

Minutes for April 30, 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>SS</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>	_____
Gov. King	x <u>[Signature]</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, April 30, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/  
Mr. Balderston, Vice Chairman  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Shay, Legislative Counsel  
Mr. Furth, Associate Adviser, Division of  
International Finance  
Mr. Sammons, Associate Adviser, Division of  
International Finance  
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  
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on April 27, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

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

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1/ Entered meeting at point indicated in minutes.

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	<u>Item No.</u>
Letter to the Gloucester Safe Deposit and Trust Company, Gloucester, Massachusetts, consenting to its proposed merger with the Manchester Trust Company, Manchester, Massachusetts, and approving the establishment of a branch in Manchester. (For transmittal through the Federal Reserve Bank of Boston)	1
Letter to the Manufacturers Trust Company, New York City, approving the establishment of a branch at 2026 Rockaway Parkway, Brooklyn. (For transmittal through the Federal Reserve Bank of New York)	2
Letter to The Union Commerce Bank, Cleveland, Ohio, granting an extension of time to establish a drive-in facility in the vicinity of 5000 Turney Road, Garfield Heights. (For transmittal through the Federal Reserve Bank of Cleveland)	3
Letter to the Limestone County Bank, Athens, Alabama, consenting to its proposed merger with the Farmers & Merchants Bank, Elkmont, Alabama, and approving the establishment of a branch in Elkmont. (For transmittal through the Federal Reserve Bank of Atlanta)	4
Letter to the City National Bank of Clearwater, Clearwater, Florida, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Atlanta)	5
Letter to the Rapides Bank & Trust Company in Alexandria, Alexandria, Louisiana, approving the establishment of a branch at Texas Avenue and Lee Street. (For transmittal through the Federal Reserve Bank of Atlanta)	6
Letter to the Farmers Trust Company, Franklin, Indiana, waiving six months' notice of withdrawal from membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of Chicago)	7
Letter to the Federal Deposit Insurance Corporation regarding the application of Farmers Trust Company, Franklin, Indiana, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.	8

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	<u>Item No.</u>
Letter to the First National Bank of Evergreen Park, Evergreen Park, Illinois, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Chicago)	9
Letter to the Comptroller of the Currency recommending unfavorably with regard to an application by the Punta Gorda State Bank, Punta Gorda, Florida, to convert into a national bank. (With a copy to the Federal Reserve Bank of Atlanta)	10

Small Business Investment Act (Item No. 11). There had been distributed to the Board a memorandum from Mr. Walter Young dated April 28, 1959, regarding a request from the Bureau of the Budget for the Board's views on a draft bill submitted by the Small Business Administration to amend the Small Business Investment Act of 1958. The memorandum enumerated the proposed changes in the law and noted that only section 5 of the draft bill was directly related to the responsibilities of the Board. This section would amend subsection 302(b) of the Small Business Investment Act, which provides that shares in small business investment companies may be purchased by national banks, by other member banks of the Federal Reserve System, and by nonmember insured banks to the extent permitted under applicable State law. The draft reply submitted with the memorandum made no comment on the proposed amendments except as to section 5. With respect to this section, the letter stated that the Board would have no objection to an amendment granting authority to banks which are subsidiaries of



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a bank holding company to invest in the stock of a small business investment company even if such investment would result in the small business investment company becoming a subsidiary of the bank's parent holding company. Certain changes in the language of this section were also suggested in order to eliminate ambiguities.

In discussing the draft bill, Mr. Hackley referred to the interpretation published in the October 1958 issue of the Federal Reserve Bulletin which took the position that under the law a subsidiary bank of a bank holding company could not acquire stock of a small business investment company if that company was or would become a subsidiary of the bank holding company. At the time this point was discussed, he recalled, there was some feeling within the Board that reasonable justification existed to permit this type of investment. It was assumed that the amendment was not intended to affect the Board's interpretation of section 4 of the Bank Holding Company Act which held that a banking subsidiary of a bank holding company could not invest in the stock of a small business investment company if such investment, together with the investment of the parent company and other subsidiaries, would exceed one per cent of the capital and surplus of the bank holding company.

Chairman Martin entered the room at this point.

Governor Shepardson said he questioned the logic of putting such a restriction on the aggregate investment of a bank holding company

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and its subsidiary banks. As he understood the basic philosophy, a purpose of the Small Business Investment Act was to encourage the participation of banks in small business investment companies, and he did not see why holding company banks should be restricted by a limitation other than one based on their own capital and surplus.

Mr. Hackley commented that in most cases the capital and surplus of the bank holding company was substantially equal to the capital and surplus of its subsidiary banks and that the holding companies apparently had not found the March 1959 interpretation objectionable. With certain exceptions, the Bank Holding Company Act prevents a holding company from directly or indirectly holding stock in a nonbanking company and the question whether to support a more liberal exemption under the Small Business Investment Act would come down to a matter of policy.

After reasons had been cited that would argue against permitting a more substantial aggregate investment in small business companies by bank holding companies and their subsidiary banks, at least at this early stage of experience with the small business legislation, Governor Shepardson indicated that since the problem did not appear to be a pressing one, he would not pursue it further at this time, even though he continued to have some doubt whether the extent of restriction now contained in the law was desirable.

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Thereupon, the proposed letter to the Bureau of the Budget, of which a copy is attached as Item No. 11, was approved.

Mr. Nelson withdrew during the foregoing discussion and Mr. Young withdrew at this point.

Inter-American Development Bank (Item No. 12). There had been distributed to the Board a draft of letter to the Bureau of the Budget in reply to a request of April 24, 1959, for a report on a draft bill "To provide for the participation of the United States in the Inter-American Development Bank." The position taken in the proposed reply was that the Board had no objection to, or comments on, the draft bill.

On April 17, 1959, when the proposal had not yet been formally transmitted to the Budget Bureau by the Treasury and was under consideration by the National Advisory Council staff committee, the Board gave consideration to one aspect of it at the request of members of its staff. The Board's view was that it would be inadvisable for the staff to suggest an amendment to the proposal which would make it clear that the Federal Reserve Act would not preclude the appointment of a member of the Board as a governor, executive director, or alternate of the Inter-American Development Bank. Doubt was expressed concerning the desirability of a member of the Board being appointed to a position with the Inter-American Development Bank or any similar international institution, particularly if he would be required to devote a substantial amount of time to such duties.

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Chairman Martin, who was not present at the meeting on April 17, stated that he concurred in the position taken at that time.

In discussion of the Budget Bureau's request, Governor Mills noted that one section of the draft bill would amend section 5136, Revised Statutes, so as to permit national banks to deal in, underwrite, and invest in securities of the Inter-American Development Bank in the same manner as securities of the International Bank for Reconstruction and Development. While he recognized that political considerations might make it impracticable to refrain from according parallel treatment, he pointed out that the securities would not be seasoned and that some time elapsed before securities of the International Bank were granted their current status under section 5136.

Comments with regard to the question raised by Governor Mills were to the effect that member banks would have the privilege of exercising their judgment regarding the securities and might be expected to do so. It was also felt that it would be difficult to imply that the securities of the Inter-American Development Bank were less deserving than those of the International Bank. Therefore, although Governor Mills' point was regarded as well taken, it was deemed preferable not to raise a question concerning the section of the draft bill to which he had referred.

Accordingly, the proposed letter to the Budget Bureau, a copy of which is attached as Item No. 12, was approved.



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Messrs. Furth and Sammons then withdrew from the meeting.

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of New York with regard to the status of Amalgamated Clothing Workers of America as a bank holding company.	13
Order granting the request of Otto Bremer Company for oral argument on May 11, 1959, in connection with its requests for determinations under section 4(c)(6) of the Bank Holding Company Act.	14

At this point Mr. Johnson, Director, Division of Personnel Administration, entered the room.

Limitations on loans by national banks (Item No. 15). At the meeting on March 27, 1959, there was a brief discussion of a memorandum from Mr. Hexter dated March 17, 1959, analyzing a draft bill submitted by the Treasury Department "To amend Section 5200 of the Revised Statutes, as amended, with respect to the maximum loan limitations of a national bank," most of the provisions of which were along the lines of recommendations made by the Comptroller of the Currency which were included in the proposed "Financial Institutions Act of 1957." Inasmuch as some of the members of the Board had not at that time had an opportunity to review Mr. Hexter's analytical memorandum thoroughly, there was no substantive discussion of it. However, it was agreed that Mr. Hexter would review the points covered therein with the Comptroller's Office before the Board discussed the matter further.

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In a memorandum dated April 29, 1959, which had been distributed to the Board, Mr. Hexter reported the results of a meeting with representatives of the Comptroller's Office on April 13, at which time he was informed that on the basis of comments in the March 17 memorandum the Comptroller's Office would probably modify its draft bill in a number of respects. However, there was a divergence of opinion on the substantive question of unlimited consumer instalment paper loans by national banks. The Comptroller apparently felt that such paper involved relatively slight risk and for that reason recommended that national banks be permitted to make unlimited advances to a single dealer or other customer who sells consumer instalment credit paper to the bank under his endorsement or guarantee. This proviso was originally included in the Financial Institutions bill at the suggestion of an advisory committee of bankers appointed by the Senate Banking Committee in 1956.

Mr. Hexter's current memorandum noted that all of the provisions in the Treasury's draft bill were included in H.R. 6092, recently introduced by Congressman Brown of Georgia, but that a number of the changes suggested by Mr. Hexter's March 17 memorandum could be recommended by the Comptroller when H.R. 6092 was referred to the Treasury Department for a report. A draft of reply to the Budget Bureau questioning the advisability of the unlimited consumer instalment paper proviso but supporting the objectives of the other provisions of the draft bill was submitted with Mr. Hexter's memorandum of April 29.

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After Mr. Hexter reviewed the nature and effect of the proposed legislation and stated reasons in support of the view that a question should be raised with the Budget Bureau regarding the advisability of liberalizing the statutory limitation with respect to advances by a national bank to the endorser or guarantor of instalment consumer paper, general agreement with his position was expressed. Accordingly, after a discussion which touched upon the distinctions between negotiable and non-negotiable paper and the competitive relationship between national and State banks from the standpoint of loan limitations, a minor change in the proposed letter was agreed upon and unanimous approval was given to a reply to the Bureau of the Budget in the form attached as Item No. 15.

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Cleveland approving continuation of the payment of salary to the Assistant Federal Reserve Agent at the present rate through June 30, 1959.	16
Letter to the Federal Reserve Bank of Chicago approving the payment of salary at specified annual rates to certain non-clerical employees.	17

Messrs. Johnson, Hostrup, and Hexter then withdrew.

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Stanford Business Conference. Chairman Martin advised that Mr. Riefler, Assistant to the Chairman, had been invited to participate in the Stanford Business Conference to be held July 20-22, 1959, at Stanford University, Stanford, California. There being no objection, Mr. Riefler was authorized to accept the invitation.

Amendments to Regulations T and U. Yesterday the Board received oral comments from a number of parties regarding the proposed amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which were published in the Federal Register under date of March 18, 1959. A transcript of yesterday's sessions has been placed in the Board's files.

Preliminary to further discussion of the proposed amendments, Governor Balderston made a statement substantially as follows:

After pondering the criticisms of the proposed amendments to Regulations T and U, I hold the following views as to the position that the Board should adopt:

- (1) It should issue some but not all of the amendments proposed;
- (2) In selecting those changes to be ordered, it should resort, with qualifications, to the following approach:
  - (a) Adopt the more significant provisions and abandon the less significant, at least for the time being.
  - (b) Confine its regulations strictly to the use of credit for the purchasing or carrying of securities. The Board should be careful not to allow its concern over the level of stock prices to influence its decision.
  - (c) In general, the regulations adopted should be confined to those that can be expressed with clarity.



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The general philosophy to which I have come is that the Congress has given to the Board a mandate to control the excessive use of credit in the stock market but that it has also imposed upon the Board, by implication at least, the burden of keeping the harness of control placed upon bankers and brokers in a reasonable relation to the good that seems likely to be accomplished. Since the effectiveness of the System as a supervisory agency depends in considerable degree upon the "ring of rightness" of its decisions, it is important that the Board confine its amendments to those that can be understood and that are so sensible as to command acceptance even by those whom they injure. I would therefore feel most comfortable myself if the Board, in the light of the suggestions and criticisms that have been received, were to distill out the more vital and understandable portions of the regulations for issuance as soon as the wording can be made crystal clear, even to laymen. In short, I would concentrate upon doing what informed brokers and bankers would believe in their own hearts to be needful and workable even though they may dislike the impact upon their own businesses. I would abstain from ramifying the regulations beyond the point where we can make them clear because of the adverse effect not only upon their acceptance but upon what I hope is a growing belief that the Federal Reserve does not relish regulation for the sake of regulation.

Governor Balderston concluded by saying that in view of his current philosophy, which was somewhat different from the position he took when the proposed amendments were being considered for publication in the Federal Register, he had asked members of the staff to endeavor to convert his general thinking into actual proposals that the Board might consider.

Mr. Young, Director, Mr. Noyes, Adviser, and Mrs. Ulrey, Economist, Division of Research and Statistics, and Mr. Solomon, Assistant General Counsel, entered the room during Governor Balderston's remarks.

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Chairman Martin commented that the Board, having now had the benefit of both written and oral comments by interested parties, might wish to endeavor to reach a meeting of the minds on the proposed amendments tomorrow. With that thought in mind, he suggested that the proposals be reviewed for the Board today in the light of the comments received.

The Chairman then turned to Messrs. Young and Solomon, who commented on the effect of the proposed withdrawal and substitution rules, both separately and in combination. During the course of these remarks, there were brought into the room and distributed copies of a staff memorandum of the type referred to by Governor Balderston which set forth factors that the Board might want to consider with respect to each of the proposed amendments published in the Federal Register. Mr. Solomon reviewed the memorandum in some detail, and it was then agreed that the proposed amendments would be considered further by the Board tomorrow.

All members of the staff then withdrew and the Board went into executive session.

Leave of absence for Mr. Hald. Governor Shepardson later advised the Secretary that during the executive session the Board gave consideration to a memorandum from the Division of Research and Statistics requesting permission for Mr. Earl Hald, Economist, Division

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of Research and Statistics, to accept a position as Economic Adviser under the United Nations Technical Assistance Program to the Government of Libya for a period of one year beginning on or about June 1, 1959, and approved unanimously such a leave of absence, with the understanding (1) that the United Nations would assume full responsibility for Mr. Hald's salary and expenses; (2) that the Division of Personnel Administration would work out the details with the Office of Personnel of the United Nations on either a leave of absence or a reimbursement basis so as to provide a minimum of complications with respect to retirement contributions and group life insurance coverage; and (3) that it would be the intention of the Division of Research and Statistics to replace Mr. Hald with an academic economist if possible.

The meeting then adjourned.

Secretary's Notes: On April 29, 1959, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from Mr. Noyes, Adviser, Division of Research and Statistics, dated April 22 and 23, 1959, recommending that permission be granted to the following persons in that Division to accept part-time outside employment as indicated:

Evelyn M. Hurley, Economist, to teach an evening course in Business Cycles at Southeastern University during the remainder of the current semester and during the fall semester of the coming academic year.

Roland I. Robinson, Adviser, to teach an evening course in Money and Banking at American University during the second half of the 1959 summer school session.

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

Appointment

Claudia Ann Mahoney as Clerk Stenographer in the Division of Personnel Administration, with basic annual salary at the rate of \$3,755, effective the date she assumes her duties.

Transfer

Shirley V. Register, from the position of Secretary in the Office of the Controller to the position of Special Assistant Federal Reserve Examiner in the Division of Examinations for a period of approximately one year, with no change in her basic annual salary at the rate of \$4,340, effective May 23, 1959, with the understanding that upon the termination of her assignment with the field staff she would return to her position in the Office of the Controller.

Extension of appointment

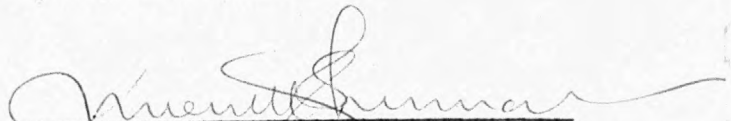
Extension of the appointment of Ann C. Tompros as Special Assistant Federal Reserve Examiner in the Division of Examinations from June 1, 1959, to July 10, 1959.

Salary increase

Herman L. Tobler, Guard, Division of Administrative Services, from \$4,015 to \$4,110 per annum, effective May 3, 1959.

Letter to the Federal Reserve Bank of Minneapolis (attached Item No. 18) approving the appointment of Robert Vincent Groe as assistant examiner.

Pursuant to the recommendation contained in a memorandum dated April 20, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Shepardson approved today on behalf of the Board an increase in the basic annual salary of Alice R. Williams, Statistical Clerk in that Division, from \$4,065 to \$4,230, effective May 3, 1959.

  
Secretary



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

Item No. 1  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 30, 1959.

Board of Directors,  
Gloucester Safe Deposit and Trust Company,  
Gloucester, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Gloucester Safe Deposit and Trust Company and Manchester Trust Company, Manchester, Massachusetts, and approves the establishment of a branch at 25 Union Street, Manchester, Massachusetts, by Gloucester Safe Deposit and Trust Company.

This approval is given provided:

- (1) the merger is effected substantially in accordance with the Agreement and Plan of Consolidation dated March 17, 1959, a copy of which was submitted with your request,
- (2) formal approval of the appropriate State authorities is obtained,
- (3) the merger and the establishment of the branch are effected within six months from the date of this letter, and
- (4) any shares acquired by the bank from dissenting stockholders are sold or otherwise disposed of within six months from the date of their acquisition.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 2  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

Board of Directors,  
Manufacturers Trust Company,  
New York 15, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 2026 Rockaway Parkway, Brooklyn, New York, by Manufacturers Trust Company, New York, New York, provided the branch is established within one year from the date of this letter and approval of 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 GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 3  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

Board of Directors,  
The Union Commerce Bank,  
Cleveland 1, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System extends until October 23, 1959, the time within which The Union Commerce Bank may establish a drive-in facility in the vicinity of 5000 Turney Road, Garfield Heights, Ohio, under the original authorization contained in the Board's letter dated October 13, 1957. \*

It is noted that construction of the drive-in facility has not been started due to uncertainty as to where and when a roadway through the shopping center will be constructed. If construction of the drive-in facility is not under way by the time this extension expires, the Board of Governors would not be inclined to grant a further extension.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

\* Should have read October 23, 1957.

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

Item No. 4  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

Board of Directors,  
Limestone County Bank,  
Athens, Alabama.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System hereby gives its consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of Farmers & Merchants Bank, Elkmont, Alabama, with, and into, the Limestone County Bank, Athens, Alabama, and approves the establishment of a branch in Elkmont at the present location of the Farmers & Merchants Bank, by Limestone County Bank, provided,

- (1) The merger is effected substantially in accordance with the agreement between the parties dated January 15, 1959, and
- (2) the establishment of the branch is effected within four months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 5  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

Board of Directors,  
City National Bank of Clearwater,  
Clearwater, Florida.

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 Florida, 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 City National Bank of Clearwater 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 GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 6  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

Board of Directors,  
Rapides Bank & Trust Company in Alexandria,  
Alexandria, Louisiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch near the intersection of Texas Avenue and Lee Street, Alexandria, Louisiana, by Rapides Bank & Trust Company in Alexandria, Louisiana, provided the branch is established within nine 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 GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 7  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

Board of Directors,  
Farmers Trust Company,  
Franklin, Indiana.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter of March 6, 1959, and the copies of resolutions signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender, to the Federal Reserve Bank of Chicago, of the Federal Reserve Bank stock issued to your institution such stock will be cancelled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, as amended effective September 1, 1952, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be sent to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

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Item No. 8  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

The Honorable Jesse P. Wolcott,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of April 9, 1959,  
concerning the application of Farmers Trust Company,  
Franklin, Indiana, for continuation of deposit insurance  
after withdrawal from membership in the Federal Reserve  
System.

No corrective programs have been urged upon the  
bank or agreed to by it which, in the opinion of the Board  
of Governors, it would be desirable to incorporate as con-  
ditions to continuance of deposit insurance.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 9  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 30, 1959.

Board of Directors,  
First National Bank of  
Evergreen Park,  
Evergreen Park, Illinois.

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 Illinois, 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 First National Bank of Evergreen Park 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 GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON 25, D. C.

Item No. 10  
4/30/59



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.

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

Attention Mr. L. A. Jennings,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 29, 1959, enclosing copies of an application of Punta Gorda State Bank, Punta Gorda, Florida, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

A field investigation of the application has not been made, but the Federal Reserve Bank of Atlanta has furnished us with a report on the application based upon the most recent reports of examination of the bank made by examiners for the Federal Deposit Insurance Corporation and the Florida State Banking Department. According to this report, the bank was reorganized in January 1934 and as of December 15, 1958 had a capital structure of \$274,900 exclusive of reserves. The earnings of the bank have been only fair and it is indicated that some strengthening in the capital would be desirable. The present ownership and control of the institution by the McNulty family and the Estate of C. H. McNulty is unsatisfactory and the management is somewhat weak. While the asset condition of the bank is fair and it seems to be meeting the needs of the community, the Board does not feel justified in recommending approval of the application until the unsatisfactory conditions are corrected.

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

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 11  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 30, 1959.

Mr. Philip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your Legislative Referral Memorandum of April 8, 1959, requesting the views of the Board with respect to a draft bill submitted by the Small Business Administration to amend the Small Business Investment Act of 1958.

The only provision of the bill which directly concerns the responsibilities of the Board is section 5 which amends section 302(b) of the SBI Act in order to permit a banking subsidiary of a bank holding company to invest in the stock of a small business investment company, even if such investment would result in the small business investment company becoming a subsidiary of the bank's parent holding company. This is not now permitted by reason of the Board's October 8, 1958, interpretation (Federal Reserve Bulletin, October 1958, p. 1161) of section 6(a)(1) of the Bank Holding Company Act, a copy of which is enclosed. The Board has no objection to such an amendment.

Since it is understood that the sole purpose of this amendment is as above stated, it might possibly be accomplished with less danger of ambiguity by referring only to section 6(a)(1) of the Bank Holding Company Act rather than to the entire Act and other provisions of Federal law. For example, it is assumed that the amendment is not intended to affect the Board's March 3, 1959, interpretation (Federal Reserve Bulletin, March 1959, p. 257) of section 4 of the Bank Holding Company Act to the effect that a banking subsidiary of a bank holding company cannot invest in the stock of a small business investment company if such investment, together with the investment of the parent company and other subsidiaries, would exceed one per cent of the capital and surplus of the parent bank holding company. A copy of this interpretation is also enclosed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 12  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959



Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Executive Office of the President,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to the Legislative Referral Memorandum of April 24, 1959, concerning a draft bill "To provide for the participation of the United States in the Inter-American Development Bank."

The Board of Governors has no objection to, and no comments on, the draft bill.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 13  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959

Mr. R. B. Wiltse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Wiltse:

This is with further reference to the question whether Amalgamated Clothing Workers of America ("Amalgamated") is a "bank holding company", which term is defined in section 2(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841) to mean

"any company (1) which directly or indirectly owns, controls, or holds with power to vote, 25 per centum or more of the voting shares of each of two or more banks or of a company which is or becomes a bank holding company by virtue of this Act, or (2) which controls in any manner the election of a majority of the directors of each of two or more banks, or (3) for the benefit of whose shareholders or members 25 per centum or more of the voting shares of each of two or more banks or a bank holding company is held by trustees...."

More than 25 per cent of the voting shares of the Amalgamated Bank of New York are held by trustees for the benefit of the members of Amalgamated. Consequently, this relationship clearly comes within the purview of section 2(a)(3), quoted above. In addition, in view of the principle, recognized by the courts, that a labor union is the collective representative (or alter ego) of its members, it appears that Amalgamated itself, as an association, indirectly owns the beneficial interest in said trustee stock, so that section 2(a)(1) would also be applicable. The terms of the three trust instruments relating to stock of the New York bank suggest that Amalgamated may also indirectly control such stock, in which event the situation would fall within the scope of section 2(a)(1) on that ground as well.

More than 25 per cent of the voting shares of Amalgamated Trust and Savings Bank of Chicago are held by trustees pursuant to an Agreement between the trustees and "Chicago Joint Board, Amalgamated Clothing Workers of America", under the terms of which the beneficial interest in the Chicago Bank stock is in the Joint Board, and the trustees "shall at all times be subject to the direction of" the Joint Board. Article X of the Constitution of the Amalgamated Clothing Workers of America provides that all property" in the possession or

Mr. R. B. Wiltse

-2-

subject to the control of any...joint board shall be and remain the property of the Amalgamated." Consequently, shares of the Chicago bank indirectly owned by, or subject to the control of, the Chicago Joint Board are indirectly owned or controlled by Amalgamated within the meaning of section 2(a)(1) of the Act. Furthermore, in view of the identity of a labor union with its members, referred to above, it appears that the stock of the Chicago bank is held by trustees for the benefit of the members of Amalgamated within the purview of section 2(a)(3).

For your information, there are enclosed copies of a memorandum in which the relevant facts and reasoning are presented in more detail.

For the reasons indicated, it is the opinion of the Board that more than 25 per cent of the voting shares of each of the two banks named are either (1) indirectly owned or controlled by Amalgamated or (2) held by trustees for the benefit of the members of Amalgamated. Consequently, Amalgamated is a "bank holding company" as defined in the Bank Holding Company Act.

Section 5(a) of the Act (12 U.S.C. 1844) requires a bank holding company to register with the Board within a prescribed period, but authorizes the Board to extend the time for such registration. In order to allow Amalgamated a reasonable time within which to prepare its registration statement, the Board grants a period of ninety days from the date of this letter for the filing of Amalgamated's registration statement.

You are requested to inform Amalgamated of the Board's opinion and action, as stated herein.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure

L-BHC-64

L-BHC-64

UNITED STATES OF AMERICA  
 BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
 WASHINGTON, D. C.

Item No. 14  
 4/30/59

-----  
 ! In the Matter of the Requests of !  
 ! OTTO BREMER COMPANY !  
 ! for determinations pursuant to !  
 ! section 4(c)(6) of the Bank Holding !  
 ! Company Act of 1956. !  
 ! -----

DOCKET NOS.  
 BHC-29, 31, 32,  
 33, 35

ORDER GRANTING REQUEST FOR ORAL ARGUMENT

This matter coming on this day for consideration on the request of Applicant for Oral Argument in this matter, it is ORDERED that:

1. The request of Applicant for Oral Argument is granted, said Oral Argument to be set down for May 11, 1959, at 10:00 a.m. at the Board's offices.

This 30th day of April, 1959.

By Order of the Board of Governors.

(signed) Merritt Sherman

\_\_\_\_\_  
 Merritt Sherman,  
 Secretary.

(SEAL)

Washington, D. C.  
 April 30, 1959.



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

Item No. 15  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959

Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

This is with reference to your Legislative Referral Memorandum of January 29, 1959, requesting the Board's views on a draft of a bill proposed by the Treasury Department, on behalf of the Comptroller of the Currency, "To amend section 5200 of the Revised Statutes, as amended, with respect to the maximum loan limitations of a national bank." The bill would modify the statutory limitations on a national bank's advances to one customer in the following four categories:

1. Loans secured by refrigerated readily marketable staples.
2. Loans arising out of sales of dairy cattle.
3. Loans secured by United States Government obligations.
4. Obligations of the endorser or guarantor of installment consumer paper.

The Comptroller of the Currency is the primary supervisor of the national banking system, and therefore his judgment regarding the appropriateness of a particular statutory limitation (or absence of limitation) on extensions of credit by a national bank to a single customer is entitled to great weight. Nevertheless, for the reasons outlined herein, the Board of Governors questions the advisability of one provision of the draft bill, relating to category "4".

The proviso to the proposed new paragraph (13) of section 5200 would permit a national bank to make unlimited advances to the endorser or guarantor of installment consumer paper, if

- (1) an officer of the bank certifies in writing "that the responsibility of each maker of such obligations has been evaluated and the [bank] is relying primarily upon each such maker" rather than upon the endorser or guarantor, and



Mr. Phillip S. Hughes

-2-

- (2) "the bank's files or the knowledge of its officers of the financial condition of each maker of such obligations is reasonably adequate."

Under this proviso, a national bank could purchase from a dealer, finance company, or other customer, unlimited amounts of installment paper endorsed or guaranteed by such customer. The paper could be nonnegotiable and unsecured, thereby lacking the protection that is afforded the holder of paper that is negotiable or secured. The only requirements would be (1) the above-mentioned certification by a bank officer and (2) that "the knowledge of [the bank's] officers of the financial condition of each maker of such obligations is reasonably adequate".

The Treasury Memorandum, which you enclosed, contains no explanation of this proviso. However, in certain respects the general discussion of the reasons for the proposed new paragraph (13) appears to be inconsistent with the recommended proviso.

In the first place, the Treasury states that "the real and ultimate security" behind consumer installment paper is the commodity that was sold, plus (in some cases) a dealer's guaranty or reserve account arrangement. This statement seems to be in conflict with the proviso's authorization of unlimited advances that would be based on a bank officer's certification that the bank "is relying primarily upon" the makers of the consumer paper. If the elimination of the requirement of negotiability is based, as indicated in the Memorandum, on the view that the bank's legal rights against the maker are of secondary importance, it would seem difficult to justify permitting a bank to lend without limit on such paper guaranteed by a single dealer, provided that a bank officer certifies that the bank is making the advance with primary reliance on the maker rather than the guarantor.

Even more difficult to harmonize with the proviso is the following statement from the Treasury Memorandum:

"It is believed that all purchased or discounted installment consumer paper acquired from one dealer or seller which bears the full recourse endorsement or unconditional guaranty of such dealer or seller, whether negotiable or nonnegotiable, should be limited as to any one obligor to 25 per cent of a bank's capital and surplus."

In the Board's judgment, this principle is sounder, from the viewpoint of bank supervision, than the approach embodied in the proviso. It should be borne in mind that the limitations of R. S. 5200 are designed to restrict by law the extent to which a national bank may

Mr. Phillip S. Hughes

indulge in unsound and dangerous lending practices. These limitations are unnecessary with respect to a well-run bank; their function is to place an absolute legal limit on any tendency of a less well-run bank to lend excessively to particular customers and thereby to incur risks that might jeopardize its solvency or its continued operation. Under the proviso, such a bank could make unlimited advances to a single customer, provided only that an officer of the bank signed a statement (which could be a printed form) that "The responsibility of each maker of these obligations has been evaluated and the association is relying primarily upon each such maker for the payment of such obligations." In these circumstances, the certification requirement might not constitute an effective impediment to unlimited dealer financing of this character.

For the reasons indicated, the Board questions the desirability of the proviso in the proposed new paragraph (13) of R. S. 5200. Apart from this matter, the Board favors the objectives of the Treasury's legislative proposal. A number of suggestions regarding the draft bill have been brought to the attention of the Treasury Department, and it is understood that they are receiving consideration.

As you may be aware, on March 26, 1959 Representative Brown of Georgia introduced H. R. 6092, which includes provisions that are identical, in most respects, with the provisions of the Treasury's draft bill.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 16  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



April 30, 1959.

CONFIDENTIAL (FR)

Mr. W. D. Fulton, President,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Fulton:

In view of the circumstances outlined in your letter of April 1, 1959, the Board of Governors approves the continuation of the payment of salary to Mr. Clarence J. Goudreau at his present rate of \$7,644 per annum, for the period January 1, 1959 through June 30, 1959, while serving as Assistant Federal Reserve Agent.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 17  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 30, 1959.



CONFIDENTIAL (FR)

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

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates and effective dates indicated, in accordance with the request contained in your letter of April 9, 1959.

<u>Title</u>	<u>Annual Salary</u>
Head Painter	\$7,488.00) Effective April 1, 1959
Painter	6,739.20) (retroactive)
Head Carpenter	7,800.00) Effective June 1, 1959
Carpenter	7,020.00)

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 18  
4/30/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 29, 1959.



Mr. Frederick L. Deming, President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In accordance with the request contained in your letter of April 23, 1959, the Board approves the appointment of Robert Vincent Groe as an assistant examiner for the Federal Reserve Bank of Minneapolis. If the appointment is not made effective June 15, 1959, as planned, please advise the Board.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.