

Minutes for August 5, 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>M</u>	<u>MM</u>
Gov. Szymczak	<u>_____</u>	x <u>MS</u>
Gov. Mills	<u>_____</u>	x <u>MS</u>
Gov. Robertson	x <u>R</u>	<u>_____</u>
Gov. Balderston	x <u>CCB</u>	<u>_____</u>
Gov. Shepardson	<u>_____</u>	x <u>MS</u>
Gov. King	x <u>MS</u>	<u>_____</u>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, August 5, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Legislative Counsel
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations

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 Federal Reserve Bank of Boston regarding the proposed relocation of the Cherryfield branch of Union Trust Company of Ellsworth, Ellsworth, Maine.	1
Letter to the Savannah Bank & Trust Company of Savannah, Savannah, Georgia, approving the establishment of a branch on Waters Avenue.	2
Letter to The Farmers & Merchants State Bank, Logansport, Indiana, approving the establishment of a branch in the Eastgate Plaza Shopping Center.	3
Letter to Bankers Trust Company, Des Moines, Iowa, approving an extension of time within which to establish a branch in Windsor Heights.	4

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	<u>Item No.</u>
Letter to The Citizens National Bank of Greenville, Greenville, Texas, approving its application for fiduciary powers.	5
Letter to the Roswell State Bank, Roswell, New Mexico, approving the establishment of two in-town branches.	6
Letter to the Federal Reserve Bank of San Francisco regarding substitutions of collateral under Regulation U.	7
Letter to Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, approving an extension of time within which to establish a branch at West Capital Street and Ellis Avenue.	8

Eligibility to serve as Class B director. A representative of the Federal Reserve Bank of Richmond had raised informally with the Board's Legal Division the question whether service as a member of the board of governors of West Virginia University would make an individual ineligible for election as a Class B director in view of the Board's 1915 resolution against the holding of public or political office by Reserve Bank directors.

There had been distributed to the members of the Board copies of a memorandum from Mr. Walter Young dated August 4, 1959, which pointed out that the West Virginia Code provides for a board of governors of West Virginia University consisting of nine members, appointed by the Governor by and with the advice and consent of the State Senate. No more than five members of the board may belong to the same political party, and no person shall be eligible for membership who is a member of any political party executive committee, or who holds any other public office or public

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employment under the Federal Government or under the Government of the State or any of its political subdivisions. Members serve for terms of nine years without compensation except for actual expenses. Mr. Young's memorandum expressed the view that service by a Reserve Bank director as a member of the board of governors of the University would not fall within the general intent and spirit of the Board's 1915 resolution.

Following a brief discussion, unanimous agreement was expressed with the position taken in Mr. Young's memorandum, and it was understood that the Federal Reserve Bank of Richmond would be advised informally to such effect.

At this point Mr. Noyes, Adviser, Division of Research and Statistics, entered the room.

Letter from Congressman Patman. On July 24, 1959, there was sent to Congressman Patman, with a transmittal letter signed by Chairman Martin, a memorandum containing replies to a number of questions with respect to bank reserves. In a letter dated July 25, Mr. Patman stated that the memorandum was not entirely responsive to his questions and that he would like further information. A draft of possible reply had been distributed to the Board prior to this meeting.

Following a discussion during which several suggestions were made regarding the tone and content of the proposed reply, it was understood that a revised draft of letter would be prepared for the Board's consideration.

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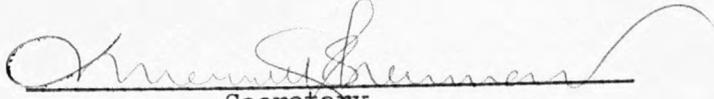
Messrs. Farrell, Molony, and Shay then withdrew and Miss Hart, Assistant Counsel, entered the room.

Interpretation of "carrying" (Item No. 9). There had been distributed to the Board copies of a memorandum from Miss Hart dated August 3, 1959, submitting a suggested interpretation that had been prepared with a view to resolving practical difficulties met by banks in applying section 221.3(b)(1) of Regulation U. It was contemplated that the draft would be sent to the Federal Reserve Banks for comments and suggestions prior to formal action on the part of the Board, whereafter the interpretative material would be distributed to the Reserve Banks in final form and published in the Federal Register and the Federal Reserve Bulletin.

Inasmuch as a number of the Reserve Banks had suggested an urgent need for clarification such as would be contained in the interpretation, it was proposed by the Legal Division to ask the Banks to submit their comments not later than August 10, 1959. Another reason for this timing was that it might be possible to include the interpretation in the August issue of the Federal Reserve Bulletin.

After discussion, it was agreed to request comments not later than Tuesday, August 11, and to put the Reserve Banks on notice, by telegram sent today, that the draft material was being sent to them by airmail. A copy of the letter sent to the Reserve Banks pursuant to this action is attached as Item No. 9.

The meeting then adjourned.


Secretary

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

Item No. 1
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.

Mr. Benjamin F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

Reference is made to your letter of July 28, 1959, with respect to the proposed relocation of the Cherryfield branch of Union Trust Company of Ellsworth, Ellsworth, Maine, to a new site about one-half mile north, where it will serve the same general trade area.

From the information submitted, it appears that the proposed change would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served. Under the circumstances, formal approval of the Board is unnecessary.

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
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.

Board of Directors,
Savannah Bank & Trust Company
of Savannah,
Savannah, Georgia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch on Waters Avenue between 63rd and 65th Streets in the Medical Arts Shopping Center, Savannah, Georgia, by Savannah Bank & Trust Company of Savannah, provided the branch is established within six months 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. 3
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.



Board of Directors,
The Farmers & Merchants
State Bank,
Logansport, 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 in the Eastgate Plaza Shopping Center, Logansport, Indiana, by The Farmers & Merchants State Bank, provided the branch is established within six months 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. 4
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.

Board of Directors,
Bankers Trust Company,
Des Moines, Iowa.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System extends the time within which Bankers Trust Company may establish a branch in the incorporated town of Windsor Heights, Iowa, to September 1, 1959, under the authorization contained in the Board's letter dated February 11, 1959.

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
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.

Board of Directors,
The Citizens National Bank
of Greenville,
Greenville, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The Citizens National Bank of Greenville 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 Texas. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded 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. 6
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.

Board of Directors,
Roswell State Bank,
Roswell, New Mexico.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Union Avenue and West Second Street and a branch in the vicinity of the intersection of South Main Avenue and U. S. Highway 285, both in Roswell, New Mexico, provided the branches are established within 12 months from the date of this letter.

It is understood that the capital funds of your bank are to be increased in an aggregate amount of not less than \$100,000 through the sale of shares for cash prior to establishment of the branches.

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
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.



Mr. A. B. Merritt, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Merritt:

This is in reference to your letter of July 20, 1959, which asks whether the exception to the retention requirement imposed by the Board's recent amendments to its Regulation U is available where a customer attempts to substitute collateral by means of a same-day purchase and sale, but for one reason or another, either because one of the stocks was not traded on the day selected, or because of the difference in time between San Francisco, where one transaction was carried out, and New York, where the other was attempted to be made, both transactions could not be effected on the same day.

Your Bank is quite correct in advising borrowers that the exception in question must be limited to cases where both the purchase and the sale are actually executed on the same day. The Board has interpreted similar provisions in the past in the same way. In addition, any other rule would be difficult for both borrower and bank to apply. A general purpose of the recent amendments was to diminish excessive use of credit for purchasing and carrying registered stocks by requiring that the status of undermargined accounts should gradually be improved as transactions are carried out in the account. The exception to this rule was intended to be a limited one, and should be strictly applied.

It should be noted that to be "executed", an order must have reached the stage where the broker or dealer has made an actual, firm agreement with a seller or purchaser, to buy or sell, as the case may be, such as a contract made on the floor of the exchange. It is not sufficient that the bank, broker or dealer shall have received the stock with an order to buy or sell, even though that order be irrevocable.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.

Board of Directors,
Deposit Guaranty Bank & Trust Company,
Jackson, Mississippi.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System extends the time within which Deposit Guaranty Bank & Trust Company may establish a branch at the intersection of West Capital Street and Ellis Avenue, Jackson, Mississippi, to December 31, 1959, under the authorization contained in the Board's letter of March 30, 1959.

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
8/5/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 5, 1959.



Dear Sir:

Enclosed are several copies of the draft of a proposed interpretation, referred to in a telegram sent to you today, intended to clarify the application of section 221.3(b)(1) of Regulation U, as amended effective June 15, 1959, which section deals with the question of determining when a loan by a bank is for the purpose of "carrying" registered stock. The Board would be glad to have any comments that you may wish to make regarding this draft.

Since a number of requests have been received for a comprehensive interpretation under this section, it is desired to issue the interpretation at the earliest possible date. If it is practicable for you to do so, the Board will appreciate your having the comments of your Bank sent to reach the Board's offices by the close of business on Tuesday, August 11.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS