Minutes for March 21, 1962

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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 11 Amendment of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks.

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. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, March 21, 1962. 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. Fauver, Assistant to the Board

Mr. Hackley, General Counsel

Mr. Farrell, Director, Division of Bank Operations

Mr. Solomon, Director, Division of Examinations

Mr. Hexter, Assistant General Counsel

Mr. O'Connell, Assistant General Counsel

Mr. Shay, Assistant General Counsel

Mr. Conkling, Assistant Director, Division of Bank Operations

Mr. Leavitt, Assistant Director, Division of Examinations

Mr. Thompson, Assistant Director, Division of Examinations

Mrs. Semia, Technical Assistant, Office of the Secretary

Mr. Stephenson, Special Assistant, Division of Examinations

Mr. Potter, Senior Attorney, Legal Division

Mr. Veret, Attorney, Legal Division

Mr. Veenstra, Technical Assistant, Division of Bank Operations

Mr. Smith, Review Examiner, Division of Examinations

<u>Circulated or distributed items.</u> The following items, which had been circulated or distributed to the members of the Board and ^{copies} of which are attached to these minutes under the respective item numbers indicated, were <u>approved</u> unanimously:

	Item No.
Letter to Farmer's Bank of Polo, Missouri, Polo, Missouri, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	1
Letter to the Federal Deposit Insurance Corporation regarding the application of Brownfield State Bank & Trust Co., Brownfield, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of Levelland State Bank, Levelland, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to Bank of Las Vegas, Las Vegas, Nevada, approving an extension of time to establish a branch in the Vicinity of Maryland Parkway and East San Francisco Avenue, Clark County.	4
Letter to County Bank of Santa Cruz, Santa Cruz, California, approving an extension of time to establish a branch in the vicinity of Front and Cooper Streets.	5
Telegram to all Federal Reserve Banks informing them that the Schedule J forms referred to in the Board's letter of March 7, 1962, would not be used in connection with the forthcoming call report.	6
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 201 East 79th Street, Borough of Manhattan.	7
Letter to The Union Commerce Bank, Cleveland, Ohio, approving the establishment of a branch in Lakewood.	8
Letter to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in the Mid-City Shopping Center.	9
Letter to the National Association of Securities Dealers interpreting section 220.4(c)(8) of Regulation T With respect to withdrawal of the proceeds of the sale of stock in a special cash account.	10

With respect to Item No. 6, reference was made to the discussion at the Board meeting on March 2, 1962, at which time there had been uncertainty as to whether the Comptroller of the Currency would be willing to include Schedule J in the forms to be used in the forthcoming call for reports of condition from national banks. Although nothing had been received in writing from the Comptroller, Chairman Cocke of the Federal Deposit Insurance Corporation had informed Governor Robertson that at a recent meeting of the Corporation's Board of Directors the Comptroller indicated that he was not prepared to use Schedule J. In the circumstances, the Corporation was not going to use the schedule in calling for reports of condition from insured nonmember banks.

With respect to Item No. 10, it was understood that the substance of the letter to the National Association of Securities Dealers would be published as an interpretation of Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges. During the discussion of this item, Governor Mills expressed the view that the Board and the National Association of Securities Dealers should have in mind the possibility of repercussions from the issuance of this interpretation. This was because the interpretation held that, in the circumstances described, the requirement of "final payment" for the purchase of stock by a customer would not be satisfied until it was ascertained that the customer's check had been charged against his bank account. On the other hand, the mailing to the customer of the creditor's check for the proceeds of the sale of stock was held to

constitute a withdrawal of such proceeds by the customer at the time of mailing. It was understood that this interpretation was likely to come into play only rarely. However, that could mean that there would be only limited understanding of the problem, and a customer might feel aggrieved if confronted with the interpretation.

Application of Bank Stock Corporation of Milwaukee. There had been distributed a memorandum dated February 13, 1962, from the Division of Examinations regarding the application of Bank Stock Corporation of Milwaukee, Milwaukee, Wisconsin, for prior approval of the acquisition of 80 per cent or more of the outstanding shares of common stock of Silver Spring Bank, Milwaukee, Wisconsin. Approval of the application was recommended by the Division of Examinations, the Federal Reserve Bank of Chicago, and the State Commissioner of Banks.

Mr. Thompson, in commenting on the Division memorandum, noted that Silver Spring Bank was a newly-organized institution not yet in Operation. Bank Stock Corporation of Milwaukee owned one share of the 12,500 outstanding, and the remaining shares were owned by officers and/or directors of Bank Stock. The Division had concluded that considerations under the first three statutory factors, namely, financial history and condition, prospects, and character of management, did not weigh heavily either for or against approval of the application. In the Division's opinion the bank could, as a member of the holding company system, offer more complete banking services sooner than could

an independent bank, and thus benefit the convenience and needs of the area concerned. However, in view of the fact that the bank apparently would be established and opened regardless of the Board's decision with respect to Bank Stock's application, the banking needs of the area would be served even if the application was denied. It appeared, therefore, that considerations under the fourth statutory factor lent some, but not strong, support for approval.

With respect to the fifth statutory factor, Mr. Thompson said it was believed that the bank would retain the characteristics of a neighborhood bank and would not, as a subsidiary of Bank Stock, expand either the present or future size or extent of the holding company system to any appreciable degree. Further, the acquisition would not expand the operations of the three bank holding companies in Milwaukee County to any significant extent. It appeared that the primary com-Petitors of the new bank would be two branches of First Wisconsin National Bank, the largest bank in Milwaukee County (a subsidiary of the largest holding company in the State); Milwaukee Western Bank, the ninth largest bank in the County; and Hampton State Bank, a proposed new bank that would be affiliated through common controlling ownership With the sixth largest bank in the County. It was the opinion of the Division of Examinations that Silver Spring Bank, if operated as a subsidiary of Bank Stock, would be in a more favorable position to compete for the loans and deposits of individuals and business concerns in the Silver Spring area. It was therefore concluded that approval of the application would tend to increase, rather than lessen, banking competition in northwest Milwaukee County.

With reference to the memorandum from the Legal Division that had been distributed under date of March 12, 1962, Mr. O'Connell stated that the Division concurred in the accuracy of the factual presentation. He added that a valid consideration in this case, which required the Board's judgment, was the degree of banking concentration in Milwaukee and Milwaukee County. In the Division's opinion, the present case could be distinguished sufficiently from previous applications approved by the Board in the Milwaukee area to support a denial, if that should be the Board's decision.

Governor Mills stated that he would accept the recommendation of the Division of Examinations. He felt that special weight should be given to the fact that Silver Spring Bank would provide banking services to an area that would benefit from them, and the provision of those services would not appear to cause competitive damage to any other bank. Also, the acquisition would not, in his judgment, increase the resources of the holding company to an extent contrary to the public interest. He assumed that approval would not conflict with the pending antitrust suit brought by the Department of Justice against Bank Stock Corporation in connection with the holding company's acquisition of the Bank of Commerce, because the two cases seemed to be completely separate.

Governor Robertson noted that people connected with Bank Stock Corporation had made application to establish Silver Spring Bank as an independent bank. He saw nothing to indicate that an independent bank Would not be successful or would not be able to meet the needs of the community. Therefore, he thought there was little basis for approving the application of Bank Stock to acquire the majority of the bank's shares. The bank would be opened whether or not the Board approved the holding company's application. In his view an important element was the suit instituted by the Department of Justice, in which connection the Department was seeking an injunction to prohibit Bank Stock Corporation from acquiring any other banks. One of the bases for the suit was that the three holding companies in the area had more than 50 per cent of the offices and over 70 per cent of the deposits in Milwaukee County. Bank Stock's percentages were 10 and 20, respectively. This was not a black or a white case; it could be decided either way Without great harm to anybody. There would be no elimination of competition. However, it seemed to Governor Robertson that it would be Unwise to approve the application without ascertaining from the Department of Justice what the effect of approval would be on its Pending action. The Department might say that its suit was not directed against the kind of acquisition here proposed, that is, the acquisition of a new bank. If so, he would approve this application, but otherwise he would recommend disapproval of the application until the Department's suit had been decided.

Mr. O'Connell pointed out that the Department of Justice had been given notice of receipt of the application and had had an Opportunity to submit comments regarding the merits of the application or the relationship thereof to the pending antitrust suit. He suggested that the Board, if it consulted the Department of Justice at this point, might encourage circumstances similar to those in which the former Comptroller of the Currency found himself when an "accord" was reached under which the Comptroller reportedly agreed not to approve any bank merger to which the Department of Justice objected.

Mr. O'Connell said he believed that as a matter of law the Board was entitled to act in the case before it, without regard to any action taken by the Department of Justice.

In response to a question as to when the Department's pending suit might be decided, Mr. O'Connell replied that he understood it was scheduled to be considered during the court term next fall.

Mr. Hackley expressed reservations about the thought of giving any indication that a denial of the application by the Board was based to any substantial degree on the fact that the suit by the Department of Justice was pending. The Board had approved the formation of Bank Stock Corporation and the Corporation's acquisition of Bank of Commerce, which was now being attacked by the Department of Justice under the Clayton Act. It seemed to him that it would be preferable for the Board to base its decision entirely on a weighing of the factors specified in the Bank Holding Company Act, without regard to the Department's suit.

Governor Shepardson commented that the point raised by

Governor Robertson might have some significance in view of the

injunction feature of the pending suit. However, in his view the Board

should approach the application as standing by itself, and he thought

that an adequate case had been made for approval.

Governor King expressed agreement with Governor Shepardson's Position. From the standpoint of the competitive factor, he saw nothing adverse, and there seemed to be some weight on the side of approval in the banking factors.

Governor Balderston said that he would favor approval for the reasons set forth by the Division of Examinations, particularly in regard to the manner in which the banking needs of the community would best be met. Also, the starting of the new bank would seem clearly to add to, rather than diminish, competition.

Chairman Martin also indicated that he would favor approval.

Accordingly, the application of Bank Stock Corporation of Milwaukee was approved, Governor Robertson dissenting. It was understood that the Legal Division would draft an order and a statement for the Board's consideration.

Mr. Dembitz, Associate Adviser, Division of Research and Statistics, entered the room at this point and Messrs. O'Connell, Thompson, and Smith withdrew.

Application of Farmers and Merchants Bank of Long Beach. There had been distributed a memorandum dated March 9, 1962, from the Division of Examinations regarding the application of Farmers and Merchants Bank of Long Beach, Long Beach, California, for permission to acquire the assets and assume the liabilities of Farmers and Merchants Bank of Southern Counties, Long Beach, California, and to establish branches at the locations of the head office and branch of that bank. Both the Division of Examinations and the Federal Reserve Bank of San Francisco recommended approval of the application.

Mr. Leavitt commented on the principal points set out in the Division memorandum, observing that the two banks had common management and ownership, and that the bank to be merged had been operated practically as a branch of the applicant bank.

Governor Mills stated that he would favor approval of the application for the reasons cited by the Division of Examinations, but with no real enthusiasm. The application seemed to fall within the provisions of the merger law. Nevertheless, the ownership and management of the two banks seemed interested mostly in capital gains tax advantages, a release of bank capital, and a reduced retention of bank earnings in the capital structure. If that was correct, there was some reflection on the ownership and management in thus suborning the position of the banks to self interest.

The other members of the Board indicated that they would favor approval, Governor Balderston adding that he would approve despite the Possibility of a tax avoidance motive.

Accordingly, the application of Farmers and Merchants Bank of Long Beach was approved unanimously, with the understanding that the Legal Division would draft an order and a supporting statement for the Board's consideration.

Messrs. Leavitt, Stephenson, and Veret then withdrew from the meeting.

Amendment of Regulation U (Item No. 11). A memorandum dated March 7, 1962, from Mr. Hexter, which had been distributed, submitted a proposal to amend Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. The memorandum noted that on October 14, 1961, the Board had published in the Federal Register a proposed amendment of paragraphs (f), (g), and (h) of section 221.2 of Regulation U designed to make it more difficult for speculators to use bank credit to finance transactions in "special cash accounts" maintained with brokers. This was one variant of the so-called "free ride" device by which a speculator engages in purchases and sales purporting to be bona fide cash transactions but actually resting largely or wholly on credit.

Comments on the proposal had been received from the New York Stock Exchange, a law firm on behalf of certain New York Clearing House

banks, and the New York Reserve Bank. Mr. Hexter's memorandum summarized and analyzed the comments received, including the contention of the Stock Exchange that the need was actually for a complete new regulation governing presently unregulated lenders and the suggestion by the law firm, concurred in by the New York Reserve Bank, that there should be an explicit exemption for certain loans to brokers and dealers. The Legal Division had concluded that the suggestion of the Stock Exchange was not really an argument against adoption of the proposed amendment to Regulation U. The Division had made changes in the language of the proposed amendment, as published in the Federal Register, that it was hoped would meet substantially the problem the New York Clearing House banks had raised.

After discussion, the proposed amendment to Regulation U was approved unanimously, effective May 1, 1962. A copy of the amendment, as published in the Federal Register pursuant to this action, is attached as Item No. 11.

Mr. Molony, Assistant to the Board, entered the room at this Point.

Absorption of exchange charges (Items 12 and 13). At its meeting on March 14, 1962, the Board discussed a recommendation by Governor Robertson that it reverse its position that absorption of exchange charges constitutes indirect payment of interest on deposits in violation of Regulation Q, Payment of Interest on Deposits. As

preliminary steps to the Board's consideration of the recommendation, it had been agreed that the matter should be discussed with the Presidents of the Federal Reserve Banks on March 27, 1962, when they would be in Washington to attend a meeting of the Federal Open Market Committee, and that shortly thereafter a special meeting of the Federal Advisory Council should be called in order that the Board might discuss the subject with the Council. It was also agreed that the Reserve Bank Presidents and the members of the Council should be furnished material reviewing the history and ramifications of the absorption of exchange problem. Accordingly, under date of March 20, 1962, drafts of letters to the Presidents and the Council had been distributed, such letters to be accompanied by a statement summarizing the background of the absorption of exchange question.

Following a discussion, during which Mr. Hackley stated reasons why he felt it would be preferable--if the Board should follow Governor Robertson's recommendation--to proceed by way of an amendment to Regulation Q rather than an interpretation of the law, certain changes were agreed upon in the wording of the two letters and also in the background statement. The letters and the statement to be enclosed with them were then approved unanimously. Copies of the letters are attached as Items 12 and 13.

There was also discussion as to the date that might be set for a meeting with the Federal Advisory Council, during which general

agreement was expressed that a day within the period April 3-6, 1962, might give sufficient notice and still make it apparent that the matter was of some urgency. It was agreed that Chairman Martin would telephone Mr. Murphy, President of the Council, to determine what date would be most convenient from the Council's standpoint.

The suggestion was made that, instead of designating this a special meeting of the Council, it be considered as one of the regular meetings of the Council, with the date advanced from April 30-May 1, 1962. However, the consensus was that any suggestion in this regard should come from the Council rather than the Board.

Mr. Shay then withdrew from the meeting.

Cost of national bank examinations. Governor Mills referred to the proposal of the Comptroller of the Currency, reiterated in his letter of March 16, 1962, that the Board contribute to the cost of national bank examinations. In Governor Mills' view, many problems arose from that proposal. National bank examinations were a statutory function to be performed by the Comptroller, while the Federal Reserve had assumed responsibility for examinations of State member banks and the Federal Deposit Insurance Corporation had responsibility for examinations of nonmember insured banks. For the Comptroller to ask financial support for a function assigned to him by statute was an important break with the past, and Governor Mills felt the Board could not properly accede to it. The Congress had given the Federal Reserve System the privilege

of expending its funds at its own discretion. To interpret that privilege as permitting contributions by the Federal Reserve toward the expense of national bank examinations would go beyond the spirit of the law, especially in view of the fact that residual Federal Reserve Bank earnings are paid over to the Treasury. If the Board should use its funds in a way such as the Comptroller asked, it was conceivable that the Board's authority to control its own money would be cancelled by the Congress and the Board's expenditures would be made subject to audit by the General Accounting Office and direction by the Bureau of the Budget.

Further, if the Comptroller of the Currency should present to
the Congress legislation of the kind he had drafted, authorizing the
Federal Reserve to share in the cost of national bank examinations, that
might raise the question whether the Office of the Comptroller of the
Currency had outlived its purposes and whether the functions should be
transferred elsewhere. As Governor Mills saw it, therefore, the
Comptroller's proposal ran counter to the desire and intent of those
who upheld the need for continuance of the Office of the Comptroller.
If the Comptroller should present draft legislation to the Congress,
however, Governor Mills believed that the appropriate position for the
Board to take would be one of strict neutrality, neither advocating nor
opposing the legislation.

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Chairman Martin expressed agreement with the view that the Board should not actively oppose or support such legislation, if introduced. After making certain further comments in this regard, he asked Mr. Hackley if the Legal Division had found any reason, on further investigation, to change its view on the question of Federal Reserve contributions toward the cost of national bank examinations.

Mr. Hackley responded that the Legal Division continued to be of the opinion that had been expressed earlier. The Congress, having given the Board complete discretion as to the handling of its funds, would expect the Board to exercise that discretion with great care. A decision to accede to the Comptroller's request could be subject to serious question, not as to the Board's authority, but as to the propriety of assisting in the financing of the Comptroller's Office, the expenses of which the Congress had declared by statute should be paid by assessments upon national banks.

In further discussion, Chairman Martin expressed concern regarding the work load of the Board and the amount of time required to be spent on bank supervisory activities as compared with that available for consideration of monetary policy. Perhaps, he suggested, it might be well to consider the possibility of turning the bank examination function over to the chartering authorities.

Governor Shepardson noted that one of the functions the System had been assigned was the improvement of bank supervision. To that end,

the System had undertaken to examine State member banks. However, he Wondered if, through that process, the Federal Reserve might not have provided a crutch on which State banking departments had come to lean. In some States, he understood that the State banking department operated With a fraction of the examining staff it would need if the Reserve Bank did not participate in examinations of State banks. There was some Question in his mind as to whether the Federal Reserve was justified in continuing to supply a crutch to State banking departments under the guise of improving bank supervision. He considered the Comptroller of the Currency unjustified in refusing to recognize the expense borne by State banks for examinations as an offset to the expense borne by national banks for examinations. However, there might be a legitimate question of equity in terms of the Federal Reserve's treatment of the two groups of member banks. If State member bank examinations were turned over to the States completely, there would be no basis for such a charge.

arrived when all Federal Government bank supervisory work should be placed in one agency, separate from monetary policy and from deposit insurance. That agency should have such work as its sole function, and the cost should be borne entirely by the Federal Government rather than the banks that were supervised. The agency should have as its objective the protection of the public interest; it should not be a trade

association for banks. The agency would do all of the examining work, and would make its reports available to the Board and to the Federal Deposit Insurance Corporation for their particular purposes. The States Would be obliged to take care of their own bank supervision by whatever methods they wished. All holding company matters and bank mergers would be handled by an administrative tribunal set up solely for that purpose to carry out the will of Congress and to consider both the public interest and the interests of the banks appearing before it. The decisions of the tribunal would be final, subject to appeal only on grounds of arbitrariness or caprice.

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Chairman Martin suggested that a proposal along such lines be drawn up for study, following which Mr. Hackley commented that somewhat similar proposals had been considered at times in the past. Legislation had been drafted that would have accomplished substantially the objectives outlined by Governor Robertson. Chairman Martin then suggested that those legislative drafts be circulated to the Board for review. As a possible alternative to legislation, action under a Presidential Reorganization Plan was mentioned by Mr. Sherman.

Governor Shepardson reverted to the suggestion that the Board neither advocate nor oppose any legislation on the cost of examinations of national banks that might be introduced by the Comptroller. If a bill were introduced, he noted that the Board no doubt would be called upon for comment. Therefore, it would seem wise to be prepared as well as possible.

Governor Balderston indicated that he was favorably inclined toward Governor Robertson's approach. It would be well, he thought, for the Board to take the initiative in offering to the Congress a proposal that would be sound for the economy and for American banking. Since the proposal that had been mentioned contemplated such a fundamental change in the structure of bank supervision, it would seem desirable at some point to have the views of the Reserve Bank Presidents and the Federal Advisory Council if the matter was pursued.

At the end of the discussion, it was <u>understood</u> that the Legal Division would circulate for the Board's information and review the draft legislation to which Mr. Hackley had referred.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson approved on behalf of the Board on March 19, 1962, an advance of sick leave for M. Elva Morse, Statistical Clerk in that Division, for the period February 14, 1962 (one hour), through March 19, 1962.

Pursuant to the recommendation contained in a memorandum from the Office of the Secretary, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Barbara A. Byrne, Minutes Clerk in that Office, effective at the close of business March 21, 1962.

Secretary



FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1 3/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1962

Board of Directors, Farmer's Bank of Polo, Missouri, Polo, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your letter and affidavit dated February 13, 1962, signifying your intention to withdraw from membership in the Federal Reserve System as soon as possible.

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 St. Louis 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 St. Louis.

Attention is invited to the fact that if your bank is desirous of continuing deposit insurance after withdrawal from membership in the Federal Reserve System, it will be necessary that application be made to the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Elizabeth L. Carmichael



FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2 3/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1962

The Honorable Erle Cocke, Sr., Chairman, Federal Deposit Insurance Corporation, Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of March 6, 1962, concerning the application of Brownfield State Bank & Trust Co., Brownfield, Texas, Brownfield, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank. However, the Board of Governors for a number of years has considered that capital funds in subject bank afford less than desirable protection. In this connection, the bank has been urged to conserve earnings and to maintain an appropriate relationship of risk assets to deposits.

Very truly yours,

(Signed) Elizabeth L. Carmichael



OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3 3/21/62

ADDRESS OFFICIAL CORRESPONDENCE

March 21, 1962

The Honorable Erle Cocke, Sr., Chairman, Federal Deposit Insurance Corporation, Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of March 6, 1962, concerning the application of Levelland State Bank, Levelland, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

OF THE



Item No. 4 3/21/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1962

Board of Directors, Bank of Las Vegas, Las Vegas, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to June 21, 1962, the time within which Bank of Las Vegas may establish a branch in the vicinity of the intersection of Maryland Parkway and East San Francisco Avenue, Clark County, Nevada.

Very truly yours,

(Signed) Elizabeth L. Carmichael





BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM 3/3

Item No. 5 3/21/62

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1962

Board of Directors, County Bank of Santa Cruz, Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 14, 1962, the time within which County Bank of Santa Cruz may establish a branch in the vicinity of the intersection of Front and Cooper Streets, Santa Cruz, California.

Very truly yours,

(Signed) Elizabeth L. Carmichael

TELEGRAM

Item No. 6 3/21/62

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM WASHINGTON

March 21, 1962

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

For your information, Schedule J forms referred to in the last paragraph of Board's letter of March 7, 1962, transmitting forms for next call date will not be used in connection with forthcoming report of condition.

(Signed) Merritt Sherman Sherman



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

Item No. 7 3/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE SOARD

March 21, 1962

Board of Directors, The Chase Manhattan Bank, New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Chase Manhattan Bank, New York, New York, of a branch at 201 East 79th Street, Borough of Manhattan, New York, New York, provided the branch is established within two years from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael



FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 8 3/21/62

ADDRESS OFFICIAL CORRESPONDENCE

March 21, 1962

Board of Directors, The Union Commerce Bank, Cleveland 1, Ohio

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Union Commerce Bank, Cleveland, Ohio, of a branch at 11710 Clifton Boulevard, Lakewood, Ohio, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Item No. 9 3/21/62

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1962

Board of Directors, Citizens Fidelity Bank and Trust Company, Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch in the Mid-City Shopping Center on Bardstown Road between Rosewood and Beechwood Avenues, Louisville, Kentucky, provided the branch is established within 12 months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

OF THE

FEDERAL RESERVE SYSTEM

Item No. 10 3/21/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1962

Mr. Wallace H. Fulton, Executive Director, National Association of Securities Dealers, Inc., 1707 H Street, N. W., Washington 6, D. C.

Dear Mr. Fulton:

The Board of Governors has considered your request of January 5, 1962, for an interpretation of the provisions of section 220.4(c)(8) of the Board's Regulation T, with respect to the Withdrawal of proceeds of a sale of stock in a "special cash account" when the stock has been sold out of the account prior to payment for its purchase.

The specific factual situation presented in your letter may be summarized as follows:

Customer purchased stock in a special cash account with a member firm on Day 1. On Day 3 customer sold the same stock at a profit. On Day 8 customer delivered his check for the cost of the purchase to the creditor (member firm). On Day 9 the creditor mailed to the customer a check for the proceeds of the sale.

Section 220.4(c)(8) prohibits a creditor, as a general rule, from effecting a purchase of a security in a customer's special cash account if any security has been purchased in that account during the preceding 90 days and has then been sold in the account or delivered out to any broker or dealer without having been previously paid for in full by the customer. One exception to this general rule reads as follows:

"... The creditor may disregard for the purposes of this subparagraph [section 220.4(c)(8)] a sale without prior payment provided full cash payment is received within the period described by subparagraph (2) of this paragraph [seven days after the date of purchase] and the customer has not withdrawn the proceeds of sale on or before the day on which such payment (and also final payment of any check received in that connection) is received..."

Mr. Wallace H. Fulton

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Final payment of customer's check. - The first question raised is: When is the creditor to be regarded as having received "final payment of any check received" in connection with the purchase?

The clear purpose of section 4(c)(8) is to prevent the use of the proceeds of sale of a stock by a customer to pay for its purchase - i.e., to prevent him from trading on the creditor's funds by being able to deposit the sale proceeds prior to presentation of his own check to the drawee bank. Thus, when a customer undertakes to pay for a purchase by check, that check does not constitute payment for the purchase, within the language and intent of the above-quoted exception in section 220.4(c)(8), until it has been honored by the drawee bank, indicating the sufficiency of his account to pay the check.

The phrase "final payment of any check" is interpreted as above, notwithstanding section 220.6(f), which provides that:

"For the purposes of this part [Regulation T], a creditor may, at his option (1) treat the receipt in good faith of any check or draft drawn on a bank which in the ordinary course of business is payable on presentation,

. . . as receipt of payment of the amount of such check, draft or order; . . "

This is a general provision substantially the same as language found in section 4(f) of Regulation T as originally promulgated in 1934. The language of the subject exception to the 90-day rule of section 220.4(c)(8) - i.e., the exception based expressly on "final payment of any check" - was first added to the regulation by amendment effective May 1, 1949, directed at one narrow set of circumstances. Because the exception is a special, more recent provision, and because section 220.6(f), if controlling, would permit the exception to undermine the function of the 90-day rule, sound principles of construction require that the phrase "final payment of any check" be given its literal and intended effect.

In the ordinary course, there is no fixed period of time from the moment of receipt, or of deposit, within which it is certain that a check on any drawee bank will be paid. It might be one day if the drawee bank is also the depositary bank, or it might be several days if the drawee bank is distant from the depositary bank and a circuitous collection route is involved. Because of the difficulty of establishing a reliable rule of presumption as to the time when a check may be deemed to be finally paid, the Board of Governors takes the position that, where the operation of the subject exception to section 220.4(c)(8) is desired to avoid the 90-day rule, a creditor should ascertain (from his bank of deposit or otherwise) the fact

Mr. Wallace H. Fulton

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of payment of a customer's check given for the purchase. Having so determined the day of final payment, the creditor can permit withdrawal on any subsequent day. Because of the limited circumstances in which this interpretation will apply, it does not appear that it will cause any serious inconvenience.

Mailing as "withdrawal". - Also presented by your letter is the question whether the mailing to the customer of the creditor's check for the sale proceeds constitutes a withdrawal of such proceeds by the customer at the time of mailing so that, if the check for the sale proceeds is mailed on or before the day on which the customer's check for the purchase is finally paid, the 90-day rule applies. It has been suggested that a check mailed one day will not ordinarily be received by the customer until the next. The Board is of the view, however, that when the check for sale proceeds is issued and released into the mails - out of the control of the creditor, in effect - the proceeds are to be regarded as withdrawn by the customer; a more liberal interpretation would open a way for circumvention. Accordingly, the creditor's check should not be mailed nor the sale proceeds otherwise released to the customer "on or before the day" on which payment for the purchase, including final payment of any check given for such payment, is received by the creditor, as determined in accordance with the principles stated previously herein.

When the creditor's check for the sale proceeds was "cleared" by his bank. This date is not material because once the creditor releases his check, the customer's use of the funds represented by the check is not dependent on final payment of the check by the drawee bank.

The schedule of transactions described on the first page of this letter would be consistent with the subject exception to section 220.4(c)(8) as interpreted herein only if the customer's check was paid by the drawee bank on "Day 8". The opinion contained in the letter of November 17, 1961, from the Seattle Branch of the San Francisco Reserve Bank to your member firm and quoted in your letter should be disregarded to the extent it is inconsistent with this interpretation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. U]

PART 221 - LOANS BY BANKS FOR PURPOSE OF PURCHASING OR CARRYING REGISTERED STOCKS

Exceptions to General Rule

- 1. Effective May 1, 1962, paragraphs (f), (g), and (h) of \$ 221.2 are amended to read as follows:
- § 221.2 Exceptions to general rule.

* * * * *

- (f) Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction: Provided,

 That the advance is not made to a person described in § 221.3(q):

 And provided further, That it is either (1) made to a broker or dealer, or (2) made for a purpose other than to enable the borrower to pay for securities purchased in a special cash account subject to \$ 220.4(c) of Part 220 of this chapter (Regulation T);
- (g) Any loan against securities in transit, or surrendered for transfer, which is payable in the ordinary course of business upon arrival of the securities or upon completion of the transfer:

 Provided, That the loan is not made to a person described in § 221.3(q):

 And provided further, That it is either (1) made to a broker or dealer, or (2) made for a purpose other than to enable the borrower to pay for securities purchased in a special cash account subject to § 220.4(c) of Part 220 of this chapter (Regulation T);

- (h) Any loan which is to be repaid on the calendar day on which it is made: Provided, That the loan is not made to a person described in § 221.3(q): And provided further, That it is either (1) made to a broker or dealer, or (2) made for a purpose other than to enable the borrower to pay for securities purchased in a special cash account subject to § 220.4(c) of Part 220 of this chapter (Regulation T);
- 2a. Paragraphs (f), (g), and (h) of § 221.2 exempt specified classes of bank loans from the margin requirements and other requirements of § 221.1. The purpose of these amendments is to prevent credit that might be extended by banks under those exemptions from being used to finance transactions in "special cash accounts" under § 220.4(c) of Part 220 of this chapter (Regulation T).
- b. The amendments set forth herein were the subject of notices of proposed rule making published in the Federal Register (26 F.R. 9733), and were adopted by the Board after consideration of all relevant views and arguments received from interested persons.

(Sec. 23, 48 Stat. 901; 15 U.S.C. 78w. Interprets or applies secs. 2, 3, 7, 17, 48 Stat. 881, 882, 886, as amended; 15 U.S.C. 78b, 78c, 78g, 78w)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

OF THE

FEDERAL RESERVE SYSTEM

Item No. 12 3/21/62



WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE SOARD

March 21, 1962.

Dear Sir:

As you know, the Board has long been concerned by the difficulties involved in enforcing the Board's position that absorption of exchange charges by member banks involves an indirect payment of interest on demand deposits. The Board is also aware of the inequities of the resulting situation in which member banks and nonmember insured banks are subject to different rules under similar provisions of law.

In recent months, further studies of the possibility of devising an acceptable administrative rule in applying the law and further discussions of the matter with the Federal Deposit Insurance Corporation and the Comptroller of the Currency have afforded no clearly satisfactory basis for a solution to the problem.

In the circumstances, the Board is now giving serious consideration to the desirability of amending Regulation Q to provide that the absorption of normal and customary exchange charges by member banks, in connection with the routine collection for their depositors of checks drawn on other banks, will not be considered a payment of interest on deposits. This would be consistent with the position taken by the Federal Deposit Insurance Corporation with respect to nonmember insured banks.

The Board would like to have the benefit of a discussion of this problem with the Presidents of the Federal Reserve Banks following the meeting of the Federal Open Market Committee on March 27, 1962. It is contemplated that promptly thereafter the Board would also seek the views of the Federal Advisory Council.

Of this matter and indicates some of the arguments that might be advanced for

and against reversal of the Board's position that absorption of exchange by Member banks constitutes a payment of interest. This memorandum is also being furnished to the Federal Advisory Council.

Very truly yours,

Merritt Sherman Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 13 3/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 21, 1962

Mr. Herbert V. Prochnow, Secretary, Federal Advisory Council, c/o First National Bank of Chicago, 38 South Dearborn Street, Chicago 90, Illinois.

Dear Mr. Prochnow:

In accordance with arrangements made by Chairman Martin with President Murphy, the Board would like to have the views of the Federal Advisory Council with respect to a problem of considerable importance and difficulty that arises out of the Board's efforts to interpret and enforce provisions of the Federal Reserve Act that prohibit member banks from paying interest on demand deposits, directly or indirectly, by any device whatsoever. A special meeting of the Council with the Board has been set tentatively for 10:00 a.m. on Wednesday, April 4, 1962, in the Board's building, with the thought that as much of the day as may be necessary will be devoted to discussion of this subject.

For many years the Board has consistently followed the position that the absorption by member banks of exchange charges deducted by drawee nonpar banks in remitting for checks collected by the member banks for their depositors involves an indirect payment of interest on demand deposits in violation of the law. However, the practical difficulties of effective enforcement of this position have become increasingly apparent. The Board has also been concerned by the inequities of the resulting situation in which member banks are placed at a disadvantage in competing with nonmember insured banks, since the Federal Deposit Insurance Corporation has interpreted similar provisions of law as not precluding the absorption of exchange charges on behalf of demand depositors.

Repeated efforts to find acceptable administrative means of meeting the problem without imposing undue burdens upon member banks have been unsuccessful. Consequently, the Board is now giving consideration to the desirability of amending Regulation Q to provide that the absorption of normal and customary exchange charges by member banks, in connection with the routine collection for their depositors of checks drawn on other banks, will not be considered a payment of interest on deposits. This would be consistent with the position taken by the Federal Deposit Insurance Corporation with respect to nonmember insured banks.

Mr. Herbert V. Prochnow

There is enclosed a memorandum that summarizes the background of this problem and indicates some of the arguments that might be advanced for and against reversal of the Board's position that absorption of exchange charges by member banks constitutes an indirect payment of interest on deposits.

If any member of the Council should be unable to be present at the special meeting tentatively set by Chairman Martin and President Murphy for April 4, it is hoped that an alternate might attend in his place, and if neither the member nor an alternate can attend, the Board would appreciate receiving the member's views in writing.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

Enclosure.

P. S. A copy of this letter is being sent direct to each member of the Council together with the enclosure.

cc: Mr. Korsvik