FR 609
Rev. 10/59

Minutes for August 17, 1960

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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, August 17, 1960. 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. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of Examinations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Hooff, Assistant Counsel
Mr. Potter, Legal Assistant
Mr. Smith, Legal Assistant

Report on competitive factors: Trenton-Flat Rock, Michigan. A draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed consolidation of Peoples Bank of Trenton, Trenton, Michigan, and The State Savings Bank of Flat Rock, Flat Rock, Michigan, had been distributed under date of July 28, 1960. The report concluded as follows:

> The proposed consolidation will eliminate one competing bank in the area. Inasmuch as competition between the two banks appears to be limited, the transaction will not have significant effects on the situation in Flat Rock. However, it will result in the resulting bank having a concentration of three offices located three and one-half to nine miles southwest of the main office.

No objection being indicated, the report was approved unanimously for transmittal to the Corporation.

Report on competitive factors: Lewiston, Maine. A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Manufacturers National Bank of Lewiston, Lewiston, Maine, and the First National Bank of Lewiston and Auburn, Lewiston, Maine, had been distributed under date of August 2, 1960. The report concluded as follows:

> The proposed consolidation would eliminate one competing banking institution in Lewiston-Auburn, concentrating a substantial portion of local commercial banking resources in one bank. However, considerable competition would be provided in this area by local branches of two of Maine's largest commercial banking institutions with headquarters in Augusta and Portland, and by four local savings banks.

In a discussion of the report, particular reference was made to the competition afforded in the Lewiston-Auburn area by local branches of Depositors Trust Company (head office in Augusta) and Casco Bank and Trust Company (head office in Portland). It was suggested that the proposed consolidation would appear to be primarily a defensive move on the part of the two local institutions to meet more effectively the competition of the two large banks that had entered the area.

Governor Mills proposed that this situation be clarified in the report. The report had included deposit statistics for branches in the Lewiston-Auburn area, but had not indicated, for example, that Depositors Trust Company was the largest bank in the State.

After further discussion, the report was approved unanimously for transmittal to the Comptroller, with the understanding that the text would be expanded along the lines suggested by Governor Mills.

Report on competitive factors: Tamaqua-Pottsville, Pennsylvania. A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The First National Bank of Tamaqua, Tamaqua, Pennsylvania, and The Miners National Bank, Pottsville, Pennsylvania, had been distributed under date of August 5, 1960. The report concluded as follows:

> It appears that the proposed consolidation would intensify competition in Tamaqua and would enhance to some extent the competitive position of the continuing bank in Pottsville. It does not seem probable that the proposal would involve any tendency toward monopoly.

After discussion, particularly with respect to the geographical factors involved, the report was approved unanimously for transmittal to the Comptroller.

Mr. Potter then withdrew from the meeting.

Application for increased acceptance powers (Item No. 1). There had been distributed copies of a memorandum from the Division of Examinations dated August 16, 1960, regarding a request from Bank of America National Trust and Savings Association, San Francisco, California, for permission to accept commercial drafts or bills of exchange up to 100 per cent of capital and surplus.

As indicated in the memorandum, section 13 of the Federal Reserve Act provides that a member bank may not accept commercial drafts or bills of exchange in an amount equal at any time in the aggregate to more than 50 per cent of its paid-up and unimpaired capital stock and surplus; except, however, that with the permission of the Board of Governors a member bank may accept such drafts or bills in an amount not exceeding at any time in the aggregate 100 per cent of its paid-up and unimpaired capital stock and surplus. The applicant's capital stock and surplus totaled $500,000,000, so that under the provisions of section 13 the bank was permitted to accept drafts or bills of exchange up to an aggregate amount of $250,000,000. On July 20, 1960, the aggregate amount of acceptances was $239,500,000, and the applicant anticipated a further increase in the demand for acceptance facilities.

Attached to the memorandum was a draft of letter to Bank of America indicating that the Board had granted its request, but with the understanding that the aggregate acceptance liability would not exceed $300,000,000 until the capital position of the bank had been improved.

In discussing the matter, Mr. Goodman referred to comments in the Division memorandum concerning the capital position of the applicant bank and to the discussion between the Board and the President of that bank on January 29, 1960. In this connection, he pointed out that, as stated in the memorandum, the Board might wish to consider various alternatives ranging from approval of the request for increased acceptance powers without conditions to denial of the application.

Governor Mills expressed the view that the request could properly be granted and that no comment should be made in connection therewith regarding the applicant bank's capital. This was not to suggest, however, that the capital problem had by any means been eliminated. The aggregate of acceptances created by the applicant bank and its wholly-owned subsidiary, Bank of America, New York, constituted an additional risk exposure which in a sense could be regarded as reflecting tightness in the applicant's direct lending capacity. In this connection, he referred to the most recent report of examination of Bank of America, New York, which was in circulation to the Board, and indicated that he found it difficult to analyze the types of risks in which that institution had involved itself. Its operations were scattered over most of the danger spots of the world and, depending on international developments, normal risks could deteriorate quickly. In his opinion, therefore, the capital problem of the applicant institution was a real one, and at appropriate times the question should be raised with the management of the bank. However, he doubted that the granting of the permission currently requested represented an appropriate occasion to call attention to the problem.

Governor Robertson indicated that his views were of a similar nature. Although the problem of the bank's capital was primarily the responsibility of the Comptroller of the Currency, the Federal Reserve had a secondary responsibility, and he felt that every appropriate opportunity should be used to raise the question of capital. However,

he did not feel strongly that the question should be injected on the occasion of acting upon the bank's request for increased acceptance powers.

The other members of the Board indicated that they also would favor granting the current request without injecting any conditions or any reference to the capital problem.

Accordingly, it was agreed unanimously to grant the requested authority without attaching any conditions. A copy of the letter sent to the Bank of America National Trust and Savings Association pursuant to this action is attached as Item No. 1.

Mr. Fauver, Assistant to the Board, entered the room during the foregoing discussion.

Pan American Bank of Miami. For the information of the Board, Governor Robertson reported that there was to be a meeting this afternoon with representatives of the Connecticut Mutual Life Insurance Company, a creditor of Sottile, Inc., which was interested in obtaining information regarding all of the Sottile banks, including the Pan American Bank of Miami, with a view to pursuing efforts to find new ownership for the banks. The banks were aware of the meeting and had no objection, Governor Robertson said. Since all of the Sottile banks were involved, representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation were to be present, along with the Commissioner of Banks for the State of Florida.

Amendments to Loss Sharing Agreement (Item No. 2). A memorandum from Messrs. Farrell and Hackley dated August 16, 1960, regarding proposed amendments to the Loss Sharing Agreement of the Federal Reserve Banks had been distributed to the Board.

In a letter dated August 11, 1960, the Chairman of the Insurance Committee of the Federal Reserve Banks advised that the Committee had approved proposed amendments to section 7 of the Loss Sharing Agreement in the form set forth in a proposed amendatory agreement, copies of which had been forwarded to the Board. The proposed amendments were designed to facilitate shipments of currency into and out of storage for possible emergency use. By an amendment to the Loss Sharing Agreement that became effective March 1, 1960, section 7 was amended to make the $15 million limitation on currency shipments by registered mail inapplicable to shipments made from Fort Knox to any Reserve Bank office during 1960. In lieu of this temporary and limited amendment, the amendments now proposed would make all of the amount limitations on currency shipments inapplicable to any shipment made during a national emergency and also to shipments of currency into or out of storage for emergency use, provided such shipments were approved by the Board. However, the limitations would continue to apply to shipments made by the Federal Reserve Banks to so-called "cash agent" banks.

If the Board should approve the amendatory agreement, it would then be executed by each of the Federal Reserve Banks, and the amendments

would become effective when the Secretary of the Board advised the Reserve Banks that executed counterparts had been received from all of the Banks.

Submitted with the memorandum was a draft of letter to the Presidents of all Federal Reserve Banks that would transmit copies of the amendatory agreement for execution. Also submitted was a draft of letter to the Chairman of the Insurance Committee that would advise him of Board approval of the amendments.

In commenting on the proposed amendments, Mr. Farrell brought out that although the shipments of currency to Salt Lake City for storage for emergency purposes would total about $1.6 billion, it was planned that several shipments involving not more than about $300 million each would be sent at intervals.

At Governor Robertson's suggestion, Mr. Farrell also reported on a possibility that had developed of storing Treasury currency and Federal Reserve notes at the OCDM Classified Location (High Point). He indicated that after Board and Treasury representatives had obtained full information, the matter would be submitted to the Board for further consideration.

In further comments, Mr. Farrell noted that the vault at Salt Lake City was so arranged that it appeared advisable to provide storage space for the notes of five Federal Reserve Banks, each Bank having a separate compartment. In the circumstances, one of the six Reserve Banks (Boston) that had expressed an interest in storing notes at Salt Lake City had been omitted from the present arrangement.

The proposed amendments to section 7 of the Loss Sharing Agreement of the Federal Reserve Banks were then approved unanimously, with the understanding that the amendments would become effective when executed counterpart originals of the amendatory agreement had been received from all of the Reserve Banks and the Board's Secretary so advised the Banks. A copy of the letter sent to the Presidents of the Federal Reserve Banks pursuant to this action is attached as Item No. 2, and an appropriate letter also was sent to the Chairman of the Insurance Committee.

Secretary's Note: The amendments became effective September 13, 1960.

Investments by bank holding companies and their subsidiaries in small business investment companies (Item No. 3). There had been distributed a draft of reply to a letter dated July 25, 1960, from the Federal Reserve Bank of Atlanta relating to investments by bank holding companies and their subsidiary banks in small business investment companies. The letter from the Atlanta Reserve Bank presented the following questions, which had been raised by Counsel for the Citizens and Southern National Bank, Atlanta, Georgia:

> "May banking subsidiaries of a bank holding company invest in the stock of a SBIC notwithstanding that such SBIC is a subsidiary of the bank's parent company?
>
> "If the answer to the foregoing question is in the affirmative, is the total amount invested by the holding company and its subsidiaries limited to 1% of the capital and surplus of the holding company?"

The draft reply would answer both questions in the affirmative.

By way of background, Mr. Hackley referred to two provisions of the Bank Holding Company Act that had a bearing on this matter. Under the provisions of section 4(c)(4) of the Bank Holding Company Act and the relevant provisions of the Small Business Investment Act, a holding company may acquire and retain "direct or indirect ownership" of stock of a small business investment company in an amount not to exceed one per cent of the holding company's capital and surplus. Section 6(a)(1) of the Bank Holding Company Act, which does not relate to the amount of stock that a holding company may own in a small business investment company, provides that it is unlawful for a bank "to invest any of its funds in 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."

In October 1958 the Board published a ruling to the effect that, since the shares of a small business investment company were of a kind and amount expressly made eligible for investment by a national bank under the Small Business Investment Act, it followed that the ownership or control of such shares by a bank holding company would be exempt from the prohibitions of section 4 of the Bank Holding Company Act by virtue of the provisions of section 4(c)(4) of that Act. An additional matter covered by the 1958 ruling involved a question as to whether section 6 of the Bank Holding Company Act prohibited banking subsidiaries of a bank holding company from purchasing stock in a small business investment

company where the latter was or would be a subsidiary of the bank holding company under that Act. The ruling indicated that section prohibited such purchases.

In a March 1959 ruling the Board held that a particular subsidiary of a bank holding company could not invest in the stock of a small business investment company if such investment, together with the investments of the parent holding company and of other subsidiaries, would exceed one per cent of the capital and surplus of the parent company.

On June 11, 1960, section 302(b) of the Small Business Investment Act of 1958 was amended as follows:

> "Notwithstanding the provisions of Section 6(a)(1) of the Bank Holding Company Act of 1956, shares of stock in small business investment companies shall be eligible for purchase by national banks, and shall be eligible for purchase by other member banks of the Federal Reserve System and nonmember insured banks to the extent permitted under applicable State law; except that in no event shall any such bank hold shares in small business investment companies in an amount aggregating more than 1 per cent of its capital and surplus."

The amendment to section 302(b) of the Small Business Investment Act had the effect of making section 6(a)(1) of the Bank Holding Company Act inapplicable with respect to purchase of stock in a small business investment company. However, there was nothing in the language of the amendment which would amend section 4(c)(4) of the Bank Holding Company Act in order to permit a holding company to acquire and retain "direct or indirect ownership" of stock of a small business investment company in an amount exceeding one per cent of the holding company's capital and surplus.

When the bill was originally drafted, it contained language referring to "notwithstanding any provision of the Bank Holding Company Act." In reporting to the Bureau of the Budget on the draft bill, the Board expressed no objection but stated that it assumed the purpose of the proposed amendment was to overrule only the Board's interpretation regarding the effect of section 6 of the Bank Holding Company Act. Therefore, the Board suggested "notwithstanding the provisions of 6(a)(1) of the Bank Holding Company Act," and the language of the bill as enacted followed that suggestion. It was clear from the record that the Congress was aware of both of the rulings of the Board, and was also aware of an amendment proposed by a bank holding company official in 1958 that would have made it possible for any bank subsidiary of a bank holding company to invest up to one per cent of its capital and surplus in a small business investment company. On the other hand, during the hearings there was a colloquy between Congressman Patman and Senator Proxmire indicating that both of them understood that the effect of the amendment would be to permit each subsidiary bank to invest up to one per cent of its capital and surplus, and the report on the bill contained language which could be construed as meaning that the intended effect of the amendment was to permit each subsidiary bank to invest to that extent in a small business investment company.

Mr. Hackley said it was the feeling of the Legal Division, strictly as a legal matter, that since the Congress knew of the two

provisions of the Bank Holding Company Act and also the rulings of the Board, but saw fit to pass an amendment involving only the provisions of section 6, the position taken in the proposed letter to the Federal Reserve Bank of Atlanta was correct. If the Board were to adopt a liberal construction and hold that one per cent of capital and surplus could be invested by each holding company subsidiary bank, it might be charged that the Board had distorted the language of the law in such a way as to violate one of the principles set forth in the Bank Holding Company Act, namely, the separation of bank and nonbank holdings by bank holding companies. On the other hand, if the Board should take what the Legal Division thought was the proper legal position, the Board might be charged with being too strict and taking a position that would be adverse to the financing of small business in the manner contemplated by the Small Business Investment Act.

Governor Mills expressed the opinion that it was necessary to construe the law literally and therefore to follow the recommendation of the Legal Division. In doing so, the Board might be going contrary to the actual intent of the Congress, but there seemed no escape from such an approach and the Congress would be free to amend the law further at a later date if it so desired.

Governor Robertson commented that it is one of the cardinal rules of statutory construction that one does not look to the legislative history if the statute itself is clear. In this instance he felt that the Board had no choice other than to accept the recommendation of the Legal Division.

Governor Shepardson commented to the effect that, although the proposed interpretation might be technically correct, he doubted seriously whether it would be in accord with the intent of the Congress. To whatever extent the proposed interpretation would be a limitation on investment in small business investment companies by holding company banks, it would be contrary to whatever feeling existed in the Congress about opening up the small business financing program to all banks. Like Governor Mills, he felt that it would be necessary to follow the proposed interpretation in the light of the language of the statute. However, in his mind there was a serious question as to whether the purpose of the Congress was being accomplished.

There followed a discussion indicating why the proposed ruling was of significance to Citizens and Southern Holding Company, with its relatively small capital and surplus, while it would be of little significance to most other bank holding companies, since their capital and surplus is practically equal to the combined capital and surplus of their subsidiary banks. In this connection, Mr. Hackley noted that before the recent amendment of the Small Business Investment Act, the Executive Director of the Association of Registered Bank Holding Companies had indicated informally to the Board's staff that the Association was concerned only with the Board's interpretation of section 6 of the Bank Holding Company Act.

Governor King expressed approval of the interpretation recommended by the Legal Division, as did Governor Szymczak. The latter, however, indicated that he thought the Senate and House Banking and Currency Committees should be notified of the interpretation so that they might consider further amendment of the law if they so desired.

Question then was raised as to whether the interpretation should be published, and Mr. Shay stated reasons in support of his view that this should be done. He commented on the interest of members of the Congress in both Houses in small business financing, the dissatisfaction expressed in some quarters concerning the Small Business Investment Act, and the feeling of some on the Hill that the Board's earlier interpretations were too strict. With respect to the recent amendment to section 302(b) of the Small Business Investment Act, he said he was convinced that the intent was to amend the law so that a bank desiring to invest in a small business investment company would not be penalized because it was a subsidiary of a bank holding company. In the circumstances, he agreed with Governor Szymczak that it would be desirable to bring the current interpretation to the attention of the Chairmen of the Senate and House Banking and Currency Committees. If this were done, he noted, the Board might expect to be asked at some time what its position would be on a further amendment of the law.

The effects of a further change in the law were then discussed, and various views were expressed. Consideration was given to the possibility

of deferring a reply to the question raised by Citizens and Southern pending determination of a Board position on such legislation. At the conclusion of the discussion, however, it was agreed to send the proposed letter to the Federal Reserve Bank of Atlanta in a form incorporating certain minor changes suggested by Mr. Hackley. It was further agreed that an interpretation based on the letter would be published in the Federal Register and the Federal Reserve Bulletin, and that copies would be sent to the Chairmen of the Senate and House Banking and Currency Committees with appropriate transmittal letters. These actions were taken with the understanding that the Board would give further consideration to its position on amendatory legislation in respect to investments in small business investment companies by bank holding companies and their subsidiary banks, and in this connection the staff was requested to prepare material that would be of assistance to the Board in reaching such a decision.

A copy of the letter sent to the Federal Reserve Bank of Atlanta is attached to these minutes as Item No. 3.

Mr. Smith then withdrew from the meeting.

Absorption of exchange charges (Item No. 4). With reference to the understanding reached at the Board meeting on August 15, Governor Balderston said that the letter dated August 6, 1960, from the Chairman of the Board of The First National Bank of Dothan, Dothan, Alabama, relative to the question of absorption of exchange charges as payment of

interest on deposits had been discussed yesterday with President Bryan of the Federal Reserve Bank of Atlanta. On the basis of that discussion, a revised draft of reply had been prepared and distributed to the members of the Board.

Governor Mills expressed approval of the revised draft. As to procedure, he suggested sending the reply direct to the member bank, with a copy to President Bryan, and other members of the Board concurred.

Governor Shepardson then referred to a telephone call he had received from President Allen of the Federal Reserve Bank of Chicago, who reported that the Reserve Bank had received an inquiry from a Chicago member bank which had gained the impression, reportedly from a source in New York, that the Board was planning to modify the interpretation. When in Washington yesterday for a meeting of the Federal Open Market Committee, Mr. Allen had discussed with the Board's staff the status of instructions to examiners regarding the enforcement of the recent ruling on absorption of exchange charges, and it appeared possible that the information received by the Chicago member bank involved some reference that had been made to the possibility of such instructions being issued.

Governor Robertson commented that he had reviewed yesterday a draft of telegram from the Director of the Division of Examinations to the Vice Presidents in charge of examinations at the Reserve Banks requesting their comments on proposed instructions to examiners prior to the formulation of final instructions. He had called in Presidents Bryan,

Johns, and Irons to review the draft instructions, and certain revisions were made to eliminate any indication of a backing away from the recent interpretation. In the revised form, the telegram was sent to the Vice Presidents in charge of examinations, and the draft instructions also were sent to the Comptroller of the Currency for his views.

There followed a discussion concerning the prospect for compliance by member banks with the recent interpretation, during which Governor Robertson explained why he felt there was a reasonable chance of obtaining cooperation from the member banks. At the conclusion of this discussion it was understood that Governor Robertson would get in touch with President Allen and review with him the questions that had been raised in his telephone conversation with Governor Shepardson.

The discussion then reverted to the letter from The First National Bank of Dothan, and Mr. Hackley pointed out that no payment of interest on demand deposits would appear to be involved if a member bank maintained a deposit with a nonmember bank in return for which the latter bank absorbed exchange charges on checks sent to it by the member bank for collection unless the member bank's customers were given full credit for such checks. It was agreed that the proposed reply to the Dothan bank should be amended to make this point clear.

With this change, the letter to the Chairman of The First National Bank of Dothan was approved, Governor King abstaining, with a copy to the President of the Federal Reserve Bank of Atlanta. A copy of the letter, as sent, is attached as Item No. 4.

Mr. Hackley then withdrew from the meeting.

Acquisition of property in Charlotte (Item No. 5). Governor Balderston reported that, pursuant to the understanding at the meeting on August 15, 1960, he had talked with Chairman Decker of the Federal Reserve Bank of Richmond regarding the proposed purchase of certain property adjacent to the Charlotte Branch building. Mr. Decker stated that he had gone to Charlotte to view the property and that the proposed purchase had been the subject of long and serious discussion by the Reserve Bank directors. The laundry building now situated on the property was regarded as an undesirable structure and might be replaced with something equally undesirable if the property should fall into other hands. Also, Mr. Decker disagreed with the thought that the present Branch building would suffice for a period as long as fifteen years, it being his feeling that within that time the growth of the community and the area would make it necessary to provide more space for Branch operations. While the directors hesitated to make an investment so far in advance of actual need, they felt that the scarcity of available property in the part of Charlotte where the Branch was located was such that, if the property in question was not acquired at a time when it was available, the failure to make the purchase might be regretted later. Mr. Decker felt that the property might be put in shape for parking purposes and leased to some party to operate as a parking lot.

In view of the conversation with Chairman Decker, Governor Balderston said he assumed the Board would wish to proceed in accordance with the tentative decision reached on August 15 and advise the Richmond Reserve Bank that it would have no objection to the purchase of the property in question at a cost not to exceed $200,000.

There being no indication to the contrary, the telegram of which a copy is attached as Item No. 5 was sent later in the day to the Reserve Bank.

Mr. Molony then withdrew from the meeting.

Loans to foreign branch officers of American bank. Governor Balderston reported having received a telephone call from the President of The First National City Bank of New York, who drew attention to a Colombian Executive Order which appeared to require banks in that country to make loans to officers and employees for the purpose of buying homes, with interest at a rate not to exceed 4 per cent per annum. As far as officers of the bank were concerned, it was noted that section 22(g) of the Federal Reserve Act prohibits member banks from making loans to executive officers in excess of $2,500, so it seemed that a conflict was involved.

During discussion, Governor Mills indicated that he would be concerned about condoning a violation of the banking laws of the United States and that similar questions might arise in other foreign places where American banks operate. He suggested that it might be possible for

the First National City organization to arrange to finance the purchase of homes by officers and employees in Colombia without putting the loans on its books and that perhaps something could be worked out through International Banking Corporation, a subsidiary of First National City.

At the conclusion of the discussion it was understood that the matter would be considered further after the staff had obtained additional information.

Mr. Goodman then withdrew from the meeting.

Application of Citizens Fidelity Bank and Trust Company. Governor Balderston noted that there had completed circulation to the Board a file on the application of Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, for permission to merge with the Bank of Louisville. Since Governor Mills was to be away on vacation for a few days, Governor Balderston inquired whether he had any comment that he would like to make on the matter.

Governor Mills stated that he felt the application should be considered in due course whenever a quorum of the Board was present. He also indicated that he had no comment at this time, since he had not had the advantage of discussion of the matter by the staff and the Board.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson approved on behalf of the Board on August 16, 1960, a memorandum dated August 10, 1960, from Mr. Johnson, Director, Division of Personnel Administration, recommending the appointment of Judy Ann Marconi as Clerk-Stenographer in that Division, with basic annual salary at the rate of $3,970, effective the date of entrance upon duty.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated August 11, 1960, from Mr. Connell, Controller, recommending an increase in the basic annual salary of Jean S. Barber, from $4,345 to $4,830, with change in title from Payroll Clerk to Accounting Clerk in the Office of the Controller, effective August 21, 1960.

Memorandum dated August 12, 1960, from Mr. Noyes, Director, Division of Research and Statistics, recommending an increase in the basic annual salary of Maurice H. Schwartz, from $12,730 to $13,730, with change in title from Chief Analyst to Chief, Statistical Operations Planning Unit, Division of Research and Statistics, effective August 21, 1960.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 6) approving the appointment of John Henry Kregel as assistant examiner.

Kenneth A. Bongon
Assistant Secretary.

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

Item No. 1
8/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 17, 1960

Mr. S. Clark Beise, President,
Bank of America National Trust and
Savings Association,
300 Montgomery Street,
San Francisco, California.

Dear Mr. Beise:

The Board of Governors of the Federal Reserve System, pursuant to the provisions of Section 13 of the Federal Reserve Act, authorizes your bank to accept commercial drafts or bills of exchange to an amount (which amount shall include any drafts and bills of exchange accepted by other banks for the account of your bank) not exceeding at any time, in the aggregate, 100 per centum of the paid up and unimpaired capital stock and surplus of your bank, provided that the aggregate of acceptances growing out of domestic transactions shall in no event exceed 50 per centum of such capital stock and surplus.

This authorization is subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto.

The right is reserved to terminate this authorization upon 90 days' written notice to your bank, as provided in Section 1(e)(2) of Regulation C.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
8/17/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 17, 1960.

Dear Sir:

The Board has been advised by Mr. Paul C. Hodge, Chairman of the Insurance Committee of the Federal Reserve Banks, that the Insurance Committee has approved proposed amendments to section 7 of the Loss Sharing Agreement of the Federal Reserve Banks making the amount limitations of that section inapplicable to shipments of currency in a national emergency and to shipments made with the approval of the Board into or out of storage for emergency use. Enclosed are two copies of an amendatory agreement reflecting these amendments.

The Board of Governors has approved the amendments to the Loss Sharing Agreement as set forth in the amendatory agreement. After the enclosed copies of the amendatory agreement have been executed by your Bank, one of the duly executed counterpart originals should be forwarded to the Board. When executed counterparts have been received from all Federal Reserve Banks, the Board will notify your Bank by wire and, as provided in paragraph 4 of the amendatory agreement, the amendments will become effective as of the date of such notice.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 3
8/17/60

August 17, 1960

Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

This is in response to Mr. Patterson's letter of July 25, relating to investments by bank holding companies and their subsidiary banks in small business investment companies.

The first question presented in the letter from counsel for the Citizens and Southern National Bank, which Mr. Patterson enclosed, reads as follows:

> "May banking subsidiaries of a bank holding company invest in the stock of a SBIC notwithstanding that such SBIC is a subsidiary of the bank's parent company?"

The answer to this question is "yes", as indicated in the Board's letter of August 3 to the Presidents of all Federal Reserve Banks (S-1753).

The second question is as follows:

> "If the answer to the foregoing question is in the affirmative, is the total amount invested by the holding company and its subsidiaries limited to 1% of the capital and surplus of the holding company?"

In the ruling published in the 1959 Federal Reserve Bulletin, at page 257 (F.R.L.S. #9361), the Board pointed out that section 4 of the Bank Holding Company Act relates to "direct or indirect ownership or control" of shares of a company that is not a bank. Shares owned or controlled by a subsidiary of a holding company are indirectly owned or controlled by the holding company itself. Consequently, the Board concluded, if a holding company directly owned shares of a small business investment company in an amount equal to one per cent of the holding company's capital and surplus, and its subsidiary banks also owned shares of such company, the holding company would have "direct or

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

indirect ownership or control" of stock of the SBIC in an amount exceeding one per cent of the holding company's capital and surplus, which is the maximum permitted by section 4(c)(4) of the Holding Company Act in conjunction with the applicable provisions of the Small Business Investment Act.

The recent amendment of section 302(b) of the SBI Act simply inserted the words "Notwithstanding the provisions of section 6(a)(1) of the Bank Holding Company Act". Section 6(a)(1) does not govern, or relate to, the maximum amount of stock in a SBIC that a holding company may own; that matter is controlled by section 4(c)(4). The amendment to section 302(b) of the SBI Act was intended to overrule by statute the latter part of the interpretation published in the 1958 Bulletin, page 1161 (F.R.L.S. #9360), which related to the applicability of section 6 of the Bank Holding Company Act. The language of the amendment to section 302(b) carries out this purpose, and there is nothing in the language of that amendment to indicate an intention to amend also section 4 of the Bank Holding Company Act to permit a holding company to acquire and retain "direct or indirect ownership or control" of stock of a SBIC in an amount exceeding one per cent of the holding company's capital and surplus, the maximum permitted by section 4(c)(4) of the Holding Company Act and the relevant provision of the SBI Act.

Consideration has been given to the colloquy between Representative Patman and Senator Proxmire quoted in the July 22, 1960 memorandum enclosed with Mr. Patterson's letter, but it is believed that this is not sufficient, by itself, to justify interpreting the recent amendment of section 302(b) of the SBI Act as amending not only section 6(a)(1) of the Bank Holding Company Act but also section 4(c)(4) thereof.

Accordingly, it is the Board's conclusion that, under provisions of present law, the answer to the second question also is "yes".

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
8/17/60

August 17, 1960

Mr. W. D. Malone,
Chairman of the Board,
The First National Bank of Dothan,
Dothan, Alabama.

Dear Mr. Malone:

This is in response to your letter of August 6, 1960, regarding the Board's recent interpretation concerning the absorption of exchange charges as payment of interest on deposits. If your Bank maintains a deposit with another bank, in return for which that bank absorbs exchange charges on checks sent to it by your Bank for collection, and if your Bank gives full credit for such checks to its depositor, the interpretation would be applicable. In fact, this would seem to be the exact kind of a case which gave rise to the interpretation.

The Board recognizes that difficult competitive problems can arise, as you suggest, when some banks, directly or indirectly, absorb exchange charges and others feel that they cannot in good conscience do so. It is the Board's hope that application of the principle stated in the interpretation will tend to eliminate competitive inequities among member banks.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 5
8/17/60

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 17, 1960

Leach - Richmond

Board will interpose no objection to purchase of property adjoining Charlotte Branch, as described in letter of July 22, 1960, at a price not to exceed $200,000, and necessary miscellaneous costs referred to.

(Signed) Kenneth A. Kenyon
Kenyon

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

Item No. 6
8/17/60

August 17, 1960

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

Dear Mr. Mangels:

In accordance with the request contained in your letter of August 11, 1960, the Board approves the appointment of John Henry Kregel as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise as to the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.