

Minutes for October 18, 1960

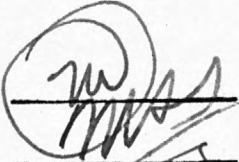

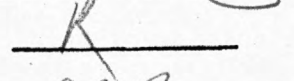
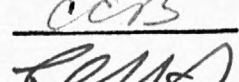
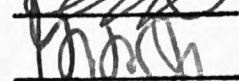
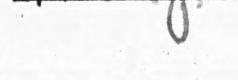

To: Members of the Board

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	
Gov. Szymczak	
Gov. Mills	
Gov. Robertson	
Gov. Balderston	
Gov. Shepardson	
Gov. King	

Minutes of the Board of Governors of the Federal Reserve System on  
 Tuesday, October 18, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
 Mr. Hackley, General Counsel  
 Mr. Farrell, Director, Division of Bank  
 Operations  
 Mr. Solomon, Director, Division of  
 Examinations  
 Mr. Hexter, Assistant General Counsel  
 Mr. Hooff, Assistant General Counsel  
 Mr. Rudy, Special Assistant, Legal Division  
 Mr. Conkling, Assistant Director, Division  
 of Bank Operations  
 Mr. Landry, Assistant to the Secretary  
 Mr. Leavitt, Supervisory Review Examiner,  
 Division of Examinations  
 Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on October 15, 1960, and by the Federal Reserve Bank of Boston on October 17, 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.

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

Item No.

1

Letter to American Bank and Trust Company, Suffolk, Virginia, approving an investment in bank premises.

10/18/60

-2-

	<u>Item No.</u>
Letter to Bloomfield State Bank, Bloomfield, Indiana, approving an investment in bank premises.	2
Letter to Franklin County Bank, Washington, Missouri, approving an investment in bank premises.	3
Telegram to the Federal Reserve Bank of New York approving renewal of a stand-by credit arrangement for gold loans to the Bank for International Settlements.	4

Mr. Sammons, Associate Adviser, Division of International Finance, who had joined the meeting just prior to consideration of Item No. 4, withdrew following its approval.

Permission to maintain reduced reserves--Central State Bank, Oklahoma City, Oklahoma (Item No. 5). There had been circulated a memorandum dated October 10, 1960, from the Division of Bank Operations recommending that Central State Bank, Oklahoma City, Oklahoma, be permitted to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities instead of the reserves that would be required of reserve city banks, effective as of the date the bank is admitted to membership under a national bank charter. The same recommendation had been made in a letter of October 3, 1960, from the Federal Reserve Bank of Kansas City. Attached to the memorandum was a proposed reply to the Reserve Bank that would approve the subject bank's request. While the file was in circulation, Governor Mills had attached a memorandum which indicated that the size and downtown location of the Central State Bank might not justify a country bank classification for reserve requirement purposes.

10/18/60

-3-

Governor Mills said that he had discussed this question with Mr. Conkling and that on the basis of the additional information made available during this discussion, he would now approve the application.

Unanimous approval was then given to a letter to Central State Bank, Oklahoma City, Oklahoma, granting its request for permission to maintain reduced reserves upon conversion to a national bank charter. A copy of this letter is attached as Item No. 5.

Mr. Leavitt withdrew from the meeting during discussion of the foregoing question.

Regulation Q savings accounts--"International Accounts". Copies had been distributed of a memorandum from Mr. Rudy of the Legal Division dated October 13, 1960, with respect to a plan of Citizens Bank and Trust Company, Park Ridge, Illinois, characterized as "International Accounts," which had been submitted to the Board for interpretation as to whether the plan complied with the requirements of Regulation Q, Payment of Interest on Deposits. It was the view of the Legal Division, as expressed in the memorandum, that the plan, as submitted, conformed to Regulation Q by virtue of the exception in section 217.1(e) which reads:

"The presentation by any officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the pass book within the meaning of this part except where the pass book is held by the bank as . . . security for a loan."

10/18/60

-4-

As described in the memorandum, the plan would be used to solicit accounts by mail from persons in nonpar bank towns. The principal elements of the plan were as follows: An "International Account" is actually two separate accounts, one being a regular interest-earning savings account, the other, a credit account against which checks may be written, the latter account to be in the same amount as the savings account less a \$1 reserve. The savings account would be pledged to secure any loans represented by checks drawn against the credit account, with a charge of twenty cents for any check so drawn. Should the next deposit to the checking account be made within seven days following encashment of a check, the new deposit would be used to bring the credit account back to its previous balance (i.e., to pay off the amount of any outstanding loans) in order that the savings account would be kept in a condition to continue to earn interest. Any excess deposit over the amount of the seven-day loan would be deposited in the savings account. Should no deposit be made within seven days following encashment of a check, the amount of the loan plus the twenty-cent charge per check would be withdrawn from the savings account and the same combined balance would again exist in the savings and credit accounts.

Attached to the memorandum was a draft letter to the Federal Reserve Bank of Chicago that would state the Board's view that the plan, as submitted, conformed to Regulation Q but that it would violate the terms of Regulation Q if written receipts were to be issued in lieu of



10/18/60

-5-

a pass book. This conclusion was based on the following reasoning: The plan contemplates the retention by the bank of the customer's pass book, accompanied by authority in the bank to make withdrawals for the purpose of repaying loans. Such an arrangement would comply with the provision in section 217.1(e) of Regulation Q, which permits withdrawals from savings accounts upon presentation of the pass book through payment to the person presenting the pass book and which, under an exception to a general rule, permits any officer, agent, or employee of the bank to make the presentation where the pass book is held by the bank as security for a loan. The substitution by the bank, however, of a written receipt in lieu of the customer's pass book would not be permissible as a means of implementing the plan since Regulation Q provides that, when a deposit is evidenced by a written receipt or agreement in lieu of a pass book, withdrawals are permitted only through payment to the depositor himself but not to any other person whether or not acting for the depositor.

Mr. Rudy commented that the plan as described in the memorandum had been the subject of a discussion with representatives of the Federal Deposit Insurance Corporation, a member of whose legal division had raised a point which was worthy of Board consideration, namely, that it was necessary for a bank to reserve the right to require notice in writing of an intended withdrawal from a savings account of not less than 30 days. It had been pointed out that should such notice be required by Citizens Bank and Trust Company at some future date it would be necessary

10/18/60

-6-

under the provisions of section 217.5(e) of Regulation Q to charge a rate of interest upon "International Account" loans of not less than 2 per cent per annum in excess of the rate of interest on the savings account. It was the view of the Legal Division, Mr. Rudy said, that the possibility of difficulty between the bank and its customer arising out of this eventuality was remote since ordinarily a bank did not invoke the 30-day privilege unless it was in financial straits and that it would not appear desirable to cover this point in correspondence with Citizens Bank and Trust Company. He noted that although neither the representatives of the Federal Deposit Insurance Corporation nor the Legal Division had particularly liked the plan, technically considered there was no valid objection to it under the terms of Regulation Q.

Mr. Hackley called attention to the fact that Regulation Q does not prevent retention by a lending bank of a customer's pass book and that so long as the pass book was being held as security for a loan its presentation by officers of the bank to effectuate a withdrawal from the customer's savings account was a good and valid presentation under the regulation. He went on to say, in reply to a comment by Governor Mills, that auditors disliked the practice of banks holding customers' pass books because of the danger of false entries therein by bank employees and that he doubted the plan would be practicable. In this connection he observed that there had not been an encouraging response to circulars advertising this plan sent out into nonpar areas by Citizens Bank and Trust Company.

10/18/60

-7-

Governor Robertson stated that as he understood the proposed plan it could be used by a borrower from the bank who could then keep the borrowed funds on deposit in the savings account upon which he would draw interest, having authorized the bank which held his pass book to transfer from the savings account to a checking account funds as needed.

Mr. Rudy replied that the plan in question was similar to check-loan accounts that were enjoying a certain vogue at present. He cited the instance of First National Bank of Dallas which permits a customer to write checks following establishment of a line of credit. Under this plan, he said, interest is paid only on the outstanding amount of a loan which is created as checks are written. He noted that in the plan under consideration by the Board in effect the customer was extended a seven-day, interest-free loan as a means of stimulating savings accounts at the bank.

Observing that under the proposed plan the lending bank would not be validly holding the customer's pass book as collateral for loans except when loans were actually being made and that for the rest of the time the pass book would be held in anticipation of such loans, Governor Robertson suggested that no reply be made to Citizens Bank and Trust Company until the staff had consulted with the Office of the Comptroller of the Currency to discover if there were any outstanding instructions to national bank examiners or rulings proscribing the holding of pass books by banks.



10/18/60

-8-

Following further discussion, it was agreed that the letter to the Federal Reserve Bank of Chicago advising it of the Board's views as to compliance with Regulation Q of a plan for "International Accounts" would be returned to the Board for further consideration following receipt of advice from the Comptroller's Office as to whether it had any outstanding instructions or rulings for use of its examiners proscribing the holding of pass books by national banks.

Messrs. Farrell, Conkling, Hooff, and Rudy then withdrew from the meeting.

Regulation T--"cash on delivery" transactions (Item No. 6).

Attached to a memorandum dated October 12, 1960, from Miss Hart of the Legal Division, copies of which had been distributed, was a letter of July 21, 1960, from the Federal Reserve Bank of Boston requesting a Board ruling on each of two questions presented by Clayton Securities Corporation, Boston, Massachusetts, in a letter to the Bank dated July 20, 1960, and a draft reply thereto. The questions, which related to special cash accounts under section 220.4(c) of Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, were:

(1) Is it a violation of Regulation T to receive prior payment from a customer for securities not yet received? (2) When a customer buys a number of securities on the same day and payment is received after seven business days for such securities, is this a single violation of the regulation or a violation for each transaction?

10/18/60

-9-

With respect to the first question presented, in the fact situation described by Clayton, a customer in a single day purchased a number of different securities with instructions to deliver against payment. After seven days but prior to 35 days, the creditor notified the customer that it had assembled some, but not all, of the securities. The customer promptly sent payment in full for all the purchased securities, instructing Clayton to transfer into his name those which had been assembled, and to transfer the others as received. The draft reply to the Reserve Bank would answer the first question in the negative and the second to the effect that there would be a violation for each transaction.

In commenting on her memorandum, Miss Hart indicated that counsel for the National Association of Securities Dealers informed the staff orally that while he agreed with the staff that, technically speaking, no violation of Regulation T took place under the facts described by Clayton Securities Corporation relative to both questions, the circumstances surrounding the transactions concerned in the second question were such as to suggest that the delay in obtaining payment from the customer may have been due to a wish to oblige him rather than to the "mechanics of the securities business and the bona fide usages of the trade." (1940 F.R. Bulletin 1172) It was for this reason, Miss Hart said, that the draft reply to the Boston Reserve Bank emphasized the requirement of good faith in applying the exception under section 220.4(c)(5) of Regulation T, which permits a broker or dealer

10/18/60

-10-

to apply a 35-day instead of a 7-day limit for obtaining payment in a cash account, due to difficulties arising from the mechanics of the trade which made it impossible to deliver within seven days. Miss Hart noted a further statement by counsel for the National Association of Securities Dealers that the brokerage firm involved had repeatedly been cited for violation of the regulation and had just been fined \$2,500 for violations revealed in a recent examination conducted by the Association, which violations were entirely separate from the possible violations presented to the Board. She went on to say, on an observation from Governor Mills, that with respect to the first question presented the National Association and the Securities and Exchange Commission through regulation attempted to prevent dealers and brokers from getting possession of clients' money in advance of delivering securities to them to prevent doubling up on the use of this money. On the other hand, she said, the evil towards which Regulation T was directed was to prevent the customer from receiving an unwarranted extension of credit by a dealer or broker since the customer receives certain privileges from a cash account in any event.

Mr. Solomon said that the language of Regulation T was phrased so as to limit the extension of credit by a dealer or broker to a customer and that protection was afforded the customer by the financial strength of the dealer or broker. He noted, in response to an observation by Governor Robertson, that although in the transactions covered in the

10/18/60

-11-

first question submitted by Clayton a bank had advanced funds to a broker on behalf of a customer prior to receipt by the customer of securities from the broker, Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, did not apply to the transactions under consideration since no stock collateral was involved. In his view a cash-on-delivery transaction as in the instant case required flexibility so that if the securities being purchased could not be gathered together within the usual seven-day permissible period, it seemed unnecessary to require the customer to make cash payment for them prior to their delivery and it was for this reason that a 35-day limitation was permitted under section 220.4(c)(5) of Regulation T. He noted further that the regulation did not say a customer was not permitted to make full payment for securities before the 35-day period had elapsed.

A discussion of this point then ensued, during which Governor Balderston noted that the first of the two questions posed by Clayton Securities Corporation, namely, whether or not it was a violation of Regulation T to have received prior payment for securities not yet received by it, was the more important. He suggested a change in wording of the reply to the Federal Reserve Bank of Boston to make this point clear. There was agreement with this suggestion.

The letter to the Federal Reserve Bank of Boston containing two interpretations under section 220.4(c)(5) of Regulation T relating to special cash accounts was thereupon approved unanimously in the form of attached Item No. 6.

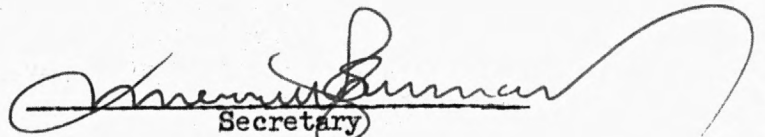


10/18/60

-12-

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of San Francisco (attached Item No. 7) approving the appointment of John G. Leonudakis as assistant examiner.

  
Secretary

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

Item No. 1  
10/18/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 18, 1960

Board of Directors,  
American Bank and Trust Company,  
Suffolk, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by American Bank and Trust Company, Suffolk, Virginia, of \$475,000 for the purpose of construction of a new building on land presently owned by the bank. The amount approved includes \$137,500 paid for those lots purchased specifically for this purpose by the bank on April 1, 1960.

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. 2  
10/18/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 18, 1960

Board of Directors,  
Bloomfield State Bank,  
Bloomfield, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves under the provisions of Section 24A of the Federal Reserve Act, an investment of \$156,000 in bank premises by Bloomfield State Bank, Bloomfield, Indiana. The approved investment of \$156,000 includes \$30,500 used to acquire certain lots in early 1960 for purposes of expansion and \$125,500 representing estimated cost of the new building. It is understood that proceeds from the sale of present banking quarters are to be applied first to the elimination of book value of those quarters and, secondly, as a reduction of book value of the new premises.

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. 3  
10/18/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 18, 1960

Board of Directors,  
Franklin County Bank,  
Washington, 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, under the provisions of Section 24A of the Federal Reserve Act, the additional investment in bank premises of \$156,175 by Franklin County Bank which was expended for the purpose of remodeling bank premises.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



**TELEGRAM**  
**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**  
LEASED WIRE SERVICE  
**WASHINGTON**

Item No. 4  
 10/18/60

October 18, 1960

Sanford - New York

Your wire October 13. Board approves extension of the arrangement to make loan or loans by your Bank to the Bank for International Settlements during a period of one year, from November 1, 1960, through October 31, 1961, up to a total amount outstanding at any one time of \$25,000,000, each borrowing to mature in not more than seven days and total borrowings (the maximum loan facility) during any calendar month not to exceed the equivalent of \$25,000,000 for the total of seven days.

For this facility, it is understood that you will make a commitment charge at the rate of one-fourth of one per cent per annum on that part of the maximum loan facility not used in any calendar month. The arrangement would conform to your usual terms and conditions:

- (A) Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you; and
- (B) Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman  
 SHERMAN

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

Item No. 5  
10/18/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 18, 1960

Board of Directors,  
Central State Bank,  
Oklahoma City, Oklahoma.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Central State Bank to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date the bank is admitted to membership under a national bank charter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 6  
10/18/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 19, 1960



Mr. Dana D. Sawyer, Vice President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. Sawyer:

This refers to your letter of July 21, 1960, enclosing a letter from Clayton Securities Corporation ("Clayton"), together with your memorandum of a conversation with Mr. Clayton.

The enclosures request two interpretations under section 220.4(c) of Regulation T, relating to special cash accounts. The first question arises under section 220.4(c)(5), which provides, so far as it is pertinent, that

"If the creditor, acting in good faith in accordance with subparagraph (1) of this paragraph, purchases a security for a customer . . . with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subparagraph (2) of this paragraph is not the 7 days therein specified but 35 days after the date of such purchase or sale."

In the fact situation described by Clayton, a customer in a single day purchased a number of different securities with instructions to deliver against payment. After seven days but prior to 35 days, the creditor notified the customer that it had assembled some, but not all, of the securities. The customer promptly sent payment in full for all the purchased securities, instructing Clayton to transfer into his name those which had been assembled, and to transfer the others as received. Clayton asks whether it was a violation of the regulation "to have received prior payment for those securities not yet received by us".

Regulation T is designed to prevent the excessive use of credit for the purpose of purchasing or carrying securities. Although, of course, it is not a violation of the regulation for a creditor to receive prior payment for securities not yet delivered to the customer,

Mr. Dana D. Sawyer

-2-

this would not appear to be the question presented by the situation described by Clayton. That question arises under section 220.4(c)(5), relating to so-called "cash on delivery" transactions which are not subject to the general rule of section 220.4(c) requiring liquidation of a cash purchase transaction if full payment is not made within seven days after the purchase. It should be emphasized, in the language of the interpretation published at 1940 Federal Reserve Bulletin 1172, that

" . . . it is not the purpose of section 4(c)(5) to allow additional time to customers for making payment. The 'prompt delivery' described in section 4(c)(5) is delivery which is to be made as soon as the broker or dealer can reasonably make it in view of the mechanics of the securities business and the bona fide usages of the trade. . . ."

Any circumstances suggesting that a "cash on delivery" arrangement was for the purpose of allowing the customer additional time for making payment, or that the delay in making the delivery and receiving payment was not required by the mechanics of the securities business and the bona fide usages of the trade, would cast doubt on the applicability of the exception, and would indicate the necessity of obtaining a thorough explanation from the creditor. Such circumstances could include, among others, the fact that payment which was delayed beyond the usual maximum of seven days was not actually made against delivery.

The second question presented in the letter from Clayton is whether there has been a single violation of the regulation, or a violation for each transaction, where a customer has purchased several securities in a special cash account on the same day and has not made payment for any of the securities until after seven days have elapsed. The Board agrees with your view that in such a case, there has been a violation of Regulation T as to each transaction.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 7  
10/18/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 18, 1960

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

Dear Mr. Mangels:

In accordance with the request contained in your letter of October 7, 1960, the Board approves the appointment of John G. Leonudakis as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise us of the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.