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. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Gov. Mitchell
Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, April 11, 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. Mitchell

         Mr. Sherman, Secretary
         Mr. Kenyon, Assistant Secretary
         Mr. Molony, Assistant to the Board
         Mr. Fauver, Assistant to the Board
         Mr. Cardon, Legislative Counsel
         Mr. Noyes, Director, Division of Research and Statistics
         Mr. Farrell, Director, Division of Bank Operations
         Mr. Solomon, Director, Division of Examinations
         Mr. Johnson, Director, Division of Personnel Administration
         Mr. Hexter, Assistant General Counsel
         Mr. Shay, Assistant General Counsel
         Mr. Furth, Adviser, Division of International Finance
         Mr. Conkling, Assistant Director, Division of Bank Operations
         Mr. Kiley, Assistant Director, Division of Bank Operations
         Mr. Goodman, Assistant Director, Division of Examinations
         Mr. Leavitt, Assistant Director, Division of Examinations
         Mr. Landry, Assistant to the Secretary
         Mr. Veret, Attorney, Legal Division

Item circulated to the Board. The following item, which had been circulated to the Board and a copy of which is attached as Item No. 1, was unanimously approved:

Letter to Riverside Trust Company, Hartford, Connecticut, approving the establishment of a branch in Constitution Plaza at the corner of State Street and American Row.
Report on competitive factors (Kalamazoo-Plainwell, Michigan). Copies had been distributed under date of April 4, 1962, of a proposed report to the Comptroller of the Currency on the competitive factors involved in a planned purchase of assets and assumption of liabilities of Plainwell Bank, Plainwell, Michigan, by The American National Bank and Trust Company of Kalamazoo, Kalamazoo, Michigan.

The report, which contained the following conclusion, was approved unanimously for transmission to the Comptroller of the Currency:

Investigation reveals some competition between these two banks which will be eliminated by the proposed transaction. The competitive effect on other area banks should not be adverse.

Proposal for stationing an examiner in Puerto Rico (Item No. 2). At the meeting on March 28, 1962, consideration was given to a memorandum from the Division of Examinations dated March 23, 1962, regarding a letter of March 12 from the Federal Reserve Bank of New York that raised the question of stationing a resident examiner or representative of the Reserve Bank in Puerto Rico should the major banks in that Commonwealth become members of the Federal Reserve System. In the course of the discussion of this matter at the earlier meeting, question was raised as to the acceptability for System membership of the Puerto Rican banks. In the absence of detailed information on this point, the Division of Examinations was requested to obtain further data, with the understanding that thereafter the proposal would be considered again by the Board.
Pursuant to this understanding, copies of a memorandum from the Division of Examinations dated April 3, 1962, had been distributed reporting the results of a review of the examination reports of the seven local insured banks in Puerto Rico. Based upon the review, it appeared that the three smallest banks were in satisfactory condition; the other small bank was in reasonably satisfactory condition; Banco de Ponce (deposits $71 million) was in quite satisfactory condition; the two largest banks, Banco Credito y Ahorro Ponceno (deposits $117 million) and Banco Popular de Puerto Rico (deposits $160 million) were in poorer condition than any of the other banks so far mentioned; and Banco Credito was in the poorest condition of all. The memorandum noted that should an examination of Banco Credito by the Federal Reserve Bank of New York reveal a situation about the same as indicated in the Federal Deposit Insurance Corporation's examination report, the Division of Examinations would probably recommend that the Board not approve the bank for System membership. In summary, although the general condition of six of the seven Puerto Rican banks apparently was sufficiently good to permit them to become System members, Banco Credito's condition was such that it seemed doubtful that it should be admitted to membership, although the Federal Reserve Bank of New York considered the general condition of all the banks to be sufficiently good to qualify them for membership. Mention was also made in the memorandum of the fact that since the three large Puerto Rican banks all operated mobile branches,
the question of permitting the retention and operation of such branches
would arise should the Board receive an application by these banks for
membership in the System.

Following comment by Mr. Leavitt on the memorandum of the
Division of Examinations, Governor Mills expressed the view that in
light of the information thus provided and the earlier discussion of
the question at the meeting on March 26, it would seem advisable for
the Board to express to the New York Reserve Bank the view that it would
not be desirable for the System to maintain a resident examiner in
Puerto Rico.

Governor Robertson agreed, adding that the proposal would appear
to involve merely the substitution of a resident Federal Reserve Bank
examiner for the resident examiner of the Federal Deposit Insurance
Corporation, as part of a bargaining procedure which he did not favor,
to induce Puerto Rican banks to become members of the Federal Reserve
System. In any event, it appeared from the review of examination
reports that at least one of the large Puerto Rican banks might not be
eligible for System membership.

There being no contrary view expressed, it was agreed unanimously
to inform the Federal Reserve Bank of New York along the lines indicated
by the Board's discussion. A copy of the letter sent subsequently to
the Reserve Bank pursuant to this understanding is attached as Item No. 2.
Survey of chain banking (Items 3 and 4). Pursuant to action taken at the meeting on March 22, 1962, a letter had been sent to Chairman Patman of the House Select Committee on Small Business outlining problems involved in a survey of chain banking such as he had requested but expressing willingness to conduct the survey if desired. Mr. Patman had replied by letter dated March 29, indicating that a survey of the type contemplated would be of such value to the Small Business Committee as to justify the expenditure of time and money indicated in the Board's letter. Under date of April 6, 1962, copies had been distributed of a memorandum from Mr. Conkling transmitting drafts of (a) a letter to the Comptroller of the Currency for use in the event the Board should decide to ask the cooperation of that Office in the proposed survey; (b) a letter to the Bureau of the Budget requesting a Budget Bureau number to appear on the schedule to be used to obtain the information requested by Mr. Patman; (c) a letter to member banks (or to State member banks) requesting completed schedules on accompanying forms; and (d) a letter to all domestic registered bank holding companies, and to holding company affiliates holding a general voting permit, requesting similar information. Mr. Conkling's memorandum noted that if the Board should prefer to channel the request through the Reserve Banks, something like the proposed letters to member banks and to bank holding companies could be forwarded for the use of the Reserve Banks in requesting the data.
In a discussion, during which a modification of the letter to the Comptroller of the Currency was suggested and agreed upon, Governor Mitchell, who had not been present at the meeting on March 22, inquired as to the role, if any, envisaged for the Federal Deposit Insurance Corporation in the proposed survey. In reply, Mr. Conkling said that although it was not known whether there had been official correspondence between Mr. Patman and the Federal Deposit Insurance Corporation, it was known that Mr. Houghton of Mr. Patman's staff had talked informally with Mr. Cramer of the Federal Deposit Insurance Corporation staff regarding the matter and that when Mr. Patman's request of February 19, 1962, came to the Board, reference was made to a survey covering member banks, with no reference to insured nonmember banks.

In further discussion, Governor Mitchell suggested that nonmember insured banks be surveyed as well as member banks and bank holding companies in order to obtain information pertinent to understanding the ownership and control of the banking system. It was his thought that the proposed survey was being tailored to comply with the specific requirements of Congressman Patman's request, whereas the subject matter seemed to him of such interest as to suggest that the study be expanded (for example, through inclusion of nonmember banks) so as to produce the maximum benefit. He suggested, also, that consultation with the Federal Reserve Banks in devising and conducting the study might be valuable.
After some exploration of the points raised by Governor Mitchell, staff comment was made to the effect that the preparation and conduct of a comprehensive study would be time consuming, which might suggest undue delay to Congressman Patman. In the circumstances, it appeared that there was something to be said for attempting to produce data in conformity with the Congressman's request as a first step, following which an evaluation could be made to determine the feasibility and desirability of a broader study, for which purpose consideration could be given to the inclusion of nonmember banks. In other words, the survey proposed to be made in compliance with Congressman Patman's request might be regarded as a kind of pilot operation.

Governor Robertson then proposed that in order to expedite the matter, the survey be carried forward as planned, without prejudice to consideration at a later date of Governor Mitchell's suggestion; and there was agreement with this proposal.

Accordingly, as a first step the letters to the Comptroller of the Currency and the Bureau of the Budget were unanimously approved. Copies are attached as Items 3 and 4, respectively.

Mr. Thomas, Adviser to the Board, joined the meeting during discussion of the foregoing item and Mr. Leavitt withdrew at its conclusion.

Federal Reserve Bank budget procedures (Item No. 5). Distribution had been made under date of March 20, 1962, of a memorandum from
Mr. Farrell prepared pursuant to the understanding at the meeting on December 11, 1961, that a general review of the budget procedures of the Reserve Banks would be made early in 1962. Attached to the memorandum was a suggested simplified budget report form that might be used by the Reserve Banks. The memorandum indicated that the review of budget procedures, which resulted in the preparation of the proposed revised form, had been directed toward the possibility of simplifying the budget procedures in view of the time and effort put into the preparation of the budgets and their consideration by the Board, which it appeared might be more than necessary to satisfy the Board's supervisory responsibilities in this regard.

At the request of the Chairman, Mr. Farrell commented on his memorandum, noting that under present procedures each Federal Reserve Bank was required to submit to the Board by October 15 an annual budget covering the next calendar year, and to accompany the budget with a statement explaining any material differences between the budget and estimated expenses for the current calendar year, any significant new items included in the budget, and any important changes in operations. Several separate statements were also required. Not only did this procedure call for a long-range forecast of expenses but it also involved the use of forms corresponding generally to the quarterly expense reports; and effective January 1, 1962, the expense reports provided for a functional distribution of expenses other than salaries at each of the Reserve Banks.
Mr. Farrell then referred to the recommendation in his memorandum that the Conference of Presidents be asked to comment on the desirability of revising the budget procedures to provide for:

1. Submission of budgets by departments rather than by function.

2. Submission of two budgets each year, one covering the period April 1 - September 30 and the other covering the period October 1 - March 31.

3. Comparisons of budget estimates with actual expenses for the same period one year ago, or (alternatively) with the expenditure rate at the time the budgets are prepared.

4. A budget report form showing by departments the number of employees and total expenses for the base period and for the budget period, and the amount and percentage change in expenses.

5. Limiting explanatory material accompanying the budgets to the reasons for (a) significant developments resulting in substantial gross increases or gross decreases in departmental expenses; and (b) changes in the number of officers and changes (other than those due to reclassifications) in the number of employees in Grade 12 and above.

In the discussion that followed, question was raised as to the anticipated reaction of the Reserve Banks to the suggestion for semiannual budgets. In reply, Mr. Farrell said that although the Reserve Banks might be rather reluctant to accept this aspect of the proposal, the use of departmental budgeting, as provided for in the proposal, should appeal strongly to the Banks.
After further discussion, in the course of which each Board member commented favorably regarding the proposal, (although with at least one reservation expressed concerning the suggestion for semiannual budgets), Mr. Farrell's recommendation that the views of the Reserve Banks be requested was approved unanimously. A copy of the letter sent pursuant to this action to the Chairman of the Presidents' Conference asking for the views of the Conference on the proposed revision of the budget procedures is attached as Item No. 5.

Mr. Johnson then withdrew from the meeting.

American Electric Power System stock purchase plan (Item No. 6). Under date of February 23, 1962, a request had been received from the law firm of Simpson Thacher & Bartlett, New York City, for review of a determination made by the Board on the "Key Employee Stock Purchase Plan - 1959" of the American Electric Power System, as to which the Board had ruled in a letter of October 3, 1960, to the New York Reserve Bank (S-1765). Copies of a memorandum from the Legal Division had been distributed under date of April 9, 1962, with respect to the previous ruling in this case, in which loans by Irving Trust Company, New York City, were held to be subject to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. According to the facts of the case, as described in 1960, loans were made jointly by Irving Trust and another bank, under agreement with American Electric
Power Company, to key employees of the company for the purpose of purchasing stock under employee stock option plans. The employees made a down payment and the stock was pledged with the second bank to secure loans in the maximum amount permitted under Regulation U. The balance of the purchase price was supplied by Irving Trust on an unsecured basis. Although the parties agreed that Irving would have no security interest in the pledged stock, the second bank was to hold the stock until both the secured and unsecured loans had been paid.

The memorandum noted that counsel for applicant advanced two additional factual circumstances believed not to have been given consideration in the Board's earlier determination: (1) the fact that the "unsecured loans" by Irving Trust Company were backed by an unconditional guarantee of American Electric; and (2) that in the event of default the second bank actually would not hold the shares until the Irving loans had been repaid, but instead was required to liquidate the collateral immediately and remit any excess proceeds to the borrowing employee. After discussion of the issues that appeared to be raised by applicant's arguments, the memorandum went on to state the Legal Division's conclusion that the Irving Trust loans were not in fact within the scope of the Regulation, as presently worded. Attached to the memorandum, for the Board's use should it concur in the Division's recommendation, was a draft of letter stating that the loans by Irving Trust Company pursuant to the Key Employee Stock Purchase
Plan - 1959 of the American Electric Power System were not indirectly secured by stock and, therefore, not subject to Regulation U.

Following comment by Mr. Veret on the memorandum, Mr. Hexter observed that an interpretation of the Board that appeared in 1961 Federal Reserve Bulletin 657 held, in effect, that a bank loan was "indirectly secured" by stock if the borrower deposited stock with a third party who agreed to hold the stock until the loan had been paid off. However, that interpretation was believed to be distinguishable on several grounds from the Irving Trust case under consideration, for reasons pointed out in the Legal Division's memorandum.

Governor Mills expressed agreement with the Division's conclusion that, on the basis of the facts in the instant case, the Irving Trust Company loans at issue were not within the scope of the Regulation. He inquired, however, as to the possibility that there might be some circumvention of this apparently proper procedure by other somewhat similar procedures in such a way as to evade the Board's basic position against exempting from Regulation U loans for the purpose of acquiring securities under stock option plans.

Mr. Hexter replied that, since the American Electric stock was a registered security, the loans involved in the case at issue were purpose loans. The question was whether they should be classified as secured or unsecured loans. Any bank was, of course, at liberty to make unsecured loans without regard to the provisions of Regulation U,
the Board having decided to limit the application of Regulation U to loans secured by stock registered on a national securities exchange. It had seemed to the Legal Division that, in the circumstances described, it would require a stretching of the provisions of the Regulation to construe these as stock-secured loans. The possibility of amending the Regulation to cover loans not secured by stock involved a question of policy.

In further discussion, it was brought out that the decision made in 1936 not to bring within the Regulation extensions of credit other than those secured by listed stock apparently reflected a desire to simplify the administration of the Regulation. The comment also was made that the Board's staff was aware of no evidences of abuse of the Regulation through arrangements similar to those involved in the American Electric Power System case.

The letter to Simpson Thacher & Bartlett notifying that firm that the Board had determined that the loans by Irving Trust Company were not indirectly secured by stock, and therefore not subject to Regulation U, was then approved unanimously. A copy of the letter is attached as Item No. 6.

Messrs. Farrell, Conkling, Kiley, and Veret withdrew from the meeting at this point.

Study of Regulation K. At its meeting on December 29, 1961, the Board ordered a study of Regulation K, Corporations Doing Foreign
Banking or Other Foreign Financing under the Federal Reserve Act, in the light of experience since the revision of January 15, 1957. In connection with this action, a letter was sent to foreign banking and financing corporations inviting comments on the Regulation, and the staff was requested to formulate a plan for the proposed study. Subsequently, a discussion was held at the meeting on January 11, 1962, of the resulting staff memorandum (dated January 8, 1962) and Governor Mitchell was assigned responsibility for the proposed study, with the understanding that he would report at a future date on the scope of such study and procedures to be followed.

Copies of a memorandum from Governor Mitchell dated April 5, 1962, had been distributed in accordance with the foregoing understanding. The memorandum stated that, based on a review of letters received to date from Edge and agreement corporations and certain background material that had been made available, together with discussions with Mr. Goodman, it was Governor Mitchell's tentative view that the substantive issues were as follows:

1. Operations of foreign banking corporations in New York;
2. Investments in stock of foreign companies, both by banking and financing corporations; and

After discussing salient issues grouped under these three heads, the memorandum went on to recommend that (1) the substantive issues set
forth above, along with any others that might be raised, be reviewed before technical deficiencies in Regulation K were considered; (2) the procedure for doing this be to have the Divisions of Examinations and International Finance prepare memoranda addressed to the substantive issues, setting forth the relevant facts and inferences; and (3) the Board consider at some juncture a series of conferences with representatives of Government agencies financing foreign trade to get the benefit of their judgments on the role the Edge Act corporations might play in international trade in the light of the current and prospective goals of United States foreign economic policy.

Following comment by Governor Mitchell on his memorandum, it was agreed that the review of Regulation K should proceed along the lines suggested by him.

Report on meeting regarding Federal credit programs. Mr. Noyes reported on an organizational meeting held recently in the Office of Under Secretary of the Treasury Roosa by the interagency group named by the President to look into Federal credit programs. Mr. Noyes noted that in addition to Mr. Roosa, chairman of the group, and himself, those present at the organizational meeting included representatives from the Budget Bureau and the Council of Economic Advisers. He said that the group expected to study the philosophy of Federal Government direct lending and loan guarantee programs with a view to making recommendations as to the areas in which such programs were appropriate.
and how such programs could best be carried out. It appeared from the meeting, Mr. Noyes said, that preliminary staff work would be done largely by representatives of the Treasury and the Budget Bureau.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 7) approving the appointment of Edward W. Bjelke and Warren C. Straub as examiners.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 6) approving the appointment of John P. Trinklein as assistant examiner.

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective April 15, 1962:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shirley R. Sherman, Secretary</td>
<td>Office of the Secretary</td>
<td>$5,005</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$5,170</td>
</tr>
<tr>
<td>Thomas G. Young, Analyst</td>
<td>Bank Operations</td>
<td>5,520</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,685</td>
</tr>
<tr>
<td>Daisy L. Condon, Secretary</td>
<td></td>
<td>5,005</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,170</td>
</tr>
<tr>
<td>Ruth H. Clarke, Editorial Clerk</td>
<td>Research and Statistics</td>
<td>4,675</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,840</td>
</tr>
<tr>
<td>David R. Hull, Jr., Economist</td>
<td></td>
<td>6,765</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6,930</td>
</tr>
<tr>
<td>Gayle A. Stelger, Statistical Clerk</td>
<td></td>
<td>3,865</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,970</td>
</tr>
</tbody>
</table>
Salary increases, effective April 15, 1962 (continued)

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elsie E. Anderson, Charwoman</td>
<td>Administrative Services</td>
<td>$3,290 - $3,395</td>
</tr>
<tr>
<td>Ruth Anna Brown, Telegraph Operator</td>
<td></td>
<td>5,170 - 5,335</td>
</tr>
<tr>
<td>Lola Buckley, Telephone Operator</td>
<td></td>
<td>4,180 - 4,285</td>
</tr>
<tr>
<td>James T. Fegan, Supply Clerk</td>
<td></td>
<td>3,605 - 3,710</td>
</tr>
<tr>
<td>Mary E. Sanders, General Assistant</td>
<td></td>
<td>6,930 - 7,095</td>
</tr>
<tr>
<td>Wilbert L. Stephens, Laborer</td>
<td></td>
<td>3,395 - 3,500</td>
</tr>
</tbody>
</table>
Board of Directors,
Riverside Trust Company,
Hartford, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of an in-town branch by Riverside Trust Company in Constitution Plaza at the corner of State Street and American Row, provided the branch is established by December 31, 1963.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary
Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,

Dear Mr. Crosse:

Your letter of March 12, 1962, requested comments of the Board as to the appropriateness of maintaining a resident examiner or representative of the Federal Reserve Bank of New York in Puerto Rico, should the major banks in that Commonwealth become members of the Federal Reserve System.

The Board has given careful consideration to the information supplied in your letter as well as to other available information regarding Puerto Rican banks and the problems that might be expected to arise in the event some or all of those banks were to become members of the System. On the basis of its review of this information, the Board is of the opinion that it would not be desirable for the System to maintain a resident examiner in Puerto Rico even though the major banks located in the Commonwealth were to become members of the Federal Reserve System.

Very truly yours,

Merritt Sherman
Secretary.
The Honorable James J. Saxon,
Comptroller of the Currency,
Washington 25, D. C.

Dear Mr. Saxon:

Enclosed are copies of an exchange of correspondence with Congressman Wright Patman, Chairman of the Select Committee on Small Business of the House of Representatives, requesting a survey of the extent of chain banking through indirect controls.

The requested survey is for data from all member banks. Would your Office desire to join the Board in this project and send your own letter to all national banks as a part of the survey? If not, the Board will survey national and State member banks. Enclosed is a draft of a letter that the Board is planning to use in forwarding the questionnaire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure
Mr. David E. Cohn, Clearance Officer,  
Office of Statistical Standards,  
Bureau of the Budget,  
Executive Office of the President,  
Washington 25, D. C.

Dear Mr. Cohn:

Enclosed are two copies of your form 83, and of a draft of a schedule that is expected to obtain information requested by the Chairman of the Select Committee on Small Business of the House of Representatives.

A copy of the February 19 letter from the Committee Chairman and an earlier draft of the proposed schedule were furnished to Mr. Edward T. Crowder under date of March 20, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary
Mr. W. D. Fulton, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

Enclosed is a copy of a staff memorandum dated March 20, 1962, discussing possibilities for simplifying and improving procedures under which Federal Reserve Bank budgets are compiled for submission to the Board. Five specific proposals are set forth on page 2 of the memorandum. The Board would like to have the views of the Conference of Presidents with regard to these suggestions and any other related matters.

Since the changes made this year in the functional expense accounting system will require some revision in the budget reporting forms, it is hoped that any other changes to be made in the budget procedures could be agreed upon in time to be made effective for 1963 budgets.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

2 copies to each Reserve Bank President
1 copy to Secretary of Presidents' Conference.

Enclosure
Simpson Thacher & Bartlett,
120 Broadway,

Attention: Richard M. Dicke, Esq.

Gentlemen:

The Board has received your application, dated February 23, 1962, for a ruling with respect to the status under Regulation U of the "Key Employee Stock Purchase Plan - 1959" of American Electric Power System. It is understood that under the Plan, loans have been made jointly by Manufacturers Trust Company and Irving Trust Company, pursuant to agreement with American Electric Power Company, to key employees of American for the purpose of purchasing registered stock in that company. Under the agreement, the employees made a down payment, and the stock was pledged with Manufacturers to secure loans in the maximum amount permitted under Regulation U. The balance of the purchase price was advanced by Irving.

Irving's loans are guaranteed as to principal and interest by American. The agreements state that Irving shall have no security interest in the stock pledged to Manufacturers; however, under the agreement, Manufacturers is to hold the shares until the principal and interest on both loans have been paid. Payments are to be applied pro rata to both loans, and payment in part will be through the application of the proceeds from dividends paid in respect of the stock held by Manufacturers. In the case of default, however, Manufacturers is to sell the shares, apply the proceeds to the payment of Manufacturers' secured loan, and remit any surplus to the employee.

The Board has indicated on several occasions that narrow or technical standards of interpretation are inappropriate in determining whether loans for the purpose of purchasing registered securities are "indirectly secured" by stock within the meaning of Regulation U. Most recently, in 1961 Federal Reserve Bulletin 657, the Board reaffirmed its position that if the effect of the arrangement is to protect the interest of the bank, however indirectly, through restrictions upon stock, the Regulation is applicable. Thus, in cases where a borrower deposits stock with a third party who agrees to hold the stock until the loan is paid off, the Regulation has been deemed applicable. The
"mere fact that the stock is out of the borrower's control for the
duration of the loan" may constitute indirect security for the lending
bank. Furthermore, the fact - as in this case - that, under certain
contingencies, control over the stock by the third party may terminate
prior to the payment of the loan, does not necessarily mean that the
lender is not indirectly secured. The preservation intact of the
borrower's stock asset over a period shorter than the period of
repayment may, in certain circumstances, constitute indirect security.

Nevertheless, the Regulation does not require a finding of
indirect security in all cases wherein the stock is held outside of
the borrower's control. For example, section 221.3(f) provides:

"A loan need not be treated as collateralled by
securities which are held by the bank only in the capacity
of custodian, depositary 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."

This provision recognizes that banks, in providing a variety
of services, may be holding stock of a borrower for reasons clearly
unrelated to loans made to the borrower for purchasing stock. Although
the provision refers to the lending bank holding stock in its custody,
the same principle applies even more forcibly to a case where a third
party holds the stock.

In the instant case, it appears that the capacity in which
Manufacturers holds the stock is essentially unrelated to the Irving
loans. The prima facie presumption that Irving is indirectly secured
by the stock so held by Manufacturers is overcome by the circumstance
that Irving appears to rely solely upon the security of American's
guaranty of the loans. Since the guarantor is also the issuer of the
stock as to which the indirect security question arises, it appears
that the guaranty makes Manufacturers' possession of the stock of no
significance as far as Irving is concerned. This conclusion is
further supported by the fact that upon liquidation of the stock
collateral by Manufacturers, the excess proceeds (over the amount of
Manufacturers' loan) are to be remitted to the employee. It also
appears, in view of the unconditional nature of the guaranty and the
credit standing of American, that the guaranty arrangement is not
merely an indirect "conduit" device designed to protect Irving's
loan through stock security.
Under these circumstances, therefore, the Board has determined that the loans by Irving Trust Company pursuant to the Key Employee Stock Purchase Plan - 1959 of the American Electric Power System are not indirectly secured by stock and therefore are not subject to Regulation U.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
CONFIDENTIAL (FR)

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

Dear Mr. Crosse:

In accordance with the request contained in your letter of April 4, 1962, the Board approves the appointment of Edward W. Bjelke and Warren C. Straub, at present assistant examiners, as examiners for the Federal Reserve Bank of New York, effective today.

It is noted that Mr. Straub is indebted to Atlantic Bank of New York, New York, New York, a nonmember bank. Accordingly, the Board's approval of Mr. Straub's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
CONFIDENTIAL (FR)

Mr. Charles J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Scanlon:

In accordance with the request contained in Mr. Helmer's letter of March 30, 1962, the Board approves the appointment of John P. Trinklein as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

It is noted that Mr. Trinklein is indebted to Frankenmuth State Bank, Frankenmuth, Michigan, a nonmember bank of which he owns 316 shares of stock, and that he is indebted to, and has a one-sixth interest in trusts administered by Second National Bank of Saginaw, Saginaw, Michigan. Accordingly, the Board's approval of Mr. Trinklein's appointment is given with the understanding that he will not participate in any examination of Frankenmuth State Bank so long as he is indebted to or owns stock of that bank, or of Second National Bank of Saginaw so long as he is indebted to, or has an interest in any trust administered by that institution.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.