

Minutes for June 17, 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	<hr/>	x <u>W</u>
Gov. Szymczak	x <u>MS</u>	<hr/>
Gov. Mills	<hr/>	x <u>F</u>
Gov. Robertson	x <u>R</u>	<hr/>
Gov. Balderston	<hr/>	x <u>CRB</u>
Gov. Shepardson	x <u>CS</u>	<hr/>
Gov. King	x <u>JK</u>	<hr/>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, June 17, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Johnson, Director, Division of Personnel
Administration

Mr. Allen, President, Federal Reserve Bank of
Chicago

Meeting with Mr. Allen. President Allen had asked to meet with
the Board to present informally certain proposed personnel changes at
the Federal Reserve Bank of Chicago incident to pending retirements.

These proposals were explained and discussed, and it was
understood that in due course the Board might expect to receive a
communication or communications from the Reserve Bank which would
specify what actions had been taken by the Board of Directors and
request the approval of the Board of Governors.

President Allen and Mr. Johnson then withdrew from the meeting
and Messrs. Kenyon, Assistant Secretary; Hackley, General Counsel;
Hexter, Assistant General Counsel; Nelson, Benner, and Goodman,
Assistant Directors, Division of Examinations; and Thompson, Super-
visory Review Examiner, Division of Examinations, entered the room.

Discount rates. The establishment without change by the
Federal Reserve Bank of Minneapolis on June 12, 1959, and by the

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Federal Reserve Bank of Boston on June 15, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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:

	<u>Item No.</u>
Letter to Bank of America, New York, New York, regarding the location of its branch in Kuala Lumpur, Malaya.	1
Letter to the Bank of Passaic and Clifton, Clifton, New Jersey, approving the establishment of a branch at 505 Allwood Road in Clifton simultaneously with the removal of its head office from that location to 615 Main Avenue in Passaic.	2
Letter to the Farmers and Merchants State Bank of Bushnell, Bushnell, Illinois, approving its request for permission to exercise fiduciary powers.	3
Letter to The Mount Clemens Savings Bank, Mount Clemens, Michigan, approving an investment in bank premises.	4
Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Fort Knox, Kentucky.	5
Letter to the Bureau of the Budget recommending that a proposed statute to eliminate the necessity for protesting domestic drafts and checks be submitted for the consideration of the Council of State Governments.	6

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Item No.

Letter to the Federal Reserve Bank of New York interposing no objection to proposed changes in the foreign travel program of its staff.

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Letter to the Independent Bankers Association, Sauk Center, Minnesota, regarding the status of the International Bank of Washington under the Bank Holding Company Act.

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Messrs. Nelson, Goodman, and Benner then withdrew from the meeting.

Applicability of section 6(a)(2) of Bank Holding Company Act

(Items 9 and 10). First Security Bank of Idaho, Boise, Idaho, a subsidiary of First Security Corporation, had asked the Board in a letter dated January 6, 1959, whether the Bank Holding Company Act would prohibit it from making advances secured by collateral consisting of (1) a time certificate of deposit issued by, or an assigned savings account in, another banking subsidiary of First Security Corporation, or (2) an assigned passbook issued by a savings and loan association which was a subsidiary of the same bank holding company. Specifically, the First Security Bank of Idaho stated that it received from time to time requests to make extensions of credit secured by collateral consisting of (a) time certificates of deposit of the First Security Bank of Utah; (b) assigned savings accounts of the latter bank; or (c) assigned passbooks of First Security Savings and Loan Association, Pocatello, Idaho, and First Security Savings and Loan Association,

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Salt Lake City, Utah. All of these organizations were subsidiaries of First Security Corporation. It was understood that First Security Bank of Idaho did not have any outstanding loans secured by the aforementioned collateral.

With respect to time certificates of deposit, a similar question had been asked by Walker Bank and Trust Company, Salt Lake City, Utah, a subsidiary of Firstamerica Corporation.

There had been distributed to the Board a memorandum from the Legal Division dated June 12, 1959, discussing the questions raised in the light of the provisions of section 6(a)(2) of the Bank Holding Company Act, which provides that it shall be unlawful for a bank to accept the capital stock, bonds, debentures, or other obligations of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company, as collateral security for advances made to any person or company. In the opinion of the Legal Division, the prohibition of section 6(a)(2) would apply to loans secured by time certificates of deposit, savings accounts, or passbooks of a savings and loan association under circumstances such as described in the material that had been presented to the Board. Submitted with the memorandum were drafts of letters to the First Security Bank of Idaho and to the Federal Reserve Bank of San Francisco reflecting the Legal Division's opinion.

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In comments on the matter, Messrs. Hackley and Hexter brought out that the questions raised with the Board presented difficult problems of interpretation, and that the legal staff had studied carefully whether there appeared to be any basis for finding that the prohibition of section 6(a)(2) would not be applicable. However, for the reasons discussed in the memorandum, it was the conclusion of the staff that the reference in section 6(a)(2) to "other obligations" must be regarded as including instruments of the kind under consideration.

There being no disagreement with the Legal Division's analysis and conclusions, unanimous approval was given to (1) the proposed letter to the First Security Bank of Idaho, with a copy to the Federal Reserve Bank of San Francisco, and (2) the proposed letter to the San Francisco Reserve Bank dealing with the question raised by Walker Bank and Trust Company. Copies of the approved letters are attached as Items 9 and 10, respectively.

Mr. Thompson then withdrew and Mr. Molony, Special Assistant to the Board, entered the room.

Letters from Senator Proxmire. It was brought to the attention of the Board that at least one Board member and several members of the Board's staff had received letters under date of June 15, 1959, from Senator Proxmire of Wisconsin, who invited their answers to several questions having to do with the possibilities and limitations of monetary policy as a tool of economic policy for the Federal Government.

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No canvass had been made to determine exactly how many persons within the Board's organization were in receipt of such letters. However, the names of those who had reported receiving the communication indicated the possibility that the mailing list was drawn up from the membership of some national professional organization.

After discussion, it was the view of the Board that the letters should be handled by the individuals concerned in their own discretion.

Mr. Molony then withdrew from the meeting.

Pan American Bank of Miami. Governor Robertson reported receipt yesterday afternoon of a telephone call from Mr. Mann, a representative of Glore, Forgan and Co., who related that he had just received a telegram from Mr. James Sottile, Jr., with regard to the proposed underwriting of a stock issue of South Dade Farms, Inc., through which capital would be provided to that corporation's subsidiary, the Pan American Bank of Miami, Miami, Florida, as well as other banks in the Sottile group. The telegram advised in effect that negotiations with respect to the proposed stock issue were thereby terminated, for reasons to be set forth in a subsequent letter. The representative of Glore, Forgan indicated that the sending of the telegram might have reflected the delays that had been encountered in connection with negotiations for the sale of stock, or it might be that Mr. Sottile was unwilling to accept the conditions laid down by Glore, Forgan incident to going through with the financing operation. Mr. Mann asked that the telephone

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call be treated as confidential because he felt that official information on the matter should come to the Board from South Dade Farms and the Pan American Bank.

Governor Robertson said he considered that the telephone call came to him as a representative of the Federal Reserve System and that it was appropriate to report the information within the System but not outside. Accordingly, he had spoken to Messrs. Masters and Benner of the Division of Examinations and to President Bryan of the Federal Reserve Bank of Atlanta, authorizing the latter to discuss the matter with Vice President Denmark but no other party. He suggested to Mr. Bryan that if nothing were heard from Pan American by Friday of this week, it would seem appropriate for Mr. Denmark to go to Miami and inquire of the member bank concerning the status of the financing program. Then, assuming that the facts warranted such a course, it would be his suggestion that a meeting of representatives of the Board, the Federal Reserve Bank, and the Florida State banking authorities be arranged, at which time consideration might be given to calling a meeting of the Board of Directors of the Pan American Bank to discuss the situation. From that point, a further step might be to arrange a meeting with representatives of the insurance company having control of the stock of Pan American, with the State banking authorities represented.

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Governor Robertson stated that at this point he simply wished to advise the other members of the Board of the information that he had received. He did not feel that it would be appropriate to notify the Federal Deposit Insurance Corporation until some word had been received from Pan American and he had no advice as to whether examination reports of Pan American were actually sent by that bank to Glore, Forgan and Co.

Currency vault. Governor Robertson referred to the circulation to the members of the Board of a copy of a letter from Chairman Robertson of the Senate Banking and Currency Committee to the Secretary of the Treasury in which the former indicated that he would not be favorably disposed toward the introduction of a bill to construct an emergency currency vault at Fort Riley, Kansas, with funds to be supplied on a reimbursable basis by the Federal Reserve System, and that the appropriate basis would be for the Treasury to seek an appropriation for the project.

The position taken by Senator Robertson indicated to Governor Robertson that alternative plans for the decentralization of an emergency supply of currency would have to be devised. He then outlined a possible program for utilizing vault space to be created for the purpose at certain Federal Reserve Bank branch buildings and stated that he would like to discuss the matter further next week when all of the members of the Board were present.

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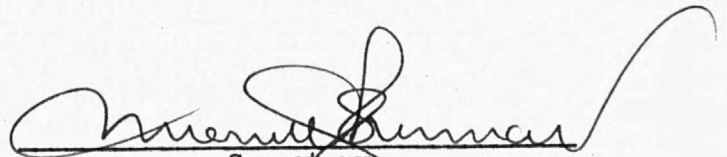
Governor Shepardson said that he would like to discuss, when a full Board was available, plans for the construction of a shelter on the property owned by the Board across C Street.

The meeting then adjourned.

Secretary's Notes:

Pursuant to the recommendation contained in a memorandum dated June 9, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Shepardson today granted permission to Edward J. Kane, Research Assistant in that Division, to work part-time as a salesman for William Hahn and Company.

Governor Shepardson also noted on behalf of the Board that applications for retirement, effective July 1, 1959, had been filed by F. A. Walker, Supervisor, Settlement and Currency Section, Division of Bank Operations, and Louis N. Bertol, Captain of the Guard, Division of Administrative Services.


Secretary

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

Item No. 1
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.

Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
40 Wall Street,
New York 15, New York.

Dear Mr. Coughran:

This will acknowledge your letter of June 1, 1959, transmitted through the Federal Reserve Bank of New York, advising that the authorities in Malaya had approved the establishment of a branch of your Bank in the Federation of Malaya and that your Bank would open a branch in Kuala Lumpur, Federation of Malaya, in temporary quarters in the ground floor area of Hotel Rio, adjacent to Kwong Yik (Selangor) Banking Corporation, at the corner of High and Cross Streets. It is noted from your subsequent letter of June 5 that the branch opened for business on June 1, 1959.

The Board of Governors notes, with approval, that you will relocate the branch in permanent quarters in an office in the Asia Insurance Building, corner of Klyne and Weld Roads, during the latter part of 1959. Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is removed to permanent quarters.

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
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.

Board of Directors,
Bank of Passaic and Clifton,
Clifton, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 505 Allwood Road, Clifton, New Jersey, by Bank of Passaic and Clifton, Clifton, New Jersey, simultaneously with removal of its head office operations from that location to 615 Main Avenue, Passaic, New Jersey.

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
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.



Board of Directors,
Farmers and Merchants State
Bank of Bushnell,
Bushnell, Illinois.

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 Farmers and Merchants State Bank of Bushnell to exercise all trust powers now or hereafter authorized under the terms of its charter and laws of the State of Illinois.

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. 4
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.



Board of Directors,
The Mount Clemens Savings Bank,
Mount Clemens, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises of \$138,405.44 by The Mount Clemens Savings Bank, Mount Clemens, Michigan. This amount, including the cost of land, represents the cost of erecting a branch office at 43727 North Gratiot Avenue, Mount Clemens, Michigan.

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
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.



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

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated February 27, 1959, enclosing copies of an application to organize a national bank at Fort Knox, Kentucky, signed by Mr. Clarence W. Fratt and associates, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of St. Louis indicates generally favorable findings with respect to the proposed capital structure of the bank, its earnings prospects, and the need for a bank in this community. It appears that a majority of the proposed directors are inexperienced in banking operations, and therefore well-qualified executive management will be needed. The executive vice president selected appears to be experienced but was not available at the time of the investigation. Accordingly, the Board of Governors recommends approval of the application to organize a national bank at Fort Knox, Kentucky, provided the management situation is resolved to the satisfaction of your office.

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. 6
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.

Mr. Raoul Archambault, Jr.,
Assistant Director,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Archambault:

In the Board's reply of April 6, 1959, to your letter of February 27, 1959, it was indicated that the Board did not at that time know of any proposals for State legislation that it would desire to present for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.

Since the date of the Board's letter, the Executive Council of the American Bankers Association has approved a recommendation made by the Association's Committee on State Legislation for enactment by the States of a proposed uniform statute amending the Negotiable Instruments Law to eliminate the necessity of protest with respect to domestic drafts and checks. We understand that the ABA Committee has transmitted copies of the proposed statute to the various State bankers associations urging that they sponsor its enactment.

The proposed statute was drafted in collaboration with a Committee of the Conference of Presidents of the Federal Reserve Banks. In the opinion of the Board, enactment of this statute by the various States would be desirable.

Accordingly, the Board recommends that this proposal be submitted to the Committee of State Officials on Suggested State Legislation of the Council of State Governments for its consideration. Copies of the proposed statute and accompanying statement are enclosed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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

Item No. 7
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959.



Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

This is to acknowledge your letter of June 5, 1959, regarding alterations made in the foreign travel plans of the officers and members of the staff of the Federal Reserve Bank of New York during the remainder of 1959 and early 1960.

The Board of Governors interposes no objections to the arrangements outlined in your letter.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 17, 1959.

Mr. Ben DuBois, Secretary,
The Independent Bankers Association,
Sauk Centre, Minnesota.

Dear Mr. DuBois:

This refers to your letter of May 28, 1959, in which you inquire, in effect, whether the International Bank of Washington, D. C. is subject to the Bank Holding Company Act of 1956 or whether it is excluded by virtue of section 25(a) of the Federal Reserve Act.

Section 2(c) of the Bank Holding Company Act excludes from the definition of the term "bank" any organization operating under section 25(a) of the Federal Reserve Act. However, the International Bank of Washington is not such an organization. Even if it were such an organization, it would not for that reason be excluded from the definition of a "company" or a "bank holding company" for purposes of the Act. It appears, however, that the International Bank of Washington is excluded from the definition of a "bank holding company" by reason of other provisions of the Act.

On the basis of information informally obtained from the Securities and Exchange Commission, it appears that the International Bank of Washington is "affiliated", within the meaning of the Investment Company Act of 1940, with a company registered under that Act prior to May 15, 1955. Moreover, on the basis of the information available to the Board, the International Bank of Washington does not directly own 25 per cent or more of the voting shares of each of two or more banks. The Bank, therefore, is not a bank holding company under the Bank Holding Company Act because of the provisions of section 2(a)(B) of that Act which state that

"No company shall be a bank holding company which is registered under the Investment Company Act of 1940, and was so registered prior to May 15, 1955 (or which is affiliated with any such company in such manner as to constitute an affiliated company within the meaning of such Act), unless such company (or such affiliated company), as the case may be, directly owns 25 per centum or more of the voting shares of each of two or more banks." (12 U.S.C. 1841)

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959



AIR MAIL

Mr. Elden Stirnweis, Vice President,
First Security Bank of Idaho,
Boise, Idaho.

Dear Mr. Stirnweis:

This relates to your inquiry of January 6, 1959 as to whether the Bank Holding Company Act of 1956 prohibits your bank from making an extension of credit secured by collateral consisting of time certificates of deposit or savings accounts of First Security Bank of Utah, or passbooks of First Security Savings and Loan Association, Pocatello, Idaho, and First Security Savings and Loan Association, Salt Lake City, Utah.

Section 6(a)(2) of the Holding Company Act prohibits a bank that is a subsidiary of a bank holding company from accepting the "capital stock, bonds, debentures, or other obligations" of any other subsidiary as collateral security for advances made to any person or company. It seems clear that certificates of deposit and savings accounts of the First Security Bank of Utah represent "obligations" of that bank and, on the basis of information furnished the Board regarding the provisions contained in a passbook issued by the First Security Savings and Loan Association, Pocatello, Idaho, it appears also that such a passbook represents an obligation of that Association.

It is also to be noted (1) that the last paragraph of section 6(a) clearly implies that interest-bearing deposits are within the purview of the prohibitions of section 6(a) relating to intra-system transactions, and (2) that section 6(a) is directed not only against transactions directly between two units of a holding company system but also against advances by a holding company bank on the security of obligations of other organizations in the same system.

In the opinion of the Board of Governors, section 6(a)(2) of the Bank Holding Company Act forbids extensions of credit by holding company banks on the security of the above-described obligations of other institutions that are subsidiaries of the same holding company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
6/17/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1959



AIR MAIL

Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

This refers to your telegram of May 20, 1959, referring, in part, to Mr. Swan's telegram of March 25, 1959, relating to an inquiry from Walker Bank and Trust Company, Salt Lake City, a subsidiary of Firstamerica Corporation, as to whether section 6(a)(2) of the Bank Holding Company Act prohibits a banking subsidiary of a bank holding company from making an extension of credit secured by collateral consisting of a time certificate of deposit issued by, or a savings account in, another banking subsidiary of the same bank holding company.

Section 6(a)(2) of the Bank Holding Company Act prohibits a bank that is a subsidiary of a bank holding company from accepting the "capital, stock, bonds, debentures, or other obligations" of any other subsidiary of such holding company as collateral security for advances made to any person or company. It seems clear that certificates of deposit and savings accounts of a commercial bank represent "obligations" of that bank.

It is also to be noted (1) that the last paragraph of section 6(a) clearly implies that interest-bearing deposits are within the purview of the prohibitions of section 6(a) relating to intra-system transactions, and (2) that section 6(a) is directed not only against transactions directly between two units of a holding company system but also against advances by a holding company bank on the security of obligations of other organizations in the same system.

In the opinion of the Board of Governors, section 6(a)(2) of the Bank Holding Company Act forbids extensions of credit by holding company banks on the security of the above-described obligations of other institutions that are subsidiaries of the same holding company.

It would be appreciated if you would transmit the substance of this letter to Walker Bank and Trust Company, Salt Lake City, Utah.

Very truly yours,
(Signed) Merritt Sherman
Merritt Sherman,
Secretary.