

Minutes for September 30, 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>MS</u>
Gov. Szymczak	<u>MS</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, September 30, 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. King

Mr. Sherman, Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Young, Adviser to the Board
 Mr. Shay, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Noyes, Director, Division of Research and Statistics
 Mr. Koch, Adviser, Division of Research and Statistics
 Mr. Landry, Assistant to the Secretary
 Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
 Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics

Report on money market conditions. Messrs. Thomas and Keir

Presented a report on money market conditions including reference to changes in the money supply.

Messrs. Fauver, Koch, Eckert, and Keir then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Harris, Coordinator, Office of Defense Planning
 Mr. Hexter, Assistant General Counsel
 Mr. Rudy, Special Assistant, Legal Division
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Nelson, Assistant Director, Division of Examinations

9/30/60

-2-

Mr. Benner, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Miss Hart, Assistant Counsel
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Wood, Chief, European Section, Division
of International Finance

Discount rates. The establishment without change by the Federal Reserve Banks of Richmond, Chicago, and San Francisco on September 29, 1960, 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.

Report on competitive factors (Perth Amboy and Carteret, New Jersey). There had been distributed a memorandum from the Division of Examinations dated September 27, 1960, attaching a proposed report to the Comptroller of the Currency on the competitive factors involved in a proposed consolidation of The Perth Amboy National Bank, Perth Amboy, New Jersey, and First National Bank in Carteret, Carteret, New Jersey. The conclusion of the report read as follows:

Control of both banks is presently held by the same individual, who will also own a majority of the outstanding common stock of the resulting bank. The proposed consolidation would provide more and better banking and trust services for the Carteret community and intensify competition in the trade area without adverse effect on the present competitive situation or any apparent tendency toward monopoly.

The report was approved unanimously.

9/30/60

-3-

Report on competitive factors (Boonville and Newburgh, Indiana).

A memorandum from the Division of Examinations dated September 23, 1960, attaching a proposed report to the Comptroller of the Currency on the competitive factors involved in a proposed consolidation of Boonville National Bank, Boonville, Indiana, and Newburgh State Bank, Newburgh, Indiana, had been distributed. The conclusion of the report read as follows:

The smaller of the two institutions involved is principally competitive with much larger banks in Evansville, Indiana. There would be no lessening of banking service in the area and the proposed transaction would have no apparent adverse effect on competition in the area.

The report was approved unanimously.

Delegation to the Board of emergency authority over banking operations (Item No. 1). A memorandum from Mr. Harris dated September 20, 1960, pertaining to a Treasury draft order that would delegate emergency banking authority to the Board of Governors had been circulated. Attached to the memorandum was a draft of letter to the Under Secretary of the Treasury stating that the Board interposed no objection to the execution of the new draft order in view of the capabilities for decentralized control through the Federal Reserve Banks and in view of the fact that the detailed description of specific emergency actions would be contained in the Treasury's Emergency Banking Regulations. According to the memorandum, the new draft order differed from the

9/30/60

-4-

one considered and approved by the Board on January 11, 1960, in the following particulars:

1. The new draft order would delegate to the Board authority and power relating to the maintenance of operations and functions in an emergency of all banking institutions, which would be defined as including every Federal Reserve Bank, commercial bank, trust company, private bank, savings bank, mutual savings bank, and any receiver or conservator of the foregoing. The previous draft order was limited to the Board of Governors and the Federal Reserve Banks.
2. The new draft would not contain specific references to the following matters contained in the previous order:
 - a. Holding of currency.
 - b. Temporary change of banking quarters.
 - c. Authority of an employee in charge of the affairs of a bank in an emergency to take emergency actions.
 - d. Exculpatory provisions regarding actions taken pursuant to emergency directions notwithstanding other provisions of law.
 - e. Definition of banking operations.
 - f. Fiscal agency operations.

Following comments by Mr. Harris on the background of the new draft order, a letter to the Under Secretary of the Treasury interposing no objection to its execution was approved unanimously. A copy of the letter is attached hereto as Item No. 1.

Mr. Harris then withdrew from the meeting.

Application of Marine Corporation. There had been distributed two memoranda from the Division of Examinations dated August 11, 1960, and a memorandum from the Legal Division dated September 26, 1960, regarding the application of The Marine Corporation, Milwaukee, Wisconsin, for prior approval of the acquisition of 60 per cent or more of the 20,000 voting

9/30/60

-5-

shares of Oak Creek Marine National Bank, Oak Creek, Wisconsin, a proposed new bank. It was noted in the memoranda of the Division of Examinations that the Federal Reserve Bank of Chicago recommended approval of the application in view of the favorable conclusions reached in connection with the various factors specified in section 3(c) of the Bank Holding Company Act of 1956. The Division of Examinations recommended that a Notice of Tentative Decision approving the application be issued.

The memorandum from the Legal Division indicated that either approval or disapproval of the application would in all likelihood be sustained by a reviewing court as a reasonable exercise of the Board's discretion. The memorandum also noted that the Comptroller of the Currency had recommended approval of the application.

Observing that there were two banks located within a five-mile radius of the proposed location of Oak Creek Bank, one of which was a subsidiary of Marine, Governor Mills said that he accepted the favorable recommendation of the Division of Examinations with some reservations because of the encirclement of the other bank (Home State Bank of South Milwaukee) by Marine subsidiaries. Since, however, Home State Bank did not provide a full range of banking services to the community, he would vote to approve the application on the grounds that rounded banking services would be provided the growing community of Oak Creek by the proposed new subsidiary bank of Marine Corporation.

9/30/60

-6-

Governor Shepardson said that he felt the growth of Marine Corporation might be approaching a point that would deserve close scrutiny by the Board, although in his opinion that point had not yet been reached. Accordingly, he would vote to approve the application now before the Board.

The staff was then instructed to prepare for later consideration by the Board a Notice of Tentative Decision granting the application by The Marine Corporation, Milwaukee, Wisconsin, for prior approval, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956, of the acquisition of 60 per cent or more of the 20,000 voting shares of Oak Creek Marine National Bank.

At this point Messrs. Thomas, Rudy, and Thompson withdrew from the meeting.

Regulation U--status of registered stock deposited with lending banks as security for "purpose" loans (Item No. 2). Under date of September 27, 1960, a memorandum from Miss Hart had been distributed concerning the question whether the holding for safekeeping of stock by a lending bank or a third party caused the loan to be "indirectly secured" and hence subject to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks.

In response to a question from Governor Balderston, Mr. Hackley said that no specific inquiry regarding the treatment of loans of the

9/30/60

-7-

type described had come before the Board that required a response at this time. In view of this fact, and in the light of the Board's decision at yesterday's meeting not to initiate a restrictive action in this area at the present time, Mr. Hackley said he realized that the Board might wish to defer action with respect to the matter presented in the September 27 memorandum. However, the question had come up as the result of mention of certain loans in the reports of examinations of Morgan Guaranty Trust Company, New York City, as of October 7, 1959, and Irving Trust Company, New York City, as of October 28, 1959. For that reason, the staff was presenting the question to the Board for the purpose of ascertaining whether it wished to take a position one way or the other.

The examination reports cited loans that were not technically secured by registered stocks, but the banks were holding in safekeeping such securities owned by the borrowers. The bank concerned would not have the right to sell the stock and reimburse itself with the proceeds in case of default on the loan. Nevertheless, the stock was not in the possession of the borrower or freely subject to whatever disposition he wished to make of it, and the actual situation did provide a measure of security to the bank. In the view of the Legal Division, this brought the practice within the Board's interpretation of March 6, 1959, stating that "the original purpose of a loan should not be determined upon a narrow analysis of the technical circumstances under which a loan is made... . Where security is involved, standards of interpretation

9/30/60

-8-

should be equally searching...." As pointed out in the memorandum, this view was strengthened by a statement in the Board's "Questions and Answers Illustrating Application of Regulation U", issued in June 1959, which said that "In determining whether a loan is 'indirectly' secured, it should be borne in mind that the reason the Board has thus far refrained (except to the limited extent covered in section 3(q)) from regulating loans not secured by stock has been to simplify operations under the regulation. This objective of simplifying operations does not apply to loans in which arrangements are made to retain the substance of stock collateral while sacrificing only the form."

Mr. Hackley said that under the Regulation as now written the Legal Division was convinced that a sound position would be that the loans that had been cited in the examination reports were indirectly secured by the registered stocks. A narrow technical interpretation of the Regulation under which a bank would be permitted to make sure that a borrower did not dispose of stock he had purchased with proceeds of a loan before he had paid off the loan would tend to defeat the purpose of the Regulation. Accordingly, the Legal Division had prepared a draft of letter to the New York Reserve Bank embodying the substance of the Legal Division's views on this question.

Governor Robertson expressed the view that, since the question at hand had been raised in reports of examinations, it was incumbent upon

9/30/60

-9-

the Board to provide an interpretation for the guidance both of the examiners and of the member banks involved.

Governor Mills said that in his opinion both the analysis and position taken in the memorandum were correct and he believed the draft letter stated the case well. He went on to say that the background of this practice was quite similar to that occasionally mentioned in reports of examination, whereby banks held Series E savings bonds as indirect collateral behind loans. He recalled that this practice had always been frowned upon by examiners and that in such instances the banks concerned had been requested to release the securities. Although he recognized that borrowers could not legally pledge Series E bonds, the principle involved in both cases was essentially the same. Therefore, the examinations having been completed and the criticisms of the examiners having been questioned, he felt that the Board should follow through with an interpretation.

The other members of the Board having expressed views similar to those of Governors Mills and Robertson, unanimous approval was given to a letter to the New York Reserve Bank expressing the view that the loans of the two aforementioned banks were indirectly secured by stock and, unless otherwise excepted, subject to Regulation U. A copy of the letter sent under date of October 3, 1960, is attached as Item No. 2.

At this point the following entered the room:

- Mr. Johnson, Director, Division of Personnel Administration
- Mr. Goodman, Assistant Director, Division of Examinations
- Mr. Sprecher, Assistant Director, Division of Personnel Administration

9/30/60

-10-

Officer status of position of Assistant General Auditor at the Reserve Banks (Item No. 3). There had been distributed under date of September 29, 1960, a memorandum from the Division of Personnel Administration recommending approval of the payment of salary to the Assistant General Auditor of the Federal Reserve Bank of Cleveland, as an officer of that Bank, at the rate fixed by the Board of Directors. Attached to the memorandum was a draft of letter reflecting this recommendation.

It was indicated in the memorandum that there appeared to be no objection to elevation to officer status of the position of Assistant General Auditor at those Reserve Banks that agreed with a recommendation to this effect made by the Chief Federal Reserve Examiner, that the Chief Examiner's discussions had resulted in this change at the New York and San Francisco Reserve Banks, and that the Federal Reserve Bank of Richmond intended to recommend officer status for its Assistant General Auditor in the near future, this proposed action being at the initiative of that Bank prior to discussion with the Chief Federal Reserve Examiner.

There had also been distributed under date of September 30, 1960, a memorandum from Mr. Smith regarding supervision of auditing departments of Federal Reserve Banks and noting that the letter from the Federal Reserve Bank of Cleveland advising of the change to officer status of its Assistant General Auditor indicated that this action by its Board of Directors may have been prompted by discussions with the Chief Federal Reserve Examiner. In view of the letter from the Cleveland Bank, as well as the actions taken

9/30/60

-11-

at the New York and San Francisco Reserve Banks raising their Assistant General Auditors to officer status, the memorandum from Mr. Smith undertook to review recent developments in this area for the information of the Board. Attention was called in the memorandum to the fact that, including Cleveland, six Reserve Banks currently would be according officer status to the Assistant General Auditor.

Mr. Solomon said that the memorandum of September 30 had been prepared in order to make clear to the Board the nature of the circumstances surrounding the suggestions made by Chief Federal Reserve Examiner Schaeffer in his discussions of this question at the Reserve Banks. It seemed desirable to lay the matter before the Board in order to avoid any misunderstanding as to whether the Board believed that the suggestion for the Assistant General Auditor to have officer rank was desirable.

Governor Mills said that he thought the idea of advancing the position of Assistant General Auditor to officer rank had merit, and he would not object to having the question raised with the Reserve Banks from time to time as a kind of suggestion for them to consider. However, he wondered whether, if the Board indicated a definite view on the question, it might be an undue interference with the management of the Reserve Banks.

Governor Robertson said that, although he believed this suggestion generally was desirable, it would be unfortunate if the Chief Federal Reserve

9/30/60

-12-

Examiner were to take the position that elevating the post of Assistant General Auditor to officer status was a matter of Board policy.

Governor Shepardson said that he was not entirely sure that the Chief Federal Reserve Examiner had been understood as merely putting forward a suggestion. He (Governor Shepardson) had gathered that at least one or two Reserve Banks had gotten the feeling that pressure was being exerted for this particular move. Governor Shepardson said that his view was that this change could be desirable at some Reserve Banks, but at others it would not be necessary. He understood that one of the Reserve Banks that had heard the suggestion felt that such a move was definitely not to its interest at the time, but it was willing to go along with the suggestion if it was a matter of Board policy.

Mr. Solomon said that Governor Shepardson's comments brought out the usefulness of presenting this matter to the Board since there apparently was some misunderstanding of the Chief Federal Reserve Examiner's intent. Although Mr. Smith had talked with Mr. Schaeffer and received assurance that his raising of the question was intended only as a suggestion for consideration by the Bank, Mr. Solomon said that it would be helpful for Mr. Schaeffer to realize that the opposite impression existed.

Governor King suggested that the question of elevating the position of Assistant General Auditor to officer status at any Reserve Bank be left in the Bank's hands. In his opinion the Board should lean over backwards to avoid giving the impression that it wished to force conformity upon the

9/30/60

-13-

Reserve Banks in this regard by requiring such a change in those Reserve Banks where the Assistant General Auditor did not have officer status. He said that he did not believe this problem to be of sufficient importance to warrant prodding the Reserve Banks.

Governor Balderston said that he gathered that the Board would not object to the Chief Federal Reserve Examiner continuing to raise the question of the status of the Assistant General Auditor, so long as he made certain that the Reserve Banks did not understand this to be a means of urging them to adopt a suggestion that this position be given officer status.

There was no indication of disagreement with Governor Balderston's statement.

The letter to the Federal Reserve Bank of Cleveland approving the payment of salary to Mr. Alvah R. Mills as Assistant General Auditor at the rate fixed by its Board of Directors was then approved unanimously. A copy of the letter is attached hereto as Item No. 3.

Messrs. Johnson, Nelson, Smith, and Sprecher withdrew from the meeting at this point.

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

Item No.

Letter to Bank of America, New York City, approving the relocation of the Oria Agency of Banca d'America e d'Italia, Milan, Italy, from Via Papatodero 2 to permanent quarters at No. 11 Piazza Domenico Albanese, Oria, and the Sanremo Branch from Corso Imperatrice 13 to permanent quarters at No. 18 Via Matteotti-Corner No. 27 Via Roma, Sanremo.

4

9/30/60

-14-

	<u>Item No.</u>
Letter to Bank of America, New York City, approving the establishment by Banca d'America e d'Italia, Milan, Italy, of a seasonal agency in Villanova d'Albenga.	5
Letter to the Federal Reserve Bank of Atlanta approving an adjustment in the salary structure applicable to employees at the Jacksonville Branch.	6
Letter to Pine Lawn Bank and Trust Company, Pine Lawn, Missouri, approving the establishment of a branch at 6102 Grimshaw Avenue and an additional investment in bank premises.	7

With respect to Item No. 4, a letter to Bank of America, New York City, approving the relocation of the Oria Agency and the Sanremo Branch of Banca d'America e d'Italia, Governor Shepardson inquired as to the reason for Board approval of all changes in location of foreign branches.

During the ensuing discussion, Governor Robertson said that if a change in location of a branch abroad involved a move from one city to another, he felt the Board's approval should be required. It might be possible to work out an arrangement for not having mere relocations of existing branches come to the Board for approval, but this would involve the problem of drawing a line--whether relocations within a city or some different area should be permitted without express Board action. Since the number of moves of foreign branches was not large, he believed it preferable to continue the present practice rather than to attempt to specify when a foreign branch might be relocated without Board approval.

9/30/60

-15-

Governor Mills stated that it was necessary for the Board's records to reflect the current address of any foreign branch, and he felt that continuation of the present procedure was desirable for this purpose as well as for the reasons indicated by Governor Robertson.

The meeting then adjourned.

Secretary's Notes: Pursuant to the 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 October 2, 1960:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Edna B. Poeppel, Chief, Records Section		\$ 9,380	\$ 9,735
Edna L. Stoll, Records Clerk		4,460	4,565
<u>Legal</u>			
Verna P. Ryon, Secretary		5,490	5,655
<u>Research and Statistics</u>			
Betty Schieman, Statistical Clerk		4,040	4,145
Natalie C. Strader, Survey Statistician (Economics) (change in title from Research Assistant)		5,850	6,435
<u>International Finance</u>			
Robert F. Gemmill, Economist		10,895	11,155
<u>Examinations</u>			
Margaret M. Tunstall, Recording Clerk		4,510	4,675

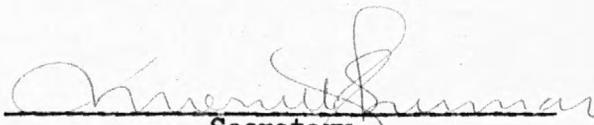
9/30/60

-16-

Salary increases, effective October 2, 1960 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
James R. Carnahan, Guard		\$3,920	\$4,025
Flora Griffith, Chief Telephone Operator		5,335	5,500
Blanche C. King, Charwoman		3,500	3,605

Governor Shepardson also approved on behalf of the Board acceptance of the resignations of Noel C. Locke, Statistical Clerk, Division of Research and Statistics, effective September 26, 1960, and Mary K. Stephanos, Secretary, Division of Research and Statistics, effective October 21, 1960.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
9/30/60

OFFICE OF THE CHAIRMAN

September 30, 1960.



The Honorable Fred C. Scribner, Jr.,
Under Secretary of the Treasury,
Washington 25, D. C.

Dear Fred:

In your letter of August 17, 1960, transmitting a new draft order delegating emergency authority to the Board of Governors, you stated that Secretary Anderson would execute the order in the absence of objection from me.

The Board is of the opinion that no objection should be interposed to the execution of the new draft order in view of the Board's capabilities for decentralized control through the Federal Reserve Banks, and in view of the fact that the detailed description of specific emergency actions is to be contained in Treasury's Emergency Banking Regulations.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 2
9/30/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 3, 1960

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

In recent reports of examination of two banks in your District, Morgan Guaranty Trust Company of New York ("Morgan") and Irving Trust Company ("Irving"), your examiners raised questions as to the circumstances under which certain loans made by the banks for the purpose of purchasing or carrying securities registered on a national securities exchange ("purpose loans") should be considered to be secured indirectly by stock, so that the loans should be treated as subject to the regulation. These questions arose under the four following factual situations:

(1) Certain loans were made in unsecured form in order to enable borrowers to exercise options for the purchase of listed stocks, the borrower placing the acquired stock in a custody account at the bank. Management states that these custody accounts are in no way considered collateral for the loans, because the bank has no "hold" on the securities. (Report of Examination of Irving, October 28, 1959, page 10-(4).)

(2) In the case of loans made by another bank under similar circumstances, the bank required the borrower to endorse the stock and place it in a custody account at the bank. In this case, the notes embodying the loan agreement incorporate a statement to the effect that the bank waives the right to apply the proceeds of the securities to payment of the loan, but the bank also states that the purpose of the deposit is to "provide assurance that the borrower cannot dispose of" the securities or pledge them elsewhere until the loan is paid. (Report of Examination of Morgan, October 7, 1959, page 10-(a).) (The Board agrees with your examiner's conclusion that certain other loans in this group were made in violation of section 221.1(b) of the regulation because, although technically unsecured, they represented advances in addition to other regulated, stock-secured purpose loans.)

Mr. Howard D. Crosse

-2-

(3) A loan was made in unsecured form to the Hope Record Company, for the purpose of purchasing listed stock. The loan is guaranteed by the National Broadcasting Company, and the borrower has pledged all assets purchased with the borrowed funds with the National Broadcasting Company to secure the guarantee. The pledged stock is held in custody by the lending bank. (Report of Examination of Irving cited above, page 10-(4).)

(4) Loans are being made jointly by two banks, Irving and Manufacturers Trust Company, under agreement with the employer, American Electric Power Company, Inc. to key employees of American for the purpose of purchasing stock under employee stock purchase plans. Under the agreement, the employees make a down payment, and the stock is pledged with Manufacturers to secure loans in the maximum amount permitted under Regulation U. The balance of the purchase price is supplied by Irving on an unsecured basis. However, although the parties agree that Irving shall have no security interest in the pledged stock, Manufacturers is to hold the stock, under the agreement, until both the secured and the unsecured loans have been paid. (Report of Examination of Irving cited above, page 11(a)-(8).)

In each case, the question is whether the arrangements in regard to the purchased stock amount to indirect security for the loan. It is, of course, impossible to give a comprehensive definition of "indirect security". However, in its proposed amendments to Regulation U, issued on March 13, 1959, the Board said that a loan was indirectly secured, among other instances, when "the borrower agrees to hold stock free of any claim by others or to pledge stock with the bank upon request or in certain circumstances." For technical reasons, this language was dropped from the final amendments which became effective June 15, 1959, but the omission did not indicate an intention of the Board to change its position.

The Board indicated the attitude which it expects banks to adopt in construing the requirement as to security in its pamphlet entitled "Questions and Answers Illustrating Application of Regulation U" (page 6), where the Board explained that

"In determining whether a loan is 'indirectly' secured, it should be borne in mind that the reason the Board has thus far refrained (except to the limited extent covered in section 3(q)) from regulating loans not secured by stock has been to simplify operations under the regulation. This objective of simplifying operations does not apply to loans in which arrangements are made to retain the substance of stock collateral while sacrificing only the form."

Mr. Howard D. Crosse

-3-

and in an interpretation published at 45 Federal Reserve Bulletin 256 (1959) where it stated that

"The Board has long held, in the . . . 'purpose' area, that the original purpose of a loan should not be determined upon a narrow analysis of the technical circumstances under which a loan is made"

"Where security is involved, standards of interpretation should be equally searching"

Arrangements under which a borrower surrenders the power to dispose of stock so long as a loan remains outstanding clearly serve to protect the interest of the lender, in a practical sense, to some extent. The fact that the bank suggests or insists on the arrangement emphasizes this fact. This is true whether the borrower agrees not to dispose of the stock elsewhere, agrees to pledge it with the bank on demand, or actually leaves it in a custody account with the bank. The advantage to the bank remains, even though the bank agrees not to look to the stock for reimbursement on the loan.

It is possible that the banks entered into the arrangements described above in the belief that they were excepted under section 221.3(f), which provides that

"A loan need not be treated as collateralized by securities which are held by the bank only in the capacity of custodian, depository or trustee, or under similar circumstances, if the bank in good faith has not relied upon such securities as collateral in the making or maintenance of the particular loan."

However, this section only applies where the bank "in good faith has not relied" upon the securities deposited "as collateral". The example given in "Questions and Answers Illustrating Application of Regulation U" (page 20) is one where the bank "holds stock under a bona fide trust agreement established by a borrower for the benefit of a college." In circumstances such as those described above, where the deposit is made in connection with the loan, section 221.3(f) would not apply.

Mr. Howard D. Crosse

-4-

Accordingly, the Board is of the opinion that in all four situations described above, the loans are indirectly secured by stock and, unless otherwise excepted, subject to the regulation. It will be appreciated if you will notify the banks of this conclusion, so that the loans may be brought into conformity with the regulation as promptly as possible.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
9/30/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 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 October 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 September 8, 1960:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Alvah R. Mills	Asst. General Auditor	\$9,100

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
9/30/60



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1960

Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Coughran:

Receipt is acknowledged of your letter dated August 30, 1960, transmitted through the Federal Reserve Bank of New York, informing the Board of Governors of the relocation of the Oria Agency of Banca d'America e d'Italia, Milan, Italy, from Via Papatodero 2 to new permanent quarters at No. 11 Piazza Domenico Albanese, Oria, Italy, and the Sanremo Branch from Corso Imperatrice 13 to permanent quarters at No. 18 Via Matteotti-Corner No. 27 Via Roma, Sanremo, Italy.

The Board of Governors notes these changes to permanent quarters, with approval, with the understanding that the locations of these offices may not be changed without the prior consent of the Board of Governors. Please advise the Board of Governors, through the Federal Reserve Bank of New York, when the agency and branch were removed to the new locations.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
9/30/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1960



Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Coughran:

In accordance with the request made in your letter of August 30, 1960, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the establishment by Banca d'America e d'Italia, Milan, Italy, of a seasonal agency in Villanova d'Albenga, Italy. It is understood that the proposed agency will be located in the local flower market and open only during the period October 1 to April 30 each year. This consent is granted subject to the conditions contained in the Board's letter of September 12, 1957, granting consent to the purchase of shares of Banca d'America e d'Italia. The location of the agency may not be changed, after establishment, without the prior approval of the Board of Governors.

Unless the agency is actually established and opened for business on or before October 1, 1961, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the agency is established and opened for business, furnishing information as to the exact location of the agency.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 6
9/30/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1960

CONFIDENTIAL (FR)

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

Dear Mr. Bryan:

In accordance with the request outlined in Mr. Patterson's letter of September 16, 1960, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the salary structure applicable to the Jacksonville Branch of the Federal Reserve Bank of Atlanta, effective October 1, 1960:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$ 2,220	\$ 3,060
2	2,340	3,180
3	2,460	3,300
4	2,640	3,600
5	2,880	3,900
6	3,180	4,320
7	3,600	4,900
8	4,080	5,520
9	4,600	6,200
10	5,200	7,000
11	5,800	7,800
12	6,400	8,600
13	7,000	9,500
14	7,700	10,400
15	8,400	11,300
16	9,200	12,400

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than January 1, 1961.

Mr. Malcolm Bryan

- 2 -

The Board understands that provision has been made in the 1960 budget to cover increased expense arising from this change in salary structure.

It is understood that the present employees' salary structures of the Head Office, and the Birmingham, Nashville, and New Orleans Branches, which were made effective January 1, 1958, will continue to be applicable to those offices.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
9/30/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 30, 1960

Board of Directors,
Pine Lawn Bank and Trust Company,
Pine Lawn, Missouri.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 6102 Grimshaw Avenue, Pine Lawn, Missouri. This approval is given provided the branch is established within six months from the date of this letter. The Board of Governors, as requested, further approves under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$33,264 in bank premises by Pine Lawn Bank and Trust Company, Pine Lawn, Missouri.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.