

Minutes for June 17, 1957

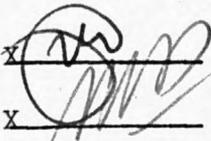
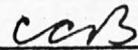
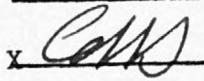
To: Members of the Board

From: Office of the Secretary

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

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<u>X</u> 	_____
Gov. Szymczak	<u>X</u> _____	_____
<u>1/</u> Gov. Vardaman	_____	<u>X</u> _____
Gov. Mills	<u>X</u> 	_____
Gov. Robertson	<u>X</u> 	_____
Gov. Balderston	_____	<u>X</u> 
Gov. Shepardson	<u>X</u> 	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 17, 1957. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Messrs. Marget, Bangs, Furth, Katz, Wood,
Dahl, and Emery of the Division of
International Finance
Messrs. Noyes, Garfield, and Williams,
Miss Burr, and Messrs. Koch, Dembitz,
Brill, Jones, Altmann, Culbertson,
Flechsigg, Solomon, Trueblood, Wernick,
and Yager of the Division of Research
and Statistics

Review of economic developments. In summarizing a review by the Division of International Finance of financial developments in selected foreign countries, Mr. Marget said there appeared to be some tapering off of the forces abroad that had intensified demand pressures in the United States, with certain abnormalities such as the effects of the Suez crisis disappearing from the picture. However, he saw no reason to believe that these developments should be regarded as signs of an incipient general downturn in economic activity.

The review of domestic business and financial developments which was presented by the Division of Research and Statistics revealed in general a situation of continued economic strength, with an increasing volume of demand in the capital markets.

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All of the members of the staff who were present except Messrs. Sherman, Kenyon, Riefler, Noyes, and Koch then withdrew from the meeting and Messrs. Hackley, General Counsel, Masters, Associate Director, Division of Examinations, and Hexter and O'Connell, Assistant General Counsel, entered the room.

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

	<u>Item No.</u>
Letter to the Chairman of the Conference of Presidents of the Federal Reserve Banks advising of the designation of Mr. Hackley to serve as associate member of the Subcommittee of Counsel on Fiscal Agency Operations and of the Subcommittee of Counsel on Collections.	1
Letter to the Comptroller of the Currency submitting an unfavorable recommendation on an application to organize a national bank at Gate City, Virginia. (With a copy to the Federal Reserve Bank of Richmond.) <u>1/</u>	2
Letter to the Comptroller of the Currency requesting views and recommendations with respect to the application of Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, to acquire stock in Capitol National Bank of Milwaukee, Milwaukee, Wisconsin. (With a copy to the Federal Reserve Bank of Chicago.)	3

1/ Pursuant to the understanding at the meeting on June 4, 1957, the application had been given further study by the Federal Reserve Bank of Richmond, particularly from the standpoint of the desirability of providing banking competition in the area. On the basis of that review, however, the Reserve Bank and the Division of Examinations continued of the opinion that an unfavorable recommendation should be made.

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Status of The Fort Worth National Bank as a bank holding company

(Item No. 4). A memorandum from Mr. Hackley dated June 12, 1957, which had been distributed to the members of the Board, discussed the question of the status of The Fort Worth National Bank, Fort Worth, Texas, as a bank holding company under the Bank Holding Company Act. Pending determination of this question, the time allowed the national bank for registration under the Act had been extended by the Board until July 15, 1957.

As stated in the memorandum, three trustees hold all of the stock of each of two investment companies for the benefit of the shareholders of The Fort Worth National Bank. The investment companies would not fall within the definition of a bank holding company since neither of them owns over 25 per cent of the stock of more than one bank, and the trustees themselves would not appear to be covered by the statutory definition. The question whether The Fort Worth National Bank should be considered a bank holding company therefore depended on the interpretation given to two clauses of section 2(a) of the Bank Holding Company Act. Clause (1) covers any company which directly or indirectly controls 25 per cent or more of the voting shares of two or more banks, while clause (3) covers any company for the benefit of whose shareholders or members 25 per cent or more of the voting shares of each of two or more banks is held by trustees. It was the opinion of the Legal Division that The Fort Worth National Bank should be regarded as a bank holding company within the meaning of the Bank Holding Company Act on the basis of these two clauses, particularly

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clause (3), and there was submitted with the memorandum a letter to that effect which would be sent to the Federal Reserve Bank of Dallas.

The memorandum also pointed out that an almost identical arrangement existed in at least one other case in Texas (Republic National Bank of Dallas). On the basis of an opinion by its counsel that it was not a bank holding company, Republic National Bank had not registered under the Bank Holding Company Act. Should it be held by the Board that The Fort Worth National Bank was a bank holding company, the Legal Division suggested advising Republic National Bank of the Board's position.

Since the question involved was debatable, the memorandum from the Legal Division suggested that the Board might wish to recommend an amendment to the Bank Holding Company Act which would clearly cover such situations. In the meantime, however, the door would be open for others to establish similar trusteeship arrangements in order to avoid compliance with the Act. On the other hand, if the recommendation of the Legal Division should be approved and if either or both of the banks involved should fail to comply with the Bank Holding Company Act in any respect, the Board could report the matter to the Department of Justice.

In reviewing the facts of the case, Mr. Hackley said that although the question was admittedly a close one, in the view of the Legal Division the objectives and purposes of the Bank Holding Company Act would be defeated unless The Fort Worth National Bank was held to be a bank holding company under the Act. The Division therefore felt that the pertinent

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language contained in the statute should not be construed in a strictly technical sense. This would involve the risk of having the Board's position contested in court and perhaps overruled but, if so, the way would be open to seek an amendment to the statute.

Governor Szymczak suggested that even if the position recommended by the Legal Division were adopted by the Board, it would still be possible to go to the Congress and recommend an amendment to the Bank Holding Company Act for the purpose of clarifying the situation.

Governor Robertson agreed, stating that he considered it essential to include such a recommendation in the report on the Bank Holding Company Act required to be submitted by the Board within two years after the date of enactment of the legislation.

In response to a question by Governor Shepardson, Mr. Hackley said that the Board's staff had not discussed the matter with the Department of Justice, even though a penal statute was involved, because it was felt that the Board had responsibility for interpreting the statute. He imagined it might be the view of the Justice Department that the Board was well acquainted with the history and objectives of the Bank Holding Company Act and that normally the Department would follow the Board's interpretation of the Act.

At the conclusion of the discussion, unanimous approval was given to a letter to the Federal Reserve Bank of Dallas in the form recommended by the Legal Division. A copy of the letter is attached to these minutes as Item No. 4.

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Mr. Hexter then withdrew from the meeting and Mr. Molony, Special Assistant to the Board, entered the room.

Testimony on S. 2160. Pursuant to the understanding at the meeting on Thursday, June 13, there had been sent to the members of the Board copies of a further revised draft of testimony to be given by Chairman Martin before the Small Business Subcommittee of the Senate Banking and Currency Committee concerning bill S. 2160, which would provide for the formation of national investment companies. Thursday, June 20, had now been set as the date on which the testimony was to be given.

The Chairman first called upon Mr. Riefler who said he considered it important, if investment companies of the kind proposed were to be organized, to know more about the actual situation and how such companies were supposed to function, so that the law could be more carefully drawn than at present. For this reason it appeared to him that a comprehensive study of the small business financing problem was quite essential. He also noted that the testimony as now drafted would signify the willingness of the Board to undertake several kinds of administrative responsibilities, and he suggested that it might be difficult to distinguish between purely mechanical functions and other operating responsibilities. It was his opinion that much could be said for the general position, originally regarded with some favor in the Board's discussions of the matter, against going ahead with the establishment of this new type of financial institution pending completion of a comprehensive study, but in the meantime

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providing tax advantages for existing State development corporations and legislation which would permit commercial banks to subscribe for stock in such corporations in relatively small amounts. While he would like to have legislation carefully drawn before member banks were permitted to subscribe for stock in new national investment corporations, he did not feel that any real harm would result from a number of banks purchasing small amounts of stock in the existing development corporations.

At the request of the Board, Mr. Noyes traced the principal changes that had been made in the several drafts of testimony considered by the Board, including the elimination of an endorsement of expanded financial participation by commercial banks in the State development corporations and a softening of the original suggestion for a comprehensive study of small business financing problems.

Governor Mills then made a statement in which he said that he believed the sentiment of the Board, in the course of discussion of the testimony, had veered away from an approach which, instead of commenting principally on the bill on which testimony had been requested, would have advanced the countersuggestion that the Federal Reserve would look with favor on the expansion of State development corporations, organizations dependent upon private capital. Such an approach, he said, could be open to criticism on the ground that in the judgment of the sponsors of S. 2160 and a large segment of the public a gap exists in the means of private financing available to small business and that the Federal

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Government therefore should sponsor some activity such as envisaged by the bill. He concluded by expressing the view that the Board would find itself in a difficult position if it were to maintain that there was not a gap in the existing credit facilities. With this in mind, he felt that it would be inadvisable for the Board to take a position unfavorable to the kind of activity contemplated by the proposed legislation.

In commenting on the latest draft of testimony, Mr. Noyes pointed out that it was intended to accommodate a wide variety of suggestions that developed in the course of Board discussion. He said that if any consistent philosophy had been carried through the several drafts of testimony, it was that financial participation by the Federal Reserve System in the proposed national investment companies or similar organizations would not be desirable. However, in an effort to be as cooperative as possible, the suggestion had been made that the Board express willingness to assume certain nonfinancial responsibilities. As to further studies of the small business financing problem, the latest draft still proposed additional study of the matter, but in much less specific terms than the earlier drafts. In substance, the latest draft represented an effort to give some encouragement to the approach embodied in S. 2160, but at the same time it would oppose very specifically financial participation by the Federal Reserve Banks in the proposed investment companies.

Mr. Riefler supplemented his earlier comments by saying that although

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a gap in the availability of financing of small businesses was generally acknowledged, the fundamental question was whether public money, either Federal Reserve funds or appropriated funds, should be provided to furnish the risk capital for a profit-making endeavor. Although the testimony would in general favor the approach embodied by the bill, the Board would prefer to see the investment companies privately financed. This problem led him to believe that the proper way to handle the matter would be to have first a general study of the subject. Mr. Riefler then discussed the functions of the existing State development corporations and expressed the view that they were performing a useful service in a modest way. Accordingly, he again suggested that a feasible interim approach would be to encourage the existing corporations by providing certain tax advantages and permitting relatively small stock investments in the corporations by commercial banks.

Further discussion of the approach contemplated by S. 2160 included the comment by Governor Mills that participation by commercial banks in national investment companies would tend to violate the principle established in existing legislation that commercial and investment banking should be separated. Along the same lines, Governor Mills suggested that examination of the national investment companies by examiners for the Federal Reserve System might involve conflicts of interest if commercial banks, also supervised by the Federal Reserve System, were to make loans to the investment companies. Mr. Masters stated that the reservations expressed by Governor

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Mills were also of concern to the Division of Examinations, particularly since the types of loans that the investment companies would make would be largely of a nature which Federal Reserve Bank examiners had not been trained to appraise.

Governor Robertson said he remained unconvinced that there was a need for the injection of public funds into an undertaking of this kind, certainly not Federal Reserve funds. However, in the latest draft of testimony, the Board would attempt to adopt a constructive attitude and would recognize the existence of a body of opinion to the effect that there is a gap in the area of small business financing. Also, the Board would take the position that if the proposed national investment companies were going to be established, there were certain services that the Federal Reserve System could properly perform. With respect to examination of the national investment companies, he said it would certainly be possible for examiners to ascertain whether loans made by the companies were in compliance with the law. Fundamentally, however, the testimony would maintain the position that the Federal Reserve System should not be called upon to provide capital for these organizations or to make decisions with regard to the allocation of credit among borrowers. All in all, he felt that the testimony represented a constructive approach and that at the same time it was in keeping with views heretofore expressed by the Board.

Governor Shepardson then reiterated his view that although it might be a mistake to provide Government funds for the purpose of lending to

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small businesses, it would be better under any such legislation for the Board to have some control over the program than to have the program carried out by some other agency. In this connection, he did not feel that lack of experience in appraising credits of the kind which would be extended under such a program represented an adequate argument against assuming the examination function. Neither did he believe that the conflict of interest argument would be persuasive if the law spelled out the types of credits considered appropriate by the Congress.

On the latter point, Governor Mills said that assumption of the examination function by the Federal Reserve would mean essentially that the examiners would be asked to call substandard loans acceptable, and that this would appear to him to be in conflict with the general responsibility of the examiner to segregate substandard loans in analyzing assets. The loans of the investment companies, he said, would not be guaranteed by the Government and probably would have very decided risk characteristics.

At the conclusion of the discussion, it was understood that further consideration would be given to the testimony at the meeting of the Board on Wednesday, June 19.

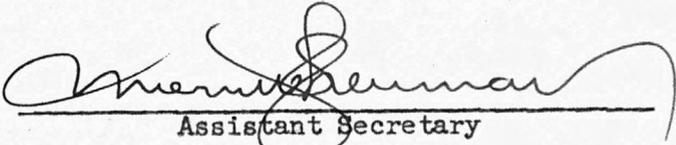
The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson accepted on behalf of the Board on June 14, 1957, the resignations of Frances T. Martin, Clerk, Division of International Finance, and Carroll G. Ray, Laborer, Division of Administrative Services, effective June 11, 1957, and June 15, 1957, respectively.

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On June 14, 1957, Governor Shepardson noted on behalf of the Board approval of the application of George S. Sloan, Director of the Division of Examinations, for retirement under the Retirement System of the Federal Reserve Banks, effective July 1, 1957.



Assistant Secretary

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

Item No. 1
6/17/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1957

Mr. H. G. Leedy, Chairman,
Conference of Presidents,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Leedy:

Letters have been received from Mr. Leach, Chairman of the Committee on Fiscal Agency Operations, and Mr. Erickson, Chairman of the Committee on Collections and Accounting, regarding the service of someone from the Board's staff as associate member of the Subcommittee of Counsel on Fiscal Agency Operations and the Subcommittee of Counsel on Collections in the place of Mr. Vest, who retired at the end of March. For your information, the Board has designated Mr. Howard H. Hackley to serve as associate member of each of these Subcommittees of Counsel, and Mr. Leach and Mr. Erickson have been so advised.

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
6/17/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 17, 1957

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention: Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated April 2, 1957, enclosing copies of an application to organize a national bank at Gate City, Virginia, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by a representative of the Federal Reserve Bank of Richmond indicates that the proposed capital structure of the bank would be adequate. However, it appears that the prospects for profitable operations of the bank are not particularly favorable, the proposed management is lacking in the experience necessary to assure sound administration of its affairs, and there is not a sufficient need for the bank in the area. In view of the unfavorable factors in this situation, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

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

Item No. 3
6/17/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1957

BY MESSENGER

The Honorable,
The Comptroller of the Currency,
Washington 25, D. C.

My dear Mr. Comptroller:

In accordance with the provisions of section 3(b) of the Bank Holding Company Act of 1956, you are advised that Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, a bank holding company, has made application to this Board for prior approval by the Board of the acquisition of 2,950 shares of the capital stock of Capitol National Bank of Milwaukee, Milwaukee, Wisconsin. There is enclosed for your information a copy of the application, together with photostat copies of information amending and supplementing the application.

It will be appreciated if you will advise the Board in writing of your views and recommendations with respect to this application.

The date of receipt of this letter by your office must be made a part of the Board's records with respect to the application. Therefore, it will be appreciated if the enclosed copy of the letter is signed and returned with the date of receipt indicated thereon.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Enclosures

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

Item No. 4
6/17/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1957



Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 13, Texas.

Dear Mr. Pondrom:

This refers to your letters of January 10, and May 2, 1957, to Mr. Sloan, with their enclosures, regarding the status of The Fort Worth National Bank, Fort Worth, Texas, as a bank holding company under the Bank Holding Company Act.

From the information submitted with your letters, including the information contained in the registration statements filed by Trinity Investment Company and Fort Worth Investment Company, both of Fort Worth, Texas, it is understood that the factual situation is substantially as follows:

In accordance with the terms of a trust agreement dated May 31, 1947, three individual trustees hold all the stock of the Trinity Investment Company for the benefit of the shareholders of The Fort Worth National Bank, and the same individual trustees also own all the stock of the Fort Worth Investment Company for the benefit of the shareholders of such Bank. The Trinity Investment Company owns 37.03 per cent of the stock of West Side State Bank, Fort Worth, Texas, and the Fort Worth Investment Company owns 37.03 per cent of the stock of Riverside State Bank, Fort Worth, Texas. One of the trustees is an officer of The Fort Worth National Bank; and two of the three directors and all of the principal officers of each investment company are officers of The Fort Worth National Bank. It is also understood that in supervising the State bank of which it owns stock, each of the investment companies utilizes the services of The Fort Worth National Bank; that investments and changes in investments are made by each of the State banks on the advice of the Bond Department of The Fort Worth National Bank; that the examining committee of the board of directors of each of the State banks calls on The Fort Worth National Bank to assist in its annual examination; and that the pension plan of each of the State banks is handled by the Trust Department of The Fort Worth National Bank.

Under clause (3) of section 2(a) of the Bank Holding Company Act, a company is a bank holding company if 25 per cent or more of the voting shares of each of two or more banks is held by trustees for the

Mr. L. G. Pondrom

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benefit of the shareholders of such company. While the trustees in the present case do not directly hold the shares of the two State banks, they hold all the stock of the investment companies that directly own stock of the two State banks, and the two companies are engaged in no activities other than the holding of such bank stock.

In the circumstances of this case, it is the Board's opinion that 25 per cent or more of the stock of each of two banks is "held" by trustees for the benefit of the shareholders of The Fort Worth National Bank. Any other conclusion would contravene the intent of the statute, would lead to an almost absurd result, and might open the door to widespread evasion of the purposes of the law. In addition, the origin and history of the arrangement involved and the relationships between The Fort Worth National Bank, the investment companies, and the two State banks are such as to indicate that the National Bank exercises indirect control over voting shares of such State banks within the meaning of clause (1) of section 2(a) of the Act. It is the Board's conclusion, therefore, that The Fort Worth National Bank is a bank holding company within the meaning of the Act and must comply with its provisions.

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 order to allow the Bank a reasonable time within which to prepare its registration statement, the Board has further extended the time for the filing of such statement by the Bank until August 15, 1957.

It will be appreciated if you will advise The Fort Worth National Bank of the Board's views as expressed in this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.