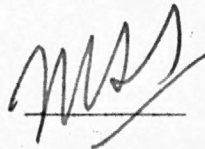


The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on October 29, 1958, has been amended at the request of Governor Mills to edit his statement beginning with the third paragraph on page 5 and continuing through the second full paragraph on page 7.

If you approve these minutes as amended, please initial below.

Governor Szymczak

A handwritten signature in dark ink, appearing to be 'MSZ', written over a horizontal line.

Minutes for October 29, 1958

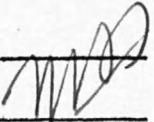

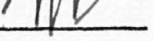
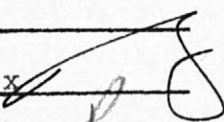
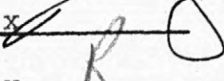
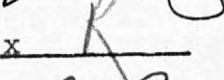
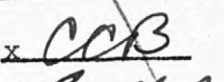
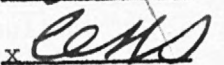
To: Members of the Board

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.

	A	B
Chm. Martin	<u></u>	x <u></u>
Gov. Szymczak	x <u></u>	<u> </u>
Gov. Vardaman <u>1/</u>	<u></u>	x <u> </u>
Gov. Mills	x <u></u>	<u> </u>
Gov. Robertson	x <u></u>	<u> </u>
Gov. Balderston	x <u></u>	<u> </u>
Gov. Shepardson	x <u></u>	<u> </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 the Board of Governors of the Federal Reserve System
on Wednesday, October 29, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Fauver, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations

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 First State Bank, Dumas, Texas, approving its request to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Dallas)	1
Letter to the Levelland State Bank, Levelland, Texas, approving the establishment of a branch near the present bank building and approving an investment in bank premises. (For transmittal through the Federal Reserve Bank of Dallas)	2

Application to organize a national bank in Kansas City, Missouri.

Prior to the meeting there had been circulated a proposed letter to the Comptroller of the Currency stating that the Board did not feel justified in recommending approval of an application, signed by Mr. Henry H. Edmiston, to organize a national bank in Kansas City, Missouri. This recommendation was based on an investigation and adverse recommendation by the Kansas City Reserve Bank, which had concluded that there was not now sufficient

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need for the bank in the area where it would be located.

Mr. Masters reviewed the application, noting that the new bank would be located in a shopping center scheduled for completion during the coming year, that there were already two banks within a few blocks of the site, and that three other banks depended on business from the area to be served by the proposed bank. While the executive staff of the bank had not been fully selected, the organizers, including Mr. Edmiston, a former member of the Board's staff and a former officer of the Federal Reserve Bank of St. Louis, appeared to be responsible individuals and expected to provide capital funds of \$500,000, which was believed adequate. The organizers expected profitable operations the first year, which the investigator thought optimistic. The report also brought out that 29 banks were operating within the corporate limits of Kansas City, indicating that the area was now somewhat excessively served and that a new bank would affect the potential of existing banks.

Governor Balderston stated that where a group of responsible businessmen was willing to put adequate capital into a new banking venture, he felt it important that the System be certain of its grounds before making an unfavorable recommendation to the Comptroller of the Currency.

Governor Mills shared this concern and expressed the view that it might be a different matter if Missouri were a branch banking State. With good management, an independent bank as proposed here might easily succeed. He was reluctant to exercise a judgment from this distance that the promoters' appraisal was wrong.

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Mr. Masters agreed this was a borderline case. However, the review examiner had been thoroughly familiar with the Kansas City situation, and in the light of his conclusion which concurred with that of the Kansas City Bank, the Division of Examinations had little choice but to make an adverse recommendation. Mr. Masters also noted that the final decision was that of the Comptroller of the Currency, and the Board's recommendation would be only one of the elements that the Comptroller would consider.

Governor Robertson agreed that the Examinations Division could hardly come up with a different position in this case. However, he doubted whether anyone could say that the bank could not succeed in an area the size of Kansas City. He was reluctant to prevent those who wanted to "try their luck" from having a chance, and suggested that the Kansas City Bank be asked for additional information on whether the public interest would be jeopardized if the application were granted and whether existing banks would be injured, on the basis of which information the Board would again consider the matter.

Governor Robertson's suggestion was approved.

Status of Commodity Credit Corporation Certificates of Interest

(Item No. 3). Prior to the meeting there had been distributed a memorandum from Mr. Solomon, dated October 28, 1958, discussing whether transfers of Commodity Credit Corporation Certificates of Interest were "discounts" under section 6(a)(4) of the Bank Holding Company

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Act, which forbids a bank to make "any loan, discount, or extension of credit" to its holding company or any fellow subsidiary. The Commodity Credit Corporation had inquired in its September 16 letter whether the Certificates should be considered subject to section 6(a)(4) or exempt. If they were exempt, their use by bank holding company banks would be somewhat facilitated. The memorandum, which resulted from further staff study in accordance with the understanding at the meeting on September 29, reviewed the technical legal distinctions to be drawn in interpreting the status of these Certificates of Interest and presented alternative drafts of reply to the Commodity Credit Corporation. Draft "A" would hold the Certificates to be "discounts" subject to section 6(a)(4) of the Bank Holding Company Act, which would prohibit their transfer within a bank holding company system, whereas draft "B" would hold the Certificates to be exempt from the provisions of section 6(a)(4).

Mr. Solomon said that arguments could be offered on both sides but that it was the Legal Division's view that to be consistent with the Board's decision in the General Contract Corporation case, the Certificates of Interest should be considered as "discounts". To hold the Certificates as exempt from the provisions of section 6(a)(4) would open the way to a charge that the Board was not applying the present law consistently. The most clear-cut approach would be to amend the law and thereby clear up the status of the Certificates under the statute, but such action could not be taken in time to help in replying to the September 16 letter from the Commodity Credit Corporation.

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Governor Szymczak felt the Board had no alternative but to interpret the law as it stood at the moment. He expressed the hope that the Department of Agriculture would help get the law changed.

Governor Robertson said he had struggled with the technicalities of this situation and while he would prefer to do otherwise, he had concluded that transfers of the Certificates were subject to the provisions of section 6(a)(4) of the Bank Holding Company Act relating to "discounts". The Board could not be in the position of trying to interpret the law to fit particular situations, he said, adding that the statute ought to be changed and that the bank holding companies themselves might try to get this done. This was a case where the law was doing something that was not intended, but the Board should stick with the principle that we have a law of laws in this country and not a law of men.

Governor Mills reiterated the views that he had stated at the meeting on September 29 and his belief that a rule of reason should be applied to this particular case. Basically, he said, the problem has two sides: first, the problem of a severely restrictive interpretation of section 6(a)(4) that would be an impediment to the circulation of Commodity Credit Corporation loans from one subsidiary bank holding company bank to another and where such loans had originated from such subsidiary banks; and, second, the problem of defining the status of Commodity Credit Corporation Certificates of Interest as to whether they were loans or securities.

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With regard to the first of these two problems, he said, an adverse decision on the Commodity Credit Corporation's problem would unnecessarily set up a roadblock to the ready circulation of Commodity Credit Corporation paper from subsidiary bank to subsidiary bank of a bank holding company group in cases where the changing deposit positions of such subsidiary banks would give a basis for shifting CCC paper from one to another of the subsidiary banks in keeping with the fluctuations in their deposit positions and loan demands. He stated further that to deny the facilities for such circulation of Commodity Credit Corporation paper raised an unnecessary obstacle to the operation of bank holding companies operating in predominantly agricultural districts; it also stood to complicate the problems of the Commodity Credit Corporation, which would be burdened with the need of absorbing Commodity Credit Corporation paper through the use of United States Treasury funds that could otherwise be retained by subsidiary banks of bank holding companies if section 6(a)(4) of the Bank Holding Company Act was construed by the Board according to a rule of reason.

The classification of these Certificates as "loans" on the statements of condition was an arbitrary decision, he said, and primarily a matter of convenience rather than because of their inherent characteristics which bear a comparison to securities. Inasmuch as the Commodity Credit Corporation Certificates of Interest represented a total pool of loans and inasmuch as the Board had previously ruled that subsidiary banks of bank holding companies could transfer participations in loans originated

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by a single subsidiary bank to other subsidiary banks, he believed the Board would be justified in allowing subsidiary banks of bank holding companies to shift Commodity Credit Corporation Certificates of Interest from one to the other. Another way of looking at it would be to consider the parent bank holding company as technically holding a portfolio of Certificates of Interest for the benefit of its subsidiary banks and with the knowledge that participations in the portfolio could be freely allocated back and forth among the subsidiary banks.

On the basis of these views, Governor Mills said he favored draft "B" of the proposed letter that had been distributed.

Governor Shepardson said he recognized the legal difficulties but that his inclination was to agree with the position of Governor Mills if there was any basis for applying a rule of reason in interpreting the law. He observed that draft "B" attempted to construe the Certificates, if considered securities, as being outside the public debt. Commenting on this, Mr. Solomon said that the draft attempted to do this, but he was not convinced that it achieved this point.

Governor Balderston stated he had no doubts about the Board's decision in the General Contract case where the word "discount" appeared in the statute itself and where it was clear that the transfer of paper was in effect a discounting process. Nothing in the legislative history of the Bank Holding Company Act permitted the Board to overlook that fact. He inquired whether there was anything in the legislative history

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as clearly applicable to the Certificates of Interest to indicate the intention of Congress, to which Mr. Solomon replied that the legislative history was silent on this point, which in itself was a negative factor.

Governor Balderston then said that if he had to vote today he would take a decision consistent with that taken in the General Contract case. Until the law was modified, it was necessary to assume that the word "discount" covered the transfer of these Certificates. He wondered whether the matter could be postponed until all members of the Board could be present.

Governor Mills said he believed this was a matter that deserved an early decision because the crop marketing season was at hand. If it was not the disposition of the Board to accommodate the circulation of these Certificates within a bank holding company system, then these companies and the Commodity Credit Corporation deserved to know.

Mr. Hackley said that without the precedent of the General Contract case, the Legal Division would have felt it had a freer hand. In view of the dictum in that case wherein "paper" was distinguished from "loans" and "other assets", it would be difficult to hold that the transfer of these Certificates was not a "discount". The argument made in draft "B" was about the best that could be made and was fairly persuasive, although it would be somewhat difficult to defend. He was not convinced that Commodity Credit Corporation would be too happy with the basis of the interpretation in draft "B" because of the suggestion that the Certificates were in a similar class to Government securities,

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whereas neither Commodity Credit Corporation nor the Treasury wanted them to come under the public debt.

Mr. Solomon added that in informal conversations the staff of Commodity Credit Corporation were almost apologetic for having raised the question because they recognized the difficulty of distinguishing these transfers from "discounts".

After further discussion, the Board agreed, Governor Mills voting "no", to send the letter attached to these minutes as Item No. 3 to the Controller of the Commodity Credit Corporation, U. S. Department of Agriculture. On this action, Governor Shepardson stated that while he did not wish to be recorded as voting against the sending of the letter, he would have preferred another conclusion.

Thereupon the meeting adjourned.

Secretary's Notes:

Advice was received during the day from the Federal Reserve Bank of Cleveland that the directors of that Bank had established, subject to the approval by the Board of Governors, rates of 2-1/2 per cent on discounts and advances under sections 13 and 13a of the Federal Reserve Act, 3 per cent on advances under section 10(b), 4 per cent on advances under the last paragraph of section 13, and establishment without change of other rates in the Bank's existing schedule. Pursuant to the authority given by the Board on October 27, 1958, the Secretary advised the Cleveland Bank by telegram of approval of these rates, effective October 30, 1958. All Federal Reserve Banks and branches were notified of this action by telegram, a press statement was issued in the usual form, and arrangements were made for publication of a notice in the Federal Register.

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Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Appointment

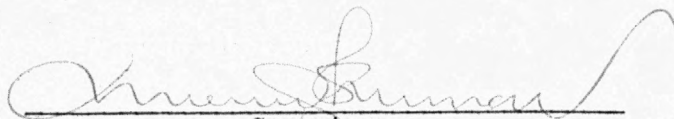
Susan Speakman Hill as Clerk in the Division of International Finance, with basic annual salary at the rate of \$3,685, effective the date she assumes her duties.

Transfer

Doreen Dippre, from the position of Secretary in the Office of the Secretary, to the position of Secretary in the Office of Defense Planning, with no change in her basic annual salary at the rate of \$5,730, effective November 3, 1958.

Outside activity

Joyce Ann Meyer, Clerk-Stenographer, Division of Research and Statistics, to accept part-time employment as a waitress at the Hot Shoppes, Inc., for evenings and week-ends.


Secretary

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

Item No. 1
10/29/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1958



Board of Directors,
First State Bank,
Dumas, Texas.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the First State Bank to exercise the fiduciary powers now or hereafter authorized by its Articles of Incorporation and the laws of the State of Texas.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
10/29/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1958

Board of Directors,
Levelland State Bank,
Levelland, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves the establishment of a branch approximately 30 feet removed by public thoroughfare from the present bank building. The Board of Governors, as requested, further approves, under the provisions of Section 24A of the Federal Reserve Act, the additional investment by the Levelland State Bank, Levelland, Texas, of \$36,000 in bank premises.

It is understood that depreciation will be continued at not less than your established rates.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 3
10/29/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1958

Mr. J. J. Somers, Controller,
Commodity Credit Corporation,
U. S. Department of Agriculture,
Washington 25, D. C.

Dear Mr. Somers:

This refers to your letter of September 16, 1958, regarding the possible application of section 6(a)(4) of the Bank Holding Company Act of 1956 to transfers of Commodity Credit Corporation Certificates of Interest between banks which are subsidiaries of the same bank holding company.

In the General Contract Corporation case, Federal Reserve Bulletin for March 1958, at page 260, the Board expressed the view that the nonrecourse purchase of paper by a bank from another subsidiary of the same bank holding company constitutes a "discount" within the meaning of section 6(a)(4) of the Bank Holding Company Act, which forbids any bank "to make any loan, discount or extension of credit to" its bank holding company or any fellow subsidiary.

The Board's Statement in that case said, among other things, that:

"It is to be understood, of course, that the purchases referred to here are purchases of paper--promissory notes, bills of exchange and the like. As the Examiner indicated (p. 285) bank discounts as commonly understood do not apply 'to a bank's acquisition through purchase of other assets, securities or obligations, such as, for example, corporate stocks, bonds or debentures.'"

As indicated by this quotation from the Board's Statement, it seems appropriate to consider the limitation on "discounts" as, in general, applying to those assets usually considered to be "loans" and not applying to those usually considered to be "securities".

With that in mind, and looking to the nature of the present Certificates, it is seen that the call report of condition of State



Mr. J. J. Somers

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member banks treats these Certificates as loans. They are included on the reverse side of the form under Schedule A, Loans and Discounts, as Item 4(a) - "Loans directly guaranteed by the Commodity Credit Corporation and Certificates of Interest representing ownership thereof". It may also be noted that under section 2(b)(2) of the Board's Regulation A, relating to advances and discounts by Federal Reserve Banks, these Certificates are treated, in effect, as being "eligible paper" under the Federal Reserve Act. It is also understood that these Certificates are not considered to be subject to the limitation on the public debt stated in section 21 of the Second Liberty Bond Act, as amended (31 U.S.C. sec. 757b).

In the circumstances, while it could be argued that these Certificates have some characteristics similar to those of securities, the better view would seem to be to treat them as "paper", as they have apparently been treated in other connections. Accordingly, it is the view of the Board that transfers of the Certificates are subject to the provisions of section 6(a)(4) of the Bank Holding Company Act relating to "discounts".

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.