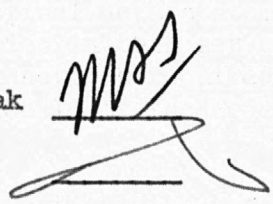
The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on May 12, 1959, has been amended at the suggestion of Governor Robertson to delete one paragraph from page 4.

If you approve these minutes as amended, please initial below.

Governor Szymczak

Governor Mills



Minutes for May 12, 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
Gov. Szymczak	x	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	
Gov. King	x	

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, May 12, 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. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Hill, Assistant to the Secretary
Mr. Young, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, and Dallas on May 7, 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:

	Item No.
Letter to The First National Bank of Millersburg, Millersburg, Pennsylvania, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Philadelphia)	1
Letter to the McIlroy Bank, Fayetteville, Arkansas, approving an investment in bank premises. (For transmittal through the Federal Reserve Bank of St. Louis)	2
Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank at Wauchula, Florida. (With a copy to the Federal Reserve Bank of Atlanta)	3
Letter to the Federal Reserve Bank of Atlanta interposing no objection to the employment of architects for the New Orleans Branch building program.	4
Letter to the Federal Reserve Bank of Minneapolis approving a revision of the employees' salary structure for the head office and Helena Branch.	5

Messrs. Sprecher and Daniels then withdrew from the meeting.

Proposed amendments to Federal Credit Union Act (Item No. 6). There had been distributed to the Board a memorandum from Mr. Young dated May 8, 1959, regarding a request from the Bureau of the Budget

for a report on H. R. 5777, a bill "To amend the Federal Credit Union Act." None of the provisions of the bill would directly affect the Board's functions and responsibilities, and most of them would involve no substantive changes in the present law. However, one amendment would extend loan maturities and another would increase the unsecured loan limit. Provision would also be made for the establishment of Federal central credit unions. Hearings on the bill began this morning and the Bureau of the Budget therefore requested the Board's views as soon as possible.

During discussion of the bill the view was expressed that credit unions, although serving a useful and constructive purpose, should be limited to the area of operations for which they were originally authorized and that certain of the amendments might tend toward undesirable commercialism. It appeared that the proposed extension of loan maturities and increase in the unsecured loan limit were designed primarily to facilitate home improvement loans, and doubt was expressed whether credit unions should extend such loans unless supported by FHA Title I insurance in view of the risks inherent in them.

It was then agreed to refer the draft reply to the Legal and Research Divisions for modification in the light of

the views expressed at this meeting, with the understanding that the revised letter would be transmitted to the Bureau of the Budget this afternoon. A copy of the letter sent pursuant to this action is attached as Item No. 6.

Messrs. Benner and Young then withdrew from the meeting.

Reply to Senator Douglas (Item No. 7). There had been distributed to the Board under date of May 11, 1959, a draft of reply to a letter from Senator Douglas of Illinois dated April 29, 1959. Senator Douglas had enclosed a copy of the Senate Committee Report dealing with proposed reserve requirement legislation, with particular reference to his own supplemental views included therein, and commented on factors involved in the use of open market operations and reserve requirement changes as alternative instruments of monetary policy.

After discussion, the proposed letter to Senator Douglas was unanimously approved in the form attached hereto as Item No. 7.

Ratification of action taken in the absence of a quorum (Item No. 8). The Board ratified by unanimous vote the action taken at a meeting of the available members of the Board on May 8, 1959. Minutes of that meeting are attached hereto as Item No. 8.

Amendments to Regulations T and U (Items 9 and 10).

Pursuant to the understanding at the meeting on May 7, 1959, Governor Balderston had discussed informally with a Treasury representative the timing of the release of the 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 the Board had approved on May 1 and May 6, 1959. On the basis of that conversation, plans had been made for announcement of the amendments at 4:00 p.m. this afternoon. 1/

The plan for announcement of the amendments was referred to by Governor Balderston and no objection was indicated.

> Secretary's Note: The amendments to Regulations T and U were released to the press at 4:00 p.m. today and sent to the Federal Register for publication. Telegraphic advice was sent to all Federal Reserve Banks and branches and copies of the amendments were sent by airmail with the suggestion that the Banks might wish to duplicate and distribute copies until printed copies of the amended Regulations were available. The amendments were in the form attached hereto under Items 9 and 10.

All members of the staff except Messrs. Sherman and Johnson then withdrew.

1/ Titles of Regulations T and U changed. For new titles, see Items 9 and 10.

Governor Shepardson referred to the entry in the minutes for April 21, 1959 regarding the continued service of Harold V. Roelse at the Federal Reserve Bank of New York after retirement. In reviewing the minutes, it appeared to him that the letter that had been approved by the Board might not provide the best record of the Board's understanding of the arrangement. This caused him to raise the question whether it might be desirable to send a supplemental letter to President Hayes calling attention to the Board's understanding that total annual compensation (per diem plus the pension portion of his retirement allowance) paid to Mr. Roelse in the future would not exceed his salary at the time of retirement. Such a letter might also ask for reports from time to time of the progress Mr. Roelse was making in the historical studies that he was expected to make, and it might indicate that the Board did not expect a "free rein" operation.

Mr. Johnson stated that arrangements had been made for the Division of Examinations to make a review of Mr. Roelse's service and submit a report at the time of each examination of the Federal Reserve Bank of New York in the future. Such review would cover not only the compensation paid Mr. Roelse, as mentioned at the Board meeting April 21, but the examiners would also check with officials of the New York Bank regarding the progress of the historical reports being prepared by him and would attempt to obtain information as to the probable length

of time Mr. Roelse's service would be required. Mr. Johnson indicated that he felt such an arrangement preferable to having a time limitation provided in the Board's letter approving the continued service of Mr. Roelse, which would have made it necessary for the New York Bank to come in periodically for an extension of the arrangement.

Governor Balderston said that in reading these minutes he had been concerned about this entry, thinking of the reaction that might be caused if the Board's letter were to become available to Congressional sources. He inquired whether the confidential section of the examination reports of the Federal Reserve Banks, in which presumably the report on the arrangement regarding Mr. Roelse would appear, was included when the reports were submitted for the inspection of the Banking and Currency Committees of the House of Representatives and the Senate, to which the Secretary responded that this had not been the practice in the past.

Governor Mills stated that it was important to avoid misunderstanding between the Board and the New York Bank concerning the arrangement. However, he recalled that this had been discussed informally by Chairman Martin and Mr. Hayes, and he suggested that to avoid any possible conflict it would be preferable if the matter were taken up informally when Mr. Hayes was next in Washington for a meeting of the Open Market Committee.

There was general agreement with Governor Mills' suggestion, and it was understood that Governor Balderston would arrange to talk with Mr. Hayes at the time of his next visit to Washington.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum dated May 4, 1959, from Mr. Farrell, Director, Division of Bank Operations, Governor Balderston, acting in the absence of Governor Shepardson on May 8, 1959, approved on behalf of the Board acceptance of the resignation of Mary Catherine Johnson, Clerk-Stenographer in that Division, effective May 1, 1959.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on May 11, 1959, the following items affecting the Board's staff:

Appointments

Malcolm Hugh Liggett as Research Assistant in the Division of Research and Statistics, with basic annual salary at the rate of $4,980, effective the date of entrance upon duty.

Sally B. Kirby as Substitute Nurse in the Division of Personnel Administration, with basic salary at the rate of $18 for each day worked, effective the date of entrance upon duty.

Salary increases, effective May 17, 1959

Pearl S. Thompson, Records Clerk, Office of the Secretary, from $4,040 to $4,135 per annum.

Marcia G. Patz, Secretary, Division of International Finance, from $4,340 to $4,490 per annum.

Carl A. Zimmerman, Assistant Federal Reserve Examiner, Division of Examinations, from $5,280 to $5,430 per annum.

Rosemarie H. Smith, Clerk, Division of Personnel Administration, from $1,985 to $2,033 (half-time basis) per annum.

Salary increases, effective May 17, 1959 (continued)

John M. Pope, Guard, Division of Administrative Services, from $3,730 to $3,825 per annum.

Quincy W. Barnes, Messenger, Division of Administrative Services, from $2,960 to $3,055 per annum.

Nina L. Marcey, Cafeteria Helper, Division of Administrative Services, from $3,055 to $3,150 per annum.

Susan O. Hoffman, Accounting Technician, Office of the Controller, from $4,190 to $4,340 per annum.

Transfer

Constance A. Dyer, from the position of Special Assistant Federal Reserve Examiner in the Division of Examinations to the position of Secretary in the Office of the Secretary, with no change in her basic annual salary at the rate of $4,790, effective May 25, 1959.

Pursuant to the recommendation contained in a memorandum dated April 30, 1959, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the transfer of Dorothy Duke from the position of Secretary, Board Members' Offices, to the position of Secretary, Division of Research and Statistics, effective upon assuming her new duties, with an adjustment in her basic annual salary from $7,510 to $5,840 effective July 12, 1959.

Secretary

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

Item No. 1
5/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 12, 1959.

Board of Directors,
The First National Bank of Millersburg,
Millersburg, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and, effective upon an increase in the bank's capital stock to not less than $150,000, 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 Pennsylvania, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

When advice is received from the Office of the Comptroller of the Currency that the capital stock of The First National Bank of Millersburg has been increased to not less than $150,000, the minimum capital required by Pennsylvania law for the exercise of trust powers by banks if the population of the borough or township in which the bank is located does not exceed six thousand persons, the Board of Governors will issue and forward a formal certificate evidencing the bank's authority to exercise fiduciary powers.

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
5/12/59

May 12, 1959.

Board of Directors,
McIlroy Bank,
Fayetteville, Arkansas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, 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 in the amount of $20,500 by McIlroy Bank, Fayetteville, Arkansas. The additional expenditure is understood to be for the purpose of acquiring additional parking facilities as stated in your request.

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
5/12/59

May 12, 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 November 6, 1958, enclosing copies of an application to organize a national bank at Wauchula, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that a capital structure of $400,000 would be provided for the bank instead of $300,000 shown in the application. This report discloses satisfactory findings with respect to the factors usually considered in connection with such proposals, with the exception of the qualifications of the proposed executive officer. It appears that the board of directors would consist of a group of successful businessmen who have not had banking experience, and our informant is of the opinion that the services of a more suitable executive officer would be desirable. The Board of Governors recommends approval of the application, provided arrangements are made for executive management satisfactory to 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. 4
5/12/59

May 12, 1959.

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

Dear Mr. Bryan:

Reference is made to your letter of April 20, 1959, concerning a proposed agreement with Toombs, Amisano & Wells and with Goldstein, Parham & Labouisse to perform jointly architectural and engineering services in New Orleans.

The Board will interpose no objection to the employment of architects for the New Orleans Branch building program, as outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
5/12/59

May 12, 1959.

CONFIDENTIAL (FR)

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

Dear Mr. Deming:

In accordance with your letter of April 23, 1959, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structure applicable to the Federal Reserve Bank of Minneapolis and its Helena Branch, effective immediately:

Grade	Minimum Salary	Maximum Salary
1	$ -	$ -
2	2,160	2,910
3	2,410	3,250
4	2,690	3,630
5	3,020	4,080
6	3,420	4,600
7	3,830	5,170
8	4,280	5,780
9	4,790	6,450
10	5,310	7,170
11	5,890	7,930
12	6,520	8,780
13	7,200	9,700
14	7,920	10,680
15	8,710	11,750
16	9,560	12,900

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than August 15, 1959.

It is understood that sufficient allowance has been made in the 1959 budget to cover increased salary costs resulting from these adjustments in salary structure.

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
5/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 12, 1959.

Mr. Phillip 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 dated May 7, 1959, requesting the views of the Board on H.R. 5777, a bill "To amend the Federal Credit Union Act." There was enclosed with this communication a copy of a proposed report on the bill by the Department of Health, Education and Welfare.

The bill contains 22 separate amendments to the Federal Credit Union Act, most of which appear to be technical in nature or to contain no important substantive changes in the present law. A number of the amendments are concerned with internal management and organization of Federal credit unions. The Board has no comments with respect to these amendments.

It is recognized that Federal credit unions serve a useful and constructive purpose and should be encouraged, but should be limited to the area of operations for which they were originally authorized. In view of the special privileges which are accorded to credit unions on the basis of their nonprofit and cooperative character, the Board believes it is important that their activities be required at all times to conform to such character and to avoid undesirable commercialism. The Board has some question whether some of the amendments now proposed may not tend to encourage undue expansion of the activities of credit unions in a manner at variance with their basic purposes. One example of this is the provisions which would permit compensation to be paid an officer authorized to pass upon loans. The Board feels that especially careful consideration of these proposals from this point of view would be desirable in order that credit unions may serve their proper purposes but without tending to become organizations of a commercial character.

The Board questions the need for granting new authority for the chartering and operation of Federal central credit unions as is contained in the proposed amendments to sections 2, 9, 10 and 11(d) of the Federal Credit Union Act. Such authority would not contribute to the soundness or stability of credit unions that are operating in their proper sphere and in some instances might tend to encourage undesirable promotional activity.

Section 2 of the bill would extend loan maturities from the present maximum of three years to a maximum of five years and section 9 would increase the unsecured loan limit from the present $400 to $1,000. It is assumed that these changes are designed primarily to facilitate home improvement loans by credit unions. In the light of the facilities for this purpose provided by the FHA Title I program and the risks inherent in unsecured, uninsured loans of longer maturities, the Board does not favor such an amendment. An alternative might be to limit any such expansion of the authority of credit unions to make unsecured home improvement loans to those insured under Title I.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
5/12/59

OFFICE OF THE VICE CHAIRMAN

May 12, 1959

The Honorable Paul H. Douglas,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Senator Douglas:

Thank you for your letter of April 29 concerning the proposed legislation to change the structure of member bank reserve requirements. I have also carefully read your Supplemental Views on this legislation contained in the Committee Report, which you were kind enough to enclose.

I share your view that the public generally does not adequately understand the principles of multiple bank credit expansion under our fractional reserve requirements structure. Even less adequately understood is the relationship between bank credit expansion and the growth in the money supply, and the inflationary danger that would arise if all desires for credit were permitted to be fully satisfied in a period of active credit demand. The discussion of these basic principles in your Supplemental Views should be helpful in promoting better understanding of the nature and purposes of monetary policy.

Your statement and your letter also discuss certain implications relating to the use of reserve requirement changes and open market operations as alternative instruments of monetary policy. The Board, of course, is aware of the considerations you mention, and takes them into account, along with all the other factors which need to be weighed, in reaching decisions as to the use of these instruments of monetary policy.

Despite the many heavy demands which I realize are placed on your time, I am taking the liberty of enclosing a copy of a paper prepared by Mr. Young, the Director of our Division of Research and Statistics, for the American Assembly, entitled "Tools and Processes of Monetary Policy." Especially on pages 21-27 and 29-33, you will find set forth some of the other considerations which are taken into account in connection with changes in reserve requirements.

May I take this occasion to express again the Board's appreciation for your efforts to increase the understanding of the processes of monetary expansion and contraction and the role of monetary policy.

Sincerely,

(Signed) C. Canby Balderston

C. Canby Balderston,
Vice Chairman.

Enclosure

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System which was held in the Board Room at 10:00 a.m. on Friday, May 8, 1959.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Shay, Legislative Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations

Bank merger legislation (Item No. M-1). At the meeting on May 6, 1959, Mr. O'Connell reported a conversation with a representative of the Department of Justice concerning a proposed amendment to the bank merger bill, S. 1062, in the form in which it was reported by the Senate Banking and Currency Committee. Mr. O'Connell had understood from the conversation that the Attorney General intended to call Vice Chairman Balderston that day to request the Board's opinion on the proposal, and the Board reached agreement on the type of response that should be made if such a call were received. It developed that no call was received by Governor Balderston from the Attorney General, but substantially the same amendment was subsequently introduced by Senator O'Mahoney of Wyoming. An oral request was then received from the Chief of Staff of the Senate Banking and Currency Committee to the effect that Committee Chairman Robertson would like to have the views of the Board regarding the amendment. Accordingly, there had been distributed

to the available members of the Board prior to this meeting a draft of letter to Senator Robertson, along with a supplementary memorandum intended for transmittal with the letter. The position taken in the draft letter was, in essence, that the Board would be strongly opposed to enactment of the proposed amendment.

The nature and effect of the amendment were discussed, and it was brought out, among other things, that its adoption would appear to be directly at variance with the underlying purposes of the bill reported by the Senate Banking and Currency Committee. By giving the Attorney General authority to obtain judicial review of a bank supervisory agency's decision, it would vest in him an effective control over bank mergers, tending to minimize factors that should be considered in determining whether such a merger was in the over-all public interest. Its adoption would be inconsistent with the concept of giving due weight to all factors pertinent to the public interest and at variance with the concept of vesting judgment in the banking agencies with respect to all of the pertinent factors, including the competitive effect of a particular merger.

After several suggestions had been made for changes in the draft letter and memorandum in the interest of emphasis and clarity, agreement was reached on a letter in the form attached as Item No. M-1, with the understanding that the letter and accompanying memorandum would be sent to Senator Robertson by messenger this afternoon.

The meeting then adjourned.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. M-1
5/8/59

OFFICE OF THE VICE CHAIRMAN

May 8, 1959

The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

It is understood from the Chief of Staff of your Committee that you wish to have the views of the Board regarding an amendment introduced by Senator O'Mahoney on May 7, 1959, to the bill S. 1062, relating to bank mergers which was favorably reported by your Committee on April 17.

The Board strongly opposes enactment of the proposed amendment. In the Board's opinion, adoption of the amendment would be directly at variance with the underlying purposes of the bill as reported by your Committee. The reasons for the Board's position are set forth in detail in the enclosed memorandum.

Briefly stated, the proposed amendment would (1) prohibit the Federal bank supervisory agencies from approving any bank merger if its effect might be substantially to lessen competition or to tend to create a monopoly, except in certain limited circumstances described in the amendment; (2) require the appropriate bank supervisory authority to hold a hearing in any case in which either of the other two Federal bank supervisory authorities or the Attorney General expresses disapproval of a proposed merger; (3) allow an appeal from the decision of the bank supervisory authority, to the Court of Appeals for the District of Columbia, by any party adversely affected or by the Attorney General; and (4) require each of the bank supervisory agencies to submit a report twice a year with respect to all bank mergers approved by it, indicating the names and resources of the banks involved and submitting a copy of the report made by the other Federal bank supervisory agencies and by the Attorney General regarding the competitive factors involved in the merger.

The proposed amendment, by prohibiting approval of any merger that might substantially lessen competition, would bar all consideration of other factors that might make a proposed merger desirable, or even essential, in the public interest. This would

represent a fundamental change in the concept of the reported bill which contemplates that due weight should be given to financial condition, character of management, and convenience and needs of the community, as well as effect upon competition. The amendment would make "substantial lessening" of competition the controlling factor in all cases.

The holding of hearings with respect to bank mergers as required by the amendment would be inadvisable and in many cases could have detrimental effects upon the banks involved, their customers, and the general public. The provisions of the proposed amendment granting judicial review of orders of the bank supervisory agencies at the instance of aggrieved parties are unnecessary.

The authority that would be given the Attorney General to obtain judicial review of the banking agency's decision would vest in the Attorney General an effective control over bank mergers that would tend to minimize, if not ignore, factors that should be considered in determining whether such a merger is in the over-all public interest. Again, this would be inconsistent with the concept of giving due weight to all factors pertinent to the public interest and not to competition alone. It would also be at variance with the concept of the bill of vesting judgment in the bank supervisory agencies with respect to all of the statutory factors including the competitive effect of a particular merger. Furthermore, the Attorney General would be placed in the anomalous position of representing the United States in appealing from the decision of a Federal agency while at the same time representing the agency itself as appellee, unless, of course, special arrangements were made for the use by such agency of its own counsel.

For these reasons the Board earnestly hopes that the proposed amendment will not be adopted.

Sincerely yours,

C Canby Balderston

C. Canby Balderston,
Vice Chairman.

Enclosure

MEMORANDUM REGARDING AMENDMENT SUGGESTED BY

SENATOR O'MAHONEY TO BANK MERGER BILL (S. 1062)

(1) The proposed amendment would prohibit any merger the effect of which "may be substantially to lessen competition, or to tend to create a monopoly". The obvious effect of this prohibition would be to make "substantial" lessening of competition, the standard now contained in the Clayton Act, the controlling test as to bank mergers. It would require disapproval of any merger which might quantitatively lessen competition, notwithstanding offsetting favorable factors that would clearly make the proposed merger desirable in the public interest. While the proposed amendment would purport to set forth certain situations in which this prohibition would not apply, there is no assurance that the situations described in the amendment are exhaustive of the types of situations that might require consummation of a bank merger even though it would lessen competition. In other words, the proposed amendment would be directly contrary to a fundamental concept of the reported bill, which is designed to enable the bank supervisory agencies to consider and weigh various factors affecting the public interest, including but not limited to the effect of the merger upon competition.

As stated in the Report of the Senate Banking and Currency Committee of April 17, 1959, it is essential in the case of a bank merger that any lessening of competition "should not be used as a controlling or determinative factor in and of itself" (p. 22) and "that the competitive factors, however favorable or unfavorable, are not, in and of themselves, controlling on the decision". (p. 24)

(2) The proposed amendment would require the holding of a hearing with respect to every merger considered by one of the three Federal bank supervisory agencies as to which either of the other bank supervisory authorities or the Department of Justice have expressed disapproval. Such a hearing requirement could well be detrimental to the public interest. The standards stated in the reported bill would require the appropriate bank supervisory agency to consider the financial condition and competency of management of the banks involved, as well as the competitive effect of the proposed merger. In order to provide a complete record, a hearing would of

necessity contain references to the internal condition and management of a bank that for good reasons should not be disclosed other than to the authority considering the matter.

Various items of information of this kind, taken alone, could easily give rise to unfounded rumors as to the financial condition of a bank, the adequacy of its capital structure, or the character of its management, and might well result in irreparable injury to the bank, its stockholders, its depositors, and the public. It is for this reason that such information has always been treated in the most confidential manner by all bank supervisory authorities. Furthermore, revelation of all information relating to the required consideration of the competitive effect of a proposed merger could easily result in giving competing banks information now held in confidence which might unjustly injure the competitive position and business prospects of the bank involved.

(3) Apart from the inadvisability of such hearings, the holding of hearings with respect to bank mergers is questionable. The Federal bank supervisory agency that would be required to pass on a bank merger would be the agency that normally has supervision of the bank that would continue after the merger. That agency would therefore have available to it, or could obtain, full information as to the financial condition, management, and other factors pertinent to a decision as to whether the merger should be permitted. A hearing would add little or nothing to the information available to that agency and needed by it in order to appraise the merger in the light of the statutory standards.

(4) The proposed amendment would require hearings even in those cases in which, because of emergency circumstances, a report would not be required under the reported bill to be obtained from the Attorney General. For example, if one of the Federal bank supervisory agencies should express its disapproval of the proposed merger, for whatever reason, a hearing would be mandatory, despite the existence of emergency conditions requiring immediate action.

(5) The provisions of the proposed amendment authorizing appeal from a bank supervisory agency's decision on a proposed merger are unnecessary. Under present law, a person aggrieved by the agency's decision could seek judicial review of the agency's action, either through a suit for a declaratory judgment or an injunction, or a combination of the two, wherein a court of law could determine whether the agency's decision was capricious or arbitrary or in excess of its statutory authority.

(6) The provision of the proposed amendment that would give the Attorney General a right of appeal from the decision of one of the bank supervisory agencies as to a proposed merger would obviously afford the Department of Justice an effective power to substitute its judgment for the judgment of the banking agency and to assert that power solely on the basis of the Department's opinion as to the effect of the merger upon competition, without regard to any favorable factors that would make the proposed merger desirable in the public interest. Again, this result would clearly be contrary to the basic intent of the reported bill.

In this connection, it is important to observe that in the event an appeal should be taken by the Attorney General pursuant to the proposed amendment, unless the agency involved obtained its own counsel, there would result a situation in which the Attorney General would appear before the appellate court both as the appellant and also as representative of the appellee, the particular bank supervisory authority whose decision would be in question. This result would, of course, follow from the fact that the Attorney General, as the legal officer of the United States, normally represents agencies of the Federal Government in suits involving such agencies.

The proposed amendment would give the Attorney General an unqualified right to challenge the decision of the appropriate bank supervisory agency by appeal to a court solely on the basis of his disapproval of the merger on the ground of its competitive effect. Nevertheless, the Attorney General's right to appeal would not be limited to cases in which he might disagree with the banking agency's judgment as to effect on competition; on appeal he could challenge that agency's judgment as to factors related to financial condition, character of management, and other matters wholly unrelated to competitive effect.

It should be borne in mind that, if a proposed merger approved by one of the banking agencies should in fact violate the antitrust laws, the Attorney General would continue to have power to prevent the merger pursuant to his jurisdiction under the Sherman Act. In the absence of such a situation, however, the proposed amendment would have the effect of substituting the judgment of the Attorney General for that of the banking agency as to all statutory factors, including competition, notwithstanding the banking agency's specialized experience in the field of banking. This would be in direct conflict with the sound philosophy of the reported bill and the proposed amendment itself, both of which would

place in the banking agencies charged with primary supervision of the institutions involved the responsibility for exercising judgment as to all of the statutory factors including the competitive effects of a proposed bank merger.

TITLE 12 - BANKS AND BANKING

Item No. 9
5/12/59

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. T]

Part 220. Credit by Brokers, Dealers, and Members of National Securities Exchanges

Withdrawals of Cash or Securities

1. Part 220 (Regulation T), issued by the Board of Governors of the Federal Reserve System pursuant to the authority cited therein, prescribes the conditions upon which credit may be extended and maintained by brokers, dealers and members of national securities exchanges.

Effective June 15, 1959, the Board has adopted certain amendments to Part 220 (Regulation T) in order more effectively to prevent the excessive use of credit for purchasing or carrying securities. Specifically, amendments to section 3(b)(2) and to section 8 (the second paragraph of section 3(b) of Regulation T and the Supplement to Regulation T) further restrict withdrawals of cash or securities from so-called "restricted" accounts (i.e., accounts in which more credit is outstanding on the securities in the account than would be permitted in a new purchase of those securities under current margin requirements).

Accounts can become "restricted" by declines in market value of the securities held in the account or by increases in margin requirements. (The margin requirement of a stock is the difference between its prescribed maximum loan value and its current market value.) Securities can be withdrawn from these "restricted" accounts through sale or otherwise if there is a specified reduction in the debt owing in the account.

Under the previous regulation, when a security was withdrawn from a "restricted" account, the amount by which the debt in the

account had to be reduced worked out to be the same as the maximum loan value of the security at the time. This percentage automatically changed with each change in margin requirements.

The amendment to section 3(b)(2) (the second paragraph of section 3(b) of Regulation T) provides for a new method of limiting withdrawals from "restricted" accounts. The amendment provides for a separate figure which represents the "retention requirement" of a registered nonexempted security (i.e., in the case of a withdrawal of securities, the percentage of market value that must be deposited in the account; or, in the case of a sale, the percentage of sale proceeds that must be left in the account). In a new paragraph (c) of section 8 (the Supplement to Regulation T) the "retention requirement" is set at 50 per cent of the market value of the securities involved. This "retention requirement" may be changed by the Board from time to time.

The effect of the amendment may be illustrated by an example in which $1,000 of registered nonexempted securities held in a "restricted" account are sold or withdrawn. Under the previous regulation and current level of margin requirements, the debt in the account would have to be reduced by only $100. Under the amendment, so long as the account remains "restricted", the debt would have to be reduced by $500.

The amendment does not alter existing provisions that allow a purchase of registered nonexempted securities to be made in a "restricted" account without additional margin if the purchase is made on the same day that an equal or greater market value of such securities is sold in the account and the proceeds applied to the purchase.

Conforming amendments have been made to paragraphs (e) and (g) of section 3.

2. The amendments to Part 220 (Regulation T) set forth herein shall become effective June 15, 1959.

(a) §220.3(b)(2) (the second paragraph of section 3(b) of Regulation T) is hereby amended to read as follows:

§220.3 General accounts.

* * * * *

(b) General rule. * * *

(2) Except as permitted in this subparagraph, no withdrawal of cash or registered or exempted securities shall be permissible if the adjusted debit balance of the account would exceed the maximum loan value of the securities in the account after such withdrawal. The exceptions are available only in the event no cash or securities need to be deposited in the account in connection with a transaction on a previous day and none would need to be deposited thereafter in connection with any withdrawal of cash or securities on the current day. The permissible exceptions are: (i) registered or exempted securities may be withdrawn upon the deposit in the account of cash (or registered or exempted securities counted at their maximum loan value) at least equal to the "retention requirement" of any registered or exempted securities withdrawn, or (ii) cash may be withdrawn upon the deposit in the account of registered or exempted securities having a maximum loan value at least equal to the amount of cash withdrawn, or (iii) upon the sale (other than short sale) of registered or exempted securities in the account, there may be withdrawn in cash an amount equal to the difference between the current market value of the securities sold and the "retention requirement" of those

securities. The "retention requirement" of an exempted security is the same as its maximum loan value, and the "retention requirement" of a registered nonexempted security is prescribed from time to time in § 220.8(c) (the Supplement to Regulation T).

(b) § 220.3(e) (section 3(e) of Regulation T) is hereby amended to read as follows:

§ 220.3 General accounts.

* * * * *

(e) Liquidation in lieu of deposit. 1/ In any case in which the deposit required by paragraph (b) of this section, or any portion thereof, is not obtained by the creditor within the four-day period specified therein, registered nonexempted securities shall be sold (or, to the extent that there are insufficient registered nonexempted securities in the account, other liquidating transactions shall be effected in the account), prior to the expiration of such four-day period, in such amount that the resulting decrease in the adjusted debit balance of the account exceeds, by an amount at least as great as such required deposit or the undeposited portion thereof, the "retention requirement" of any registered or exempted securities sold.

1/ This requirement relates to the action to be taken when a customer fails to make the deposit required by § 220.3(b), and it is not intended to countenance on the part of customers the practice commonly known as "free-riding", to prevent which the principal national securities exchanges have adopted certain rules. See the rules of such exchanges and § 220.7(e).

(c) § 220.3(g) (section 3(g) of Regulation T) is hereby amended to read as follows:

§ 220.3 General accounts.

* * * * *

(g) Transactions on given day. For the purposes of paragraph (b) of this section, the question of whether or not an excess of the adjusted debit balance of a general account over the maximum loan value of the securities in the account is created or increased on a given day shall be determined on the basis of all the transactions in the account on that day exclusive of any deposit of cash, deposit of securities, covering transaction or other liquidation that has been effected on the given day, pursuant to the requirements of paragraphs (b) or (e) of this section, in connection with a transaction on a previous day. In any case in which an excess so created, or increase so caused, by transactions on a given day does not exceed $100, the creditor need not obtain the deposit specified therefor in subparagraph (b)(1) of this section. Any transaction which serves to meet the requirements of paragraph (e) of this section or otherwise serves to permit any offsetting transaction in an account shall, to that extent, be unavailable to permit any other transaction in the account. For the purposes of this part (Regulation T), if a security has maximum loan value in the account under subparagraph (c)(1) of this section, a sale of the same security (even though not the same certificate) in the account shall be deemed to be a long sale and shall not be deemed to be or treated as a short sale.

(d) § 220.8 (the Supplement to Regulation T) is hereby amended by adding a new paragraph, § 220.8(c) to read as follows:

§ 220.8 Supplement.

* * * * *

(c) Retention requirement for general accounts. In the case of a general account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the "retention requirement" of a registered security (other than an exempted security), pursuant to § 220.3(b)(2), shall be 50 per cent of its current market value.

3. These amendments are issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof (48 Stat. 886; 49 Stat. 704; 15 U.S.C. 78g). Drafts of these amendments were published in 24 F. R. 1988-1989 as proposed rules, to afford interested persons an opportunity to participate in the rule making through submission of written data, views and arguments. After consideration of all relevant matter presented, the Board has adopted these amendments to become effective June 15, 1959. All the foregoing has been done pursuant to section 4 of the Administrative Procedure Act (60 Stat. 238; 5 U.S.C. 1003) and section 2 of the Board's Rules of Procedure (12 CFR 262.2).

(Sec. 11, 38 Stat. 262; 12 U.S.C. 248. Interprets or applies secs. 2, 3, 7, 8, 23, 48 Stat. 881, 882, 886, 888, 901, as amended; 15 U.S.C. 78b, 78c, 78g, 78h, 78w.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

[SEAL]

TITLE 12 - BANKS AND BANKING

Item No. 10
5/12/59

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. U]

Part 221. Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks

Withdrawals of Collateral; Statement of Purpose of Loan; "Carrying" of Registered Stocks; Reports from Unregulated Lenders; Loans Relying on Collateral Which Has Served to Permit a Purpose Loan; Exemption Discontinued for Certain Unsecured Loans; Loans to Purchase Convertible Bonds

1. Part 221 (Regulation U), issued by the Board of Governors of the Federal Reserve System pursuant to the authority cited therein, prescribes requirements for the making and maintenance of loans by a bank for the purpose of purchasing or carrying any stock registered on a national securities exchange ("purpose loans").

Effective June 15, 1959, the Board has adopted certain amendments to Part 221 (Regulation U) in order more effectively to prevent the excessive use of credit for purchasing or carrying securities. Specifically these amendments will: (1) amend the third paragraph of section 1 in order further to restrict withdrawals of collateral against so-called "restricted" loans (i.e., stock-collateralled loans which are larger than would be permitted in the case of a new loan to purchase registered stocks under current margin requirements); (2) strengthen the provisions of section 3(a) regarding statements accepted by a bank as to the purpose of a loan; (3) broaden the provision relating to "carrying" in section 3(b)(1); (4) provide for reports from certain nonbank lenders by amending section 3(j); (5) prohibit, in section 3(n), the weakening of collateral behind a "purpose" loan which occurs when that same collateral is also used as the basis of a "non-purpose" loan; (6) add a new section 3(q) to require that bank loans to borrowers importantly engaged in relending for stock

market purposes shall comply with this part (Regulation U) even though the bank loans are not secured by any stock; and (7) add a new section 3(r) to require loans originally for the purchase of convertible securities to be brought into conformity with the margin requirements within 30 days after conversion into a registered stock takes place. The amendments also make conforming changes at several places in the regulation.

Withdrawals of collateral. - Loans can become "restricted" by declines in market value of the stocks securing the loan or by increases in margin requirements. (The margin requirement of a stock is the difference between its prescribed maximum loan value and its current market value.) Stock securing a "restricted" loan can be withdrawn through sale or otherwise if there is a specified reduction in the loan.

Under the former rule, if a stock securing a "restricted" loan was withdrawn, the amount by which the loan had to be reduced worked out to be the same as the maximum loan value of the stock at the time. This percentage automatically changed with each change in margin requirements.

The amendment to the third paragraph of section 1 provides for a new method of limiting withdrawals of collateral securing "restricted" loans. The amendment provides for a separate figure which represents the "retention requirement" of a stock (i.e., in the case of a sale or other withdrawal of collateral, the amount, stated as a percentage of the market value of the collateral, by which the loan must be reduced). In a new paragraph (b) of section 4 (the Supplement to Regulation U) the "retention requirement" is set at 50 per cent of the market value of the stocks involved. This "retention requirement" may be changed by the Board from time to time.

The effect of the amendment may be illustrated by an example in which $1,000 of registered stocks securing a "restricted" loan are withdrawn. Under the previous regulation and the current level of margin requirements, the loan would have to be reduced by only $100. Under the amendment, so long as the loan remains "restricted", the loan would have to be reduced by $500.

Statement of purpose of loan. - The former section 3(a) provided that a bank could rely upon a statement signed by an officer of the bank or by the borrower as to the purpose of a loan, if the statement was accepted by the bank in good faith. Under that section, a bank could accept a statement that a loan was not for the purpose of purchasing or carrying a registered stock without ascertaining affirmatively the purpose for which the loan was to be used. The amendment requires that the statement be signed by both borrower and lending officer. If the statement merely states what is not the purpose of the loan, the lending officer must provide a memorandum or notation describing the purpose of the loan. The amendment also emphasizes the alertness and diligence required of the bank before a statement can be said to be accepted in good faith.

"Carrying" of registered stocks. - The former section 3(b)(1) excluded from loans for the purpose of "carrying" registered stocks all loans except a limited group specified in that section, principally loans to enable the borrower to reduce or retire indebtedness originally incurred to purchase such stock. The net effect was to exclude from regulation a large number of loans which were closely related to the financing of positions in stocks. The amendment strikes this earlier, narrower approach and instead describes affirmatively certain situations in which a loan will not be deemed to be for the purpose of "carrying" registered stocks.

Reports from unregulated lenders. - The former section 3(j) required banks to make such reports as the Board of Governors may require. The amendment expands this requirement to include, in addition, "every person engaged in the business of extending credit

who, in the ordinary course of business, extends credit for the purpose of purchasing or carrying" registered stocks.

Loans relying on collateral which has served to permit a purpose loan. - Part 221 (Regulation U) allows a bank to lend a specified portion, currently 10 per cent, of the market value of a stock used as collateral where the loan is to purchase or carry registered stocks. However, after the bank made such a loan, unless the borrower was a broker or dealer, the regulation previously allowed the bank to lend as much more as it pleased on the same collateral for any other purpose. The former section 3(n) forbade such double use of collateral when the borrower was a broker or dealer. The amendment expands this prohibition to forbid such double use in the case of loans to all borrowers under Part 221 (Regulation U), just as it is already forbidden in all cases under Part 220 (Regulation T). The amendment does not, however, require the bank to forego or to waive any lien, nor does it apply to loans to meet emergency expenses not reasonably foreseeable provided the circumstances are suitably documented.

Exemption discontinued for certain unsecured loans. - The regulation previously exempted all loans that were not secured, directly or indirectly, by at least some stock. The new section 3(q) discontinues this exemption as to loans made to companies engaged principally, or as one of the company's important activities, in making loans on an exempt basis to finance the purchase of registered stocks. Conforming amendments have been made to section 1 and section 3(m).

Loans to purchase convertible securities. - The regulation previously did not apply to loans for purchasing or carrying convertible bonds. The new section 3(r) requires the entire transaction to be brought into conformity with margin requirements prevailing at the time when conversion into a registered stock occurs, allowing, however, 30 days for this to be done. A conforming amendment has been made to section 3(d).

2. The amendments to Part 221 (Regulation U) set forth herein shall become effective June 15, 1959.

(a) § 221.1 (section 1 of Regulation U) is hereby amended to read as follows:

§ 221.1 General rule. (a) No bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange (and no bank shall make any loan described in § 221.3(q) regardless of whether or not such loan is secured by any stock) in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in § 221.4 (the Supplement to Regulation U) and as determined by the bank in good faith for any collateral other than stocks.

(b) For the purpose of this part, the entire indebtedness of any borrower to any bank incurred at any time for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this part.

(c) While a bank maintains any such loan, whenever made, the bank shall not at any time permit any withdrawal or substitution of collateral unless either (1) the loan would not exceed the maximum loan value of the collateral after such withdrawal or substitution, or (2) the loan is reduced by at least the amount by which the maximum loan value of any collateral deposited is less

than the "retention requirement" of any collateral withdrawn. The "retention requirement" of nonstock collateral is the same as its maximum loan value, and the "retention requirement" of stock collateral is prescribed from time to time in § 221.4 (the Supplement to Regulation U). If the maximum loan value of the collateral securing the loan has become less than the amount of the loan, the amount of the loan may nevertheless be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.

(b) § 221.3(a) (section 3(a) of Regulation U) is hereby amended to read as follows:

§ 221.3 Miscellaneous provisions. (a) In determining whether or not a loan is for the purpose specified in § 221.1 or for any of the purposes specified in § 221.2, a bank may rely upon a statement with respect thereto only if such statement (1) is signed by the borrower; (2) is accepted in good faith and signed by an officer of the bank as having been so accepted; and (3) if it merely states what is not the purpose of the loan, is supported by a memorandum or notation of the lending officer describing the purpose of the loan. To accept the statement in good faith, the officer must be alert to the circumstances surrounding the loan and the borrower and must have no information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement.

(c) § 221.3(b)(1) (section 3(b)(1) of Regulation U) is hereby amended to read as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(b)(1) A loan made to a borrower when he has owned a stock registered on a national securities exchange free of any lien for a continuous period of as much as one year need not be treated as a loan for the purpose of "carrying" that stock unless the loan is for the purpose of reducing or retiring indebtedness incurred to purchase that stock. A loan also need not be treated as a loan for the purpose of "carrying" a stock registered on a national securities exchange if the loan is for the purpose of meeting emergency expenses not reasonably foreseeable or meeting recurring expenses the borrower has customarily met by temporary borrowing.

(d) § 221.3(d) (section 3(d) of Regulation U) is hereby amended to read as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(d) Except as provided in paragraph (r) of this section, the renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the addition of interest or service charges on the loan or of taxes on transactions in connection with the loan.

(e) § 221.3(j) (section 3(j) of Regulation U) is hereby amended to read as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(j) Every bank, and every person engaged in the business of extending credit who, in the ordinary course of business, extends credit for the purpose of purchasing or carrying securities registered on a national securities exchange, shall make such reports as the Board of Governors of the Federal Reserve System may require to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934 (48 Stat. 881; 15 U.S.C. Chapter 2B).

(f) § 221.3(m) (section 3(m) of Regulation U) is hereby amended to read as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(m) Indebtedness "subject to § 221.1" is indebtedness which is secured directly or indirectly by any stock (or made to a person described in paragraph (q) of this section), is for the purpose of purchasing or carrying any stock registered on a national securities exchange, and is not excepted by § 221.2.

(g) § 221.3(n) (section 3(n) of Regulation U) is hereby amended to read as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(n)(1) The bank shall identify all the collateral used to meet the collateral requirements of § 221.1 (entire indebtedness being considered a single loan and collateral being similarly considered, as required by § 221.1) and shall not

cancel the identification of any portion thereof except in circumstances that would permit the withdrawal of that portion. Such identification may be made by any reasonable method, and in the case of indebtedness outstanding at the opening of business on June 15, 1959 need not be made until immediately before some change in that or other indebtedness of the borrower or in collateral therefor.

(2) Only the collateral required to be so identified shall have loan value for purposes of § 221.1 or be subject to the restrictions therein specified with respect to withdrawals and substitutions; and

(3) For any indebtedness of the same borrower that is not subject to § 221.1 (other than a loan described in § 221.2(d), (f), (g) or (h)), the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to § 221.1 nor the identified collateral. This shall not be construed, however, to require the bank, after it has made any loan, to obtain any collateral therefor because of any deficiency in collateral already existing at the opening of business on June 15, 1959, or any decline in the value or quality of the collateral or in the credit rating of the borrower. It also does not require a bank to waive or forego any lien. In addition, it shall not apply to a loan to enable the borrower to meet emergency expenses not reasonably foreseeable,

provided the loan is supported by a statement of the borrower describing the circumstances, accepted in good faith and signed by an officer of the bank as having been so accepted.

(h) § 221.3 (section 3 of Regulation U) is hereby amended by adding at the end thereof a new § 221.3(q) reading as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(q) Any loan to a person not subject to this part (Regulation U) or to Part 220 (Regulation T) engaged principally, or as one of the person's important activities, in the business of making loans for the purpose of purchasing or carrying stocks registered on a national securities exchange, is a loan for the purpose of purchasing or carrying stocks so registered unless the loan and its purposes are effectively and unmistakably separated and disassociated from any financing or refinaning, for the borrower or others, of any purchasing or carrying of stocks so registered. Any loan to any such borrower, unless the loan is so separated and disassociated or is excepted by § 221.2, is a loan "subject to § 221.1" regardless of whether or not the loan is secured by any stock; and no bank shall make any such loan subject to § 221.1 to any such borrower on or after June 15, 1959 without collateral or without the loan being secured as would be required by this Part 221 if it were secured by any stock. Any such loan subject to § 221.1 to any such borrower, whether

or not made after June 15, 1959, shall be subject to the other provisions of this Part 221 applicable to loans subject to § 221.1, including provisions regarding withdrawal and substitution of collateral.

(i) § 221.3 (section 3 of Regulation U) is hereby amended by adding at the end thereof a new § 221.3(r) reading as follows:

§ 221.3 Miscellaneous provisions.

* * * * *

(r) If, on or after June 15, 1959, a loan is made for the purpose of purchasing or carrying a security other than a stock registered on a national securities exchange and the loan is secured by the security, but subsequently there is substituted as direct or indirect collateral for the loan a stock so registered which is acquired by the borrower through the conversion or exchange of the security pursuant to its terms, the loan shall thereupon be deemed to be for the purpose of purchasing or carrying a stock so registered. In any such case, the amount of the outstanding loan, or such amount plus any increase therein to enable the borrower to acquire the stock so registered, shall not be permitted on the date such stock is substituted as collateral to exceed the maximum loan value of the collateral for the loan on such date, and thereafter such indebtedness shall be treated as subject to § 221.1; provided, however, that any reduction

in the loan or deposit of collateral required on that date to meet this requirement may be brought about within 30 days of such substitution.

(j) § 221.4 (the Supplement to Regulation U) is hereby amended to read as follows:

§ 221.4 Supplement - (a) Maximum loan value of stocks. For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 10 per cent of its current market value, as determined by any reasonable method.

(b) Retention Requirement. For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method.

3. These amendments are issued pursuant to the Securities Exchange Act of 1934, particularly section 7 thereof (48 Stat. 886; 49 Stat. 704; 15 U.S.C. 78g). Drafts of these amendments were published in 24 F. R. 1989-1991 as proposed rules, to afford interested persons an opportunity to participate in the rule making through submission of written data, views and arguments. After consideration of all relevant matter presented, the Board has adopted these amendments to become effective June 15, 1959. All the foregoing has been done pursuant to section 4 of the Administrative Procedure Act (60 Stat. 238; 5 U.S.C. 1003) and section 2 of the Board's Rules of Procedure (12 CFR 262.2). The reporting and record-keeping

requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

(Sec. 11, 38 Stat. 262; 12 U.S.C. 248. Interprets or applies secs. 2, 3, 7, 17, 23, 48 Stat. 881, 882, 886, 897, 901, as amended; 15 U.S.C. 78b, 78c, 78g, 78q, 78w.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

[SEAL]