

Minutes for May 24, 1961

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>W</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 Wednesday, May 24, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Brill, Associate Adviser, Division of
Research and Statistics
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Landry, Assistant to the Secretary
Miss Hart, Assistant Counsel
Mr. Solomon, Chief, Capital Markets Section,
Division of Research and Statistics
Mr. Potter, Legal Assistant
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> |
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| Letter to The Bank of Saddle Brook & Lodi, Saddle Brook, New Jersey, approving an investment in bank premises. | 1 |
| Letter to Jenkintown Bank and Trust Company, Jenkin- town, Pennsylvania, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. | 2 |

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Item No.

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| Letter to New Bethlehem Bank, New Bethlehem, Pennsylvania, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. | 3 |
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| Letter to The Beatrice National Bank, Beatrice, Nebraska, approving its application for fiduciary powers. | 4 |
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Messrs. Thomas, Adviser to the Board, and Noyes, Director, Division of Research and Statistics, entered the room at this point and Mr. Leavitt withdrew.

Status under Regulation U of indirectly secured loans (Item No. 5). Distribution had been made under date of May 11, 1961, of a memorandum from the Legal Division concerning the status under Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, of loans by Irving Trust Company, New York City, to Axe-Houghton Stock Fund, Inc., a registered investment company, over a period of years beginning in 1951. Briefly, the arrangement involved a series of loan agreements between the Fund and Irving Trust Company, the latter being the custodian of the securities comprising the Fund's portfolio. These agreements committed the bank to make a revolving credit available to the Fund subject to certain conditions, including maintenance of a certain "asset coverage" by the Fund in relation to its borrowings, maintenance of the custody arrangement with the bank, and an agreement not to mortgage, pledge, or otherwise encumber any of the Fund's assets elsewhere than with the bank.

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As noted in the memorandum, the Securities and Exchange Commission in a letter dated March 15, 1961, had referred to the Board a question concerning these loans raised by the New York Regional Office of the Commission. It was the view of the Regional Office, as expressed in a memorandum to the Securities and Exchange Commission, that the loans involved violations of the Regulation during certain specified periods in 1958 and 1959. The Legal Division memorandum pointed out that when the New York Reserve Bank made a special investigation of this matter at the request of the Board's Division of Examinations, it was informed that Irving Trust Company did not consider the loan agreement to be subject to the Regulation because it was not "secured." The letter from the Commission asked the Board to note "that the memorandum (from the Regional Office) suggests that the Board should find some way to inform banks in general that loans of this nature to an investment company are purpose loans subject to Regulation U." This statement was interpreted by the Legal Division to mean that the Board should find some way to inform banks that such loans are not only "purpose" loans but are also considered to be secured by stock, hence subject to the Regulation if any one of a variety of arrangements for indirect security is made between the bank and the borrower.

In commenting on the memorandum from the Legal Division, Miss Hart indicated that the question at issue was essentially that of interpreting the words "secured indirectly" as contained in unpublished

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interpretations of Regulation U made by the Board over a period of years. Miss Hart noted that in the interpretations referred to, the Board held that a number of arrangements under which stock was more readily available to the lending bank than to other creditors and the borrower amounted to "indirect security" within the meaning of Regulation U. Several of these instances were recapitulated briefly in a letter on this subject to Vice President Crosse of the New York Reserve Bank dated October 3, 1960, with respect to loans made by Morgan Guaranty Trust Company of New York and Irving Trust Company, as mentioned in reports of examinations of those banks. Miss Hart said that certain administrative, legal, and technical problems had arisen since the date of the Board's letter to Mr. Crosse, due to the fact that the Board had no published interpretation on the subject. She noted, for example, that in the absence of a specific published statement from the Board a bank examiner was likely to be in a difficult position if he tried to convince a bank that a purpose loan was subject to the Regulation because "indirectly secured". Also, in informal discussions with the Board's staff the Office of the Comptroller of the Currency and the Securities and Exchange Commission had expressed the belief that administrative problems of their agencies would be simplified if a definitive interpretation could be published.

So far as the present case was concerned, Miss Hart said, a review of the facts presented by the Securities and Exchange Commission

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indicated, in the light of the position taken by the Board on previous occasions, that the loans extended by Irving Trust Company to Axe-Houghton Stock Fund, Inc. were subject to Regulation U and should be maintained in accordance therewith. The draft of letter to the Commission that had been submitted with the Legal Division's memorandum of May 11, 1961, would take this position, and it was recommended that a copy be sent to Irving Trust Company through the New York Reserve Bank.

With respect to whether the Board should publish an interpretation making it clear that loans to mutual funds are not only "purpose" loans but are also "secured indirectly" by stock, hence subject to Regulation U, where any of the arrangements described in the May 11 memorandum are used by the lending bank, it was the recommendation of the Legal Division, in which the Division of Examinations concurred, that an interpretation be published in substantially the form of the draft letter to the Securities and Exchange Commission.

In the discussion that ensued Miss Hart indicated, in response to an inquiry, that the recommendation to publish the interpretation in question encompassed publication in the Federal Reserve Bulletin as well as in the Federal Register and that such publication would cover the loan situations referred to in the Board's October 3, 1960, letter.

Governor Balderston suggested that in making the necessary editorial changes in the letter to the Securities and Exchange Commission to put it in

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suitable form for publication in the Federal Reserve Bulletin and the Federal Register as an interpretation of Regulation U, the types of arrangement specified in the letter as involving "indirectly secured" loans be listed at the outset.

Following further discussion, unanimous approval was given to the letter to the Securities and Exchange Commission and to publication of an interpretation along the lines of the letter in the Federal Reserve Bulletin and the Federal Register, with the understanding that if the statement prepared for publication should differ in other than editorial respects from the letter it would be brought back to the Board for consideration. A copy of the letter sent to the Securities and Exchange Commission is attached as Item No. 5.

Secretary' Note: It having been determined that an interpretation could be prepared within the scope of the authorization given by the Board, such an interpretation was published in the Federal Register. Advice thereof was transmitted to the Federal Reserve Banks by letter dated May 25, 1961.

Board approval of member State bank dividends (Item No. 6). There had been distributed a memorandum from the Legal Division dated May 19, 1961, recommending an interpretation of section 5199(b) of the Revised Statutes to require consideration of net losses as well as net profits in cases involving Board approval of member bank dividends. Attached to the memorandum was a draft of letter to all Federal Reserve Banks stating it to

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be the position of the Board that in making the calculation required by section 5199(b) of the Revised Statutes it would be necessary for member State banks to take into consideration the actual results of operations during the current year and the two preceding years, whether the figures for those years were plus or minus.

It was brought out in the memorandum that section 5199(b) provides that the approval of the Comptroller of the Currency shall be required if the total of all dividends declared by a national bank in any calendar year shall exceed the total of its net profits of that year combined with its total retained net profits of the preceding two years. Under the sixth paragraph of section 9 of the Federal Reserve Act, member State banks are required to conform to the provisions of that section with respect to the payment of dividends, except that the approval of the Board is required in lieu of approval by the Comptroller of the Currency. In at least two situations involving member State banks the question had arisen whether it was necessary, in determining whether a bank's dividends in a particular year "exceed the total of its net profits of that year combined with its retained net profits of the preceding two years", to take into consideration the net losses of the current year or in one or both of the preceding two years. It was the opinion of the Legal Division that since the purpose of the 1959 legislation was to prevent a bank from paying a dividend (except with supervisory approval) unless it had on hand from operations during

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the three latest years sufficient net income to cover the proposed dividend, "net profits" and "retained net profits" should be interpreted to include net losses as well as net profits. As noted in the memorandum, the Division of Examinations agreed with the Legal Division in this interpretation of section 5199(b).

For the reasons indicated, it was the recommendation of the Legal Division that the Board send a letter to each Reserve Bank along the lines of a draft attached to the memorandum interpreting section 5199(b) to require consideration of net losses as well as net profits in determining whether the Board's approval is prerequisite to the declaration of a dividend by a member State bank. The Division also recommended that this interpretation be published in the Federal Register. In making this recommendation, however, it was the suggestion of the Legal Division that the reaction of the Comptroller of the Currency to the proposed interpretation be ascertained before the proposed letter was sent to the Reserve Banks.

In commenting on the matter, Mr. Hexter noted that if the Comptroller of the Currency agreed with the recommended interpretation the matter would not be submitted to the Board again. However, if the Comptroller took a different position, the matter would be brought back to the Board for further consideration.

The letter to all Reserve Bank Presidents was then approved unanimously, with the understanding that it would not be sent until it had been ascertained that the Comptroller agreed with the position stated therein.

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Secretary's Note: The letter, a copy of which is attached as Item No. 6, was sent on May 25, 1961.

Mr. Hooff withdrew from the meeting at this point.

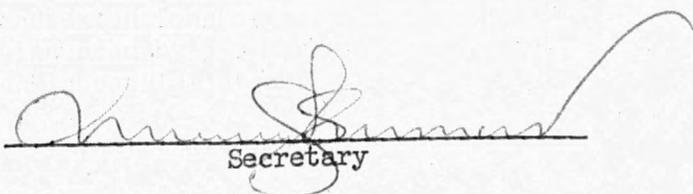
Review of stock market developments. Mr. Brill made a report on recent developments in the stock market, the substance of which report has been placed in the Board's files.

Following discussion based on this presentation, the meeting adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from the Division of Personnel Administration, Governor Shepardson today approved on behalf of the Board the appointment of the following persons to the Board's staff, effective the dates of entrance upon duty:

Janice Loretta Jarman as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,040.

Linda Sue Oldland as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,040.


Secretary

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

Item No. 1
5/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1961

Board of Directors,
The Bank of Saddle Brook & Lodi,
Saddle Brook, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves an excess investment in bank premises of not to exceed \$163,627.22 by The Bank of Saddle Brook & Lodi, Saddle Brook, New Jersey, for the purpose of remodeling and expanding its branch quarters in Lodi, New Jersey.

Attention is called to the fact that, under the provisions of section 24A of the Federal Reserve Act, it will be necessary to obtain prior approval of the Board of Governors for any additional investment in bank premises by The Bank of Saddle Brook & Lodi, or for any additional extension of credit by the bank to its affiliate, 358 Market Street, Inc., as long as the aggregate of all such investments, existing and contemplated, and extensions of credit, together with any other indebtedness incurred by 358 Market Street, Inc., exceeds the amount of the bank's capital stock.

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
5/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1961

Board of Directors,
Jenkintown Bank and Trust Company,
Jenkintown, Pennsylvania.

Gentlemen:

The Federal Reserve Bank of Philadelphia has forwarded to the Board of Governors your letter dated May 8, 1961, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Philadelphia of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Philadelphia.

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
5/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1961

Board of Directors,
New Bethlehem Bank,
New Bethlehem, Pennsylvania.

Gentlemen:

The Federal Reserve Bank of Cleveland has forwarded to the Board of Governors your letter dated April 25, 1961, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Cleveland of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Cleveland.

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. 4
5/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1961

Board of Directors,
The Beatrice National Bank,
Beatrice, Nebraska.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The Beatrice National Bank authority to act, when not in contravention of State or local law as executor, administrator, guardian of estates and committee of estates of lunatics. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
5/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 25, 1961

Mr. Philip A. Loomis, Jr., Director,
Division of Trading and Exchanges,
Securities and Exchange Commission,
Washington 25, D. C.

Dear Mr. Loomis:

This refers to your letter of March 15, 1961, calling the Board's attention to certain information developed in the course of an inspection of Axe-Houghton Stock Fund, Inc. ("Fund"). The memorandum submitted with your letter asks whether certain loans made by Irving Trust Company ("Bank") to Fund are subject to Regulation U, and suggests that, if the loans are so subject, the Board "should find some way to inform banks in general that loans of this nature to an investment company are . . . subject to Regulation U".

Briefly, the facts are as follows. In 1951, Fund entered into the first of a series of loan agreements with Bank, which was (and still is) custodian of the securities which comprise the portfolio of Fund. The agreements, which have been in effect continuously to the present time, commit Bank to make available to Fund a revolving credit of up to \$2 million (formerly \$1 million). During the period in question, as at present, the terms of the agreements included the following terms, which are material to the question before the Board:

- (1) Fund agrees to have an "asset coverage" (as defined in the agreements) of 400 per cent of all its borrowings, including the proposed borrowing, at the time when it takes down any part of the loan.
- (2) Fund agrees to maintain an "asset coverage" of at least 300 per cent of its borrowings at all times.

Mr. Philip A. Loomis, Jr.

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- (3) Fund agrees not to amend its custody agreement with Bank, or to substitute another custodian without Bank's consent.
- (4) Fund agrees not to mortgage, pledge, or otherwise encumber any of its assets elsewhere than with Bank.

Your investigator states that if the loans described above are subject to Regulation U, and if the entire portfolio of Fund is regarded as securing the loans, then loans made to Fund during the months of November 1958 - March 1959, inclusive, were in excess of the amount permitted under the then current Supplement to the regulation.

In 1958 Federal Reserve Bulletin, at page 1279, the Board stated that because of "the general nature and operations of such a company", any "loan by a bank to an open-end investment company that customarily purchases stocks registered on a national securities exchange . . . should be presumed to be subject to Regulation U as a loan for the purpose of purchasing or carrying registered stocks" ("purpose loans"). The Board's interpretation went on to say that "This would not be altered by the fact that the open-end company had used, or proposed to use, its own funds or proceeds of the loan to redeem some of its own shares . . ."

Accordingly, the loans by Bank to Fund were and are "purpose loans". However, a loan by a bank is not subject to Regulation U unless (1) it is a purpose loan and (2) it is "secured directly or indirectly by any stock". In the present case, the loans are not "secured directly" by stock in the ordinary sense, since the portfolio of Fund is not pledged to secure the credit from Bank. But the word "indirectly" must signify some form of security arrangement other than the "direct" security which arises from the ordinary "transaction that gives recourse against a particular chattel or land or against a third party on an obligation" described in the American Law Institute's Restatement of the Law of Security, page 1. Otherwise the word "indirectly" would be superfluous, and a regulation, like a statute, must be construed if possible to give meaning to every word.

The Board has indicated its view that any arrangement under which stock is more readily available as security to the lending bank than to other creditors of the borrower may amount to indirect security within the meaning of Regulation U. In an interpretation published at 1959 Federal Reserve Bulletin 256 it stated

Mr. Philip A. Loomis, Jr. -3-

"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."

In its pamphlet issued for the benefit and guidance of banks and bank examiners, entitled "Questions and Answers Illustrating Application of Regulation U", the Board said

"In determining whether a loan is 'indirectly' secured, it should be borne in mind that the reason the Board has thus far refrained . . . 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."

A wide variety of arrangements as to collateral can be made between bank and borrower which will serve, to some extent, to protect the interest of the bank in seeing that the loan is repaid, without giving the bank a conventional direct "security" interest in the collateral. One of the simplest is to have the borrower deposit stock in the custody of the bank. An arrangement of this kind may not, it is true, place the bank in the position of a secured creditor in case of bankruptcy or even of conflicting claims, but it is likely effectively to strengthen the bank's position. Section 221.3(f) of Regulation U, 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."

does not exempt a deposit of this kind from the impact of the regulation unless it is clear that the bank "has not relied" upon the securities deposited with it.

Mr. Philip A. Loomis, Jr.

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In another type of arrangement, a borrower does not deposit his stock with the bank, but agrees not to pledge or encumber his assets elsewhere while the loan is outstanding. Such an agreement may be difficult to police, yet it serves to some extent to protect the interest of the bank if only because the future credit standing and business reputation of the borrower will depend upon his keeping his word. If the assets covered by such an agreement include stock, then the stock is "indirect security" for the loan within the meaning of Regulation U.

In a third type of arrangement, the borrower deposits stock with a third party who agrees to hold the stock until the loan has been paid off. Here, even though the parties may purport to provide that the stock is not "security" for the loan (for example, by agreeing that the stock may not be sold and the proceeds applied to the debt if the borrower fails to pay), the mere fact that the stock is out of the borrower's control for the duration of the loan serves to some extent to protect the bank.

The three instances described above are merely illustrative. Other methods, or combinations of methods, may serve a similar purpose. The conclusion that any given arrangement constitutes "indirect security" may, but need not, be reinforced by facts such as that the stock in question was purchased with proceeds of the loan, that the lending bank suggests or insists upon the arrangement, or that the loan would probably be subject to criticism by supervisory authorities were it not for the protective arrangement.

In the case described on pages 1 and 2, the Board concludes that Bank's loans to Fund are indirectly secured by the portfolio of Fund, and therefore must be treated by Bank as regulated loans. For this reason, the loans were in violation of Regulation U during the period cited in the report of your investigator. A copy of this letter is being transmitted to Bank through the Federal Reserve Bank of New York. The Board notes, however, that at the present time, the loans do not exceed the maximum loan value of Fund's portfolio under the present Supplement to the regulation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

S-1792

Item No. 6
5/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 25, 1961.

Dear Sir:

Section 5199(b) of the Revised Statutes (12 U.S.C. 60), as amended in 1959, provides that

"The approval of the Comptroller of the Currency shall be required if the total of all dividends declared by [a national bank] in any calendar year shall exceed the total of its net profits of that year combined with its retained net profits of the preceding two years...."

Under the sixth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 324), member State banks are required "to conform to the provisions of section 5199(b)...with respect to the payment of dividends", except that the approval of the Board of Governors is required in lieu of the approval of the Comptroller.

The question has arisen whether it is necessary, in determining whether a bank's dividends in a particular year "exceed the total of its net profits of that year combined with its retained net profits of the preceding two years", to take into consideration the amount of a net loss in the current year or in one or both of the preceding two years.

The purpose of the 1959 amendment of section 5199(b) was to prevent a bank from paying a dividend (except with supervisory approval) unless it has on hand, from operations during the three latest years, sufficient net profits to cover the proposed dividend. If a net loss for one or more of those three years was disregarded in making the calculation called for by section 5199(b), a member State bank could pay dividends, without the approval of the Board of Governors, even though the aggregate results of the three latest years' operations was a net deficit. This was precisely the sort of situation in which Congress intended to prevent the payment of a dividend unless the supervisory authority was satisfied that special circumstances justified the proposed dividend.

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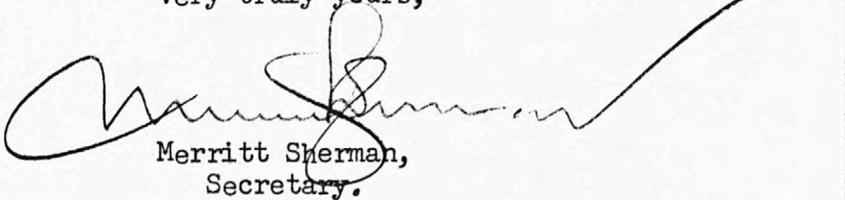
Accordingly, it is the position of the Board that, in making the calculation required by section 5199(b), it is necessary to take into consideration the actual results of operations during the current year and the two preceding years, whether the figures for those years are plus or minus figures. For example, if a bank had

- (a) retained net profits of \$30,000 from 1959;
- (b) a net loss of \$40,000 in 1960 (and dividends of \$10,000 were paid in that year, with the Board's approval); and
- (c) net profits of \$20,000 in 1961,

it could not pay any dividend in 1961 without the Board's approval, since the calculation required by section 5199(b) would result in a zero figure (\$30,000 minus \$50,000 plus \$20,000). It will be noted that, for the purposes of section 5199, any dividends paid in a loss year must be included in the "net loss" for that year, just as dividends paid in a profitable year must be deducted from "net profits" in calculating "retained net profits".

It is understood that the Comptroller of the Currency also interprets section 5199(b) in this way.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.