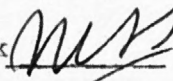


May 18, 1959.

The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on May 18, 1959, which you have previously initialed, has been amended at the request of Governor Mills to revise the comments attributed to him on pages 9 and 10 of the minutes as originally written. These comments now appear on pages 9 and 11, respectively.

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

Governor Szymczak



Minutes for May 18, 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	<u>MM</u>	x <u>(M)</u>
Gov. Szymczak	x <u>MS</u>	_____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>RS</u>	_____
Gov. Balderston	x <u>RS</u>	_____
Gov. Shepardson	x <u>MS</u>	_____
Gov. King	x <u>MS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Monday, May 18, 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. Thomas, Economic Adviser to the Board
Mr. Farrell, Director, Division of Bank
Operations
Mr. Shay, Legislative Counsel
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Nelson, Assistant Director, Division
of Examinations
Mr. Benner, Assistant Director, Division
of Examinations
Mr. Conkling, Assistant Director, Division
of Bank Operations
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Hill, Assistant to the Secretary
Mr. Davis, Assistant Counsel

Fidelity Bank and Trust Company (Item No. 1). At the meeting
on May 13, 1959, the Board deferred action on an application of the
Fidelity Bank and Trust Company, Indianapolis, Indiana, to establish
a branch in Speedway, pending further study by the staff in the light
of a report that the applicant bank intended to merge with a national
bank.

Mr. Nelson reported that he and Mr. Hexter had discussed the
matter with the Comptroller's Office and were advised that the proposed

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merger had been discussed with the banks involved and the Comptroller's Office was aware of Fidelity Bank's application for a branch in Speedway. Mr. Nelson stated that the Comptroller's Office would have no objection to the Board's approving this application, particularly in light of the fact that the subject bank would like to open the branch within 45 days and consummation of the merger was not planned until about the first of September. It was indicated that the existence of this branch would have no bearing on consideration of the merger.

Thereupon, a letter to the Fidelity Bank and Trust Company approving the branch application, a copy of which is attached as Item No. 1, was approved unanimously for transmittal through the Federal Reserve Bank of Chicago.

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

	<u>Item No.</u>
Letter to The Union Commerce Bank, Cleveland, Ohio, extending the time to establish a branch in Mayfield Heights. (For transmittal through the Federal Reserve Bank of Cleveland)	2
Letter to the Federal Reserve Bank of Dallas regarding the status under the Bank Holding Company Act of the Employees Deferred Profit Sharing Plan of the First National Bank in Cisco, Cisco, Texas, and the Consumers Acceptance Company, also of Cisco.	3

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Messrs. Hexter and Davis then withdrew from the meeting.

Reports of condition (Item No. 4). At the meeting on March 17, 1959, the Board authorized the staff to take the necessary steps to obtain the agreement of the other bank supervisory agencies to certain changes in the loan schedule of the call report of condition, in connection with proposed revisions in the weekly reporting member bank series. Under date of May 14, 1959, there had been distributed to the Board a memorandum from the Division of Bank Operations which stated that agreement had been reached with the Comptroller's Office and the Federal Deposit Insurance Corporation on the addition of a new item in the call report covering loans to financial institutions. It was noted that the other agencies did not approve changes in the instructions whereby real estate mortgages acquired under repurchase and similar arrangements would be included in loans to financial institutions and construction loans secured by mortgages would be included in commercial and industrial loans. Rather than delay further the revision of the call report and weekly report of condition, it was recommended that the Board approve letters to the Presidents of all Federal Reserve Banks transmitting the midyear call report forms, including a reconciliation slip-sheet form, and memoranda covering the call report revision and the weekly reporting member bank revisions.

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In comment on the revisions, Mr. Conkling stated that the recommendation today would put into effect the proposals presented last March with the exceptions noted in the memorandum of May 14. It was also recommended that a new weekly subseries, which would cover so-called "money market" banks, be approved on an experimental basis, with distribution limited to Board and Reserve Bank use until its analytical value could receive further study. It was noted that the series had been approved by the System Research Advisory Committee and the hope was expressed that it might eventually be substituted for the present central reserve city or entire weekly reporting series.

Unanimous approval was then given to (1) the proposed changes in the loan schedule of the call report of condition and in the report form of the weekly reporting member bank series; (2) a new "money market" subseries of the weekly reporting member bank series; and (3) a letter to the Presidents of all Federal Reserve Banks transmitting the midyear call report forms and memoranda covering the foregoing revisions and additions, with the understanding that the necessary clearance would be obtained from the Bureau of the Budget. A copy of the letter is attached hereto as Item No. 4.

Messrs. Nelson and Conkling then withdrew from the meeting.

Reserve requirement legislation. The Board had before it a memorandum from Messrs. Hackley and Shay dated May 14, 1959, regarding a Senate amendment to the reserve requirement bill, S. 1120, which would

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require only one of several holding company affiliates of the same banks to maintain the reserves of readily marketable assets required by section 5144 of the Revised Statutes.

After comments by Mr. Shay, it was noted that the matter had been placed on the agenda simply to keep the Board informed and no action was required.

Mr. Shay then withdrew from the meeting.

Rebate of unearned interest on prepaid borrowings (Item No. 5).

At the February 1958 meeting of the Presidents' Conference, a question was raised regarding the appropriate rate of rebate of prepaid interest on member bank borrowings in the event of a discount rate change.

Discussion at that meeting revealed that eleven Reserve Banks followed the practice of rebating at the rate at which the advance or discount was made, provided such rate was not higher than the discount rate prevailing at the time of the rebate, in which event the rebate was made at the rate then prevailing. While the consensus of the Presidents was that there was no need for uniformity, it was decided to request the Board to consider the question and possibly issue an up-to-date ruling on the subject so that it might be apparent to inquiring member banks that the matter has been the subject of decision on a current basis.

In a letter to the Chairman of the Presidents' Conference dated December 17, 1958, the Board stated that it was inclined to believe a

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uniform policy of rebating of interest on prepaid borrowings from Federal Reserve Banks after a rate change would be desirable and that it would be prepared (1) to reaffirm the position taken by the Governors' Conference in 1923 and 1930 to rebate at the lesser of the rate at which the discount was made or the current rate, or (2) to adopt a new policy of rebating after a reduction in the discount rate at the rate in effect when the discount was made, provided that subsequent borrowings in equivalent or lesser amount prior to the original maturity of the prepaid discount would be at the rate of the prepaid discount. The Board's letter was discussed at a special session of the Presidents' Conference on January 6, 1959, at which time the Presidents continued to be of the opinion there was no need for uniformity. Should the Board insist on uniformity, a majority of the Presidents would accept alternative (1), but the Presidents were unanimously opposed to alternative (2).

Subsequently, two Banks, in letters to the Board expressed the hope that neither alternative would be adopted. Both favored rebating at the original rate and one would favor even more extending the benefit of a rate reduction to all borrowers.

During a discussion of the subject at a meeting of the Board on February 11, 1959, question was raised whether the policy now followed by 11 of the 12 Banks was appropriate since it penalized a

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member bank for prepayment at the time of a rate change designed to give borrowers the benefit of a lower interest cost. It was suggested that consideration be given to a policy that would provide for adjustment of charges on all outstanding loans when the discount rate was increased or decreased. It was then agreed that the staff should prepare a letter to the Presidents of all Federal Reserve Banks reflecting this suggestion together with a memorandum regarding discount rate policy and a rebate of interest along the lines of the discussion at this meeting. A draft letter that had now been prepared and circulated to the Board stated that, while the Board would not insist on a uniform policy in the immediate future, the Board believed it would be desirable to move toward a policy whereby interest on borrowings would be charged at the discount rate or rates prevailing during the period of the borrowing. A supporting memorandum, to be enclosed with the letter, was also submitted. The letter suggested that the topic be discussed at the next regular meeting of the Conference of Presidents.

During discussion, it was pointed out that the policy proposed in the draft letter constituted a new approach to the question originally raised by the Presidents. In the Board's letter of December 17, 1958, the emphasis was on uniformity of rebate rate practice and two alternative policies were suggested, whereas the current approach recommended a

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single new policy of borrowing charges without insisting on uniformity in the immediate future.

At the conclusion of the discussion, during which it was agreed that the draft material circulated to the Board reflected the consensus reached at the Board meeting on February 11, 1959, unanimous approval was given to the proposed letter to the Presidents of all Federal Reserve Banks and the memorandum to be enclosed with the letter. Copies of the letter and memorandum are attached hereto as Item No. 5.

In this connection it was reported that interest had been displayed at one Reserve Bank in holding another conference of Reserve Bank discount officers, and the view was expressed that such a conference, if desired and requested by the Banks, would seem worth while under present circumstances.

Messrs. Thomas and Daniels then withdrew from the meeting.

Continental Bank and Trust Company (Item No. 6). There had been circulated to the Board a memorandum from the Division of Examinations dated April 27, 1959, reviewing the exchange of correspondence between the Federal Reserve Bank of San Francisco and The Continental Bank and Trust Company, Salt Lake City, Utah, which resulted from the Board's letter of March 27, 1959, requesting the Reserve Bank to advise Continental that loans to President Cosgriff's wife and mother totaling \$382,000 and \$427,000, respectively, should be removed or placed in

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a condition beyond adverse criticism. The memorandum noted that a simultaneous examination of Continental and its affiliates was to be conducted in the near future, and there was submitted a draft of letter to the San Francisco Bank requesting information as to the condition of the loans in question as soon as possible after the start of the examination. The draft letter also requested the Reserve Bank's recommendation as to what action should be taken to bring about correction if it were found that the earlier request had not been complied with.

Governor Mills said that he would have no objection to sending the proposed letter, in the circumstances as they stood at this time, because he thought it was desirable for the Board to have information regarding the status of the loans to President Cosgriff's wife and mother in view of the demand made on Continental that the loans be removed or placed in bankable condition. However, a principle was involved that he considered an important one. He then referred to the sending of Federal Reserve bank examiners into banks that were not themselves subject to examination for the purpose of inquiring into the personal affairs of an individual whose bank was the subject of a section 9 proceeding. Mr. Cosgriff had already charged that the Federal Reserve was damaging his personal credit and raising doubts about his standing in the financial community. He (Governor Mills)

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had a very unhappy feeling with regard to that sort of thing and the sequence of events that had brought it about. As he had said, however, in the present circumstances he felt that the information to be requested in the proposed letter with regard to the condition of the loans to Mr. Cosgriff's wife and mother was information that the Board should obtain.

After further discussion, unanimous approval was given to the proposed letter, a copy of which is attached hereto as Item No. 6.

Pan American Bank. Mr. Benner reviewed a memorandum which had been distributed for the purpose of keeping the Board up to date on developments relating to the Pan American Bank of Miami, Miami, Florida. Among other things, he reported that representatives of the bank were understood to be meeting with Glore, Forgan and Co. in New York this morning concerning the proposed stock issue of South Dade Farms, Inc., through which the bank would be furnished \$3,000,000 additional capital.

On the basis of Mr. Benner's report, no action was indicated at this time. However, it was understood that as soon as information developed through the forthcoming examination of Pan American was available, it would be presented to the Board for discussion. This examination was to be conducted by State authorities, but it would include a credit investigation by Federal Reserve personnel.

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Governor Robertson expressed the opinion that not enough progress had been made in working out the problems of this bank. He said that he had talked several times with President Bryan of the Federal Reserve Bank of Atlanta and that apparently not much could be done until after the forthcoming examination.

Governor Mills stated that, as he appraised the situation, the attempt to introduce new capital into Pan American through public sale of the stock of South Dade Farms was subsidiary to another responsibility of the Board, namely, to recognize the public interest as paramount. As he understood the law and the practices of the bank supervisory agencies, the public interest was clear. Having ascertained that there were losses in Pan American's portfolio of loans, the Board was under a mandate to require that the losses be charged off irrespective of any capitalization program. However, since an examination of the bank was about to be conducted, and the examiners would reassess the quality of the bank's assets, the Board then could move immediately on the basis of the report of that examination. Under these circumstances he felt that the Board was within its authority in deferring any action for the present.

The meeting then adjourned.

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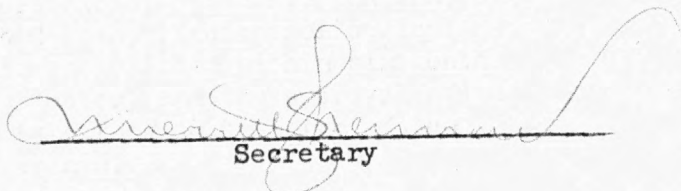
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Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the transfer of the following persons on the Board's staff, effective May 18, 1959:

Doreen Dippre, from the position of Secretary in the Office of Defense Planning to the position of Secretary in the Board Members' Offices, with an increase in her basic annual salary from \$5,730 to \$6,030.

Margaret L. Wolfe, from the position of Secretary in the Office of Defense Loans to the position of Secretary in the Office of Defense Planning, with no change in her basic annual salary at the rate of \$5,880.

Iola B. Morgan, from the position of Secretary in the Board Members' Offices to the position of Secretary in the Office of Defense Loans, with no change in her basic annual salary at the rate of \$5,390.



Secretary

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

Item No. 1
5/18/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 18, 1959.

Board of Directors,
Fidelity Bank & Trust Company,
Indianapolis, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of West 16th Street and Lynhurst Road, Speedway, Indiana, by Fidelity Bank & Trust Company, Indianapolis, Indiana, provided the branch is established within six months from the date of this letter, and the approval of the State authorities is in effect at the time of the establishment of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
5/18/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1959.

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

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors further extends to October 22, 1959, the time within which The Union Commerce Bank may, under the authority granted in the Board's letter of November 20, 1957, establish a branch on the south side of Mayfield Road, west of SOM Center Road, Mayfield Heights, Ohio.

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
5/18/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1959.



Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

This refers to your inquiries relating to the status, under the Bank Holding Company Act, of the Employees Deferred Profit Sharing Plan of the First National Bank in Cisco, Cisco, Texas, and the Consumers Acceptance Company, Cisco, Texas.

1. With respect to the Employees Deferred Profit Sharing Plan (the "Plan"). - As indicated in its report to Congress of May 7, 1958, containing recommendations for amendments to the Bank Holding Company Act, it is the Board's position that profit-sharing plans and pension trusts do not fall within the definition of "company" in section 2(b) of the Act. Accordingly, in the Board's opinion, the Deferred Profit Sharing Plan of the First National Bank in Cisco is not a bank holding company.

2. With respect to Consumers Acceptance Company ("Consumers"). - Directly and through subsidiaries (Sunland Insurance Company ("Sunland") and Consolidated Bankers Life Insurance Company), Consumers owns or controls only 5.2 per cent of the shares of First National Bank in Cisco ("First National") and .66 per cent of the shares of Grayson County State Bank ("Grayson"). However, the Plan directly owns 42 per cent of the shares of First National and 24.775 per cent of the shares of Grayson. Accordingly, if Consumers indirectly controls the shares owned by the Plan, Consumers would be a "bank holding company", since it would directly or indirectly own or control more than 25 per cent of the voting shares of two banks. The questions, therefore, are whether on either of the grounds referred to in the following paragraphs, Consumers either controls the shares of bank stock owned by the Plan or, through its relationship to the Plan, controls the election of a majority of the directors of the two banks.

a. The same individuals constitute a majority of the Board of Directors of Sunland and a majority of the Board of Directors of First National. In the Board's opinion, this circumstance is not

Mr. L. G. Pondrom.

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sufficient, either alone or in combination with the surrounding circumstances, to support a conclusion that Consumers controls the bank shares owned by the Plan or controls the election of a majority of the directors of the two banks.

b. The Plan is administered by eight advisors, two of whom are appointed by the directors of Consumers and another two by the directors of Sunland, Consumers' subsidiary corporation. In the Board's opinion, the fact that the directors of Consumers and its subsidiary appoint four of these eight advisors, and that another two advisors are appointed by the directors of First National (a majority of whom constitute a majority of the directors of Sunland), would not justify a conclusion that Consumers either (a) controls the bank shares owned by the Plan or (b) controls the election of a majority of the directors of the two banks.

Accordingly, it is the Board's conclusion, on the facts presented, that Consumers Acceptance Company is not a "bank holding company" as defined in section 2(a) of the Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
5/18/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form F.R. 105 (Call No. 152), Report of condition of State member banks.

Form F.R. 105A.4, Announcement of a new item in the schedule for loans and discounts and reconciliation between present and revised schedules. (Supply will be printed and forwarded following receipt of Budget Bureau number.)

Form F.R. 105e (Revised November 1955), Publisher's copy of report of condition of State member banks.

Form F.R. 105e-1 (Revised November 1955), Publisher's copy of report of condition of State member banks.

Form F.R. 105e-2 (Revised November 1955), Publisher's copy supplement.

Form F.R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form F.R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

With the exception of form F.R. 105A.4, all of the forms are the same as those used on March 12, 1959.

The new form F.R. 105A.4 is an announcement of the new item of loans to financial institutions other than banks in the loan schedule (Schedule A) and is the slip sheet reconciliation between present and revised schedules which was mentioned in the March 13 memorandum forwarded to the Reserve Banks on March 19, 1959.

It will be used only at the forthcoming call, and it is understood that similar forms will be used by the Office of the Comptroller of the Currency and by the Federal Deposit Insurance Corporation. This will provide comparative data on both bases for one date for all insured commercial banks.

Enclosed are two memoranda setting forth the changes in the weekly reporting member bank series and in Schedule A of the call report of condition. They are in accordance with the Board's letter of March 19 with one exception and one addition. It was originally proposed that the instructions, relating to real estate loans whereby real estate mortgages are acquired under repurchase agreements, would be revised and that these mortgage loans would be removed from the present real estate loans category and classified against the new item of loans to financial institutions. Following negotiations with the other agencies it was decided that there would be no change in the present instructions; real estate mortgage loans purchased under resale or similar agreements will continue to be classified as real estate loans. As mentioned in the weekly series memorandum, the Board has approved a new "money market" subseries on an experimental basis. There will be no publication of the new subseries outside of the Board and the Reserve Banks until the experiment has received further study.

Please telegraph the number of forms F.R. 416(OT) that your Bank will need for the one-date reconciliation; this form is described in the attached memorandum on the revision of the weekly reporting member bank series. The Budget Bureau number of the revised form F.R. 416 will be telegraphed when received.

It is suggested that the respondent banks be informed of the reasons for the revisions being made. These are outlined in the memorandum and letter accompanying the Board's letter of March 19 and in the attached memorandum on the revision of the weekly reporting member bank series.

As yet there has been no decision on a fall call or, if there is one, whether it will omit the loan schedule or include it on the new basis. Revised instructions for the preparation of reports of

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM

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condition will be distributed prior to the year-end and your suggestions regarding revisions in the form or related instructions will be appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 5
5/18/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1959.



Dear Sir:

At the special session of the Presidents' Conference on January 6, 1959, the Presidents discussed the Board's letter of December 23,* 1958, on the subject of rebate of unearned interest on prepaid borrowings from a Reserve Bank after a rate change. The minutes of the conference state that:

After discussion, it was agreed that the Chairman of the Conference would advise the Board that the Presidents continued to be of the opinion that there was no need for uniformity; that they were unanimously of the view that each Reserve Bank should determine its own policy; and that they urged the Board of Governors to approve this disposition of the matter. If the Board should insist on a uniform policy, however, none of the Presidents would favor alternative (2), but a majority would favor alternative (1).

The Board has again reviewed the matter and will not insist on a uniform policy with respect to rebate of unearned interest by the Federal Reserve Banks in the immediate future. However, the Board believes that it would be desirable to move toward a policy whereby interest on borrowings would be charged at the discount rate or rates prevailing during the period of the borrowing. Borrowing banks would receive the benefit of a reduction in the discount rate and at the same time would be subject to an increased charge when the rate is raised. Enclosed is a memorandum outlining the Board's position.

It is suggested that the topic be discussed at the next regular meeting of the Conference of Presidents.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

*Should have read December 17, 1958.

FEDERAL RESERVE BANK DISCOUNT RATE POLICY
AND REBATE OF UNEARNED INTEREST

Background

Federal Reserve Banks have always permitted prepayment of borrowings by member banks and have rebated unearned discount.

When the Banks had different rates of discount for paper of different maturities, the rebate of interest was computed at the rate of discount for paper with a maturity corresponding most closely to the unexpired term of the prepaid paper (October 1915 Bulletin; F.R.L.S. #5662).

Since the rate was lower for the shorter maturities, this policy resulted in a discount charge for the period the borrowing was in effect at a rate somewhat higher than the rate originally charged. For example, if 90-day paper rediscounted at 5 per cent was paid after 60 days and the discount rate was 4 per cent for 30-day paper, the rebate would be made at 4 per cent and the effective rate charged for the 60 days the borrowing was in effect would have been 5.5 per cent.

By 1923, the Banks no longer had different rates for different maturities of rediscounted paper. Under these circumstances, no penalty resulted from prepayment of borrowings since the rebate would be made at the same rate at which the discount was made.

The policy of granting rebates of discount and the rate at which rebates should be made was discussed by the Governors of the Reserve Banks at their March 1923 Conference. At that time, the Conference adopted the policy now followed by 11 of the Banks whereby rebates are granted at the original rate unless the discount rate has been reduced in the meantime, in which case it is made at the prevailing (lower) rate. After a rate reduction, this method results in an effective rate for the period of the borrowing higher than the rate at which the discount was made.

During the past year the Board and the Conference of Presidents have given consideration to the question of rebate of interest on prepaid borrowings after a rate reduction. In a letter to the Chairman of the Presidents' Conference dated December 17, 1958, the Board stated it was inclined to believe a uniform policy of rebating interest on prepaid borrowings from Federal Reserve Banks after a rate change would be desirable and that it would be prepared (1) to reaffirm the position taken by the Governors' Conference in 1923 and 1930 to rebate at the lesser of the rate at which the discount was made or the current rate or (2) to adopt a new policy of rebating after a reduction in the discount rate at the rate in effect when the discount was made, provided that subsequent borrowings in equivalent or lesser amount prior to the original maturity of the prepaid discount

would be at the rate of the prepaid discount. After discussion of the Board's letter at a special session of the Presidents' Conference on January 6, 1959, the Presidents continued to be of the opinion there was no need for uniformity. Should the Board insist on uniformity, they were unanimously opposed to alternative (2) but would accept alternative (1).

In a letter dated January 9, 1959, President Deming of the Federal Reserve Bank of Minneapolis stated that he hoped the Board would not decide to adopt either of the alternatives and that he continued to favor the policy of rebating unearned interest at the original rate, the current practice at the Minneapolis Bank. President Johns of the Federal Reserve Bank of St. Louis, in a letter dated January 12, 1959, expressed similar sentiments but indicated that the St. Louis Bank would favor even more extending the benefit of a rate reduction to all borrowers.

Proposed Solution

At a recent meeting of the Board it was agreed that in the light of long-time emphasis on decentralization, the Board would not insist on a uniform policy with respect to rebate of unearned interest, in the immediate future. Nevertheless, it was felt that the Banks should work toward a uniform policy whereby Federal Reserve loan agreements would provide that the interest on borrowings would be figured at the discount rate or rates prevailing during the period of the borrowing. Borrowing banks would receive the benefit of a reduction in the discount rate and would be subject to an increased charge when the rate is raised regardless of the maturity of the discounted paper.

This would be an equitable procedure and would not favor only particular banks which under the present majority procedure benefit from long-term borrowings in case of a rate increase, or under the method followed by the Minneapolis Bank, benefit from prepayment of borrowings after a rate reduction. There would be no penalty for prepayment.

During the discussion, it was questioned whether the policy now followed by 11 of the 12 Banks was the most appropriate in the light of the purpose of changes in the discount rate; that is, if, after a discount rate reduction, a borrowing bank that prepaid its obligation were to receive a rebate of interest figured at the lower rate, the bank tended to be penalized for making the prepayment, whereas the rate reduction would have been made with the general objective of reducing the cost of borrowing. This benefit should apply to current, as well as to future, borrowers.

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

Item No. 6
5/18/59



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 18, 1959.

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

Dear Mr. Mangels:

This will acknowledge receipt of letters from Mr. Millard of April 20 and April 24, 1959, with enclosures, regarding The Continental Bank and Trust Company, Salt Lake City, Utah.

It will be appreciated if you will send information as soon as possible after the start of the prospective examination as to the condition of loans to Mildred D. Cosgriff and Enid B. Cosgriff, mother and wife, respectively, of President Cosgriff.

If it is found that the loans have not been removed or placed in a condition beyond adverse criticism, the Board would appreciate your recommendation as to what action should be taken to bring about a correction of the unsatisfactory condition.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.