares of the Bank; that, consequently, by reason of section 3(a)(B) of the Act, it may acquire additional shares of the Bank through the contemplated stock dividend without the Board's prior approval; and that, assuming that such stock dividend will not impair the majority-control position of the Corporation, it may also, without the Board's prior approval, acquire additional shares of the Bank in the event of a subsequent sale of additional stock by the Bank.

It should be mentioned, of course, that although administration of the Act is vested in the Board, its enforcement as a criminal statute falls within the jurisdiction of the Department of Justice, and conceivably the Board's interpretation might not be followed by that Department if it should have occasion to consider the matter.

In view of the Board's opinion herein stated to the effect that The First Virginia Corporation owns or controls a majority of the voting shares of The National Bank of Manassas, it should be noted that

Mr. Hugh Leach

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the Corporation and Old Dominion Bank are "holding company affiliates" within the meaning of section 2(c) of the Banking Act of 1933 and, therefore, pursuant to section 5114 of the Revised Statutes, stock of the Bank owned or controlled, directly or indirectly, by them may not be legally voted unless they hold voting permits granted by the Board of Governors.

It will be appreciated if you will advise The First Virginia Corporation and Old Dominion Bank of the Board's views contained herein. A copy of this letter is being sent to the Comptroller of the Currency for his information.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 2
6/5/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 5, 1957

CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates and effective dates indicated, in accordance with the request contained in your letter of May 15, 1957.

<u>Title</u>	<u>Annual Salary</u>
Effective May 1, 1957	
Head Painter	\$7,228.00
Painter	6,505.20
Effective June 1, 1957	
Head Carpenter	7,176.00
Carpenter	6,458.40

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.