

17609

Minutes for August 13, 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)  
[Signature]

Gov. Mills

Gov. Robertson

Gov. Balderston

CCB  
[Signature]

Gov. Shepardson

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System  
 on Thursday, August 13, 1964. The Board met in the Board Room at 10:00  
 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 Mr. Mills  
 Mr. Shepardson  
 Mr. Mitchell  
 Mr. Daane

Mr. Kenyon, Assistant Secretary  
 Miss Carmichael, Assistant Secretary  
 Mr. Molony, Assistant to the Board  
 Mr. Hackley, General Counsel  
 Mr. Farrell, Director, Division of Bank Operations  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Kiley, Assistant Director, Division of Bank  
 Operations  
 Mr. Goodman, Assistant Director, Division of  
 Examinations  
 Mr. Leavitt, Assistant Director, Division of  
 Examinations  
 Miss Hart, Senior Attorney, Legal Division  
 Mr. Sanders, Attorney, Legal Division  
 Mr. Forrestal, Attorney, Legal Division  
 Mr. Goldstein, Law Clerk, Legal Division  
 Mr. Margolius, Law Clerk, Legal Division  
 Mr. McClintock, Supervisory Review Examiner,  
 Division of Examinations

Circulated or distributed items. The following items, copies of  
 which are attached to these minutes under the respective item numbers  
 indicated, were approved unanimously:

Item No.

Letter to Manufacturers Hanover Trust Company, New York, New York, approving the establishment of a branch at 111- 121 William Street, Borough of Manhattan.	1
Letter to Bankers International Financing Company, Inc., New York, New York, granting permission to purchase shares of The Industrial Credit and Investment Corporation of India Limited, Bombay, India.	2

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	<u>Item No.</u>
Letter to Boston Overseas Financial Corporation, Boston, Massachusetts, granting permission to purchase shares of The Industrial Credit and Investment Corporation of India Limited, Bombay, India.	3
Letter to The First-Mason Bank, Mason, Ohio, approving an investment in bank premises.	4
Letter to the Federal Reserve Bank of New York authorizing waiver of assessment of a penalty incurred by The Peoples National Bank of Long Island, Patchogue, New York, because of a deficiency in its required reserves.	5
Telegram to the Federal Reserve Agent at Chicago authorizing the issuance to First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, of a general voting permit covering its stock of Brookfield National Bank, Brookfield, Wisconsin.	6
Letter to the Presidents of all Federal Reserve Banks requesting them to put into effect certain policies and procedures designed to help relieve the coin shortage.	7

Request for reconsideration of Regulation U interpretation (Item No. 8).

At its meeting on July 30, 1964, the Board ruled that certain loans proposed to be made by The First National Bank of Boston, Boston, Massachusetts, against shares of First Participating Fund, Inc., an open-end mutual fund in process of organization, would be "purpose" loans subject to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. Subsequently, in a conference with Governor Balderston and members of the Board's staff on August 6, 1964, Mr. Edward M. Gadsby, President of the Fund, asked that the Board reconsider its ruling in the light of an additional proposal by the Fund. A letter of August 7, 1964, had been received from Mr. Frank J.

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Dowd, Jr., Vice President of First National Bank of Boston, supporting Mr. Gadsby's request for reconsideration. These facts were cited in a memorandum from the Legal Division dated August 11, 1964, which had been distributed.

Briefly, the Board had held that First National Bank of Boston could not accept "in good faith," within the meaning of section 221.3(a) of Regulation U, purpose statements to be submitted in connection with loans that would be made by the bank against shares of the Fund under a prearranged plan. The plan provided that each prospectus of the Fund would contain application forms, explanatory matter relating to Regulation U, and a statement to be filled out detailing the purpose of the loan. The borrower's signature would be witnessed by an authorized dealer in Fund shares and forwarded to the bank, where it would be scrutinized by a lending officer for compliance with Regulation U. Loans would be made in amounts ranging from \$1,000 to \$10,000 for six months, with an option for the borrower to renew for an additional three months. No loan would be made until the borrower had owned his shares free and clear for a minimum period, and the borrower would not be permitted to make further purchases of Fund shares while his loan was outstanding. The Board held that, despite these precautions, it would not seem feasible under the proposed plan "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."

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It was now proposed by the Fund and First National Bank of Boston that, in the case of each loan application, there should be a telephone conversation between the proposed borrower and a loan officer of the bank before the loan was approved.

After reconsidering the question in the light of the proposed additional safeguard, the Legal Division had concluded reluctantly that purpose statements obtained under these circumstances would still not comply with the requirements of section 221.3(a) of Regulation U. While telephone calls would afford some opportunity for contact between borrowers and loan officers, it was felt that such a conversation would not be a satisfactory substitute for a face-to-face meeting. A draft of letter to the Boston Reserve Bank reflecting this position was attached to the memorandum.

At the Board's invitation, Miss Hart commented on the conference with Mr. Gadsby and the conclusion that had been reached by the Legal Division.

Following additional comments by Governor Balderston, during which he expressed the view that the conclusion of the Legal Division was correct, the letter to the Federal Reserve Bank of Boston was approved unanimously. A copy is attached as Item No. 8.

Miss Hart and Mr. Forrestal then withdrew from the meeting and Messrs. Noyes, Adviser to the Board, Hexter, Assistant General Counsel, Holland, Associate Director, Division of Research and Statistics, and Partee, Adviser in that Division, entered the room.

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Activity in certificates of deposit (Item No. 9). There had been distributed a memorandum from the Division of Examinations dated August 11, 1964, relating to activity in the negotiable certificate of deposit market.

In the Board's letter of May 6, 1964, to Chairman McMurray of the Federal Home Loan Bank Board it was suggested that the Home Loan Bank Board might wish to "consider limiting or excluding the use of certificates of deposit as assets that a savings and loan association may use to meet liquidity requirements." Subsequently, the Home Loan Bank Board amended its regulation relating to the definition of cash effective August 15, 1964, and an explanatory press release dated July 15, 1964, included the following statement: "Member institutions will not be permitted to count as cash any certificate of deposit established hereafter with a given bank if the total deposits of the member institution in the bank exceed the greater of \$10,000 or one-quarter of 1 percent of the total deposits of the bank."

It was not yet known what effect the amended regulation would have on the attitude of savings and loan associations toward renewing bank certificates of deposit. However, if a substantial contraction in the volume of such certificates outstanding should result, this could have a significant impact on commercial bank liquidity. It was noted that in at least one instance a national bank's borrowing from a Federal Reserve Bank was the result of refusal by a savings and loan association

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to renew maturing time certificates of deposit. In another instance a State member bank had indicated that it might have to borrow if it became necessary to pay some of its outstanding certificates of deposit at maturity. Also, it was believed that a fairly large number of banks had expanded significantly their time deposits by participating in arrangements, often involving a broker, whereby they issued their certificates of deposit to out-of-area customers, particularly savings and loan associations.

There had been in existence an informal arrangement by which the Board's staff was to be advised by officers at Reserve Banks regarding instances in which member banks were borrowers because of the failure of customers to renew certificates of deposit. In order that the Board might be kept advised of developments more generally and more systematically, it was now recommended that a letter be sent to the Presidents of all Federal Reserve Banks requesting that reports be submitted at least monthly on any known instances of past or prospective maturities of certificates of deposit in excess of an issuing member or nonmember bank's capacity to redeem them out of its own cash resources; resort by a bank to borrowings from its Reserve Bank, the Federal funds market, correspondent banks, or others to meet the pressures attendant upon large certificate of deposit maturities; or substantial sales of certificates of deposit by means that effectively circumvented the ceiling rates specified under Regulation Q, Payment of Interest on Deposits. A draft of letter was attached to the memorandum.

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Mr. Solomon, in commenting on reasons for sending the proposed letter, mentioned among other things the possibility that if after further analysis it appeared that sales of certificates of deposit were being made to any considerable extent by means that circumvented the ceiling rates specified in Regulation Q and the similar regulation applicable to nonmember insured banks, the matter might be discussed with the Federal Deposit Insurance Corporation, perhaps with a view to issuance of a joint interpretation.

Governor Mitchell expressed some concern that the Board might be stirring up trouble more than anything else. He did not know to what extent abuses existed. Some had been revealed, to be sure, but the Board should be careful about how far it went in what amounted to interfering with normal competitive practices. The draft letter would call for establishing a "formal reporting system," and he questioned the tone of such a communication. Suspicion might be cast on some transactions that really were not objectionable. While he did not feel too strongly, he was not entirely happy about the proposal.

Governor Daane commented that although there might be some risk, as Governor Mitchell had mentioned, this was an area of potential trouble. He believed that probably the net value of obtaining the reports outweighed the risk.

Chairman Martin raised a question as to whether the letter might be modified in some way to help meet Governor Mitchell's specific objection, and a change in wording was suggested by Mr. Leavitt.

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Governor Balderston said he was concerned that the Board not stop with sending the proposed letter to the Reserve Banks. He was interested in working out an enforcement procedure if it should be determined that certificates of deposit were being sold by member banks in such manner as to circumvent the ceiling rates of interest specified in Regulation Q.

Governor Mills stated that his greater concern had to do with the practice of issuing negotiable certificates of deposit--borrowing short so to speak--and then lending long in such a way as to undermine the stability of banks that followed such a practice.

In the ensuing discussion Mr. Noyes noted that the sale of certificates of deposit by banks sometimes involved arrangements in which premiums were paid to purchasers of the certificates. This might involve violation of Regulation Q. In such circumstances, moreover, the possibilities of renewal might be substantially reduced, with the result that the banks involved could find themselves with a substantial liquidity problem.

At the conclusion of further discussion, Chairman Martin commented that it seemed to be the consensus that the Board should try to obtain all the information it could get in this area. The proposed letter to the Presidents of all Federal Reserve Banks, with certain modifications, was then approved. A copy is attached as Item No. 9.

Messrs. Holland, Goodman, and McClintock then withdrew from the meeting.

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Regulation of trading in bank stocks. Mr. Hexter reported that it was expected that S. 1642, which had passed the Senate and the House, would be signed by the President in a few days. The bill would amend the Securities Exchange Act of 1934 to require public disclosure (through registration and periodic reports) of information regarding corporations whose securities were actively traded "over the counter." At the present time, the Securities Exchange Act of 1934 required such disclosure only with respect to nonbank securities traded on national securities exchanges. Administration of the disclosure requirements with respect to bank stocks, whether traded over the counter or on exchanges, would be vested in the three Federal bank supervisory agencies.

Mr. Hexter quoted portions of a Senate Banking and Currency Committee report with respect to S. 1642 that outlined the responsibilities of the three bank supervisory agencies. He stated that for a number of months the staff of the Legal Division had been working on regulations, registration forms, and other matters looking forward to probable enactment of the bill. The lengthy regulations of the Securities and Exchange Commission relating to registered securities had been developed over a period of 30 years, and to the extent possible the Board's staff was utilizing the experience of the Commission as it studied forms and regulations for the Board's consideration. An effort was also being made to coordinate the work of the three bank supervisory agencies under the bill. Representatives of the Board and the Federal Deposit Insurance

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Corporation had been working cooperatively, but there had been an indication that the Comptroller of the Currency preferred making his own plans.

Mr. Hexter noted that at the present time no bank securities were registered under the Securities Exchange Act for trading on exchanges. Under the new legislation it would be necessary for banks whose shares were held by as many as 750 shareholders (later by as many as 500) to be registered within 120 days after the last day of the issuing corporation's first fiscal year following enactment of the legislation. This would mean that banks whose shares were traded over the counter would be required to register by the end of April 1965. However, registration would be a prerequisite to listing a bank's shares for trading on a national securities exchange. The Board would have authority to exempt securities of State member banks from registration requirements where considered "necessary or appropriate in the public interest or for the protection of investors."

Pending adoption of appropriate regulations and forms, the New York Stock Exchange had expressed the hope that the Board and the Comptroller of the Currency would grant temporary exemptions that would permit securities of banks to be traded on national securities exchanges without registration. However, there was a question as to whether it would be appropriate for bank supervisory agencies to grant temporary exemptions. The question had been submitted, by letter dated July 27,

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1964, to the Securities and Exchange Commission for comment. In a reply dated August 12, the staff of the Commission expressed the view that "registration of bank securities other than those presently being traded should be in effect prior to the commencement of trading therein. This requirement for prior registration of new issues is believed consistent with our general position that financial and other information resulting from registration should be available to the general public at or prior to the beginning of trading on an exchange. This has been the general practice over the years, in fact since the passage of the Securities Exchange Act, and the public has come to rely upon it. To permit listing and trading in bank securities not heretofore traded on an exchange without the general availability of information resulting from registration would be an exception to that practice which we do not believe would be in the best interests of public investors."

Mr. Hexter reported that the Board's staff had been informed by Counsel for the Comptroller of the Currency that it was not expected that the Comptroller would take action in the next few weeks that would permit national banks to proceed immediately with listing their stocks on the New York Stock Exchange. The Legal Division planned to submit to the Board in the near future a memorandum outlining the Board's responsibilities under the legislation and providing other information that would enable the Board to evaluate the program and act on the immediate request for the temporary exemption of bank shares from registration requirements before listing on a national securities exchange.

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Governor Mitchell noted that the Securities and Exchange Commission had been in the business of regulating stocks traded on exchanges for many years. Since the Board's staff was in a position to draw on that experience, he wondered whether the staff could not have drafts of forms and regulations available quite promptly for the Board's consideration.

There followed comments by the staff on some of the complications involved in adapting forms and regulations for use in the case of banks, after which Chairman Martin suggested that all possible steps be taken to expedite development of the necessary Board regulations and forms. If the Board was not in a position to permit State member banks to proceed with reasonable promptness, this would have undesirable connotations.

Mr. Hexter noted that to expedite the matter the staff could, if desired, move forward without as much care and study as might ordinarily be the case. He felt it was important, however, to keep in mind the Congressional intent of providing appropriate information for the investing public. He went on to point out that the forms and regulations of the Securities and Exchange Commission had been developed over time by a large staff of trained persons. If it were possible for the Commission to loan to the Board experienced members of its staff, some of the Board's work could be greatly expedited. (Note: It was indicated later in the meeting that the question of obtaining such assistance would be pursued with Commission officials.)

Chairman Martin commented that the Board's work should of course be carried out in an orderly and proper way. However, as he had indicated

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previously, it would be unfortunate if there was undue delay. During the discussion that followed regarding possible ways of facilitating the conduct of the Board's functions in this area, Chairman Martin also commented that there appeared to be short-term and longer term problems. First, there was a need to set up the basic machinery for compliance with the law; then more time could be taken to work out refinements and details. He added that one factor to be considered was that shares of many banks were already being traded over the counter freely.

Governor Balderston inquired, in this connection, whether the Board might want to consider further the possibility of exempting temporarily from registration the securities of those banks that desired to list their shares for trading on a national securities exchange. He noted that a request to such effect had been received from Chase Manhattan Bank, New York City. Or perhaps a short registration form could be published promptly in the Federal Register and adopted pending the development of regulations and a more elaborate form.

In discussion of this question, Mr. Hackley referred to the August 12 letter from the Securities and Exchange Commission in which it had been stated that exemption from registration would be contrary in principle to the practice that had been followed by the Commission. He questioned whether, in all the circumstances, the Board would want to grant such exemptions, particularly for specific banks.

After additional consideration of possible alternatives, Chairman Martin commented that eventually the Board should get into a position

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where it was able to provide complete analytical service for investors. So far as the current problem was concerned, however, he believed that the staff should attempt to prepare a basic set of regulations and forms as quickly as possible and let the Board make a decision as to whether they were adequate to comply with the spirit of the new legislation. The Board would also have the benefit, of course, of comments from interested parties following publication of proposed regulations and forms in the Federal Register. With this pressing responsibility discharged, there would be more time available for the development of procedures comparable to those adopted by the Securities and Exchange Commission for nonbank corporations.

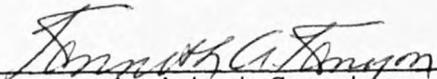
As the discussion concluded, it was understood that the staff would expedite the preparation of draft regulations and forms for the Board's consideration along the lines that had been suggested.

The meeting then adjourned.

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

Memorandum from the Division of Bank Operations recommending the appointment of Peter N. Sapsara as Analyst in that Division, with basic annual salary at the rate of \$5,795, effective the date of entrance upon duty.

Memorandum from the Office of the Secretary dated August 12, 1964, requesting authorization to proceed with arrangements for the annual visit to the Board's offices of trainees from the Center for Latin American Monetary Studies during the week of September 14, 1964. It was understood that the costs of the program would include a luncheon, translating facilities, a conducted tour of Washington, and certain minor expenditures, provision for all of these items having been made in the budget of the Secretary's Office.

  
Assistant Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 1  
8/13/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.



Board of Directors,  
Manufacturers Hanover Trust Company,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers Hanover Trust Company, New York, New York, of a branch at 111-121 William Street, Borough of Manhattan, New York, New York, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 2  
8/13/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.

Bankers International Financing  
Company, Inc.  
16 Wall Street,  
New York 15, New York.

Gentlemen:

In accordance with the request contained in your letter of July 24, 1964, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold 3,000 shares, par value Indian Rupees 100 per share, of The Industrial Credit and Investment Corporation of India Limited, Bombay, India, at a cost of approximately US\$63,000, provided such stock is acquired within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 3  
8/13/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.



Boston Overseas Financial Corporation,  
67 Milk Street,  
Boston 6, Massachusetts.

Gentlemen:

In accordance with the request contained in your letter of July 31, 1964, the Board of Governors grants consent for your Corporation to purchase and hold 5,000 shares, par value Indian Rupees 100 per share, of The Industrial Credit and Investment Corporation of India Limited, Bombay, India, at a cost of approximately US\$96,800, provided such stock is acquired within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4  
8/13/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.

Board of Directors,  
The First-Mason Bank,  
Mason, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by The First-Mason Bank, Mason, Ohio, of not to exceed \$51,410.70 for the purpose of new construction to expand the present banking house and for remodeling of present quarters. This approval includes \$7,500 for the cost of land adjoining present banking quarters recently acquired by the bank as a part of its expansion program.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
8/13/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.



Mr. William H. Braun, Jr.,  
Assistant Vice President,  
Federal Reserve Bank of New York,  
New York, New York. 10045.

Dear Mr. Braun:

This refers to your letter of July 28, 1964, regarding the penalty of \$345.55 incurred by The Peoples National Bank of Long Island, Patchogue, New York, on an average daily deficiency in its reserves of \$163,800 for the computation period ended July 8, 1964.

It is noted that (1) the deficiency resulted from an error in arithmetic by a substitute bookkeeper during vacations, and (2) with the exception of a one-day overdraft in its reserve account occurring on May 26, 1964, also due to a clerical error, the bank has had a good record in maintaining an adequate reserve balance.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of \$345.55 for the period ended July 8, 1964.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

T E L E G R A M  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTONItem No. 6  
8/13/64

August 13, 1964.

BRIGGS -- CHICAGO

KEBJE

- A. First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin.
- B. Brookfield National Bank, Brookfield, Wisconsin.
- C. Permit authorized herein shall not be issued until Federal Reserve Bank stock has been issued to such bank. Meanwhile, you may assure First Wisconsin Bankshares Corporation that voting permit will be issued upon the issuance of the Federal Reserve Bank stock.

(Signed) Karl E. Bakke

BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

BOARD OF GOVERNORS  
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

2827  
Item No. 7  
8/13/64

S-1924

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.



Dear Sir:

This refers to the Board's letter of July 10, 1964, asking for your comments on the following changes in policies and procedures that might be made to help relieve the current coin shortage, as suggested by the American Bankers Association.

1. Pay transportation costs on shipments of coin from nonmember banks.
2. Accept deposits of wrapped coin.
3. Break Mint-sealed bags and mix therein at least some circulated coin for payment to commercial banks.

The comments on these proposals from the Reserve Banks indicate general agreement that for the duration of the present critical coin shortage the Reserve Banks should do all that can reasonably be done to ease the shortage. Most of the Reserve Banks are already opening Mint-sealed bags of coins and mixing therein at least some circulated coin for payment to commercial banks, while others are transferring Mint-sealed coin into Reserve Bank bags of the same or smaller amounts, even though no circulated coin is available for mixing, in order to discourage efforts on the part of collectors, dealers, and others to acquire quantities of uncirculated coin.

Accordingly, the Board requests that your Bank adopt the above proposals as early as practicable, including the transfer of coin in Mint-sealed bags to Reserve Bank bags of the same or smaller amounts before the payment of such coin to commercial banks. The Board believes that these procedures should continue until such time as the Secretary of the Treasury, as provided in S. 2950, determines that adequate supplies of coin are available and resumes the practice of placing the year of mintage on coins.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,  
Assistant Secretary.

TO THE PRESIDENTS OF ALL  
FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 8  
8/13/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964.



Mr. Laurence H. Stone, Secretary and  
Associate General Counsel,  
Federal Reserve Bank of Boston,  
Boston, Massachusetts. 02106

Dear Mr. Stone:

This refers to the Board's letter of July 30, 1964, in connection with a request for interpretation submitted by First Participating Fund, Incorporated ("Fund") and First National Bank of Boston ("Bank"), to a conference between Mr. Edward M. Gadsby of Fund, Governor Balderston, and members of the Board's staff on August 6, 1964, in which Mr. Gadsby asked that the Board reconsider its interpretation in the light of an additional proposal by Fund, and to a letter of August 7, 1964, from Mr. Frank J. Dowd, Jr., Vice-President of Bank, supporting Mr. Gadsby's request for reconsideration.

Briefly, the Board's letter of July 30, 1964, held that Bank could not accept "in good faith", within the meaning of section 221.3(a) of Regulation U, purpose statements to be submitted in connection with loans that would be made by Bank against shares of Fund under a pre-arranged plan. The plan provided that each prospectus of Fund would contain application forms, explanatory matter relating to Regulation U, and a statement to be filled out detailing the purpose of the loan. The borrower's signature would be witnessed by an authorized dealer in Fund shares and forwarded to Bank, where it would be scrutinized by a lending officer for compliance with Regulation U. Loans would be made in amounts ranging from \$1,000 to \$10,000 for six months, with an option in the borrower to renew for an additional three months. No loan would be made until the borrower had owned his shares free and clear for a minimum period, and the borrower would not be permitted to make further purchases of Fund shares while his loan was outstanding. The Board held that, despite these precautions, it would not seem feasible under the proposed plan "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".

Mr. Laurence H. Stone

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Bank and Fund now propose that in the case of each loan application, there should be a telephone conversation between the proposed borrower and Bank's loan officer before the loan is approved. The Board has carefully reconsidered its views in the light of this proposed additional safeguard, and has reluctantly concluded that purpose statements obtained under these circumstances would still not comply with the requirements of section 221.3(a) of the regulation. Telephone conversations under these circumstances would inevitably tend to become perfunctory. Nor is there any satisfactory substitute for a face-to-face confrontation between borrower and lending officer. In addition, the Board believes that a customer relationship, or the possibility of developing such a relationship in the future, tends to put both customer and loan officer on a more realistic footing in respect to Regulation U.

While it is true that not all stock-secured loans involve a personal interview between borrower and loan officer, or a customer relationship, these do obtain in the normal case. To approve the proposal of Bank and Fund would be to create a new class of stock-secured loan, to be made in a relatively small amount for each loan, and potentially made in large numbers, in the complete absence of these safeguards. Moreover, the loans would be made, at the borrower's end, in an atmosphere intimately connected with the securities business. For these reasons, the Board does not believe it would be justified, despite the additional safeguard proposed by Bank and Fund, in altering the conclusion expressed in its letter of July 30, 1964. It would be appreciated if you would transmit the enclosed copies of this letter to Mr. Gadsby and Mr. Dowd.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosures

Item No. 9  
8/13/64BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

S-1925

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 13, 1964

Dear Sir:

With further reference to the subject of the issuance of certificates of deposit to savings and loan associations referred to in the Board's letter of May 8, 1964, there is enclosed a copy of the Federal Home Loan Bank Board's recently amended regulation and an explanatory ruling covering the definition of cash for liquidity purposes for savings and loan associations. At this time it is impossible to tell what, if any impact this regulation will have on the commercial banking system.

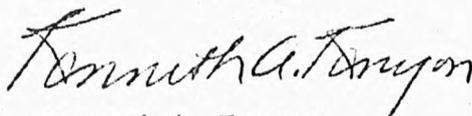
In at least one instance a national bank borrowed from a Federal Reserve Bank because of refusal by a savings and loan association to renew maturing time certificates of deposit. In another instance a State member bank has indicated that it may have to borrow if it becomes necessary to pay some of its outstanding certificates of deposit at maturity. Furthermore, it has been determined that a fairly large number of banks have expanded their time deposits significantly by participating in arrangements involving brokers whereby they issued their certificates of deposit to out-of-area customers, particularly to savings and loan associations.

Through an informal understanding, officers at the Reserve Banks have informed the Board's staff of instances where member banks encountered difficulties or where problems were anticipated because of the failure of customers to renew maturing time certificates of deposit.

It now seems appropriate to broaden the scope of information reported to include not only intelligence from the discount window but also from examination, research, and bank relations sources as well. It is suggested that reports should include pertinent information on any known instances of past or prospective maturities of certificates

of deposit in excess of an issuing member or nonmember bank's capacity to redeem them out of its own cash resources; resort by a bank to borrowings from its Reserve Bank, the Federal funds market, correspondent banks, or others to meet the pressures attendant upon large certificate of deposit maturities; or substantial sales of certificates of deposit by means that effectively circumvent the present ceiling rates specified under Regulation Q. With regard to a bank cited for any of the above reasons, it would also be helpful to receive Reserve Bank comments concerning the soundness and marketability of the major earning assets acquired by the bank with the proceeds of its previous certificate of deposit sales, and the attitude of management toward the bank's certificate of deposit position and its plans for any major adjustment thereof. It is requested that these reports be submitted at least monthly for the next year, with the first report as of August 30, 1964.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

AMENDMENT RELATING TO DEFINITION OF CASH

Section 561.18 of the Federal Home Loan Bank Board's Rules and Regulations for Insurance of Accounts was revised effective August 15, 1964, to read as follows:

"The term 'cash' means cash on hand and cash on deposit in banks, including Federal Home Loan Banks."

AMENDMENT OF RULINGS RELATING TO CASH AND RESERVES

Section 570.1 of the Federal Home Loan Bank Board's Rulings Relating to Cash and Reserves was revised effective August 16, 1964, to read as follows:

"Section 561.18 of this subchapter provides that the term 'cash' means cash on hand and cash on deposit in banks, including Federal Home Loan Banks. No deposit evidenced by a certificate of deposit established hereafter shall be considered as cash under the regulation unless 1) the insured association itself made the deposit for which the certificate was issued, 2) the deposit, together with all other time deposits of the association in the same bank does not exceed the greater of one-quarter of one percent of such bank's total deposits as of the bank's last published statement of condition or \$10,000, and 3) no consideration was received from a third party in connection with the making of the deposit."