Minutes for September 25, 1958

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.

Chm. Martin
Gov. Szymczak x
Gov. Vardaman 1/
Gov. Mills x
Gov. Robertson x
Gov. Balderston x
Gov. Shepardson x

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 the Board of Governors of the Federal Reserve System on Thursday, September 25, 1958. The Board met in the Special Library at 10:30 a.m.

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

Mr. Fauver, Assistant Secretary
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Shay, Legislative Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Miss Dingle, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
Mr. Davis, Assistant Counsel

Discount rates. Unanimous approval was given to a telegram to the Federal Reserve Bank of San Francisco approving the establishment without change by that Bank on September 24, 1958, of the rates on discounts and advances in its existing schedule.

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:
Letter to the Union Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in the vicinity of Eastern Avenue, S.E. and Alger Street, S.E. (For transmittal through the Federal Reserve Bank of Chicago)

Letter to the Peoples State Bank, Artesia, New Mexico, approving an additional investment in bank premises. (For transmittal through the Federal Reserve Bank of Dallas)

Letter to the Lovington National Bank, Lovington, New Mexico, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Dallas)

Letter to Citizens Commercial Trust and Savings Bank of Pasadena, Pasadena, California, approving the establishment of a branch in La Canada, Los Angeles County. (For transmittal through the Federal Reserve Bank of San Francisco)

Banking statistics (Items 5 and 6). Prior to the meeting a memorandum dated September 18, 1958, from Messrs. Thomas, Leonard, and Young had been distributed to the members of the Board relating to certain proposals for the improvement of statistics on bank credit and the money supply. The memorandum contained a summary of the replies to the Board's letter of July 28 on this subject to the Federal Reserve Banks. It appeared that the Reserve Banks were unanimously in favor of a speed-up, through the use of preliminary data, of the monthly report on assets and liabilities of all banks in the United States and also the addition of new mid-month reports, in preliminary and final form, covering only commercial banks but comparable to the monthly report on assets and liabilities of all banks. With regard to the proposal for member
bank reporting of United States Government demand deposits and vault cash on the report of deposits for reserve computation purposes, nine Reserve Banks endorsed the proposal and three opposed.

The memorandum recommended that the new preliminary month-end report and the new preliminary and final mid-month reports be adopted. It suggested that after an adequate trial period with the new data consideration be given to the elimination of the final mid-month report. In view of the objections of the three Reserve Banks to the addition of statistical items on required reports, it proposed that the Reserve Banks be given the option of obtaining data on United States Government demand deposits and vault cash by one of three alternative methods.

Attached to the memorandum were proposed letters to the Bureau of the Budget and to the Reserve Banks to carry out the recommendations, if approved by the Board.

Following a brief discussion the Board unanimously agreed with the recommendations presented and approved the sending of the letters in the form attached to these minutes as Items 5 and 6.

Speculative activity in Government securities market. Governor Mills indicated that he would like the Board to consider another matter involving banking statistics and relating to alleged speculative activity in the Government securities market. He said he wished to raise the question whether it would be desirable to go behind the basic statistics on bank loans to see whether an amendment made on August 16,
1957, to the regulations regarding national bank loans secured by direct obligations of the United States might have been a contributing factor to the speculative activity involved in the Treasury 2-5/8 issue financing in June 1958.

He recalled for the Board that this amendment had removed the limitation of 25 per cent of the paid-in capital stock and surplus on the amount of credit which could be extended to an individual borrower so long as the security for the credit was a Government obligation which would mature within 18 months. He also expressed the feeling that there might have been some lending by commercial banks, particularly that involving "rights" on the 2-5/8 issue, which would have conformed with the liberalized regulation at the time the loans were made but would not have been in compliance if the borrowers were forced to take delivery of the securities because of the declining market prices.

There followed a general discussion of the need for a special study of speculative activity in the Government securities market during the early part of the summer and of various ways in which information concerning this activity might be obtained. Mr. Riefler raised the question whether the study should be the primary responsibility of the Division of Research and Statistics and the Division of Examinations, or whether perhaps the technical market committee at the Federal Reserve Bank of New York should collect the relevant information. It was the consensus that the study should be
made by the Board's staff but that all possible sources of information should be tapped. Reference was made to the visit in July of representatives of the New York Stock Exchange at which time it was indicated the Board would receive a report of the investigation made by the Stock Exchange concerning this matter. Other possibilities cited for source material included the June 23 call report, the examination reports of member banks, and a special study which could be made of banks outside New York City which might have been deeply involved.

Governor Shepardson asked Governor Mills if he was correct in drawing the inference that if the information obtained pointed to the change in regulations made in August 1957, the Board would then suggest taking another look at the change approved at that time. Governor Mills replied that it might well be that the good intentions at the time of making that amendment to the regulations had been negated by undue speculative activity.

Mr. Young mentioned that it seemed quite likely that at the next session of Congress there would be some probing to determine just what had happened in the securities markets last summer. Certainly the series of articles by Mr. Slevin in the New York Herald Tribune might well be the starting point, and it was his view that the System should be fortified with as complete a picture as possible of what had happened.

Governor Robertson agreed with this point and suggested that Governor Mills be asked to coordinate the activities of the staff in
undertaking such a study. He recognized that it would be a sizable undertaking and expressed the hope that Governor Mills would assume the task. The Board concurred with Governor Robertson's suggestion, and Governor Mills indicated that he would be willing to direct the study. It was understood that a target date of early spring would be set for completion.

Automobile instalment credit data (Item No. 7). On September 24 there had been distributed to the members of the Board a memorandum from Mr. Young relating to a proposal for improving the collection of data on automobile instalment contract terms. The memorandum stated that at present the Division of Research and Statistics was obtaining information on terms from a sample of commercial banks and from three of the largest sales finance companies. It proposed that information be collected from the 20 largest sales finance companies that engage in automobile financing and an additional sample of 60 small and medium-size companies. It was indicated that the American Finance Conference was willing to cooperate in the development of such a series.

It was agreed unanimously to approve the recommendation of the Division of Research and Statistics and the sending of the letter attached as Item No. 7 to the Bureau of the Budget.

At this point Messrs. Thomas, Eckert, and Conkling, and Miss Dingle left the meeting.

Interpretation of section 6(a) of the Bank Holding Company Act (Item No. 8). Prior to the meeting Mr. Solomon had distributed to the
members of the Board a memorandum dated September 23, 1958, relating to
a request from the Federal Reserve Bank of San Francisco for further
interpretation by the Board of participations between banks under
section 6(a) of the Bank Holding Company Act. Mr. Solomon explained
that this was a routine request for a further interpretation of the
Board's letter of August 19, 1958, which expressed the view that certain
participations described therein between co-subsidiary banks of a bank
holding company were permissible under the cited section. The specific
question raised by the inquiry from the San Francisco Bank was whether
the participation would cease to be permissible by reason of the fact
that the notes representing the original loan were made payable to the
originating bank and then endorsed to the participating bank. In
explaining the interpretation Mr. Solomon said that the form of the
transaction was not important so long as in substance it met the test
previously spelled out in the Board's letter.

There was unanimous agreement with the proposed interpretation,
a copy of which is attached to these minutes as Item No. 8. It was
understood that the interpretation would be sent to all Reserve Banks

Acquisition of small business investment company shares by
Citizens & Southern National Bank (Item No. 9). Prior to the meeting
there had been distributed to the members of the Board a memorandum from
Mr. Davis, Legal Division, dated September 23, 1958, regarding a request
for an interpretation of certain provisions of the Bank Holding Company Act in relation to the Small Business Investment Act of 1958. The Board had received a request from the Federal Reserve Bank of Atlanta inquiring whether the Citizens & Southern National Bank or any of its banking subsidiaries under the Bank Holding Company Act might acquire shares of a small business investment company organized pursuant to the Small Business Investment Act of 1958.

The memorandum pointed out that Citizens & Southern National Bank, a registered bank holding company, and its subsidiary banks proposed to organize and subscribe for stock in a small business investment company which would be chartered pursuant to the terms of the Small Business Investment Act. The question was separable into whether it was possible for the Citizens & Southern National Bank itself to acquire shares of such a company and whether it was possible for subsidiary banks of the bank holding company to acquire shares in a small business investment company which was a subsidiary of the parent bank holding company.

Mr. Davis reviewed the contents of the memorandum for the Board. He pointed out that section 5136 of the Revised Statutes provides in part: "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation." The Small Business Investment Act expressly authorized national banks to
purchase shares of small business investment companies. Nothing stated elsewhere in that Act or in its legislative history suggested that shares of stock in small business investment companies would not be eligible for purchase by a national bank if such bank were a bank holding company. Accordingly, Mr. Davis pointed out, acquisition of shares in a small business investment company by a bank holding company such as Citizens & Southern would appear to be exempted from the general prohibitions contained in section 4 of the Bank Holding Company Act.

The question whether subsidiary banks of Citizens & Southern or of any bank holding company might acquire shares of a small business investment company which was a subsidiary of the parent bank holding company was somewhat more difficult, Mr. Davis stated. Section 6(a)(1) of the Bank Holding Company Act made it unlawful for a bank to invest any of its funds in the capital stock of a bank holding company of which it is a subsidiary or in any other subsidiary of such bank holding company. If Citizens & Southern should purchase 25 per cent or more of the voting shares of a small business investment company, such company would become a "subsidiary" of the bank as that term is defined by the Bank Holding Company Act. The question would then arise whether shares of such "subsidiary" company could be purchased by banking subsidiaries of Citizens & Southern.

It was the view of the Legal Division, Mr. Davis said, that section 6 of the Bank Holding Company Act prohibited the purchase by
banking subsidiaries of Citizens & Southern of stock of a small business investment company organized under the Small Business Investment Act where that company was a subsidiary of the bank holding company. A proposed letter to this effect to the Federal Reserve Bank of Atlanta had been distributed with the memorandum.

Mr. Hackley added to Mr. Davis' statement by indicating that the Legal Division did not feel it could presume that Congress had intended the Small Business Investment Act to supersede provisions of the Bank Holding Company Act. He recognized that the question was one of considerable interest to bank holding companies and their subsidiary banks as well as to the Small Business Administration. He pointed out that if the Board's recommendations for amendments to the Bank Holding Company Act had been acted on favorably by the Congress, this question would not have come up inasmuch as the subsidiaries of the bank holding companies would have been able to engage in any activities in which national banks are permitted to engage.

Mr. Shay observed that in its consideration of the Small Business Investment Act, Congress had been anxious to get as much as possible of the financing for such institutions from private sources and especially from commercial banks. He raised the question whether as a practical matter it was necessary to consider the second point regarding investment by holding company subsidiaries. It appeared to him that counsel for the bank had raised only the first question, to which the Board was able to
give an affirmative answer. This procedure might avoid placing the System in a position of appearing to block or impede the progress and development of small business investment companies.

Mr. Hackley replied that this was a possible alternative but that he thought it would mean merely postponing the evil day inasmuch as the question had already been suggested by counsel in another Federal Reserve district.

Governor Mills remarked that he was concerned whether the proposed interpretation might not be raising a distinction without a difference and he was concerned about the effect of such an interpretation on the attitude of the large holding company groups in the northwest toward the formation of similar small business investment corporations when they learned about such limitations. There was a question in his mind whether it was appropriate to stand strictly on the letter of the law or whether it was more desirable to follow an interpretation in accord with the spirit of the law.

Governor Balderston stated that his primary interest was in the lack of discretion which a subsidiary of a holding company might have with regard to purchasing or not purchasing the shares of such an investment corporation. He was afraid, he said, that the subsidiary companies would have little freedom of decision.

Governor Robertson commented that so long as there was a doubt about the language of a law, then the Board was in a position where it
could construe the matter in terms of "spirit"; but that when the law was specific, as in this case, then he felt it was the Board's duty to administer the laws as it found them. Mr. Hackley added to this that the Legal Division had tried to find a way to interpret the law so that means could be found to permit this type of investment but that it could reach no other conclusion than the one proposed.

Returning to the element of freedom of choice by a subsidiary of a parent holding company, Governor Balderston stated he was concerned about how the Board would answer the point that an individual commercial bank would have a free choice in making an investment in such a company but that a subsidiary bank would not have such a free choice. Mr. Riefler inquired whether any thought had been given by Congress to public policy aspects of the wholly captive position of subsidiary holding company banks, to which Mr. Hackley replied that this was inherent in the provisions of section 6 of the Bank Holding Company Act which limited the investments of subsidiary banks within a given holding company group. On this point Governor Robertson suggested that perhaps thought should be given to a discussion with the Small Business Administration on the principle of whether or not it is desirable for all of the stock of a small business investment company to be owned by a single institution.

Governor Szymczak said he would like to see the Board be in a position to aid and assist the development of the investment companies
but that he did not see how it could be done in this case if the provisions of the law were clear. He recognized the point which had been made by Mr. Shay about postponing consideration of the matter of investments by subsidiary banks, but on balance he felt it more desirable to proceed with the proposal of the Legal Division.

Governor Mills said his position was contrary to that of Governor Szymczak and that he took the view that if it was a legal investment for both a national bank and a member state bank, then there was reasonable justification for the Board to permit a similar investment by a subsidiary bank of a bank holding company group. He thought it would be desirable to make such an interpretation at the present time and then later present an explanation to Congress and request a revision in the wording of the law to clarify the interpretation.

Governor Shepardson said he held the same view as Governor Balderston with regard to the pressure that there might be on subsidiary banks for the making of such investments in subsidiary companies of their parent holding company. However, he thought the limitations in the law with regard to investment by a single institution were sufficient to safeguard the public interest. He was not disputing the interpretation of the law, he said, but he considered the apparent intent of Congress to be controlling, and therefore agreed with the position of Governor Mills.
At this point Governor Balderston said it appeared that a majority of the members of the Board present would favor the recommendation of the Legal Division and he inquired whether it would be the Board's wish to delay a final decision until a full Board was present. To this, Governor Mills responded by saying that a quorum of the Board was present and that he felt the Board should act with finality at this time. He did not object, he said, to being recorded in the minority.

Thereupon the Board approved the recommendation of the Legal Division and the sending of a letter to the Federal Reserve Bank of Atlanta expressing the Board's views in the form attached to these minutes as Item No. 9. Governors Mills and Shepardson dissented.

At this point Mr. Shay withdrew from the meeting.

City Bank, Detroit, Michigan, application for branch (Item No. 10). Prior to the meeting there had been circulated to the members of the Board an application by the City Bank, Detroit, Michigan, for permission to establish an out-of-town branch in the vicinity of Auburn and Crooks Roads, Avon Township, Oakland County, Michigan. The State authorities had approved the establishment of the branch and the Federal Reserve Bank of Chicago had recommended approval provided the capital of the bank was increased a minimum of $1,000,000 through the sale of additional common stock. The Division of Examinations had recommended disapproval of the application because of the inadequate capitalization of the applicant. While the application was in
circulation, Governor Mills attached the following statement expressing his view that the application should be approved:

"According to my understanding, it has been a general policy not to refuse applications to establish branch banks solely on considerations of capital inadequacy. Such being the case, the subject application should be decided on other grounds. The City Bank is not a problem bank and it can be assumed that as its asset position is reasonably satisfactory the additional liabilities that would be incurred through the establishment of the proposed branch would not be of sufficient importance to justify refusing the application and, additionally, the bank can reasonably be expected to generate sufficient additional capital from retained earnings to support its expansion. Accordingly, it is my judgment that the application should be approved but that the City Bank's management should again be informed that in the Federal Reserve Board's judgment the introduction of additional capital into the bank is highly desirable and that its absence militates against giving the bank's requests the kind of endorsement that they might otherwise deserve."

In opening the discussion Governor Mills read the above statement and went on to express the opinion that denial of this particular application would be in conflict with a policy adopted by the Board a year or so ago to the effect that branch applications would not be held up because a particular bank was undercapitalized. He said he was referring to the case of the Randallstown Bank, Randallstown, Maryland, in which an additional branch office had been approved conditioned on the provision of additional capital.

In responding to Governor Mills' statement, Mr. Masters said it was his understanding that the Board's policy was that it would not approve branches for a bank that was not adequately capitalized. The
usual practice, he said, was simply to withhold approval, indicating to the bank that when it had achieved an adequate capital position the branch application could be resubmitted for consideration by the Board. This would be in contrast, he said, to a policy of approving branch applications subject to a condition of the provision of additional capital by undercapitalized banks. He called attention to the fact that The Michigan Bank case recently decided by the Board was unique in this respect and that the Board's approval of the branch application in that instance was conditioned on the form of capital to be added.

Governor Mills reiterated his view that lack of adequate capital should not be considered an overwhelming impediment to the establishment of a branch. He said he did not feel that a bank should have to wait for a branch until it could demonstrate tangible evidence of additional capital having been provided. He also felt that there was a tendency to apply mechanical measurements to a bank's statement to test the adequacy of capital. Such measurements, he felt, should only be guides, while the general condition of a bank, its asset structure, and the capacity of its management should be the overriding factors.

Governor Robertson commented that the applicant bank in this instance was a bank which at one time had been a problem bank and subsequently had been taken over by new management which was doing an excellent job of getting the bank in good condition. It still was
badly undercapitalized. It was his understanding that it was not the Board's policy to use branch applications as a "sledge hammer" to bring about correction of an undercapitalized situation. On the other hand, he felt that if in a given situation there was not adequate capital, the Board was under obligation to consider that as a fact, and often a fact upon which the application might fall. If the bank later came back with an improved capital position, the Board was in a position to approve.

Governor Balderston said he was concerned that too restrictive a policy with regard to branches in the case of undercapitalized banks might actually work against itself. In view of the steady move toward suburban areas, it might well be, he felt, that a bank might not be able to compete effectively unless it was able to establish branches where the business was located and in this way it would be prevented from building up its earning position and hence being able to add to its capital structure. In response to this comment, Governor Robertson pointed out that it was somewhat of a vicious circle. If a bank was going out to get new business, that meant that the capital position would be weakened even after allowance for earnings to be used for capital purposes. He said Mr. Masters had correctly stated what he believed the Board's policy to be in this respect.

Governor Balderston said he recognized the point which Governor Robertson was making and that in large part it depended on how quickly
the operations of a new branch might become profitable and thereby stop being a drain on the parent bank. If a branch could reach a profit-making stage within two years, it seemed to him that additional branches might be justified.

Mr. Hexter observed that it was difficult for him to tell when the denial of branch applications was being used as a bludgeon and when it was not. He stated that when the Board says to a member bank, "We think your capital is inadequate and we won't approve your branch application, but if you come back later with more capital we'll reconsider," that seemed to him to be at least a bludgeon wrapped in velvet.

Governor Shepardson said he also had difficulty distinguishing such cases and he was concerned about the frequency with which the problem of capitalization was recurring in the cases that were coming before the Board. He did not disagree, however, with the recommendation in this case.

In response to a question from Governor Balderston about the profit prospects of the proposed branch, Mr. Masters stated that the management was quite optimistic about its success. It expected the branch to be in the black after the third year of operation at least. He added that if the amount of capital had been a borderline matter, he thought it might have been possible to stretch a point with regard to this application. Here, however, application of the formula showed
a need for $2,000,000 of additional capital, and even on a most lenient basis an additional $1,000,000 would be required. Governor Robertson added that the management realized the need for additional capital and probably could raise the amount desired by public subscription, but as in so many similar cases the management did not wish to relinquish any degree of its present control.

At the conclusion of the discussion the Board agreed to the recommendation of the Division of Examinations and to the sending of the letter attached to these minutes as Item No. 10 to the Board of Directors of the City Bank. It was understood that the letter would be forwarded through the Federal Reserve Bank of Chicago. Governor Mills dissented.

Firstamerica matter. Governor Balderston inquired whether the members of the Board were in agreement at this time on the necessity for a public hearing with regard to the application of Firstamerica Corporation to acquire shares of the California Bank, Los Angeles, with a view to merging that bank and the First Western Bank and Trust Company of San Francisco. This subject, he said, was closely related to memoranda from Mr. Hackley dated September 18 and 24, 1958, regarding proposed procedures on holding company applications. It did not appear, however, that the Board was ready to consider these memoranda at the present time, and, in view of the urgency of the Firstamerica matter, he wondered whether a decision could be made with regard to a hearing on that particular case.
Following a brief discussion it was unanimously agreed that a public hearing would be desirable in this matter in view of the public interest involved and the fact that virtually the entire State of California would be affected by the resulting merger. It was understood that the Legal Division would proceed with arrangements to obtain a qualified hearing examiner and would consult with counsel for the applicant concerning an appropriate time and place at which such hearing could be most conveniently held. It was also understood that Mr. Hackley would make arrangements as to the assignment of Board counsel in this matter.

Thereupon the meeting adjourned.

Secretary's Notes:

On September 23, 1958, Governor Balderston, acting in the absence of Governor Shepardson, approved on behalf of the Board the recommendation contained in a memorandum from Mr. Leonard, Director, Division of Bank Operations, dated September 18, 1958, that the budget of that Division be amended by the authorization of an additional position, a Statistical Clerk in the Call Report Section, to be filled when a suitable applicant is available in Grade FR-3 or Grade FR-4, depending on the applicant's experience.

Governor Balderston also approved on behalf of the Board a letter to the Federal Reserve Bank of Boston (attached Item No. 11) approving the designation of Fred D. Sahagian as special assistant examiner.

Pursuant to the action taken by the Board on September 8, 1958, the letter of which a copy
is attached as Item No. 12 was sent to the Presidents of all Federal Reserve Banks on September 24, 1958, with the concurrence of Governor Shepardson.

On September 24, 1958, Governor Shepardson approved on behalf of the Board the following items:

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

Appointment

Rodney Halstead Mills, Jr., as Economist in the Division of International Finance, with basic annual salary at the rate of $6,435, effective the date he assumes his duties.

Transfer

Robert B. Bangs, from the position of Chief of the Far Eastern Section in the Division of International Finance to the position of Economist in the Division of Research and Statistics, with no change in his basic annual salary at the rate of $13,070, effective the date he assumes his new duties.

Acceptance of resignation

Jane Donohoe, Secretary, Division of Personnel Administration, effective October 3, 1958.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 13) approving the designation of C. R. Chalkley as special assistant examiner.

Letter to Mr. Charles F. C. Raikes, c/o White & Case, New York, New York, confirming financial arrangements incident to his participation in the Board's emergency planning work for a period of approximately six weeks; namely, a per diem in lieu of subsistence at the rate of $12, a stipend of $25 for each day of work, and transportation expenses from New York to Washington, D. C., and return.
Pursuant to the recommendation contained in a memorandum dated September 18, 1958, from Mr. Masters, Director, Division of Examinations, Governor Shepardson today approved on behalf of the Board the appointment of Norman C. Pursley as Assistant Federal Reserve Examiner in that Division, with basic annual salary at the rate of $4,490, effective the date he assumes his duties.
Board of Directors,
Union Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of Eastern Avenue, S.E. and Alger Street, S.E., Grand Rapids, Michigan, by Union Bank and Trust Company, Grand Rapids, Michigan, provided the branch is established within six months from the date of this letter and approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Peoples State Bank,
Artesia, New Mexico.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment by the Peoples State Bank of $32,500 in bank premises.

It is understood that depreciation will be continued in accordance with your established rates.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,  
Lovington National Bank,  
Lovington, New Mexico.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New Mexico, the exercise of all such rights to be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the Lovington National Bank is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.
Board of Directors,
Citizens Commercial Trust and Savings Bank of Pasadena,
Pasadena, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Beulah Drive and Foothill Boulevard, in the unincorporated community of La Canada, Los Angeles County, California, by the Citizens Commercial Trust and Savings Bank of Pasadena, Pasadena, California, provided the bank's basic capital is increased to $500,000 to meet the requirements of State law, the branch is established within six months from the date of this letter, and the approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Paul F. Krueger, Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Krueger:

We are enclosing two copies of your forms 83 and of drafts of two revised forms: Form F. R. 644, Loans and securities of member banks; and Form F. R. 414, Computation of reserve to be carried with the Federal Reserve Bank by member banks.

The purpose of these proposed revisions is to meet the need for more accurate and quickly available banking statistics which has become more pressing, particularly with the development of our seasonally adjusted figures on the money supply and the growing attention to money supply behavior as a factor in System policy determination. Considerable effort has been made to develop adequate methods of estimating credit and money supply movements from other information, particularly from data for weekly reporting member banks. However, these methods have sometimes resulted in wide margins of errors in the estimates. Even our "final" figures on the money supply are subject to substantial and largely unknown margins of error due to inadequate information on bank holdings of United States Government demand deposits and vault cash. Both items must now be estimated in deriving the privately held money supply, and existing estimating procedures are subject to errors.

The only change in Form F. R. 644 is to make it a semi-monthly form. All non-weekly reporting banks would be requested to report the same three items as of the mid-month Wednesday (the Wednesday falling on or before the 15th) in addition to the last Wednesday of each month.

The Reserve Banks generally favor these changes. Three of the Banks objected to obtaining additional data on the report of deposits required for reserve purposes. Accordingly, in approving the proposal, the Board is suggesting that the Reserve Banks obtain
daily data for these two items by any one of the following three alternative methods: (a) adding vault cash and United States Government demand deposits to their reports of deposits for reserve purposes; (b) obtaining them on a separate report; or (c) obtaining them on a perforated form detachable from the report of deposits for reserve purposes. The adoption of these proposals would involve additional reporting by member banks, but it is believed that they would have little or no difficulty in supplying these data.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Dear Sir:

This refers to the Board's letter of July 28, 1958, which proposed three changes that would improve current statistics on banking.

All of the Reserve Banks favored the speed up, through use of preliminary data, of the monthly report on "Assets and Liabilities of All Banks in the United States" (Board of Governors Release G.7), and all favored the new mid-month report covering only commercial banks but comparable in form to the monthly release. One Reserve Bank suggested that the mid-month report be tabulated only on a preliminary basis as it would seem possible to make a good estimate of the mid-month "final" after studying the relationship of preliminary and final figures at the month end for a few months.

The Board concurs in the adoption of the preliminary end-of-month and the preliminary and final mid-month reports. After the new procedures have been in operation for an adequate period for studies to be made of the relationships of the preliminary and final figures, it would be appreciated if you would send us your comments on the continued need of the final mid-month data. If they are not needed as bench marks for the preparation of preliminary last-Wednesday data, this report could be eliminated.

Most of the Reserve Banks favored the third proposal: the addition of statistical items, vault cash and United States Government demand deposits, to the required report of deposits for reserve purposes. However, two banks objected to the addition, to a report required by law, of items that would be used for statistical purposes; another bank proposed that the two items should be collected on another form.

Accordingly, in approving this proposal, the Board suggests that the Reserve Banks obtain daily data for these two items by any one of the following three alternative methods: (a) adding vault cash and United States Government demand deposits to the reports of deposits for reserve purposes; (b) using a separate report; or (c) using a perforated form detachable from the report of deposits for reserve purposes. The reports of deposits for reserve purposes are printed at the individual Reserve Banks and there is no necessity for uniformity in the forms.
At the suggestion of some Reserve Banks, for consistency with the other items in the report of deposits for reserve purposes, the reporting of vault cash has been changed from the close of business to the opening of business.

It is requested that the Reserve Banks begin reporting the preliminary last-Wednesday data on form F. R. 635 as of September 24, 1958, on the basis of current forms. Bureau of the Budget approval is being requested for mid-month reporting on form F. R. 644 and for daily reporting of vault cash and the United States Government demand deposits on the basis of the attached forms. You will be advised by telegram of Budget Bureau approval numbers. Collection of these additional data should begin at that time, and it is hoped that the Reserve Banks may begin reporting preliminary and final mid-month data as of November 12.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
September 25, 1958

Mr. Paul F. Krueger,
Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Krueger:

We are enclosing two copies of form F.R. 584b proposed for use in obtaining monthly information on automobile instalment contract terms from a sample of sales finance companies. We are also enclosing two copies of your form 83, Request for Clearance.

The information obtained on this form will supplement data we are now collecting from commercial banks and will permit the preparation of monthly estimates of the distribution of automobile instalment contract terms at both banks and sales finance companies, which together hold about 90 per cent of all automobile instalment paper.

The reporting form has been designed with the assistance of a committee composed of representatives from Robert Morris Associates, American Finance Conference, General Motors Acceptance Corporation, and CIT Financial Corporation. It is consistent with the form developed by Robert Morris Associates for the use of commercial banks in obtaining similar information from sales finance companies for their credit files. The American Finance Conference has indicated its willingness to cooperate in developing a reporting sample.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
An interpretation published at p. 1059 of the September 1958 Federal Reserve Bulletin expressed the view that certain participations described therein between co-subsidiary banks of a bank holding company are permissible under section 6(a) of the Bank Holding Company Act of 1956.

In connection with a participation which is otherwise permissible under that interpretation, the Board has been asked the further question whether the participation would cease to be permissible by reason of the fact that the notes representing the original loan were made payable to the originating bank and then endorsed to the participating bank. In response the Board expressed the opinion that such a participation would continue to be permissible with such a procedure, provided the participation was otherwise permissible under the earlier interpretation and the procedure was provided for in advance by the participation agreement between the banks.
September 25, 1958

Mr. Harold T. Patterson,
Vice President and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Patterson:

This refers to your letter dated August 22, 1958, enclosing a letter dated August 13 from Mr. Henry J. Miller, an attorney for Citizens & Southern National Bank, requesting an opinion by the Board of Governors with respect to whether that bank holding company and its banking subsidiaries may acquire stock in a small-business investment company organized pursuant to the Small Business Investment Act of 1958.

It is understood that Citizens & Southern National Bank, a national bank and a registered bank holding company, and its subsidiary banks propose to organize and subscribe for stock in a small-business investment company which would be chartered pursuant to the Small Business Investment Act of 1958 which provides for long-term credit and equity financing for small-business concerns.

As you know, section 302(b) of the Small Business Investment Act authorizes national banks, as well as other member banks and non-member insured banks to the extent permitted by applicable State law, to invest capital in small business investment companies not exceeding one per cent of the capital and surplus of such banks. Section 4(c)(4) of the Bank Holding Company Act exempts from the prohibitions of section 4 of that Act "shares which are of the kinds and amounts eligible for investment by National banking associations under the provisions of section 5136 of the Revised Statutes". Section 5136 of the Revised Statutes (paragraph "Seventh") in turn provides, in part, as follows:

"Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation". (Underscoring supplied)
Mr. Harold T. Patterson.  

Since the shares of a small-business investment company are of a kind and amount expressly made eligible for investment by a national bank under the Small Business Investment Act of 1958, it follows, therefore, that the ownership or control of such shares by a bank holding company would be exempt from the prohibitions of section 4 of the Bank Holding Company Act by virtue of the provisions of section 14(c)(4) of that Act. Accordingly, the ownership or control of such shares by Citizens & Southern National Bank would be exempt from the prohibitions of section 4 of the Bank Holding Company Act.

An additional question is presented, however, as to whether section 6 of the Bank Holding Company Act prohibits banking subsidiaries of Citizens & Southern National Bank from purchasing stock in a small-business investment company where that company is a "subsidiary" under that Act.

Section 6(a)(1) of the Act makes it unlawful for a bank "to invest any of its funds in the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company". Section 6(b) of the Act exempts from the prohibitions of section 6 the capital stock of any company described in section 14(c)(1) of that Act, but fails to exempt also investments in stock that fall within that part of section 14(c)(4) which exempts from the divestment requirements of the Act shares eligible for investment by national banks under section 5136 of the Revised Statutes.

It might be argued that, since Congress deemed it proper for a holding company bank to invest in shares of the types of companies described in section 14(c)(1) of the Act, it would also be proper for banking subsidiaries of a bank holding company to purchase shares eligible for investment by national banks under section 5136 of the Revised Statutes. However, the express wording of the Act is to the contrary.

In the absence of any facts which would seem to justify the Board in ignoring the present wording of section 6 of the Bank Holding Company Act and until section 6(b) of that Act is amended to include reference to section 14(c)(4) (as indicated above and as recommended by the Board in its Report to the Congress of May 8, 1958), the Board is, therefore, compelled to conclude that section 6 prohibits the purchase by banking subsidiaries of a bank holding company of stock of a small-business investment company organized pursuant to the Small Business Investment Act of 1958, where that company is or will be a subsidiary of the bank holding company.
Mr. Harold T. Patterson.

Accordingly, section 6 of the Bank Holding Company Act prohibits banking subsidiaries of Citizens & Southern National Bank from purchasing stock in a small-business investment company organized pursuant to the Small Business Investment Act of 1958, where that company is or will be a subsidiary of Citizens & Southern National Bank. However, this prohibition would not apply to investment by the holding company alone in voting shares of such a small-business investment company even though the latter would constitute a subsidiary under the Bank Holding Company Act; nor would it apply if the holding company and its banking subsidiaries should not together acquire as much as 25 per centum of the voting shares of such a small-business investment company and that company was also not otherwise a subsidiary of the bank holding company.

It will be appreciated if you will transmit to Mr. Miller the substance of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
City Bank,
Detroit, Michigan.

Gentlemen:

Reference is made to your application submitted through the Federal Reserve Bank of Chicago for permission to establish a branch in the vicinity of Auburn and Crooks Roads, Avon Township, Oakland County, Michigan.

The Board of Governors has given consideration to all available information and has concluded that it would not be justified in approving this application because the present capital structure of City Bank is believed to be inadequate in relation to the volume of its business and insufficient to support the proposed expansion. The Board would be willing to reconsider the application for a branch when provision is made for a satisfactory capital structure of the bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. William R. King, Assistant Vice President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. King:

In accordance with the request contained in your letter of September 18, 1958, the Board approves the designation of Fred D. Sahagian as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of all State member banks.

The authorization heretofore given your bank to designate Mr. Sahagian as a special assistant examiner is hereby cancelled.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.
Dear Sir:

An inquiry has been received by the Board of Governors concerning the Board's position toward the payment to Reserve Bank officers of annual salaries in excess of the amounts set by the Reserve Banks' Boards of Directors and approved by the Board of Governors.

The inquiring Reserve Bank is on a biweekly pay basis, with the amount paid each pay day being computed by dividing the officer's annual salary by 26. Thus, the fixed annual salary is fully paid in 260 work days but, because there are 261 or 262 work days in some years, pay day dates advance progressively by the number of days in excess of 260 so that 27 pay days occur at intervals of about eleven years. In a year in which an extra pay day would occur, salary payments to each officer would exceed the annual salaries approved.

It is the Board's position that the salary payments to a Reserve Bank officer for a calendar year should not exceed the annual salary approved by the Board of Directors of his Bank and by the Board of Governors. Administrative details regarding salary payments should be determined by each Reserve Bank.

Since it appears that certain Banks have followed the practice of accruing credit to individual officers for days in excess of 26 pay periods each year and that such accruals have been paid to officers upon their separation, the Board will not object to the payment of any existing accruals with the understanding that this practice will be discontinued effective January 1, 1959.

The foregoing policy is not intended to apply to salaries of employees.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.
Mr. John L. Nosker, Assistant Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of September 22, 1958, the Board approves the designation of C. R. Chalkley as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of all State member banks except the Southern Bank and Trust Company, Richmond, Virginia.

The authorization heretofore given your bank to designate Mr. Chalkley as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.