

Minutes for February 24, 1959

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	x <u>M</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, February 24, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Nelson, Assistant Director, Division
of Examinations
Mr. Benner, Assistant Director, Division
of Examinations
Mr. Hill, Assistant to the Secretary
Miss Hart, Assistant Counsel
Mr. Holahan, Supervisory Review Examiner,
Division of Examinations

Discount rates. Unanimous approval was given to telegrams to
the following Federal Reserve Banks approving the establishment without
change by those Banks on the dates indicated of the rates on discounts
and advances in their existing schedules:

New York	February 19
Philadelphia	February 19
Chicago	February 19
Atlanta	February 23

Bank holding company investments (Items 1 and 2). There had
been circulated to the Board a draft of letter to all Federal Reserve
Banks with respect to the extent to which a bank holding company and

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its subsidiary banks may acquire stock of small business investment companies organized pursuant to the Small Business Investment Act of 1958. As indicated in an interpretation published in the October 1958 issue of the Federal Reserve Bulletin, the investment of a bank holding company in stock of such a company would be limited to one per cent of its capital and surplus, and question had arisen with regard to the definition of "capital and surplus." The proposed letter reflected the opinion of the Legal Division that the term should be interpreted in accordance with generally accepted accounting and reporting procedures applicable to the investing entity, in the present case the bank holding company. The second question concerned the method of applying the one per cent limitation when all or part of the shares of the small business investment company were owned by a subsidiary or subsidiaries of the bank holding company. On the theory that ownership or control of stock by a subsidiary should be regarded as an indirect ownership or control of such stock by the parent, the Legal Division was of the opinion, and the letter would state, that the amounts invested in a small business investment company by the holding company and by its subsidiaries must not exceed one per cent of the holding company's capital and surplus when added together.

In discussing these questions, Mr. Hackley pointed out, with respect to the second, that this appears to be the only interpretation possible under the statutes. While question had been raised within the

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staff as to whether the interpretation would not be quite restrictive in its effect, a check indicated that most bank holding companies appeared to have written up their capital and surplus to the underlying value on their subsidiary banks' books.

After further discussion, during which Mr. Hostrup observed that it would be difficult to find any other reasonable basis for measuring the extent of permissible investments and the comment was made that the bank holding companies would be likely to suggest a change in the law if the interpretation proved too restrictive, the proposed letter was approved unanimously. A copy is attached hereto as Item No. 1.

In addition, there had been distributed to the Board a draft of a second letter to all Federal Reserve Banks, likewise with regard to the applicability of provisions of the Bank Holding Company Act to the acquisition by a bank holding company of stock of a small business investment company. Question had arisen as to whether a bank holding company would be regarded as having acquired "direct or indirect ownership or control" of stock of a small business concern in violation of section 4(a) of the Bank Holding Company Act if, under section 304 of the Small Business Investment Act, the debentures of such a concern were converted into stock. Since section 4(c)(4) of the Holding Company Act was apparently intended to permit a bank holding company to acquire any stock that would be eligible for purchase by a national bank, it was the

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opinion of the Legal Division that section 4(a)(1) of the Act would not prohibit a bank holding company from acquiring stock of a small business investment company even though this might result in indirect ownership or control of stock of a small business concern not eligible for purchase directly by a national bank or bank holding company.

During discussion of this question, Governor Mills observed that such an interpretation would permit a bank to use its interest in a small business investment company as a vehicle for engaging in some type of business which might be considered inadvisable from the bank supervisory standpoint, or in fact prohibited.

Mr. Hackley said that the problem raised by Governor Mills was recognized by the staff. However, the provisions of the law were such as to permit national banks to invest up to a certain amount in stock of a small business investment company and the view had been expressed by the Office of the Comptroller of the Currency that the investment would be a permissible holding even if debentures of a small business concern held by the small business investment company were converted into stock. Thus, the proposed interpretation would go no further in the case of a bank holding company than a national bank. When the bank holding company legislation was being developed, Mr. Hackley said, the point raised by Governor Mills might not have been thought of; in the event of abuses, correction could probably be achieved through amendment of the law.

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While this question had been raised by one particular bank holding company, Mr. Hackley advised that the Association of Registered Bank Holding Companies was aware that the question had been submitted and any response made by the Board undoubtedly would be made known to all bank holding companies. Therefore, it seemed advisable to send the interpretation to all Federal Reserve Banks and publish it in the Federal Register and the Federal Reserve Bulletin.

Thereupon, Governor Mills* comment having been noted, the proposed letter was approved. A copy is attached as Item No. 2.

Miss Hart then withdrew from the meeting.

Application of Harvard Trust Company (Item No. 3). At the meeting of the Board on February 9, 1959, it was decided to hold in abeyance the application of Harvard Trust Company, Cambridge, Massachusetts, to establish a branch in Littleton until Governor Robertson had ascertained from the Comptroller of the Currency the status of the competing application of the First National Bank of Ayer, Massachusetts. In a memorandum dated February 18, 1959, which had been distributed to the Board, Governor Robertson reported advice from the Comptroller which indicated that the Ayer bank was interested primarily in averting the possibility of Harvard Trust Company establishing a branch in Littleton, and not particularly interested in going into Littleton itself. He therefore felt the Harvard Trust application should be approved.

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On the basis of Governor Robertson's report, unanimous approval was given to a letter to Harvard Trust Company advising of favorable action on its application. A copy is attached as Item No. 3.

Mr. Nelson then withdrew and Mr. Young, Director, Division of Research and Statistics, entered the room.

Hearings on administered prices (Item No. 4). A draft of reply to a letter from Chairman Kefauver of the Senate Subcommittee on Antitrust and Monopoly inviting Chairman Martin to testify at further hearings on administered prices to be held March 10 through March 13 had been distributed to the Board.

After some discussion of the wording of the reply, unanimous approval was given to a letter in the form attached hereto as Item No. 4.

Messrs. Thomas, Young, Shay, and Molony then withdrew from the meeting.

Pan American Bank of Miami (Item No. 5). In a memorandum distributed to the Board under date of February 20, 1959, Governor Robertson reported a telephone call he had received from Mr. James Sottile, President of the Pan American Bank of Miami, Miami, Florida, with respect to the proposed public sale of stock of South Dade Farms, Incorporated, part of the proceeds of which were to be transferred to the Pan American Bank. Mr. Sottile apparently wanted the Board to agree to withdrawal of the South Dade Farms commitment to remove \$2 million of adversely

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classified paper from Pan American Bank so that the commitment would cease to be a complicating element in the analysis of South Dade Farms' condition by the auditors and prospective underwriters. Mr. Sottile was told that it was doubtful whether the Board would agree to withdraw the commitment until the capital structure of Pan American Bank was increased by the agreed \$3 million but that the Board might be willing to let the matter remain in status quo while the underlying negotiations, SEC registration, and actual sale of the stock were in process. In effect, this would mean that South Dade Farms would not be required to purchase \$1 million of Pan American Bank's classified paper by March 31, 1959, the stipulated date for the first step. On the basis that it seemed appropriate to cooperate with South Dade Farms to the extent consistent with the Board's responsibility, there was attached to Governor Robertson's memorandum a draft of letter to South Dade Farms expressing the Board's intention not to insist upon performance under the commitment as long as the present financing arrangements progressed in a satisfactory manner.

Governor Mills questioned whether the commitment was enforceable or of substantial value and whether South Dade Farms had the ability to comply with it unless additional stock was sold. He suggested that if the Board did not remove the commitment and it impeded the sale of stock, this would affect adversely the result the Board wanted.

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Governor Robertson said he likewise doubted whether the commitment had much value. However, he did not feel that the Board should release South Dade Farms from the commitment until there was more assurance that the additional stock would be sold. It might develop, after South Dade Farms had been released from the commitment, that the additional capital for Pan American was not going to be produced. Mr. Sottile, he said, had expressed agreement with a handling of the matter along the lines of the proposed letter.

Following a discussion of the matter in the light of the meetings between the Board and Mr. Sottile and his associates on January 19 and 20, 1959, the letter, attached to these minutes as Item No. 5, was approved.

The meeting then adjourned.

Secretary's Note: On February 20, 1959, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective February 22, 1959:

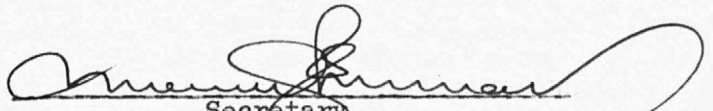
Katharyne P. Reil, Economist, Division of Research and Statistics, from \$7,335 to \$7,510 per annum.

George G. Noory, Analyst, Division of Bank Operations, from \$4,790 to \$4,980 per annum.

Memorandum from the Division of Examinations dated February 19, 1959, requesting approval of a dinner on March 11, 1959, in connection with the Conference of General Auditors of the Federal Reserve Banks and submitting a list of persons proposed to be invited.

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Governor Shepardson today approved on behalf of the Board telegrams to the Federal Reserve Bank of San Francisco (attached Items 6, 7, and 8) approving the appointment of Dennis E. Ross, Wayne Nickolas Condon, and Danila Mitrovich as assistant examiners.


Secretary

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

S-1687

Item No. 1
2/24/59



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1959.

Dear Sir:

An interpretation of the Board published at page 1161 of the October 1958 issue of the Federal Reserve Bulletin dealt with the question of whether, and to what extent, the Bank Holding Company Act of 1956 permits a bank holding company or its subsidiary banks to acquire shares in a small business investment company ("SBIC") organized pursuant to the Small Business Investment Act of 1958 ("SBI Act").

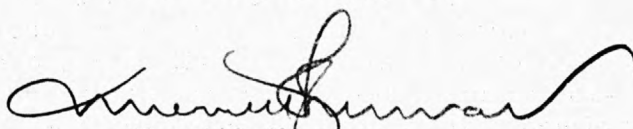
That interpretation pointed out that the general prohibition in section 4 of the Bank Holding Company Act against a bank holding company's acquiring "direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company" is subject to an exemption in section 4(c)(4) for stocks of the kinds and amounts eligible for investment by a national bank; that section 302(b) of the SBI Act permits a national bank to purchase shares of stock in SBIC's "in an amount aggregating not more than one per cent of the bank's capital and surplus"; and that, accordingly, a bank holding company may invest in stock of an SBIC up to the specified one per cent. The interpretation also expressed the view, however, that section 6(a)(1) of the Bank Holding Company Act applies a further limitation to banking subsidiaries of a bank holding company; and that under that section such a subsidiary bank could not invest in the stock of an SBIC if the SBIC is, or would become by the investment, a "subsidiary" of the bank's parent holding company.

Two further questions have arisen concerning the amount of stock of an SBIC that may be acquired by a bank holding company. The first relates to the definition of "capital and surplus" under the one per cent limitation of section 302(b) of the SBI Act. Since the amount of SBIC stock eligible for investment by a national bank under the SBI Act is limited to one per cent of the bank's capital and surplus, it is the Board's view that the amount eligible for investment by a bank holding company is similarly limited to one per cent of the holding company's capital and surplus. In order to apply this limitation, however, it is necessary to define the term "capital and surplus." While the matter is not entirely free from doubt, it is the opinion of

the Board that, since neither the SBI Act nor its legislative history supplies a definition, the term should be interpreted in accordance with generally accepted accounting and reporting procedures applicable to the investing entity, in the present case, the bank holding company.

The second question concerns the method of applying the one per cent limitation stated in section 302(b) of the SBI Act when all or part of the shares of the SBIC are owned by a subsidiary of the bank holding company. For example, the SBIC shares might be owned by a bank holding company which is a subsidiary of another bank holding company, or by a subsidiary bank in a case where the SBIC is not a subsidiary of the bank's parent holding company. Since ownership or control of stock by a subsidiary should be regarded as indirect ownership or control of such stock by the parent, the Board is of the opinion that the amount invested in an SBIC by the holding company and by its subsidiaries must be added together to determine whether the total amount directly and indirectly invested by the holding company exceeds the amount permissible, that is to say, exceeds one per cent of the holding company's capital and surplus. Assuming that no other exception is available in the particular case, acquisition or retention by the holding company of direct or indirect control of any amount in excess of that one per cent would be prohibited by section 4 of the Bank Holding Company Act. Thus, a particular subsidiary of a bank holding company could not invest in the stock of an SBIC if such investment, together with the investments of the parent bank holding company and of other subsidiaries, would exceed one per cent of the capital and surplus of the parent bank holding company.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

S-1688

Item No. 2
2/24/59



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1959.

Dear Sir:

A question has been raised concerning the applicability of provisions of the Bank Holding Company Act of 1956 to the acquisition by a bank holding company of stock of a small business investment company ("SBIC") organized pursuant to the Small Business Investment Act of 1958 ("SBI Act").

As indicated in the interpretation of the Board published at page 1161 of the October 1958 issue of the Federal Reserve Bulletin, it is the Board's opinion that, since stock of an SBIC is eligible for purchase by national banks and since section 4(c)(4) of the Holding Company Act exempts stock eligible for investment by national banks from the prohibitions of section 4 of that Act, a bank holding company may lawfully acquire stock in such an SBIC.

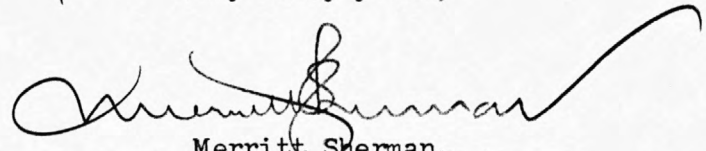
However, section 304 of the SBI Act provides that debentures of a small business concern purchased by a small business investment company may be converted at the option of such company into stock of the small business concern. The question therefore arises as to whether, in the event of such conversion, the parent bank holding company would be regarded as having acquired "direct or indirect ownership or control" of stock of the small business concern in violation of section 4(a) of the Holding Company Act.

The Small Business Investment Act clearly contemplates that one of the primary purposes of that Act was to enable SBICs to provide needed equity capital to small business concerns through the purchase of debentures convertible into stock. Thus, to the extent that a stockholder in an SBIC might acquire indirect control of stock of a small business concern, such control appears to be a natural and contemplated incident of ownership of stock of the SBIC. The Office of the Comptroller of the Currency has informally indicated concurrence with this interpretation insofar as it affects investments by national banks in stock of an SBIC.

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

Since the exception as to stock eligible for investment by national banks contained in section 4(c)(4) of the Holding Company Act was apparently intended to permit a bank holding company to acquire any stock that would be eligible for purchase by a national bank, it is the Board's view that section 4(a)(1) of the Act does not prohibit a bank holding company from acquiring stock of an SBIC, even though ownership of such stock may result in the acquisition of indirect ownership or control of stock of a small business concern which would not itself be eligible for purchase directly by a national bank or a bank holding company.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS


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

Item No. 3
2/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1959.



Board of Directors,
Harvard Trust Company,
Cambridge, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch at Littleton Common in the Town of Littleton, Massachusetts, by the Harvard Trust Company, provided the branch is established within one year from the date of this letter and approval of the State authorities is effective as of the date the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
2/24/59

OFFICE OF THE CHAIRMAN

February 24, 1959



The Honorable Estes Kefauver,
Chairman, Subcommittee on Antitrust
and Monopoly,
Committee on the Judiciary,
United States Senate,
Washington 25, D. C.

My dear Mr. Chairman:

Your letter of February 17, 1959, related that your Subcommittee would resume its hearings on administered prices for the period March 10 through March 13, and had invited me to testify at that time.

I appreciate the invitation; but as I am scheduled to be in the hospital during the first half of March, I will be unable to accept. However, there is enclosed a copy of a letter of February 5, 1959, to Senator Proxmire from Ralph A. Young, Director of the Board's Division of Research and Statistics, which was written in answer to Senator Proxmire's request at an economic review that the Board's staff presented to the Senate Committee on Banking and Currency on January 29, 1959. The statement referred to in the letter is that of Gardiner C. Means before your Subcommittee on January 24, 1959. The letter accompanies certain remarks of Senator Proxmire in the Congressional Record of February 9 and, therefore, probably has come to your attention already. The Board felt, however, that it might take this opportunity to forward a copy of the letter to you.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures 4

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

Item No. 5
2/24/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1959



South Dade Farms, Inc.,
Miami, Florida.

Gentlemen:

You have informed the Board of Governors of pending negotiations looking toward the public sale and distribution of common stock of South Dade Farms, Inc. that will provide the corporation with \$14 million for general corporate purposes. One object of this proposed sale and distribution is to facilitate a \$3 million increase in the capital structure of Pan American Bank of Miami, a member bank of the Federal Reserve System.

In a letter of July 24, 1958 addressed to the Federal Reserve Bank of Atlanta, Pan American Bank presented a program under which, among other things, "the Sottile interests" were committed to remove from Pan American Bank a total of \$2 million "of the present doubtful loan classifications contained in the March 31, 1958 examination" report of Pan American Bank. Of this amount, at least \$1 million was to be removed prior to March 31, 1959, an additional \$500,000 prior to March 31, 1960, and an additional \$500,000 prior to March 31, 1961. Enclosed with said letter was a letter in which South Dade Farms, Inc. pledged that it would carry out the above-mentioned commitment.

In a letter of January 20, 1959 to Pan American Bank, the Board of Governors stated that

"When the Board has been assured that definite arrangements have been made to provide the \$3 million [to be added to the capital funds of Pan American Bank], it will consent to a withdrawal of the commitment heretofore given, pursuant to which South Dade Farms agreed to take out of the bank within specified times a specified amount of the classified assets."

As indicated by the foregoing summary of correspondence, if the capital structure of Pan American Bank is increased, as a result of the pending program, by not less than \$3 million in cash through the sale of additional common stock of the bank, the above-mentioned commitment may be withdrawn and, in the opinion of this Board, it will cease to be a commitment or obligation of South Dade Farms, Inc.

South Dade Farms, Inc.

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You have informed the Board that the proposed public sale and distribution of stock may be consummated during April 1959, although an additional two or three months may be required, and that the \$3 million addition to the capital structure of Pan American Bank will take place promptly after such sale and distribution. On this basis, you have requested that, during the course of negotiations with underwriters, registration under the Securities Act of 1933, and the other steps involved in the sale and distribution, the Board of Governors refrain from insisting that South Dade Farms, Inc. purchase from Pan American Bank \$1 million of adversely classified loans prior to March 31, 1959, as required by the July 24, 1958 commitment.

As you are aware, this Board could not with propriety agree that it will in no event require prompt performance of the commitment, since a situation could conceivably arise in which the Board's supervisory responsibilities would require insistence that the commitment be carried out in strict accordance with its terms, including the specified dates. However, in the absence of major adverse developments, which are not anticipated, the Board will not require South Dade Farms, Inc. to carry out said commitment so long as the program of public sale and distribution of stock of South Dade Farms, Inc. and consequent increase in the capital structure of Pan American Bank continues to move forward in accordance with a time schedule that appears to the Board to be reasonable in a transaction of this nature and magnitude.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 6
2/24/59BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

February 24, 1959.

SWAN - SAN FRANCISCO

Reurlet February 11, 1959. Board approves appointment of Dennis E. Ross as assistant examiner for Federal Reserve Bank of San Francisco. Advise effective date of appointment and when United States citizenship has been granted.

(Signed) Kenneth A. Kenyon

KENYON

TELEGRAM
LEASED WIRE SERVICEItem No. 7
2/24/59BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

February 24, 1959.

SWAN - SAN FRANCISCO

Reurlet February 18, 1959. Board approves the appointment of Wayne Nickolas Condon as assistant examiner for the Federal Reserve Bank of San Francisco. Advise effective date of appointment.

(Signed) Kenneth A. Kenyon

KENYON

TELEGRAM
LEASED WIRE SERVICE

Item No. 8
2/24/59

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON**

February 24, 1959.

SWAN - SAN FRANCISCO

Reurlet February 17, 1959. Board approves appointment of Danila Mitrovich as an assistant examiner for Federal Reserve Bank of San Francisco. Please advise date of appointment.

(Signed) Kenneth A. Kenyon

KENYON

