

Minutes for June 12, 1959

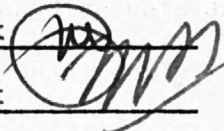
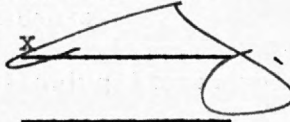
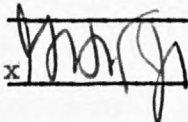
To: Members of the Board

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 <u></u>	_____
Gov. Szymczak	x _____	_____
Gov. Mills	_____	x <u></u>
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CS</u>	_____
Gov. King	_____	x <u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Friday, June 12, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Benner, Assistant Director, Division
of Examinations
Mr. Smith, Assistant Director, Division
of Examinations
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Hill, Assistant to the Secretary
Mr. Hooff, Assistant Counsel
Miss Hart, Assistant Counsel
Mr. Farrell, Legal Assistant

Discount rates. The establishment without change by the
Federal Reserve Bank of Kansas City on June 10, and by the Federal
Reserve Banks of New York, Atlanta, Chicago, St. Louis, and Dallas
on June 11, 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:

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	<u>Item No.</u>
Letter to The Merchants National Bank of Manchester, Manchester, New Hampshire, granting its supplemental application for fiduciary powers.	1
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 4023 Second Avenue, Brooklyn, New York.	2
Letter to the Manufacturers Trust Company, New York, New York, approving the establishment of a branch at 1180 Third Avenue.	3
Letter to the Security Trust Company of Rochester, Rochester, New York, approving the establishment of a branch at 1 East Main Street, Wolcott, New York, incident to its merger with The First National Bank of Wolcott.	4
Letter to The Central Trust Company, Cincinnati, Ohio, approving the establishment of a branch at Kemper and Princeton Roads in Springfield Township.	5
Letter to The Richland Trust Company, Mansfield, Ohio, approving the establishment of a branch at Park Avenue West and Marion Avenue.	6
Letter to the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, granting an extension of time to establish a branch in High Point.	7
Letter to the Fordyce Bank & Trust Co., Fordyce, Arkansas, granting its request for permission to exercise certain fiduciary powers.	8
Letter to the Federal Reserve Bank of San Francisco regarding purchase by a bank holding company of its own common stock.	9
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to the Bank's electricians and plumber at specified rates.	10

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Item No.

Telegram to the Federal Reserve Bank of Kansas City 11
 authorizing the preparation of detailed plans and
 specifications for an addition to and alterations
 of the Oklahoma City Branch building.

In connection with Item No. 11, Mr. Farrell drew to the Board's attention that the architect's plans for the addition to the Oklahoma City Branch building provided for the integration of an existing parking garage into the structure. He commented that the proposal had been reviewed by the Board's Consulting Architect, Mr. Witherell, who interposed no objection.

Application to organize a national bank. The Comptroller of the Currency had requested the Board's recommendation regarding an application to organize a national bank in Cheyenne, Wyoming. The report of investigation subsequently made by an examiner for the Federal Reserve Bank of Kansas City indicated that favorable consideration could be given to the establishment of the proposed bank. However, it had developed that the permanent quarters proposed to be occupied by the bank might not be available until as late as January 1962, and the opening of the bank in temporary quarters was not believed by the Reserve Bank to be justified. The Division of Examinations concurred with the recommendation of the Reserve Bank that the application be held in abeyance until quarters for the bank were more readily available.

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Because of the favorable aspects of the application, the view was expressed by Governor Robertson that it would seem appropriate, on the basis of the available information, to recommend granting the application if arrangements were made for suitable temporary banking quarters. There being general acceptance of this view, it was agreed that in accordance with the customary procedure, the matter would be discussed with the Federal Reserve Bank of Kansas City, after which it would be brought before the Board for further consideration.

Messrs. Young, Director, and Brill, Chief, Capital Markets Section, Division of Research and Statistics, entered the room at this point and Messrs. Farrell (of Bank Operations), Daniels, and Hooff withdrew.

Letter to Congressman Patman (Item No. 12). In a letter dated June 3, 1959, Congressman Patman requested information with respect to outstanding shares of Federal Reserve Bank stock issued prior to March 28, 1942. A draft of reply, which had been distributed to the Board, answered Mr. Patman's questions on the basis of information obtained from the Reserve Banks, including information as to procedures followed in the issuance of Federal Reserve Bank stock certificates. The proposed reply pointed out that the question whether dividends on such stock were taxable was one for determination by the Internal Revenue Service.

During a discussion it was noted, with regard to stock issued prior to March 28, 1942, that the Board had recommended in 1956, in

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connection with consideration of the Financial Institutions Act, that the exemption of dividends thereon from taxation be repealed. There was agreement that it would be appropriate to include such a comment in the letter to Mr. Patman.

After an additional change in the draft also had been agreed upon, unanimous approval was given to a letter to Mr. Patman in a form reflecting the discussion at this meeting. A copy of the letter sent pursuant to this action is attached hereto as Item No. 12.

Suggested amendment to Regulation U (Item No. 13). The Federal Reserve Bank of New York, under date of June 2, 1959, transmitted to the Board a letter from the New York Clearing House dated May 27, 1959, together with supporting memoranda, in reference to several aspects of the Board's amendments to Regulation U which were to become effective June 15, 1959. The Clearing House, on behalf of certain associated banks, first requested the Board to reconsider the amendment to section 221.1(c) of the Regulation which narrowed the right of borrowers to substitute other collateral for collateral securing a restricted bank loan. The Clearing House also submitted several interpretations of points arising under the June 15 amendments, along with a suggested form of purpose statement which would be filled in by the borrower and signed by both the borrower and the lending officer.

There had been distributed to the Board a memorandum from Miss Hart and Mr. Brill dated June 9, 1959, analyzing and commenting on the

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Clearing House proposals. The effect of the proposed amendment to section 221.1(c), it was pointed out, would be to restore an unlimited right to substitute collateral of equal value for collateral securing an undermargined account, and to this extent the proposal would restore the situation existing prior to the adoption of the current amendments to Regulation U. It was recommended that this proposed change be rejected on the ground that it had been in part rendered superfluous by the Board's interpretation of May 29, 1959, and also that it would tend to perpetuate conditions which the current amendments were intended to correct. No objection was found to four of the six interpretations of various provisions of the amendments to Regulation U; as to these, it was recommended that the Board merely indicate general approval. Two, however, appeared to contain erroneous or misleading statements, upon which it was thought that the Board might wish to comment. With regard to the purpose statement form, it was recommended that the Board again emphasize that no form filled in by a borrower could be an adequate substitute for diligent investigation of the circumstances of a loan by the lending officer. A draft of reply to the Federal Reserve Bank of New York along these lines was submitted with the memorandum, and a revised draft had been distributed this morning prior to the meeting.

In response to a question regarding the May 29 interpretation regarding the substitution of collateral securing a restricted bank loan,

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Miss Hart and Mr. Brill said it was their understanding that the Clearing House was aware of the interpretation prior to the time its letter was forwarded to the Board by the New York Bank, but nevertheless wished to have the matter presented to the Board. As their memorandum indicated, Miss Hart and Mr. Brill felt that the interpretation eliminated the principal argument in favor of the proposal by explaining that borrowers from banks and customers of brokers were on equal ground in their ability to substitute collateral. However, the Clearing House apparently wished to present the full scope of its arguments.

After further discussion, unanimous approval was given to the proposed letter to the Federal Reserve Bank of New York, a copy of which would be enclosed for transmittal to the Clearing House Association. A copy of the letter sent pursuant to this action is attached hereto as Item No. 13.

Secretary's Note: The fourth paragraph of the second page of the letter, in the form attached, includes a clause added at the end of the paragraph for clarification at the suggestion of the New York Reserve Bank.

Suggested amendment to Regulation T (Item No. 14). The New York Stock Exchange, in a letter dated June 9, 1959, urged the Board to adopt a clarifying amendment to Regulation T, as that Regulation would become effective June 15, 1959, to eliminate a difference of treatment between the covering of a "short" position in a restricted account and the close-out of a "long" position. The letter also asked

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for an interpretation of section 3(g) which would provide an exception to the effective date of the amendments for customers who had established long and short positions in the same stock in a restricted margin account prior to June 15, 1959.

There had been distributed to the Board a memorandum from Mr. Brill and Mrs. Ulrey dated June 11, 1959, setting forth illustrations of the problems involved in equitable treatment of short positions together with a draft of reply to the Stock Exchange which indicated that the Board was aware of those problems as well as of the technical difficulties in arriving at a more equitable and operationally practical solution. The letter went on to say that the Board did not think it advisable to adopt the suggested changes or to issue the requested interpretation.

Mr. Brill commented on the difficulties involved in developing a formula for treatment of short positions that would be both equitable and practical from an operating standpoint without at the same time defeating the purpose of the current amendments to Regulation T. He indicated, however, that the matter would continue to be studied.

Unanimous approval then was given to the proposed letter to the New York Stock Exchange, with the understanding that a copy would be sent to the Federal Reserve Bank of New York. A copy is attached as Item No. 14.

Messrs. Brill and Donald Farrell then withdrew from the meeting, as did Miss Hart, and Mr. Boothe, Administrator, Office of Defense Loans, entered the room.

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V-loan matter (Item No. 15). With further reference to correspondence over an extended period with Mr. Eugene B. Crowe of St. Louis, Missouri, concerning the scope of the Board's authority with regard to the V-loan program and the alleged mishandling of a V-loan by the Federal Reserve Bank of St. Louis, there had been distributed to the Board a draft of reply to Mr. Crowe's letter of June 8, 1959, written in response to the Board's letter of May 19, 1959, wherein the Board offered to have a member of its staff meet with Mr. Crowe in St. Louis to receive such statements as he might care to make. The draft now before the Board would indicate how the arrangements were to be made for the meeting.

Discussion of the matter resulted in agreement that (1) the letter to Mr. Crowe should be in the form attached as Item No. 15, (2) the Board's principal representative should be Mr. Smith, Assistant Director of the Division of Examinations, (3) Mr. Smith should be accompanied by a member of the Board's legal staff, tentatively Mr. Walter H. Young, and (4) prior to the meeting with Mr. Crowe the Board's representatives should visit the Federal Reserve Bank of St. Louis and review the file on the case, including letters that Mr. Crowe indicated he had placed on record with the Bank.

In this connection, Governor Balderston noted that he had talked by telephone with First Vice President Freutel of the St. Louis Reserve Bank before the Board's letter of May 19, 1959, was sent to Mr. Crowe and that a copy of the letter was sent to the Reserve Bank.

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Messrs. Boothe, Hostrup, Smith, and Hill then withdrew and Mr. Thomas, Economic Adviser to the Board, entered the room.

Hearings before Ways and Means Committee. At the instance of Chairman Martin, there was discussion of an informal character concerning the progress of the hearings before the House Ways and Means Committee with regard to the Administration proposals to increase the national debt limit, remove the interest rate limitation on Treasury bonds, and increase the interest rates payable on United States savings bonds. Attention centered particularly on the testimony given before the Committee by Dr. Gerhard Colm and Congressman Henry Reuss which envisaged a declaration by the Congress that the proposed removal of the interest rate ceiling on Government bonds would be the basis for action to increase the cost of Treasury borrowing and that the Federal Reserve System, in the course of normal open market operations, should adjust its activities in such a way as to give as much support as possible to the financing of the Government debt. This implied abandonment of the "bills only" policy and more flexible use of the reserve requirement instrument to adjust the total amount of credit to the prevailing economic situation at any time.

Following a suggestion by the Chairman to Mr. Hackley that it would be advisable to study the Board's legal position in the event of adoption by the Congress of a resolution to the effect indicated by the

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testimony, several suggestions were made as to how the points raised by Messrs. Colm and Reuss might be dealt with most effectively in further appearances by the Chairman before the Ways and Means Committee. One of the suggestions took the form of a draft of possible statement read by Governor Balderston. At the conclusion of the discussion, Messrs. Thomas and Young were requested to accumulate such material as they might consider helpful, including data of an historical nature indicating the results of following a course such as suggested by the testimony of Messrs. Colm and Reuss.

Study of tax and loan accounts. Chairman Martin reported having received information that the Treasury was to undertake, at the request of the Comptroller General, a study of the cost to commercial banks of performing certain services for the Government, with a view to determining the equity of allowing such banks to hold balances in tax and loan accounts without payment of interest thereon, and that the Treasury had expressed a desire to have Federal Reserve assistance in this study.

Following a brief discussion, it was agreed that Mr. Farrell, Director of the Division of Bank Operations, should be designated to confer with the Treasury on this matter, and Governor Robertson was requested to discuss the subject with Mr. Farrell.

The meeting then adjourned.

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Secretary's Notes: Advice was received yesterday from the Federal Reserve Banks of Cleveland and Richmond that the directors of those Banks had established, subject to the approval of the Board of Governors, a rate of 3-1/2 per cent (rather than 3 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, along with a rate of 4 per cent on advances under section 10(b). The Cleveland directors also established a rate of 4-1/2 per cent on advances under the last paragraph of section 13 and a range of 4-1/2 per cent to 6 per cent on advances to industrial or commercial businesses under section 13b, including advances made in participation with other financing institutions. Other rates in the Banks' existing schedules were established without change. These rates being within the pattern approved by the Board on May 28, 1959, the Cleveland and Richmond Banks were advised of their approval, effective June 12, 1959. All Reserve Banks and branches were notified by telegram, a press statement in the usual form was issued at 4:00 p.m. EDT, and arrangements were made for publication of a notice in the Federal Register.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective June 14, 1959:

<u>Name and Title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Legal Division</u>		
Patricia D. Kevilly, Stenographer		\$3,755	\$3,850
	<u>Research and Statistics</u>		
Reba C. Driver, Statistical Assistant <u>1/</u>		4,790	4,940
Harriet Dee Litoff, Clerk-Stenographer		3,850	3,945

1/ Change in title from Statistical Clerk.

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Salary increases effective June 14, 1959 (cont)

<u>Name and Title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Mary B. McKee, Clerk-Stenographer		\$3,755	\$3,850
Joyce Ann Meyer, Clerk-Stenographer		4,040	4,135
Wilellyn Morelle, Economist		6,735	6,885
Nell T. Postles, Librarian		4,640	4,790
Mary Ann Shuler, Clerk-Stenographer		4,040	4,135
Frances D. Skehan, Statistical Clerk		4,040	4,135
C. Lavon Watson, Statistical Assistant <u>1/</u>		4,325	4,490
<u>Bank Operations</u>			
Charles W. Bryson, Analyst		4,980	5,130
Mary Teresa Johnson, Clerk-Stenographer		3,850	3,945
Barbara J. Wrenn, Statistical Clerk		4,135	4,230
<u>Examinations</u>			
John E. P. Carney, Assistant Federal Reserve Examiner		4,940	5,090
Patricia A. D'Ambrosio, Stenographer		3,755	3,850
<u>Personnel Administration</u>			
Margaret C. Goodall, Clerk-Stenographer		3,755	3,850
Sada Ann Weitzell, Clerk-Stenographer		4,040	4,135
<u>Administrative Services</u>			
Joan C. Bell, Utility Clerk		4,135	4,340
J. Frank Bell, Supervisor, Motor Transport Unit		5,090	5,240
Charles E. Evans, Messenger		3,055	3,150
Sven E. Johnson, Inspector-Foreman		5,730	5,880
Richard J. Michel, Laborer		3,245	3,340

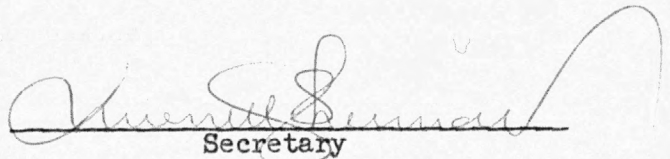
1/ Change in title from Statistical Clerk.

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Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of Richmond (attached Item No. 16) approving the appointments of Robert L. Cummings and William C. Smith as assistant examiners.

On June 11, 1959, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of San Francisco (attached Item No. 17) relating to the appointment of William J. Zunkel as assistant examiner, which was approved on May 29, 1959.



Merrill S. Shepardson
Secretary


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

Item No. 1
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959



Board of Directors,
The Merchants National Bank of Manchester,
Manchester, New Hampshire.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application regarding fiduciary powers and has added the powers of executor, assignee, and receiver to the record of the specific capacities which your bank is authorized to exercise. Authority to exercise these specific fiduciary powers was contained in the general authority granted the bank on July 9, 1925, to act "in any other fiduciary capacity in which State banks, trust companies, or any other corporations which come into competition with national banks are permitted to act" and are in addition to the specific powers granted your bank on August 26, 1919, to act as trustee and registrar of stocks and bonds.

A formal certificate indicating the various fiduciary powers which The Merchants National Bank of Manchester is authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 2
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 4023 Second Avenue, Brooklyn, New York, by The Chase Manhattan Bank, New York, New York. This approval is given provided the branch is established within one year from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959

Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 1180 Third Avenue, New York, New York, by Manufacturers Trust Company, New York, New York. This approval is given provided the branch is established within one year from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.





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

Item No. 4
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959

Board of Directors,
Security Trust Company of Rochester,
Rochester, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System hereby approves the establishment of a branch at 1 East Main Street, Wolcott, New York, by Security Trust Company of Rochester, Rochester, New York. This approval is given, provided:

- (a) The merger with The First National Bank of Wolcott, Wolcott, New York, is effected substantially in accordance with the agreement of merger dated March 5, 1959;
- (b) The branch is established within six months from the date of this letter;
- (c) Shares of stock acquired from dissenting stockholders are disposed of within six months from the date of acquisition; and
- (d) Formal approval of State authorities is obtained.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959

Board of Directors,
The Central Trust Company,
Cincinnati 1, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Kemper and Princeton Roads, Springfield Township, Hamilton County, Ohio, by The Central Trust Company, provided the branch is established within one year from the date of this letter and approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 6
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 12, 1959

Board of Directors,
The Richland Trust Company,
Mansfield, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment by The Richland Trust Company of a branch at the intersection of Park Avenue West and Marion Avenue, Mansfield, Ohio, provided the branch is established within one year from the date of this letter.

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. 7
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959



Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors extends to September 30, 1959, the time within which Wachovia Bank and Trust Company may, under the authority granted in the Board's letter of January 30, 1959, establish a branch on the northeast corner of North Main and East State Streets, High Point, North Carolina.

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. 8
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959



Board of Directors,
Fordyce Bank & Trust Co.,
Fordyce, Arkansas.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to accept fiduciary appointments as executor, administrator, and guardian.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Fordyce Bank & Trust Co., Fordyce, Arkansas, to act as executor, administrator, and guardian with the understanding that your bank will not accept fiduciary appointments of other kinds without first obtaining the permission of the Board.

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. 9
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959



Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

This refers to your letter dated January 26, 1959, enclosing a letter dated January 20, 1959, from Union Bond & Mortgage Company, Port Angeles, Washington, a bank holding company, relating to the question whether the purchase by the Company of its own common stock would be in violation of the provisions of the Bank Holding Company Act of 1956 or other regulations governing bank holding companies. The Company's letter indicates that the "only foreseeable" reasons for purchasing its own common stock are (1) for the purpose of buying out minority stockholders of the Company and (2) for estate tax purposes relating to the estates of holders of the Company's common stock.

The purpose of section 4(a)(1) of the Bank Holding Company Act seems clearly to prohibit bank holding companies from engaging in a nonbanking business through acquiring direct or indirect ownership or control of voting shares of any company which is not a bank. (101 Cong. Rec. 8035 (June 13, 1955)) The acquisition by a bank holding company of its own stock would not seem to be contrary to this purpose, since it constitutes an activity within the holding company itself as a separate corporate entity and would not involve acquisition of voting shares of any other corporation.

In any event, it is understood that in the present case stock of the Company acquired by itself cannot, under applicable State law, be voted by the Company or counted in calculating the total voting power of all shareholders. On the basis of this understanding, the acquisition would not be subject to section 4 of the Bank Holding Company Act which relates only to the acquisition of voting shares.

Mr. E. R. Millard

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Aside from the applicability of the Bank Holding Company Act, Union Bond & Mortgage Company is, of course, a "holding company affiliate" under the Banking Act of 1933 and, in connection with the issuance to it of a general voting permit, the corporation executed an agreement which provides, among other things, that it will maintain a sound financial condition and that its net capital and surplus funds shall be adequate in relation to the character and condition of its assets and to its liabilities and other corporate responsibilities. It would be possible, of course, for purchases by the holding company of its own common stock to affect its financial strength and capital structure to an extent that might involve a violation of these provisions of its voting permit agreement.

It would be appreciated if you will transmit the substance of this letter to Union Bond & Mortgage Company.

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. 10
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959

CONFIDENTIAL (FR)

Mr. G. T. Tucker, Assistant Cashier,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Tucker:

The Board of Governors approves the payment of salaries
by the Federal Reserve Bank of Chicago to the incumbents of the
positions shown below at the rates and effective dates indicated
in accordance with the request contained in your letter of
June 3, 1959:

<u>Title</u>	<u>Annual Salary</u>	
Head Electrician	\$8,444.80)	Effective July 6, 1959
Electrician	7,600.32)	
Plumber	7,394.40)	Effective June 1, 1959 (retroactive)

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
6/12/59

June 12, 1959

Leedy--Kansas City

Reurlet January 14, Board authorizes preparation of detailed plans and specifications for proposed addition and alterations of Oklahoma City Branch building.

Total of "building proper" costs at Omaha and estimated "building proper" costs of the Oklahoma City program, as noted in your letter, exceeds amount earmarked for the Tenth District, and thus allocation of any amount for "building proper" costs at Denver will probably have to await further legislation.

When detailed plans are submitted, Board would appreciate being advised, as outlined in its letter of May 6, 1959, of possibilities for providing fallout shelter in this building.

(Signed) Merritt Sherman

SHERMAN



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 12
6/12/59

OFFICE OF THE CHAIRMAN

June 15, 1959

The Honorable Wright Patman,
House of Representatives,
Washington 25, D. C.

Dear Mr. Patman:

This is in further reply to your letter of June 3, 1959, requesting information with respect to outstanding shares of Federal Reserve Bank stock issued prior to March 28, 1942.

Before answering your questions, it should be noted that the issuance of a "new" stock certificate, sometimes under a new name, does not indicate that the certificate represents only shares issued subsequent to March 28, 1942. This was recognized by the Commissioner of Internal Revenue in his letter to the Board dated September 9, 1942, copy enclosed, setting forth the procedure to be followed by the Reserve Banks when issuing new certificates which may include outstanding shares purchased and paid for prior to March 28, 1942.

It should also be noted that the question whether dividends on Federal Reserve Bank stock are taxable is, of course, one for determination by the Internal Revenue Service. It is assumed, therefore, that your questions relate only to the procedures followed by the Reserve Banks in the issuance of Federal Reserve Bank stock certificates.

Following are the answers to your specific questions:

(1) When a State member bank converts into a national bank, a new certificate is issued. Such certificate contains an endorsement on the reverse side indicating the number of shares still outstanding which were purchased and paid for by the State member bank prior to March 28, 1942. Barring any ruling by the Commissioner of Internal Revenue with which we are not familiar, it is assumed that the national bank does not pay taxes on the dividends on outstanding shares issued to the State member bank before March 28, 1942.

(2) Where two national banks merge or consolidate, a new certificate is issued. Such certificate indicates, by endorsement, the total number of shares still outstanding issued to both banks prior to March 28, 1942. Under a merger or consolidation, pursuant to Title 12, U.S.C., Secs. 33 and 34, all rights, franchises, and interests of the constituent banks are transferred to and vested in the resulting bank by operation of law. Therefore, the resulting bank becomes the owner of all outstanding shares of Federal Reserve Bank stock issued to either bank before March 28, 1942. Again, in the absence of any ruling by the Commissioner of Internal Revenue, it is assumed that the bank does not pay taxes on dividends received on these pre-1942 shares of stock.

(3) Since, as previously indicated, the taxability of dividends of Federal Reserve Bank stock is a matter for determination by the Internal Revenue Service, the Board has no authority to issue any rules or regulations on this subject. However, the procedures followed in the issuance of Federal Reserve Bank stock certificates, as described above, are uniform throughout the System, except that some Reserve Banks issue two certificates, one of which relates only to pre-1942 stock. The September 9, 1942 letter from the Commissioner of Internal Revenue was transmitted to all Federal Reserve Banks as an enclosure to the Board's letter of September 22, 1942, a copy of which is enclosed.

(4) As of March 28, 1942, there were 2,865,660 shares (\$143,283,000) of Federal Reserve Bank stock outstanding. According to information recently received from the Federal Reserve Banks, there were 2,724,685 (\$136,234,250) pre-1942 shares still outstanding. As of June 10, 1959, the total of all Federal Reserve Bank stock owned by member banks was 7,574,100 (\$378,705,000) shares.

With respect to the general question of taxation of dividends paid to member banks on Federal Reserve Bank stock, you will recall that the Board of Governors, in connection with consideration of the proposed "Financial Institutions Act", recommended an amendment to remove the tax exemption as to stock issued prior to March 28, 1942, so as to place dividends on such stock on the same footing as dividends on stock issued after that date.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

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

Item No. 13
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959.

Mr. Robert G. Rouse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Rouse:

The Board has given careful consideration to the letter from the New York Clearing House, with attached memoranda, enclosed with your letter of June 2, 1959. Because of the imminence of the effective date of the Board's amendments to Regulation U, with which these materials are concerned, every effort has been made to respond promptly to the requests embodied therein.

The first memorandum, and the most important, contains a request that the Board reconsider its amendment to section 221.1(c) of the regulation. In effect, the revision of that section urged by the Clearing House would restore an unlimited right to substitute collateral of equal value for collateral securing an undermargined account.

A clarifying interpretation of the amended section made by the Board and transmitted to all Federal Reserve Banks on May 29, 1959 has removed the principal argument advanced in favor of the proposed revision. There had apparently been some misunderstanding among banks as to the effect of the amended section based on the supposition that, while customers of brokers would be permitted under the amendments to Regulation T to substitute collateral in an undermargined account by means of a one-day purchase and sale without deposit of additional collateral, borrowers from banks would not have the same privilege. The interpretation explains that borrowers from banks and customers of brokers are on the same footing in this respect.

Accordingly, the change proposed by the Clearing House is now, to a considerable extent, superfluous. Moreover, while the amended section may present some technical difficulties which in the light of practical experience may later indicate need for correction, the Board does not think it advisable, without more compelling reasons than those advanced, to make changes before the effective date of the amendment.

Mr. Robert G. Rouse

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In its second memorandum, the Clearing House submits for the information of the Board several interpretations of the amended sections of Regulation U. In general, these interpretations seem helpful and appropriate. Several points should be noted, however, as to two of them.

In its comments on the question whether there are any stock-secured loans which will not be "purpose" loans, aside from the three illustrations given in section 221.3(b)(1), the Clearing House quotes from a definition of the term "carrying" derived from court decisions handed down in other areas of law. The Board believes that lending officers should not be guided by definitions of this kind in determining what is, and what is not, a loan for the purpose of "carrying" a stock. Moreover, each case must be judged on its own merits.

Secondly, in an interpretation under section 221.3(q), the Clearing House explains that this new paragraph "would require loans to borrowers that re-lend bank credit for stock market purposes to comply with the regulation even though the loans are not secured by any stock." The Board believes that this language might, through brevity, prove misleading, and would suggest substituting wording along the following lines:

"We understand that this new paragraph would require loans to any borrower engaged either principally, or as one of the borrower's important activities, in relending bank credit for stock market purposes, to comply with the regulation. Compliance with the regulation means that any loan to such a borrower must be secured, and, whether or not the collateral for the loan includes any stock, the loan value assigned the collateral must conform to that provided by the Supplement to the regulation for any stock and the good faith loan value prescribed in §221.1(a) for any collateral other than stocks."

The final document attached to your letter is a form of purpose statement drafted by the Clearing House, to be filled out by borrowers from banks. The Board has not, in the past, promulgated any statement of purpose, nor has it formulated specific language for the questions a loan officer would undoubtedly want to have answered before accepting a borrower's statement in good faith. There is always a danger that any form used over a period of time will tend to become mechanical in application and to reduce the lending officer's awareness of the need to investigate all the circumstances. While the form proposed would without doubt supply much of the information a loan officer would need, it should be borne in mind that merely obtaining a borrower's statement, is not alone sufficient to discharge the lending officer's duty to inquire diligently into these circumstances.

Mr. Robert G. Rouse

Moreover, as you point out in your letter, the language relating to statements of purpose in section 221.3(a) refers only to loans under sections 221.1 and 221.2. There are certain transactions regulated under parts of 221.3 as to which there is no provision for reliance to any extent on a statement signed by a borrower, and where the bank must rely entirely on its own diligent inquiry.

A copy of this letter is enclosed for transmittal to the New York Clearing House Association.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 14
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959.

Mr. Frank J. Coyle, Vice President,
New York Stock Exchange,
11 Wall Street,
New York 5, New York.

Dear Mr. Coyle:

Your letter of June 9 points out certain differences in the withdrawals permitted on the covering of a short position and on the closing out of a long position under amended Regulation T. The Board is aware of these differences, as well as of the technical difficulties in arriving at a more equitable and operationally practicable solution. The withdrawal formula suggested in your letter, for example, would permit "shorts" covering a position at a loss to make substantially larger withdrawals than would be permitted "longs" closing out a transaction at a comparable loss. Moreover, it apparently would permit withdrawals that under certain conditions could increase the excess debit balance in a restricted account, thereby defeating the purpose of the Regulation.

Considering the technical problems involved, the Board does not think it advisable to adopt the changes suggested. The matter will continue under close study, however.

You are correct in stating that after June 15, 1959, a customer who purports to sell short a stock in which he holds a long position has the same withdrawal privileges accorded to sellers of any long position. Such a transaction, however, no longer has the characteristics of a short sale, and under the Regulation is to be treated in all respects as a long sale. No analogies can be drawn, therefore, between such a transaction and a short sale not involving a long position in the same security.

You also ask for an interpretation of Section 3(g) relative to customers who before June 15, 1959, have established long and short positions in the same stock. The Board does not think it practicable to provide exceptions to the effective date of the amendments for special situations of this kind.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 15
6/12/59



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1959

Mr. Eugene B. Crowe,
Apartment 808,
4166 Lindell Boulevard,
St. Louis 8, Missouri.

Dear Mr. Crowe:

This refers to your letter of June 8, 1959, to Governor Balderston, with further reference to the subject of previous correspondence regarding the Board's authority in connection with V-loans.

A member of the Board's staff will be in St. Louis in the near future and, as indicated in the Board's letter of May 19, he will make arrangements to meet with you at a convenient time in order to discuss the entire subject.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 16
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 12, 1959

CONFIDENTIAL (FR)

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the requests contained in your letters of June 9, 1959, the Board approves the appointment of Robert L. Cummings and William C. Smith as assistant examiners for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Smith is indebted to The Merchants and Farmers Bank, Smithfield, Virginia, a State member bank, in the amount of \$578 and The First National Bank of Ashland, Ashland, Virginia, in the amount of \$105. Accordingly, the Board's approval is given with the understanding that he will not participate in any examinations of the banks to which indebted until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 17
6/12/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 11, 1959

CONFIDENTIAL (FR)

Mr. Eliot J. Swan, First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

Reference is made to your letter of June 5, 1959,
with further reference to your letter of May 22, 1959, re-
questing the approval of the appointment of William J. Zunkel
as an assistant examiner for the Federal Reserve Bank of
San Francisco.

It is noted that Mr. Zunkel now reports that on
May 19, 1959, he obtained a loan in the amount of \$500 from
Palo Alto County State Bank, Emmetsburg, Iowa, a nonmember
bank, maturing May 19, 1960, in order to cover expenses in
connection with his trip to Iowa to visit his family and to
assist in defraying living expenses while establishing resi-
dence in California. It is noted also that Mr. Zunkel's
father is president of the Emmetsburg bank.

In the circumstances, it is assumed that, in
addition to the understanding stated in the Board's letter of
May 29 that he will not participate in any examination of any
bank or other organization in the Brenton Companies group so
long as he is a stockholder in that organization, he will not
be permitted to participate in any examination of the Emmetsburg
bank until his indebtedness is liquidated or so long as his
father is an officer of that institution.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.