

Minutes for July 28, 1960


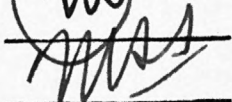
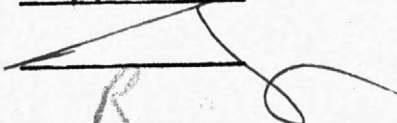

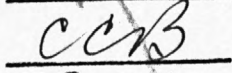
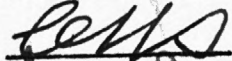
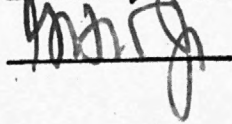
To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
 on Thursday, July 28, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Chase, Assistant General Counsel
 Mr. Nelson, Assistant Director, Division of Examinations
 Mr. Benner, Assistant Director, Division of Examinations
 Mr. Smith, Assistant Director, Division of Examinations
 Mrs. Semia, Technical Assistant, Office of the Secretary
 Mr. Hooff, Assistant Counsel
 Mr. Smith, Legal Assistant

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>
Telegram to the Federal Reserve Agent at Boston authorizing the issuance of a general voting permit to New Hampshire Bankshares, Inc., Nashua, New Hampshire, covering stock in The Peoples National Bank of Claremont, Claremont, New Hampshire.	1
Letter to The Chase Manhattan Bank, New York City, approving an extension of time to relocate its branch located at 325 Spring Street to a new location at 345 Hudson Street.	2

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	<u>Item No.</u>
Letter to The National Bank of Cambridge, Cambridge, Maryland, approving its application for a specific fiduciary power.	3
Letter to the Greenfield State Bank, Bakersfield, California, approving an extension of time to establish a branch in East Bakersfield.	4
Letter to Patterson, Crawford, Arensberg & Dunn, Pittsburgh, Pennsylvania, regarding a proposal to merge the common trust funds established and maintained by Fidelity Trust Company and Peoples First National Bank & Trust Company, both of Pittsburgh, prior to their consolidation.	5
Letter to the Presidents of all Federal Reserve Banks transmitting revised pages of the report of examination, Form FR 410. (Approved with the understanding that the letter would be sent when the pages were printed.)	6

Extension of time to establish branch (Item No. 7). On July 21, 1960, the Board considered a request from the Roswell State Bank, Roswell, New Mexico, for an extension of time in which to establish an in-town branch. It was the feeling of the Board at that time that if the extension was to be granted, a letter should be obtained from the bank indicating that it intended to take steps promptly to establish the proposed branch. The Federal Reserve Bank of Dallas was requested to obtain such a letter.

The Dallas Reserve Bank had now transmitted a letter from the President of Roswell State Bank asserting that a lease was being drawn for the branch premises, that the owner of a shopping center would construct the building, and that it might take nine months to complete the construction.

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The letter also stated that the bank fully intended to go ahead immediately with the lease and construction of the building. In view of the time required for construction, an extension of one year in which to establish the branch was requested.

Governor Robertson said it appeared that all the applicant bank had available at present was a blueprint for an addition to the shopping center. No contract had been signed or financing arranged. In the circumstances of this case, including the fact that the supplemental letter had been obtained, he felt that probably the requested extension of time should be granted. However, he thought that the Board should adhere to a policy of disapproving applications to establish branches in proposed shopping centers unless contracts had been signed and financing arranged for the shopping center, leaving only the construction of the quarters intended to house the branch.

Governor Shepardson commented in terms that the Roswell State Bank had at first admitted, in effect, that its request to establish the branch was a holding operation, and he could not see that in its most recent letter the bank had proved that its arrangements did not constitute a holding operation even now. However, he did not know that there was any significant competitive factor involved, and in the absence of such a problem he did not think the case was important enough to justify making an issue of it.

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The Board then approved unanimously the proposed letter, submitted by the Division of Examinations at the time the Board previously considered the matter, granting the requested extension of time to the Roswell State Bank for the establishment of its branch. A copy of the letter is attached as Item No. 7.

"Dealers' reserve" or "differential" accounts (Item No. 8). With a letter to the Federal Reserve Banks dated February 23, 1960, (S-1731), the Board transmitted an interpretation relating to the question whether certain "differential" or "dealers' reserve" accounts are deposits against which reserves must be carried under Regulation D, Payment of Interest on Deposits. This interpretation was published in the Federal Reserve Bulletin and the Federal Register. Subsequently, it developed from correspondence with the Federal Reserve Bank of Dallas and staff discussion with the Philadelphia Reserve Bank that this interpretation, which supplemented a ruling published in 1942, apparently left one minor point unanswered. This matter was discussed in a memorandum from Mr. Chase dated July 20, 1960, which had been circulated to the Board. The memorandum submitted an additional supplemental ruling on the point in question.

Agreement being expressed with the proposed supplemental ruling, it was understood that the ruling would be sent to the Reserve Banks and published in the Federal Reserve Bulletin and the Federal Register. The text of the ruling is attached as Item No. 8.

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Mr. Chase withdrew from the meeting at this point.

Proposal of Department of Justice regarding merger act procedures.

A memorandum dated July 20, 1960, from the Division of Examinations had been distributed in connection with a letter received from the Department of Justice under date of June 30, 1960, transmitting copies of reports on competitive factors submitted by that Department to the Comptroller of the Currency and the Federal Deposit Insurance Corporation under the recent bank merger legislation and in effect making the following requests:

1. That the Board send the Department of Justice copies of the Board's reports on competitive factors after expiration of the 30-day reporting period in order that the Department "may benefit from the Board's experience and knowledge in this field";
2. That the Board send the Department of Justice copies of the Board's opinions or approvals of bank merger applications "at the same time the banks are informed of the Board's action"; and
3. That the Department of Justice "receive notice five days before the date on which the banks are permitted to merge."

Attached to the memorandum was a draft of reply to the Department of Justice that would accede to the second request but deny the first and third requests. It was understood that the Comptroller of the Currency and the Federal Deposit Insurance Corporation, having received similar requests from the Department, had decided to decline only the third request, although the Corporation, at least, would defer sending copies of its reports until after the agency with jurisdiction had acted.

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Mr. Solomon stated that neither of the other agencies was enthusiastic about sending the reports, but they did not think they could make a strong case against sending them. The draft of letter submitted to the Board, Mr. Solomon stated, tried to make a strong case for refusal, but he was doubtful that it did so. He suggested that the letter might be revised to indicate that the Board doubted the desirability of sending the reports but would supply any report that was of special interest to the Department of Justice.

Mr. Hexter suggested that since Justice had volunteered to furnish the Board copies of the reports it had submitted to the other bank supervisory agencies, a refusal to reciprocate might be taken as unwillingness to cooperate in a joint effort aimed at uniform standards. Although the reports received from Justice might not be particularly useful, he thought that there would be something lost and little gained by refusing to comply with the request.

As to the request for five-day deferment, Mr. Hexter said it occurred to him that there might be exceptional cases in which a delay could be justified. For example, if the Department of Justice informed the particular banking agency concerned that it contemplated instituting a Sherman Act proceeding in a specific case if the merger were approved, and wanted a few days to prepare for it, there might be justification for deferral.

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Mr. Solomon expressed the view that in a situation where the Justice Department indicated in its report to the Board on a particular case that it contemplated a Sherman Act proceeding, it seemed unlikely that the Board would refuse to consider a request for deferral.

Mr. Hexter suggested that the letter might take the position that deferment would not be appropriate as a regular procedure, but that Justice might be told orally that the Board would be receptive to a request for deferral in special circumstances.

Governor Mills expressed the view that the position taken in the proposed reply to the Department of Justice was substantially correct. He thought the Board must be cautious about its reply because it would put the Board in an almost irrevocable position. The Department of Justice has access to information about prospective bank mergers, he pointed out, and it is free to accumulate information for any action it may choose to take. Therefore, he was apprehensive about extending the theory of cooperation to a point where, with the passage of time, the bank supervisory agencies would be left as subordinate entities in the field of bank mergers and the Department of Justice would be raised to a position of having the final decision through deference on the part of the supervisory agencies.

Governor Mills expressed his belief that if the Board relaxed the position that was taken in the draft reply, in a sense it would be leaving the last word to the Department of Justice. The principal objection

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to doing that, aside from the fact that administration of the bank merger legislation is a responsibility of each bank supervisory agency, would be that such a position would seem to conflict with the interpretation of the legislation furnished by the Legal Division in a memorandum dated May 16, 1960. If the staff and the members of the Board had not reviewed the current proposals in the light of that memorandum, he urged that this be done in order that any position taken would be consonant with the Board's mandatory duties under the statute. If the other agencies chose to take a weaker position than the Board's, that was within their discretion and need not be taken as guidance for the Board's action.

In response to a question, Governor Mills said he would reject the deferment request. He later indicated, by way of clarifying his position further, that he would have no objection to complying with the request of Justice for advice of actions that had been taken by the Board on applications under the bank merger legislation.

Governor Robertson, who had been called from the meeting during Governor Mills' remarks, returned at this point. He said that the Comptroller had called him earlier this morning and had indicated that he would hold his reply to the Department of Justice until the Board reached its decision. The Federal Deposit Insurance Corporation, however, could not see any basis to object to an exchange of reports after the responsible agency had acted, and it had made a reply to Justice. Governor Robertson's own view was that,

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simply because of the time and effort involved, the Board should not enter into an exchange. However, if Justice wanted reports in specific cases he saw no harm in furnishing them. In his view, the Board ought not adopt a general policy of deferring the effective date of an approved merger to provide notice to Justice, but cases might arise that would call for a deviation from that position.

Governor Balderston stated that he would like to see the three supervisory agencies take a harmonious position in their replies to Justice. He saw no defensible way of declining to comply with the first and second requests. Even though the Board did not want to be bothered with the paper work, the Department of Justice had requested an exchange of reports, and he did not see how the Board could decline such a request. However, he thought there was justification for declining the third request for the fundamental reason that compliance would impinge on the Board's rights and responsibilities under the statute.

Governor Robertson pointed out that the proposed letter would not say the Board declined to send the reports. The letter would say that the Board doubted the desirability of exchanging them. To this statement he would suggest adding that the Board, in a desire to cooperate, would be glad to comply with requests for reports in particular cases.

Governor Mills suggested that action on the reply be deferred and that the Federal Deposit Insurance Corporation be asked if it would be

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willing to let the Board see a copy of its letter to the Department of Justice. Also, he urged a careful rereading of Mr. Hackley's memorandum of May 16, 1960, to which he had referred previously.

After further discussion of the wording of the proposed reply and the position the Board should take, it was agreed to consider the matter further next week, with the understanding that in the meantime arrangements would be made, if possible, to obtain copies of the letter sent by the Federal Deposit Insurance Corporation to the Department of Justice and the letter proposed to be sent by the Comptroller of the Currency.

Lost check problem (Item No. 9). At its meeting on July 20, 1960, the Board discussed a problem that had arisen in regard to the loss of a check for \$10,000 in transit from the Jacksonville Branch to the Broward National Bank, Fort Lauderdale, Florida. The drawer of the check, First Federal Savings and Loan Association of Broward County, Fort Lauderdale, was willing to issue a new check on condition that the payees, Mr. and Mrs. Christopher Harvey, supply a corporate indemnity bond against the possibility that the first check might be presented by a holder in due course and payment required. Subsequent to that discussion, a draft of letter had been prepared to Mrs. Russell Benner of Glen Mills, Pennsylvania, who originally wrote to Governor Balderston about the lost check problem on behalf of the Harveys.

Mr. Smith, of the Division of Examinations, explained that the proposed letter reflected a new approach to the matter on the basis of

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information obtained since the previous discussion. In the letter an effort was made to rationalize the occurrence, show a sympathetic interest, and provide information that might be of assistance in the event the Harveys wished to pursue the matter further with the issuer of the check. At the same time the letter would not obligate or commit the Board. Additional information obtained regarding the efforts that had been made by the parties involved to resolve the case pointed in the direction that trying to have the Atlanta Reserve Bank intervene probably would not be effective and might establish a precedent that would be inadvisable for the System.

After further discussion, the letter was approved unanimously.

A copy is attached as Item No. 9.

Mr. Smith, Legal Assistant, left the meeting at this point.

Merger of banks in Hyattsville and Upper Marlboro, Maryland. A memorandum dated July 20, 1960, from the Division of Examinations had been distributed in connection with a request from the Federal Deposit Insurance Corporation for a report on competitive factors involved in the proposed merger of Farmers and Merchants Bank, Upper Marlboro, into Suburban Trust Company, Hyattsville, Maryland. A draft of report was attached to the memorandum.

After a brief discussion, during which certain changes were suggested by Governor Mills with a view to strengthening the conclusion,

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the report was approved unanimously. The conclusion in the report, as approved, read as follows:

The two banks involved in the proposed transaction do not appear to be competitive with each other. The two-county area has a number of sizable banks that compete with each of the two banks separately. It is indicated that the proposed transaction would have no adverse effect on the total competition of financial institutions operating in the area, and would, in fact, increase competition, but in doing so the competitive strength of Suburban as the leading institution in the commercial banking sector would be increased.

Mr. Hooff withdrew at this point, and Mr. Horbett, Special Consultant, Division of Bank Operations, joined the meeting.

Use of registered mail (Item No. 10). In a letter dated July 21, 1960, Mr. James F. Doherty, Chairman, Interdepartmental Committee on Internal Security, noted that Executive Order 10501 provides in part that Secret or Confidential material may be transmitted outside the continental limits of the United States by United States Post Office registered mail, through Army, Navy, or Air Force postal facilities, provided the material does not at any time pass out of United States Government control and does not pass through a foreign postal system. However, the Post Office had advised that there were occasional instances in which the Department could not guarantee that registered mail would be transmitted outside the continental limits of the United States by United States carriers. To meet the requirements of the Executive Order, the Department could issue instructions that all registered

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mail of Government departments and agencies, including that containing unclassified material, be segregated and dispatched only by United States carriers, but this might result in delay in some cases. Mr. Doherty's letter asked if the Board used registered mail for transmission of classified material to points outside the continental United States, and if the Board would have any objection to the adoption of the proposed procedure. A draft of reply to Mr. Doherty's letter had been distributed.

After a brief discussion the proposed reply, a copy of which is attached as Item No. 10, was approved unanimously.

Salary for officer of Richmond Reserve Bank (Item No. 11). A memorandum dated July 26, 1960, from the Division of Personnel Administration had been distributed in connection with a request from the Federal Reserve Bank of Richmond for approval of the payment of salary, at the rate fixed by the board of directors, to Mr. William H. Gentry, Jr., as Assistant Cashier. The Division recommended approval of the proposed salary and a draft of letter reflecting that recommendation was attached to the memorandum.

The letter, a copy of which is attached to these minutes as Item No. 11, was approved unanimously.

Salary for officer of Cleveland Reserve Bank (Item No. 12). A memorandum dated July 27, 1960, from the Division of Personnel Administration had been distributed in connection with a request of the Federal Reserve Bank of Cleveland for approval of the payment of salary, at the rate fixed

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by the board of directors, to Mr. Elfer B. Miller as General Auditor of the Bank. The Division recommended approval of the proposed salary, and a letter reflecting that recommendation was attached to the memorandum.

The letter, a copy of which is attached as Item No. 12, was approved unanimously.

At this point Mr. Daniels, Assistant Director, Division of Bank Operations, entered the meeting and Mr. Nelson withdrew.

Question from Hardy Subcommittee (Item No. 13). Mr. Sherman referred to the question regarding the advisability of a single issue of Federal Reserve notes that was among the questions submitted to the Board by the Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations. In this connection, he asked whether the Board desired that the draft of the reply that had been prepared be sent to the Presidents of the Federal Reserve Banks and to the Treasury for comment.

After discussion of the matter from the standpoint of the amount of time that it would seem appropriate to provide for the receipt of comments, it was agreed to send copies of the draft reply to the Reserve Banks with an indication that it would be helpful if their replies could be received by August 15. This, it was noted, would permit discussion when the Presidents were in Washington on August 16 if their comments suggested the desirability

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of such a procedure. It was also agreed to send a copy of the draft reply to the Under Secretary of the Treasury.

A copy of the letter sent to the Reserve Banks pursuant to this understanding is attached as Item No. 13.

Messrs. Smith, Daniels, and Horbett then withdrew.

Pan American Bank. Governor Robertson said he had been called from the meeting earlier to receive a telephone call from Mr. Bryan, President of the Federal Reserve Bank of Atlanta, who reported having been advised that the Miami newspapers carried yesterday a story to the effect that the Court had rendered a judgment against James Sottile, Jr., Chairman of the Executive Committee of the Pan American Bank of Miami, and against Sottile, Inc., in connection with a suit brought by other shareholders on charges relating to management practices. Foreseeing possible repercussions as the result of this publicity, Mr. Bryan felt that the bank might need to borrow substantially from the Reserve Bank. It was understood that the bank had relatively few Government securities on which to borrow, which raised the question as to what position should be taken if the bank sought to discount paper.

Governor Robertson said he had expressed to Mr. Bryan the view that the Reserve Bank would have to stand behind the Pan American Bank in an extreme situation and discount paper as necessary. Mr. Bryan indicated that the Atlanta Bank would have in mind making the resignation of Mr. Sottile

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as an officer and director a condition of such borrowing, and Governor Robertson said he replied in terms that, as far as he was concerned, it would be appropriate for the Reserve Bank to impose such a condition in its discretion. Governor Robertson said he told Mr. Bryan he would report the conversation to the Board and advise him if any different views were expressed.

No difference of opinion with the views expressed to Mr. Bryan by Governor Robertson was indicated by the other members of the Board. In this connection, however, Governor Mills suggested that this would constitute a stop-gap procedure in a rapidly deteriorating situation. As he saw it, the problem was moving directly toward the Federal Deposit Insurance Corporation. He felt that steps should be taken to sell the bank to the strongest available purchaser, perhaps another bank in the area, and that the Federal Deposit Insurance Corporation should guarantee on some basis any losses that might arise from the transfer of assets.

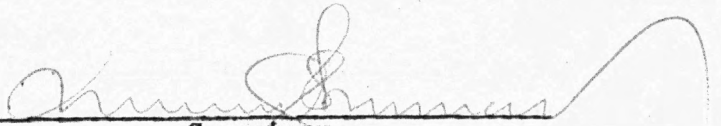
Governor Robertson commented that negotiations were under way with three different groups in an effort to find a buyer for all of the Sottile banks. He also said that the Federal Deposit Insurance Corporation had been kept fully informed of developments, and in this connection he requested Mr. Benner to advise the Corporation of the telephone conversation with Mr. Bryan this morning. Governor Robertson said he had expressed to Mr. Bryan the view that the Reserve Bank should bring to bear whatever pressure it could to expedite the sale of the banks.

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There ensued further discussion of the problems of the Pan American Bank, following which the meeting adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 14) approving the appointment of Patrick J. Moloney as assistant examiner.



Secretary

TELEGRAM
LEASED WIRE SERVICEItem No. 1
7/28/60**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

July 28, 1960

SPRAGUE - BOSTON

KEBJE

- A. New Hampshire Bankshares, Inc., Nashua, New Hampshire.
- B. The Peoples National Bank of Claremont, Claremont, New Hampshire.
- C. Prior to the issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

(Signed) Merritt Sherman
SHERMAN

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 2
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960



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 of the Federal Reserve System extends to December 30, 1960, the time within which The Chase Manhattan Bank, New York, New York, may relocate its branch now located at 325 Spring Street to a new location at 345 Hudson Street, New York, New York.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

2864

Item No. 3
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960

Board of Directors,
The National Bank of Cambridge,
Cambridge, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for a specific fiduciary power and grants The National Bank of Cambridge authority to act, when not in contravention of State or local law, as trustee for the Municipal Utilities Commission of Cambridge, Dorchester County, Maryland. The exercise of such right 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 certificate covering such authorization is enclosed.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 4
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960



Board of Directors,
Greenfield State Bank,
Bakersfield, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System extends until April 1, 1961, the time within which Greenfield State Bank may establish a branch in East Bakersfield, California.

It is understood that the branch will be established at 246 Bernard Street rather than on Baker Street in the vicinity of either Kentucky or Lake Streets, as authorized in the Board's letter of June 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. 5
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960



Patterson, Crawford, Arensberg & Dunn,
First National Bank Building,
Pittsburgh 22, Pennsylvania.

Gentlemen:

Reference is made to your letter of July 5, 1960, relative to a proposal to merge the Common Trust Funds established and maintained, under the provisions of Section 17(c), Regulation F of the Board of Governors, by Fidelity Trust Company and Peoples First National Bank & Trust Company, both of Pittsburgh, Pennsylvania, prior to their consolidation effective September 11, 1959. You state that since the consolidation of these banks to form Pittsburgh National Bank, each of the two Common Trust Funds in question has been operated as a separate Fund. Also, it appears that the purpose of each of these Funds is identical inasmuch as the terms of the written Plans establishing them restrict investments to legal investments under the laws of the Commonwealth of Pennsylvania. You further state that, in order to eliminate the expense and duplication of effort incident to the separate operation of these Funds, the national bank is contemplating their merger and combination into a single Fund under a new Plan to be known as "Common Trust Fund--Legal Investments" of Pittsburgh National Bank. You wish to learn whether the Board of Governors will interpose any objection to the proposed merger of these Common Trust Funds.

It is noted that the present Plans will be appropriately amended to authorize the termination of the existing Funds and their merger under a new Plan; that counsel for the Bank will review the provisions of the new Plan and all actions taken or required in connection with the proposed merger, and will render an opinion as to their legality; that a ruling has been obtained from the Internal Revenue Service favorable to the proposed merger of the two Funds; that the bank will give advance notice of the proposed merger of the two Funds to all persons entitled to the audit reports of the respective Funds, and that any participating trust in which co-fiduciaries and/or beneficiaries register objections to the merger will be withdrawn prior to its consummation. It is also observed that all transactions relating to the proposed

Patterson, Crawford, Arensberg & Dunn -2-

merger, including the valuation of the assets and participations in the Funds, will be supervised and audited by an independent accounting firm, and that all necessary actions will be taken to insure equitable treatment of all participants of both Common Trust Funds at the time of their proposed merger.

With regard to the investments of the merged Funds it is noted that a review will be made to ascertain that all the investments so held will conform to the limitations of Section 17(c)(5), Regulation F, and of the applicable provisions of Pennsylvania law, and that no investments will be held at the completion of the merger transaction in which any of the then participating trusts could not lawfully be invested. Upon consummation of the transaction, it is observed that participants in each of the present Funds will hold interests in the new Fund equal in value to the market value of their interests in the old Funds at that time, and that there will be no distribution of cash or securities to any participant in the new Fund except for small amounts necessary to eliminate fractional units. It is further noted that the net income of both present Funds will be determined and distributed as of the effective date of their merger.

Although it is not mentioned in your letter, we assume that, in proposing to establish and maintain the merged Fund under a new Plan in accordance with the applicable provisions of Regulation F and Pennsylvania law, the national bank will obtain any necessary approval of State authorities or, at least, an indication that such authorities will interpose no objection. It is further assumed that all costs incurred for legal or auditing fees in connection with the contemplated merger transaction will be borne by the national bank.

Based upon the information furnished by you on behalf of Pittsburgh National Bank relative to actions contemplated for the proposed merger of its two Common Trust Funds, and provided that our assumptions with respect to it are correct, such merger would not appear to involve any conflict with the provisions of Section 17, Regulation F and, in the circumstances, the Board would have no objection to the merger of these two Common Trust Funds in the manner described.

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
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



Dear Sir:

Enclosed are two copies of revised pages of the report of examination, form FR 410, which the Board has approved for use effective upon receipt. A supply of the new forms sufficient to provide for examinations during the next several months is being forwarded to the Vice President in Charge of Examinations. Additional copies may be obtained upon request.

Also enclosed is a memorandum with respect to certain details of the pages as revised. It will be noted that the memorandum also includes comments regarding other pages of the report which are not being revised at this time. The purpose of the inclusion of these comments is to consolidate previously offered suggestions regarding the report form which currently appear at #3614 of the Federal Reserve Loose-Leaf Service. The enclosed memorandum, therefore, supersedes the following Board letters: S-112 and Enclosure, dated August 24, 1938; S-1120 and Enclosure, dated August 31, 1949; S-1664, dated August 11, 1958; S-1708, dated September 3, 1959.

The superseded letters, S-112 and S-1120, contained certain technical instructions regarding the physical form of various report pages which have not been included in the enclosed instructional memorandum. It is believed that the Reserve Banks are familiar with these omitted portions and there appears to be no reason to maintain these matters as a part of the Loose-Leaf Service. Please note, however, that the Board's views outlined in S-1664 and S-1708 have not been altered in the supersedure of the two letters, but have only been restated in the enclosed consolidated instructions.

It has been observed in reports of examination that variations exist in the manner in which pages 12 and 12-X are being utilized. For this reason, you will note that the enclosed memorandum includes comments regarding the manner in which these pages should be completed.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO FRASER
TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
for stlouisfed.org

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

Item No. 7
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960

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 extends to August 5, 1961, the time within which Roswell State Bank, Roswell, New Mexico, under the authority granted in the Board's letter of August 5, 1959, may establish a branch in the vicinity of the intersection of Union Avenue and West Second Street, Roswell, New Mexico.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

In the 1942 Federal Reserve Bulletin, page 302, the Board stated four conclusions for determining whether so-called "dealers' reserve" or "differential" accounts are deposits against which reserves are required under Regulation D. Subsequently, in the March 1960 Federal Reserve Bulletin, page 265, the Board published a clarification of these principles. These conclusions are as follows:

"1. If the purchase price of the paper is credited to the dealer's account, the resulting credit obviously is a deposit against which reserves must be maintained.

"2. The uncollected difference between the purchase price and the face amount of the paper is in practical effect a potential margin of security and does not constitute a deposit against which reserves must be maintained.

"3. Where, however, an instalment payment has been received and a portion of such payment (say 90 per cent) has been credited against the purchase price and the remainder (say 10 per cent) has not been credited against the purchase price, the 90 per cent of the payment which has been applied against the purchase price does not constitute a deposit balance, but the remaining 10 per cent of the payment does constitute a deposit unless and until it is paid over to the dealer or applied against his indebtedness.

"4. Whenever the payments received on any paper purchased aggregate an amount in excess of the purchase price plus interest or discount, any such excess which is not paid over to the dealer or credited against his indebtedness likewise constitutes a deposit against which reserves must be maintained."

Recently the Board has received an inquiry concerning the interpretation to be accorded conclusion number 4 in a case in which the instalment paper is purchased for less than face value, the difference between the face value and the purchase price being recorded in a "differential" account. Under conclusion number 2, there is no question

that this "differential account" is not a deposit against which reserves are required prior to the time that instalment repayments are received.

When instalment repayments are received on the paper, the full amount is credited to the purchase price of the paper, no portion being credited to the differential account. A periodic review is made at specified dates and if the differential account exceeds a certain percentage of the outstanding balance due on all the paper, such excess is released to the dealer.

Since the full amount of the instalment payments is credited against the outstanding paper, and no portion is credited to the differential account, under conclusion number 3 the differential account remains merely a memorandum of the difference between the outstanding balance of the purchase price of the paper and the face amount thereof.

However, in the instant case, some of the instalment payments received would constitute final payments on individual instalment contracts. Consequently, part of the instalment payments would represent the excess of the face value of an individual contract over the purchase price. The question presented is whether such payments, which represent the excess of the face amount of the individual contract over the purchase price, must be treated as deposits against which reserves must be maintained, since conclusion number 4 states that "Whenever the payments received . . . aggregate an amount in excess of the purchase price . . . such excess which is not paid over to the dealer . . . constitutes a deposit against which reserves must be maintained."

-3-

The payments should not be treated as deposits. Conclusion number 4 has reference to the situation where the aggregate instalment payments received exceed the aggregate purchase price of all the paper purchased in the account.

Therefore, in the present situation, conclusion number 4 is not applicable even though part of the aggregate payments received may represent the excess of the face amount over the purchase price of an individual instalment contract. Conclusion number 4 would be applicable only where the aggregate of payments received exceed the purchase price of the aggregate paper held in the account.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
7/28/60

OFFICE OF THE VICE CHAIRMAN

July 28, 1960



Mrs. Russell Benner,
Box 140 Skyline Drive,
Glen Mills, Pennsylvania.

Dear Mrs. Benner:

As a result of our inquiries as to the facts and related aspects of the disappearance of the check negotiated by Mr. and Mrs. Harvey, I am in a position to write you more fully concerning this matter.

Although you are familiar with the facts, it may be useful to review them briefly. It appears that the check in question, in the amount of \$10,000, was given by the Harveys to Brown Brothers Harriman and Company in payment of a sterling draft. Brown Brothers Harriman and Company deposited the check with the Philadelphia National Bank for collection. Following the usual processes for collecting such items through banking channels, the Philadelphia National Bank forwarded the check to the Jacksonville Branch of the Federal Reserve Bank of Atlanta. The records of the Jacksonville Branch show that the check was received by it on March 4 and in turn sent to the Broward National Bank, Fort Lauderdale, Florida, the bank on which the item was drawn, for payment. Not having received payment in due course, the Jacksonville Branch made inquiry and was advised by the Broward National Bank that the latter bank had no record of having received the check. Whether it was lost in postal channels or elsewhere, there is no way of determining with certainty. We are satisfied from our own investigations, however, that all reasonable efforts have been pursued in an endeavor to find the missing check.

In receiving items of this kind for collection, the collecting banks act only as agents and will assume no liability except for their own negligence and their guarantee of prior endorsements. When one considers the enormous number of checks handled through the banking system each year and the billions of dollars they represent, it can be readily understood that the banks could not do otherwise, because were they to assume responsibility for lost items, the resulting insurance and other costs would place a heavy burden on those wishing to avail themselves of banking facilities.

Mrs. Russell Benner

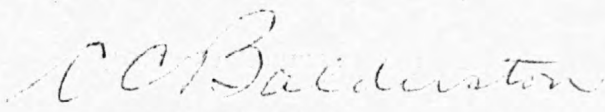
In the present instance there has been no showing of negligence on the part of any of the banks in the collection chain; hence, the replacement of the lost check is a matter between the drawer of the check and the payees, even though none of these parties was at fault. It is our understanding that the First Federal Savings and Loan Association of Broward County, Fort Lauderdale, Florida, the drawer of the check, will not issue a duplicate until it is furnished with a corporate indemnity bond. This position on the part of the savings and loan association undoubtedly reflects a policy that has been adopted by the association out of a sense of obligation to its corporate responsibilities, and is not unusual in situations of this sort.

We have been advised that a corporate indemnity bond may be obtained for a fee computed at the rate of 1-1/2 per cent (\$15.00) per thousand.

To be of possible assistance in the event you wish to request the drawer of the check to re-assess the situation, we are enclosing facsimiles of the endorsements that are normally used by the various organizations that handled the item in question for collection. Since there is no reason for supposing that the Harveys' check was treated any differently than by the usual procedures, there is strong presumption that these endorsements were placed on the document before it was lost. In view of these restrictive endorsements, as well as the length of time that the item has been outstanding without presentation for payment, it may be that the First Federal Savings and Loan Association, upon reconsideration, will be willing either to waive the requirement for the corporate indemnity bond or to accept a bond in a face amount not greater than the amount of the lost check.

I am extremely sorry that Mr. and Mrs. Harvey should have been inconvenienced and perhaps put to expense by the comparatively rare experience of having a check lost while in the collection process, and hope that the information provided in this letter may be of some assistance.

Sincerely yours,



C. Canby Balderston,
Vice Chairman.

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

Item No. 10
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960



Mr. John F. Doherty,
Chairman,
Interdepartmental Committee on
Internal Security,
Washington 25, D. C.

Reference: ICIS--P17/469

Dear Mr. Doherty:

This refers to your letter of July 21, 1960, addressed to Chairman Martin regarding the use of registered mail for the transmission of classified documents to Alaska, Hawaii, and United States territories and possessions, or to any other points outside the continental limits of the United States.

Almost no registered mail of any sort is sent by the Board to points outside the continental United States. So far as can be determined, no classified documents have been dispatched by this Board in this manner.

Your letter also asks whether the Board would object to adoption of a procedure requiring that registered mail of Government departments and agencies be segregated and dispatched only by United States carrier. Since such a procedure would rarely, if ever, result in undue delay in transmission of Board registered mail, the Board would not object to its adoption, if it is considered essential as a matter of internal security.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 11
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960



CONFIDENTIAL (FR)

Mr. Alonzo G. Decker, Jr.,
Chairman of the Board,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Richmond, for the period August 1 through December 31, 1960, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of July 14, 1960:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
William H. Gentry, Jr.	Assistant Cashier	\$10,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 12
7/28/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960

CONFIDENTIAL (FR)

Mr. W. D. Fulton, President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Cleveland, for the period August 1 through December 31, 1960, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of July 14, 1960:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Elfer B. Miller	General Auditor	\$13,500

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 13
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960.



Dear Sir:

This refers to item No. 2 in the letter sent to Chairman Martin under date of June 10, 1960, by the Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the Committee on Government Operations of the House of Representatives.

Enclosed is a draft of a proposed reply to the question, together with a copy of a background memorandum on the subject prepared for the Board's use. The Board will be glad to have your comments and suggestions on the proposed reply and on any difficult operating problems that you anticipate might arise if a single issue of Federal Reserve notes should be decided upon. It would be helpful if your comments could reach the Board's offices by August 15.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 14
7/28/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 28, 1960



Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of July 25, 1960, the Board approves the appointment of Patrick J. Moloney as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise as to the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.