

Minutes of the Board of Governors of the Federal Reserve System
on Monday, June 22, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Marget, Director, Division of International
Finance
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Furth, 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. Smith, Assistant Director, Division of
Examinations
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on June 17, 1959, and by the Federal Reserve Banks of New York and Philadelphia on June 18, 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 members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

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	<u>Item No.</u>
Letter to the American Trust Company, San Francisco, California, approving the establishment of an additional branch in Sacramento.	1
Letter to the Pacific State Bank, Hawthorne, California, granting an extension of time within which to establish a branch at Slauson Avenue and Overhill Drive.	2

Application to convert into national bank (Item No. 3). The Comptroller of the Currency had requested a recommendation with regard to the application of State Bank of Des Moines, Des Moines, Iowa, to convert into a national banking association and concurrently establish a branch in Urbandale. A file containing a favorable recommendation had been circulated to the Board and was presented for consideration at the meeting on June 18, 1959, but action was deferred in view of a question raised within the staff as to whether State Bank's parent holding company would have to apply under the Bank Holding Company Act for permission to acquire stock of the national bank into which the State institution proposed to convert. In a memorandum dated June 19, Mr. Hexter, Assistant General Counsel, concluded that the proposed conversion of State Bank of Des Moines into a national bank would not result in an "acquisition" of bank stock by the parent bank holding company pursuant to section 3(a) of the Bank Holding Company Act and that approval of the Board therefore would not be required.

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This opinion having been rendered, the proposed conversion was considered by the Board on the basis originally presented and unanimous approval was given to the letter to the Comptroller of the Currency of which a copy is attached as Item No. 3.

Report on S. 2139. By letter dated June 10, 1959, the Senate Committee on Banking and Currency requested a report on S. 2139, a bill to amend the Small Business Investment Act of 1958. With two exceptions, the bill was identical with an earlier draft bill on which the Board reported to the Bureau of the Budget by letter dated April 30, 1959.

In a memorandum distributed to the Board under date of June 17, 1959, Mr. Young, Assistant Counsel, noted that the only provision of the bill that directly concerned the responsibilities of the Board was one which would amend section 302(b) of the Small Business Investment Act 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 investment company becoming a subsidiary of the bank's parent holding company. The objective would be accomplished by the use of language that the Board had suggested in its earlier report to the Budget Bureau on the similar draft bill. Submitted with Mr. Young's memorandum was a draft of letter to the Senate Banking and Currency Committee which would state that the Board had no objection to such an amendment.

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Question was raised by Governor Shepardson whether the position taken by the Board in reporting to the Budget Bureau on the draft bill would not warrant an affirmative statement to the Banking and Currency Committee in support of the proposed amendment to section 302(b) of the Small Business Investment Act. However, after it was recalled that the Board's principal concern in its report to the Budget Bureau had been with avoiding the danger of ambiguity, Governor Shepardson indicated that he would be satisfied with a statement that the Board had no objection to the proposed amendment.

Governor Mills commented that if encouragement were given to the organization and operation of small business investment companies by subsidiaries of bank holding companies the door would be opened for use of a small business investment company to permit the bank holding company and its subsidiary to engage in activities to which the Board otherwise might take exception. That possibility, he suggested, appeared to be enhanced by provisions of the bill which would permit the Small Business Administration by regulation to determine in what manner a small business investment company might acquire the securities of an entity that it sought to finance. In other words, the vehicle used for that financing could be anything permitted by regulations of the Small Business Administration. Whereas the original purpose of the Small Business Investment Act was to encourage the establishment

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of small businesses, he noted that the tax advantages provided by the Act tended to encourage the establishment of enterprises for reasons not necessarily related to size and need. In the longer run, he could foresee occasions arising where the Board would find a subsidiary of a bank holding company operating a small business investment company as an instrument through which to engage in prohibited areas of operation. He then raised the question whether reference to this possible development should not be made in the report on S. 2139.

There followed discussion of the proposed amendment during which Mr. Hackley commented that it would mean only that a subsidiary bank of a bank holding company could buy stock of an investment company even though the latter thereby became a subsidiary of the parent bank holding company. The subsidiary bank still could not make loans to the small business investment company or do any of the things prohibited by section 6 of the Bank Holding Company Act.

Governor Mills then was asked by the Chair for his recommendation and responded to the effect that he was not sure the Board had thought the problem through to a conclusion. He suggested, therefore, that the proposed report on S. 2139 be remanded to the staff for further analysis, with a view to determining whether it would be appropriate at least to comment in reporting on the bill that there were potential abuses that might cause the Federal Reserve System to raise objections in the future. He repeated that the trend at this time appeared to be

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to convert the small business investment company into an instrument for tax avoidance and to encourage promoters to come into this field. Thus, there had been a drift away from the original purpose of the law, which was definitely to encourage small businesses as such. The issue, therefore, was whether the Board's letter reporting on S. 2139 should include some form of caveat, that is, whether it should recognize possibilities that might arise in the future and might involve objections or criticisms on the part of the Board.

In further comments, Governor Mills noted that a fundamental purpose of the Bank Holding Company Act was to require divestment by a bank holding company of undertakings not closely related to banking. In a sense, the type of permission granted by the proposed amendment in S. 2139 could eventually run contrary to the purposes of the Bank Holding Company Act. A bank holding company might be found to be engaging indirectly in activities originally prohibited to it, or even in an activity the divestment of which had previously been required by the Board.

Further discussion included reference to the urgency of a report on S. 2139 in view of the fact that hearings were scheduled to begin today. Accordingly, the proposed report was remanded to the staff for further review, in the light of the points raised by Governor Mills, with the understanding that a revised draft of letter would be submitted for the Board's consideration as soon as possible.

Messrs. Hostrup, Nelson, and Young then withdrew from the meeting.

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Renewal of gold loan to Argentina (Item No. 4). In a memorandum distributed to the Board under date of June 15, 1959, Mr. Marget reported that Banco Central de la Republica Argentina had requested a thirty-day renewal of the \$17 million Federal Reserve gold loan which would mature on June 23, 1959. Banco Central had arranged a loan on gold in the amount of \$17 million from a group of United States commercial banks, and the purpose of the request for renewal was to permit final arrangements to be completed. In a telegram dated June 18, the New York Reserve Bank advised that a renewal of the Federal Reserve gold loan had been approved by the Bank's directors, subject to the approval of the Board of Governors. There had now been distributed to the Board a memorandum from Mr. Marget dated June 19 recommending approval of the renewal.

Following comments by Mr. Marget, agreement was expressed with his recommendation and unanimous approval was given to the telegram to the Federal Reserve Bank of New York of which a copy is attached as Item No. 4.

Messrs. Marget and Furth then withdrew from the meeting.

Proposed handling of tax remittances by individuals. At the request of Governor Szymczak, Mr. Farrell reported on a proposal by the Treasury Department, in letters sent to the Federal Reserve Banks under date of June 11, 1959, that the tax depository receipt system be extended to include the performance of functions by the Federal

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Reserve Banks in connection with the processing of payments by individuals against their estimated income taxes. After reviewing the operations currently performed by the Reserve Banks relative to the handling of withheld taxes remitted by employers, either direct to the Reserve Banks or through commercial banks, Mr. Farrell summarized his understanding with regard to the functions contemplated by the current proposal and noted that the Treasury had requested a reply from each Reserve Bank by June 24, 1959. He then stated that in a telephone conversation last Friday, President Allen of the Federal Reserve Bank of Chicago had expressed concern from the standpoint of the volume of work, space, and the amount of correspondence that would be involved and had suggested that the proposal seemed to deserve consideration as a System matter.

After further discussion of the matter, Mr. Farrell was requested to get in touch with Mr. Leach, Chairman of the Committee on Fiscal Agency Operations of the Presidents' Conference, and raise with him the question whether it would not be desirable to consider the Treasury proposal on a System basis. This would contemplate that Mr. Leach might want to communicate with each of the Federal Reserve Banks with a view to determining what type of response was made by those Banks that had already replied to the Treasury, and with the further thought that the remaining Banks might wish to advise the

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Treasury that the matter was being considered on a System basis. However, Mr. Farrell was to make it clear in talking with Mr. Leach that the Board had not taken a position with respect to the Treasury proposal.

Examination of Federal Reserve Bank of Dallas. The report of examination of the Federal Reserve Bank of Dallas as of April 1, 1959, had completed circulation to the Board along with the usual related memoranda.

At the Board's request, Mr. Smith summarized a number of matters disclosed through the examination. Among other things, he noted that a series of shortages aggregating \$83 had come to the attention of the Reserve Bank during January, February, and March of this year. These shortages, occurring in the Cash Department, were discovered in unfit currency cancelled at the head office and shipped to the San Antonio Branch for destruction. While the Reserve Bank had been unable to fix the responsibility, certain procedures in connection with the verification and destruction operations were revised and it was understood that there had been no recurrence of the shortages. It was pointed out that the Board's Division of Bank Operations was now completing a survey of the procedures followed at all Reserve Banks in connection with the verification and destruction function and that after the results of the survey were available designated representatives

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of the Reserve Banks and the Board were to meet with the Treasury Department in the light of Treasury-Federal Reserve correspondence relating to various aspects of the verification and destruction operations.

Statement by Mr. Patman on Reserve Bank expenditures. It was noted that Congressman Patman had handed to the press yesterday, under today's date, a lengthy statement criticizing various Federal Reserve Bank expenditures during 1957, apparently on the basis of information gleaned from the reports of examination of the Reserve Banks that had been sent to the House Banking and Currency Committee by the Board.

In view of the press articles, there was preliminary discussion of available information concerning certain of the items criticized by Mr. Patman, and it was stated that the Board's Legislative Counsel was obtaining a copy of Mr. Patman's full statement which would be duplicated for distribution to the members of the Board. The view was expressed that a complete story should be obtained from the Federal Reserve Banks on each of the items mentioned by Mr. Patman.

Pan American Bank of Miami. Governor Robertson reported receipt of a letter dated June 19, 1959, from General Sterling Wood of the Pan American Bank of Miami, Miami, Florida, confirming that negotiations had been terminated with Glore Forgan & Co. relative to

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the proposed underwriting of a sale of stock of South Dade Farms, Inc. pursuant to which additional capital was to have been supplied to the Pan American Bank. This letter, Governor Robertson said, also set forth a counterproposal regarding the outstanding commitment of South Dade Farms to take over certain criticized assets of the Pan American Bank. He indicated that the proposal was being reviewed by the Division of Examinations.

The meeting then adjourned.

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

Thomas L. Hunter, Jr., as Supervisory Review Examiner in the Division of Examinations, with basic annual salary at the rate of \$12,075, effective the date of entrance upon duty.

Eva G. Kennedy as Statistical Clerk in the Division of Research and Statistics, with basic annual salary at the rate of \$3,850, effective the date of entrance upon duty.

Governor Shepardson also approved on behalf of the Board on June 19, 1959, the appointment of Dorothy E. Swink as Statistical Clerk in the Division of Research and Statistics, with basic annual salary at the rate of \$3,945, effective the date of entrance upon duty.


Secretary

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

Item No. 1
6/22/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1959

Board of Directors,
American Trust Company,
San Francisco, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the Sacramento Redevelopment Area Shopping Center (block bounded by Fourth, Fifth, N, and O Streets) in Sacramento, California, by American Trust Company, San Francisco, California. This approval is given provided the branch is established within one year from the date of this letter and formal approval of the State authorities is effective at the time 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 25, D. C.

Item No. 2
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1959



Board of Directors,
Pacific State Bank,
Hawthorne, California.

Gentlemen:

The Board of Governors extends to February 2, 1960, the time within which Pacific State Bank, Hawthorne, California, may, under the authority contained in the Board's letter of February 2, 1959, establish a branch in the vicinity of the intersection of Slauson Avenue and Overhill Drive in an unincorporated area of Los Angeles County, California.

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
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1959



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

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated April 28, 1959, regarding the application of State Bank of Des Moines, Des Moines, Iowa, to convert into a national banking association and to concurrently establish a branch in Urbandale. You request a recommendation as to whether or not the application should be approved.

A report of the investigation of the application made by an examiner for the Federal Reserve Bank of Chicago discloses favorable findings with respect to the financial history of the bank, adequacy of its capital structure, earnings prospects, character of management, and services to the community. Accordingly, the Board of Governors recommends approval of the application to convert into a national banking association. We know of no objection to the proposal of the bank to establish a branch in Urbandale concurrent with its conversion to a national association.

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,

Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 4
6/22/59

June 22, 1959.

SANFORD - NEW YORK

Your wire June 18. Board approves the granting of a renewal of the gold loan by your Bank to the Banco Central de la Republica Argentina of \$17 million for a period of one month on the same terms and conditions as apply to the present loan, interest of course to be at the discount rate of your Bank on the date of renewal. It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN