

Minutes for July 30, 1964

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

M

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, July 30, 1964. 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. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
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. Shay, Assistant General Counsel
Mr. Kiley, Assistant Director, Division
of Bank Operations
Miss Hart, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division

Certificate of deposit transactions. In a memorandum of July 28, 1964, which had been distributed, the Division of Examinations recalled that by letter of March 27, 1964, Chairman McMurray of the Federal Home Loan Bank Board had expressed concern about reports indicating that savings and loan associations were becoming holders of bank certificates of deposit as a part of somewhat dubious financial transactions. He had inquired whether the Board of Governors shared this concern and asked

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for suggestions as to any corrective measures that might be taken. After discussion at the meeting on May 6, the Board of Governors replied to the effect that it also was concerned about some certificate of deposit transactions; it suggested that the Home Loan Bank Board might want to consider limiting or excluding the use of certificates of deposit as assets that a savings and loan association could use to meet its liquidity requirements. In addition, the Federal Reserve Banks were asked by the Board of Governors to forward information about the prevalence of practices such as discussed in the correspondence with Chairman McMurray, and their suggestions for dealing with such practices were invited.

The replies from the Reserve Banks indicated that practices such as described by Chairman McMurray were being engaged in by banks only to a minor degree. In almost all instances where savings and loan associations were holding certificates of deposit, the certificates had been issued directly to the associations, with no broker involved. The Reserve Bank letters suggested that one of the most effective ways of curbing any abuses would be for the Home Loan Bank Board to take action such as had been recommended by the Board of Governors to Chairman McMurray. (The July 28 memorandum noted that the Home Loan Bank Board had recently changed its ruling regarding the treatment of certificates of deposit as cash for reserve purposes somewhat along these lines.)

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The Board's earlier letter to Chairman McMurray had stated that he would be kept advised of any further developments. Inasmuch as essentially nothing new had been reported by the Reserve Banks, the Division of Examinations recommended that no action be taken by the Board at this time.

Following comments by Mr. Solomon in supplementation of the memorandum, Governor Robertson said he understood that the problem was fairly significant in California. It appeared that some smaller banks would be unable to renew outstanding certificates of deposit held by savings and loan associations and would have to make adjustments in their loan portfolios. Such a situation conceivably could lead to merger applications.

Governor Daane commented that despite the tenor of the Reserve Bank replies a potential problem of some consequence was involved. He wondered if the Board of Governors should urge the Home Loan Bank Board to do a little more tightening. It was noted, however, that any such move on the part of the Home Loan Bank Board would make the situation all the more difficult for the banks such as those in California that had certificates outstanding in the hands of savings and loan associations.

Inquiry was made whether the investigation by the Reserve Banks went beyond State member banks, and Mr. Solomon said that the Board's request was not specific. Some of the Reserve Bank replies, however, went beyond State member banks. Mr. Noyes commented that it would be

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unfortunate to dismiss the problem out of hand simply because the practice was not prevalent among State member banks, and Mr. Solomon noted that there were reports that some new national banks might be selling certificates freely in order to build up their deposits quickly.

Question was raised about the recommendation of the Division of Examinations that no further action be taken at this time, and Mr. Solomon commented that obviously the subject would continue to receive attention as a supervisory problem.

Governor Robertson raised the question whether it would not be desirable to advise the Home Loan Bank Board as to the results of the investigation by the Federal Reserve Banks, and Mr. Solomon replied that he would be glad, if the Board so desired, to communicate the substance of the Reserve Bank replies by telephone.

Governor Daane commented that the fact that the Reserve Banks had uncovered little new information should not diminish the concern of the Board of Governors about the potential problem.

Mr. Noyes inquired whether it would be desirable to ask the Home Loan Bank Board to report bank certificates of deposit held by savings and loan associations on the basis of examination of those associations, and Mr. Solomon observed that such information was obtained through bank examinations, which revealed the ownership of certificates of deposit outstanding. Mr. Noyes then suggested that one possibility would be to ask Chairman McMurray if, when savings and loan examiners

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ran into an association that held a lot of certificates of deposit, the Board could be advised as to what banks had issued them. Mr. Solomon commented that although this could be done, he did not think there was any substantial informational gap. Mr. Noyes noted that the Federal Reserve Banks did not examine national or insured nonmember banks, and that there could be some problems building up at those classes of institutions. Mr. Solomon replied that there was the question of what could be done about the situation by the Board even if problems were found to exist among such institutions.

At the conclusion of the discussion, it was understood that Mr. Solomon would advise the Home Loan Bank Board informally of the general nature of the information that had been furnished by the Federal Reserve Banks.

Question under Regulation U (Item No. 1). There had been distributed a memorandum from the Legal Division dated July 24, 1964, relating to a request by Counsel for The First National Bank of Boston, Boston, Massachusetts, for an interpretation as to whether loans made by the bank against collateral consisting of shares of First Participating Fund, Inc., a mutual fund in process of organization, would be subject to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. The Fund would be an open-end investment company specializing in insurance stocks, but it would customarily include some registered stocks in its portfolio. It would not issue share certificates;

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instead, records of share ownership would be kept on First National Bank's computer. However, a customer could obtain a share certificate, if he wanted one, by applying to the bank and paying a small fee. The Fund argued that customers would be worried about whether they could borrow against their shares if they had no certificates, and it had made an arrangement with the bank under which a customer could borrow up to a fixed amount, at fixed terms, on any Fund shares he owned simply by filling out a loan application that would be attached to the prospectus for the Fund and mailing the application to the bank. The customer's signature would be witnessed by an authorized dealer in Fund shares.

The Board's staff did not feel that the requirements of section 221.3(a) of Regulation U could be observed effectively in connection with nonpurpose statements obtained under the proposed plan. The staff believed that Board approval of this proposal would relax the requirements in a way that would seriously increase the probability that purpose loans would be made in violation of Regulation U. This concern was increased by the likelihood that any favorable ruling given to the Fund would become known to the mutual fund industry and that for competitive reasons other funds would establish similar loan programs. Nor did the staff believe that an adverse ruling would result in any serious hardship for First National Bank, the Fund, or individual borrowers, since a would-be borrower would retain the option of writing in and having certificates issued to him on which he could borrow anywhere. It was recommended that

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the Board send a letter to the Federal Reserve Bank of Boston indicating that the proposed plan would not meet the requirements of section 221.3(a) of Regulation U. A draft of letter was submitted with the memorandum.

Following comments by Miss Hart based on the memorandum, the letter to the Federal Reserve Bank of Boston was approved unanimously.

A copy is attached to these minutes as Item No. 1.

Miss Hart then withdrew from the meeting.

Stone Mountain Memorial Association bonds (Item No. 2). There had been distributed a memorandum from the Legal Division dated July 29, 1964, regarding an inquiry from the Georgia State Auditor as to whether Stone Mountain Memorial Association bonds were "general obligations" within the meaning of paragraph seventh, section 5136 of the Revised Statutes. According to the Legal Division, the bonds seemed clearly to qualify as "general obligations" in accordance with the interpretation stated in a letter dated May 1, 1964, from the Board to Governor Sanders of the State of Georgia, and published thereafter in the Federal Register, relating to the underwriting of public authority bonds payable from rents under leases with governmental entities having general taxing powers.

The Legal Division recommended that the Board decline to rule on the status of this particular issue of bonds and adopt a general policy of ruling only on those issues where the resolution of problems could add materially to the development of clearer guidelines reflecting the Board's understanding of statutory requirements. While such a policy

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might result in a State member bank occasionally participating in the underwriting of an obligation that was not eligible under section 5136, a practice of responding to requests for opinions on issues of bonds that did not present any significant problem insofar as eligibility for underwriting was concerned could result in an undue burden, involving a task that should be performed by counsel for commercial banks.

A draft of reply to the Georgia State Auditor reflecting this recommendation was submitted with the memorandum.

Following comments by Mr. Sanders, agreement was expressed with the general policy recommended by the Legal Division. The letter to the Georgia State Auditor, a copy of which is attached as Item No. 2, was then approved unanimously.

Messrs. Hexter and Sanders then withdrew from the meeting.

Comment on proposed merger (Item No. 3). In a letter dated July 17, 1964, which had been distributed, the Secretary of Banking of the State of Pennsylvania, Mr. G. Allen Patterson, referred to the Board's denial in 1962 of the proposed merger of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, and The First National Bank of Mount Holly Springs, Mount Holly Springs, Pennsylvania. Against this background, he commented on a currently proposed merger of the Mount Holly Springs bank with Cumberland County National Bank and Trust Company, New Cumberland, Pennsylvania. For reasons stated, he expressed the view that approval of such merger would be prejudicial to State banks and the

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dual banking system as well as to membership in the Federal Reserve System, constituting a demonstration of inconsistency in the application of the bank merger standards established by Congress to insure uniform consideration and action on all mergers, whether the resulting institution would be a State or a national bank. He urged that the Board recommend disapproval of the proposed merger.

Mr. Patterson's letter had been distributed with a draft of reply that would acknowledge his comments and transmit a copy of the report on competitive factors made by the Board to the Comptroller of the Currency with regard to the currently pending merger.

After certain editorial changes in the proposed reply had been agreed upon, unanimous approval was given to a letter to Mr. Patterson in the form attached as Item No. 3.

Mr. Shay then withdrew from the meeting.

Distribution of new Federal Reserve notes from Washington to Federal Reserve Banks and branches (Item No. 4). In a memorandum from the Division of Bank Operations dated July 24, 1964, which had been distributed, it was noted that the Conference of Presidents of the Federal Reserve Banks at its meeting on June 15, 1964, had approved, subject to Board approval, the recommendation of the Subcommittee on Cash, Leased Wire, and Sundry Operations that the Federal Reserve System negotiate a three-year contract with Brink's, Inc., for the distribution of new Federal Reserve notes from Washington, D. C., to all Federal Reserve

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offices. Conference approval was with the understanding that the Subcommittee would consult with the Federal Reserve Agents on the basic proposal and that at an appropriate time an ad hoc committee of Counsel would be appointed to assist the Subcommittee in its negotiations and in the drafting of a contract covering the agreement.

In presenting the Subcommittee's report to the Conference, President Swan, Chairman of the Committee on Miscellaneous Operations, had pointed out that the Brink's proposal would result in a 20 per cent saving for the System as a whole based on cost and volume for 1962. He also commented on the advantages of the proposal, as compared with current arrangements, from the standpoint of security, insurance, and door-to-door delivery. Based on 1962 volume, the Brink's proposal was \$289,000 lower than the next lowest proposal, and \$214,000 less than 1962 Post Office charges for shipments of Federal Reserve notes and one dollar silver certificates. If adjustments were made in the four proposals that had been submitted to match the Brink's proposal for a greater number of shipments at the load levels preferred by the Reserve Banks, the difference between the Brink's price and the lowest of the other proposers expanded to \$469,000. The Subcommittee also had noted that Brink's was the only company with experience and facilities in all the Federal Reserve Districts, and its superior credit standing and financial capability would enable it to handle best any sharp expansion in new business. Physical facilities and security controls appeared adequate,

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and plans called for the construction of a new building in the Washington area to accommodate the expansion in local activity.

The Division of Bank Operations recommended that the Board approve the action of the Conference in directing the Subcommittee to proceed with negotiations with Brink's, Inc., with the understanding that the Federal Reserve Agents would be consulted and that an ad hoc committee of Counsel would be appointed to assist the Subcommittee. Submitted with the memorandum from the Division was a draft of letter to the Chairman of the Presidents' Conference reflecting the recommendation.

The Division memorandum reviewed the history of consideration of the possibility of transporting new Federal Reserve notes from Washington by means other than registered mail. It also listed a number of arguments, both favorable and unfavorable, on the use of private carriers for this purpose and on the use of a combination of air-truck transportation. The Subcommittee did not feel that any of the unfavorable factors were compelling enough to warrant an adverse recommendation.

The memorandum also noted that the question whether the Board, the Reserve Banks, or both, should be the signatory party or parties when a contract with Brink's was finally executed had been discussed with the Board's Legal Division. It was the opinion of that Division that the Board of Governors alone should execute the contract. The principal basis for this view was that under the fourth paragraph of

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section 16 of the Federal Reserve Act it is the responsibility of the Board, through its local Federal Reserve Agents, to supply Federal Reserve notes upon application by Federal Reserve Banks. The transportation of these notes from the Bureau of Engraving and Printing to the Federal Reserve Agents was a necessary incident to carrying out this responsibility. It was also suggested that execution of the contract by the Board would appear to be the simplest procedure.

In the course of comments on the matter, Mr. Kiley said that the question of making the work schedules of the Bureau of Engraving and Printing coincide with the proposed transportation arrangements had been discussed with the Bureau and that there appeared to be no significant problems. Some attention also had been given to the distribution of cost among the Federal Reserve Banks. While this question had not been finally resolved, the Presidents seemed to feel that the matter could be worked out satisfactorily.

In further discussion, Governor Shepardson suggested that the letter to the Chairman of the Presidents' Conference state specifically that any contract with Brink's, Inc., would be executed by the Board of Governors, and there was general agreement with this suggestion.

Governor Robertson said that he felt somewhat uncomfortable about the proposal, even though he would not vote against it. Once a switch was made to use of private carrier, it would be almost impossible to go back and utilize Government services for this purpose. And in

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event of a strike against a private carrier, it appeared that the System could run into some trouble.

Mr. Farrell agreed that a significant decision was involved. He added that the question had had full discussion by the Reserve Bank Presidents. In his opinion, however, the question of a strike affecting shipments of new notes from Washington was not the foremost consideration, because the problem here was not concerned with day-to-day supplies of currency. A strike affecting transportation of currency between Federal Reserve Banks and member banks would be more harmful.

Governor Robertson then commented that even so, there was still a problem involved. He went on to recall that the current proposal developed out of conferences with a former Postmaster General, which led him to inquire whether the matter had been taken up with the present Postmaster General.

Mr. Kiley replied that the matter had been taken up only informally and at a relatively low level. The Post Office representatives involved had inquired whether it would still be possible for the Post Office to "get back in the picture." They were informed that it was the Department's prerogative to make a counterproposal, but nothing further had been heard from them.

There followed comments regarding difficulties of the Post Office in maintaining adequate registered mail service due to train schedule cutbacks, after which Chairman Martin suggested that the System had gone

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so far along the proposed course as to make further delay of doubtful advisability. If the matter were referred back to the Post Office, some further period of delay would be involved.

Governor Balderston inquired whether an "escape" clause from the three-year contract was envisaged, and Mr. Kiley said it was hoped some such clause could be included, and possibly provision for renegotiation in event of substantial change in the volume or flow of work.

Governor Daane agreed that undue delay would be inadvisable but asked whether top-level personnel of the Post Office should be informed of the proposal as a matter of courtesy, and Mr. Kiley said that the career people in the Post Office, who would be the ones principally concerned with a matter of this kind, were aware of the situation. He could not say whether the Postmaster General had been informed.

Mr. Farrell referred to one aspect of the proposal that was of some concern to him. The worst possibility, he thought, was that an airplane carrying currency might fly into a mountain, for example, with the result that burned or partially-burned currency would be scattered over the terrain. Full reimbursement would be obtained through insurance, but there might be no idea as to how many unauthorized notes were floating around. However, the Post Office itself was gradually being forced into the use of air transportation.

Governor Shepardson commented that the current proposal involved a subject that had been under consideration over a long period of time.

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As he understood it, the Post Office had been made fully aware in the past of the possibility that the Federal Reserve might move in such a direction. In fact, following the holdup of a U. S. Mail truck carrying currency in Massachusetts, the then Postmaster General had indicated that the Federal Reserve should not look to registered mail facilities to transport large amounts of currency.

Mr. Farrell said that he would be glad, if the Board so desired, to call Assistant Postmaster General Ralph W. Nicholson, with whom he had had previous contacts, and inform him of the decision to utilize Brink's, Inc., and it was agreed that this should be done.

Secretary's Note: In a memorandum dated July 30, 1964, which has been placed in the Board's files, Mr. Farrell reported conversations with Mr. Nicholson and with William T. Howell, Deputy Treasurer of the United States. The memorandum indicated that Mr. Nicholson did not seem unduly disturbed by the receipt of the information supplied to him.

Thereupon, Governor Robertson's reservations being noted, the Board concurred in the action taken by the Conference of Presidents approving the recommendation of the Subcommittee on Cash, Leased Wire, and Sundry Operations that the Federal Reserve System negotiate a three-year contract with Brink's, Inc., for the transportation of new Federal Reserve notes from Washington, D. C., to the Federal Reserve Banks and branches. Reflecting this concurrence, approval was given to a letter to the Chairman of the Conference of Presidents in the form attached as Item No. 4.

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The meeting then adjourned.

Secretary's Notes: A letter was sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish a branch in Cartagena, Colombia.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Divisions of Research and Statistics and Administrative Services dated July 28, 1964 (attached Item No. 5) regarding proposed printing and distribution of a research monograph on bank mergers and the regulatory agencies. This action included authorization of the resulting budget overexpenditure.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Salary increases, effective August 2, 1964

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|---|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| <u>Office of the Secretary</u> | | | |
| John B. P. Baird, General Assistant | | \$ 7,490 | \$ 7,720 |
| <u>Research and Statistics</u> | | | |
| Julia Back, Library Assistant | | 3,880 | 4,215 |
| Loree D. Bernard, Statistical Assistant | | 4,690 | 4,850 |
| George R. Hall, Economist | | 13,615 | 14,065 |
| Monica F. Jones, Statistical Assistant | | 7,160 | 7,355 |
| Paul W. Kuznets, Economist | | 8,690 | 8,970 |
| Elizabeth B. Sette, Chief, Economic Editing | | 12,495 | 12,880 |
| <u>International Finance</u> | | | |
| Margaret R. Garber, Economist | | 9,530 | 9,810 |

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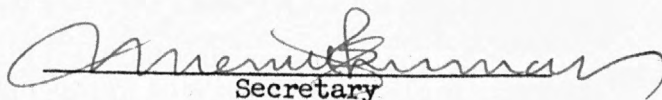
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Salary increases, effective August 2, 1964 (continued)

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|---|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| <u>Personnel Administration</u> | | | |
| Jeanette E. Devlin, Personnel Records Technician | | \$6,110 | \$6,285 |
| Robert Sampson, Personnel Assistant | | 7,030 | 7,260 |
| Margaret H. Wolverton, Personnel Assistant | | 8,970 | 9,250 |
| <u>Administrative Services</u> | | | |
| Vincent R. Creamer, Laborer | | 3,830 | 3,935 |
| Bert Harvey, Messenger-Driver (change in title from Messenger) | | 3,410 | 3,620 |
| Thomas A. Whitty, Guard | | 3,880 | 3,985 |

Permission to engage in outside activity

John H. Wood, Economist, Division of Research and Statistics, to teach a graduate course in econometrics at the University of Maryland.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
7/30/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 30, 1964.



Mr. Laurence Stone,
Secretary and Assistant Counsel,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Stone:

This refers to a letter of June 26, 1964, from The First National Bank of Boston ("Bank") which replaced, pursuant to your discussion with Miss Hart of the Board's Legal Division, a letter of May 7, 1964, transmitted by you to the Board. Bank asks whether certain loans to be made against collateral consisting of shares of First Participating Fund, Inc. ("Fund"), a mutual fund in process of organization, would be subject to Regulation U.

Fund will be an open-end, diversified management company, investing mainly in insurance company stocks, but the request for an interpretation states that from time to time it may also invest in stocks registered on a national securities exchange. Insurance stocks are not customarily so registered.

Fund plans to issue no share certificates, except on request and at a small charge. Instead, share records will be kept by Bank. While operating economies are expected to result from eliminating share certificates, Bank points out that, lacking such certificates, shareholders may find it difficult to borrow against their interests in Fund. The result might be to encourage redemptions; and it is feared that the possibility of such difficulties might also discourage prospective purchasers from investing in Fund shares.

To meet these problems, Fund proposes to offer, by pre-arrangement with Bank, a plan under which shareholders would have the privilege of borrowing up to sixty per cent of the current value of shares they have owned for at least sixty days, with a minimum loan of \$1,000 and a maximum of \$10,000. A shareholder would not be permitted to reborrow against the same collateral until thirty days after his earlier loan had been paid. Loans would be repayable within six months, but could be extended for a maximum of three months, at the borrower's request.

Mr. Laurence Stone

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Fund's prospectus would have attached to it a form of loan application and agreement. A prospective borrower would fill out the application, including (1) a statement that he understands that, under Regulation U, the proceeds of a sixty per cent loan may not be used to purchase or carry registered stocks and (2) a statement describing the purpose of the loan. The statement as to the purpose of the loan would be witnessed by the dealer, who would also guarantee the borrower's signature.

A bank loan is subject to Regulation U if two conditions exist: (1) if the loan is secured, directly or indirectly, by any stock, and (2) if it is for the purpose of purchasing or carrying any stock registered on a national securities exchange. It seems clear that mutual fund shares are "stock" within the definition of section 221.3(1), which includes "any security commonly known as a stock".

The second condition, that the loan be for the purpose of purchasing or carrying registered stocks, could obtain in either of two situations: (1) if the loan was for the purpose of purchasing or carrying shares in Fund and those shares were "redeemable securities" within the meaning of section 221.3(b)(2), or (2) if the loan was for the purpose of purchasing or carrying registered stocks (or other redeemable securities). Although Bank's letter did not so state, representatives of Fund have informed the Board's staff that the portfolio of Fund will customarily include registered stocks; accordingly, Fund's shares will be such "redeemable securities" for the purposes of Regulation U.

The Board has held that "the 'purpose' of a loan means just that. It cannot be altered by some temporary application of the proceeds". (1947 Federal Reserve Bulletin 27.) If a purchaser ordered Fund shares, then borrowed from Bank on the security of Fund shares, then paid for the shares, the fact that proceeds of the bank loan were not used directly to pay for the shares would not prevent the loan from being a "purpose loan". Similarly, where a stock-secured bank loan was outstanding while a periodic plan for purchasing Fund shares continued in force, it seems probable that the loan would be subject to the regulation.

In this connection, an interpretation of the Board at 1962 Federal Reserve Bulletin 690 is relevant. The Board was considering proposed "living expense" loans to be made to certain employees of American Telephone and Telegraph Company in connection with an employee stock option plan. The employees had purchased stock under previous plans, and that stock was to be held as collateral for monthly bank loans in the amount of the monthly deduction from the employees' pay checks made pursuant to the current stock option plan. The amount

Mr. Laurence Stone

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to be loaned exceeded the amount permissible for a loan subject to Regulation U. At the end of the period, the borrower would have acquired a certain number of shares of stock, and would have been indebted to the lending bank in an amount approximately equal to the amount paid for the shares. The Board held that "in these circumstances, the loan by the bank must be regarded as a loan 'for the purpose of purchasing' stock" and therefore subject to the regulation.

The second condition would also obtain if the loans were for the purpose of purchasing or carrying other redeemable securities, or registered stocks. In this connection, as well as in the case of loans which could be for the purpose of purchasing or carrying Fund shares, it is assumed that both Bank and Fund would diligently seek to make certain that the requirements of the Board's regulations were enforced. Nevertheless, it is a matter for concern that the loans would be arranged through dealers, in an atmosphere inescapably connected with the securities business.

Section 221.3(a) of Regulation U permits a bank to rely upon a statement as to the purpose of a loan only if the statement (1) is signed by the borrower, and (2) is accepted in good faith and signed by an officer of the bank as having been so accepted. The regulation provides that "to accept the statement in good faith, the officer must be alert to the circumstances surrounding the loan and the borrower and must have no information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement". The regulation does not authorize the lending officer of a bank to substitute the discretion or diligence of another person for his own in obtaining and scrutinizing a statement as to the purpose of a loan. It would not seem feasible, under the plan proposed by Bank, for the circumstances surrounding each loan, and each borrower, to be adequately known to the loan officer, so that the officer could become aware of indications that might require further investigation.

While the careful efforts on the part of both Bank and Fund to work out a loan plan that would meet the requirements of Regulation U are appreciated, the Board concludes that, in most cases, it would not be possible for Bank to accept a statement of purpose made under the proposed plan, in "good faith" within the meaning of the regulation. Consequently, it seems inevitable that the proposed plan would result in loans being made in violation of the regulation.

A copy of this letter is enclosed, to be forwarded to Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
7/30/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 30, 1964.

Mr. E. B. Davis,
State Auditor,
Department of Audits,
Atlanta, Georgia.

Dear Mr. Davis:

This is in reply to your letter of July 21, 1964, requesting a ruling that the proposed issue of Stone Mountain Memorial Association Bonds will be eligible for underwriting by member State banks.

As you may know, the substance of Chairman Martin's letter of May 1, 1964, to Governor Sanders was published as an interpretation of the Board of Governors in the May 8, 1964, issue of the Federal Register (Vol. 29, p. 6061) and the May 1964 issue of the Federal Reserve Bulletin (p. 564). Although the interpretation did not refer specifically to the bonds of Georgia State Authorities, it set forth factors that must be considered by member State banks in determining whether they may participate in the underwriting of obligations such as the proposed issue of bonds of the Stone Mountain Memorial Association.

Upon brief examination, the documents relating to the proposed issue appear largely similar, in their terms, to those previously considered by the Board in connection with the correspondence with Governor Sanders and the interpretation referred to above. In the circumstances the Board does not consider that a ruling could add materially to the development of clear guidelines as to the Board's understanding of the statutory requirements.

It might appear that ideally, from the standpoints of public issuers of obligations and member State banks, a specific supervisory ruling should be available with respect to each offering of securities of a public body. Such specific rulings might be particularly desirable with respect to those obligations falling into categories other than direct general obligations of a State. However, the Board considers that the only practical approach to the question of eligibility of obligations for bank underwriting is for it to make clear, by general interpretations, its understanding of the statutory requirements and

Mr. E. B. Davis

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to rely upon member banks and their counsel to determine, at least initially, whether a particular issue qualifies. Accordingly, the Board deems it preferable not to rule specifically with respect to issues such as the Stone Mountain Memorial Association Bonds.

If, in the future, particular issues of bonds by a Georgia State Authority present problems not adequately covered by existing interpretations, the Board would welcome the opportunity to assist by clarifying its views.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
7/30/64

OFFICE OF THE CHAIRMAN

July 30, 1964.



The Honorable G. Allen Patterson,
Secretary of Banking,
Department of Banking,
Harrisburg, Pennsylvania.

Dear Mr. Patterson:

In your letter of July 17, 1964, you commented on the Board's denial in 1962 of the then proposed merger of Dauphin Deposit Trust Company and The First National Bank of Mount Holly Springs. You also provided information about a recently proposed merger of Cumberland County National Bank and Trust Company and The First National Bank of Mount Holly Springs.

We are always glad to receive comments from State banking authorities, and your letter was brought to the attention of the members of the Board. At the end of June, the Board submitted to the Comptroller of the Currency an advisory report on the competitive factors involved in the proposed merger of The First National Bank of Mount Holly Springs and Cumberland County National Bank and Trust Company. A copy of this report is enclosed for your information.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr." with a large flourish at the end.

Wm. McC. Martin, Jr.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
7/30/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 30, 1964.



Mr. Alfred Hayes, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Hayes:

The Board concurs in the action taken by the Conference of Presidents at its meeting on June 15, 1964, approving the recommendation of the Subcommittee on Cash, Leased Wire and Sundry Operations that the Federal Reserve System negotiate a three-year contract with Brink's Inc., for the transportation of new Federal Reserve notes from Washington, D. C., to the Federal Reserve Banks and branches. The Board understands that the Subcommittee will proceed with negotiations on the proposal with Brink's Inc., that the Federal Reserve Agents will be consulted on the basic proposal, and that at the appropriate time an ad hoc committee of counsel will be appointed to assist the Subcommittee in its negotiations and in the drafting of a contract covering the agreement, such contract to be executed by the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Mr. Timlen, Secretary,
Conference of Presidents.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

2690

Item No. 5
7/30/64

Office Correspondence

Date July 28, 1964.

To Board of Governors (via Controller)
From Divisions of Research & Statistics
and Administrative Services

Subject: Price and Distribution for
Research Monograph "Bank Mergers and the
Regulatory Agencies: A Comparative
Analysis of Administrative Policy under
the Bank Merger Act of 1960."

On April 1, 1964 the Board approved publication of a research monograph "Bank Mergers and the Regulatory Agencies: A Comparative Analysis of Administrative Policy under the Bank Merger Act of 1960" and authorized the resulting overexpenditure in the 1964 Budget, in which no provision had been made for the cost involved. It is planned to send the manuscript for the monograph to the printer on July 29th.

The Divisions of Research and Statistics and Administrative Services recommend that:

- (1) 2,000 copies be printed at an estimated cost of \$2,307.
- (2) copies be initially distributed to Federal Reserve Banks, and to selected groups specified by the Division of Research and Statistics.
- (3) one copy be distributed to Board Members and Senior Staff. Each Division be asked to supply names of others having need for copies.
- (4) upon request, copies be furnished without charge to Government departments (domestic and foreign), including State and City; public libraries and libraries of educational institutions; and the press.
- (5) to others, including member banks, copies be distributed at a charge of \$1.00 each.