

Minutes for June 30, 1966

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Thursday, June 30, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Shepardson
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Bakke, Assistant Secretary
Mr. Solomon, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. O'Connell, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Messrs. Smith and Via of the Legal Division
Messrs. Egertson, Lyon, Maguire, and McClintock of the Division of Examinations

Approved letters. The following letters were approved unani-
mously after consideration of background information that had been
made available to the Board. Copies are attached under the respective
item numbers indicated.

	<u>Item No.</u>
Letter to Girard Trust Bank, Philadelphia, Pennsylvania, granting an extension of time to establish a branch at 3459 Walnut Street.	1
Letter to Girard Trust Bank, Philadelphia, Pennsylvania, granting an extension of time to establish a branch in Middletown Township.	2
Letter to Nevada Bank of Commerce, Reno, Nevada, granting an extension of time to establish a branch in Las Vegas.	3

6/30/66

-2-

Competitive factor report. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Union National Bank of Carnegie, Carnegie, Pennsylvania, into The First National Bank of Fredericktown, Fredericktown, Pennsylvania, was approved unanimously for transmittal to the Comptroller. The conclusion stated that the proposed merger would not have adverse competitive effects.

Mr. Hackley then withdrew from the meeting.

Comment on coin situation (Item No. 4). In a letter of May 5, 1966, Chairman Dawson of the House Committee on Government Operations had requested the Board's implementation of, and comments on, certain remedial recommendations contained in the Twenty-Ninth Report of his Committee, dated May 2, entitled "The Coin Situation."

There had been distributed a draft of response, prepared by the Division of Bank Operations, which indicated that while initiative for implementation of the recommendations in question lay with the Treasury Department, those which involved Federal Reserve participation reflected proposals developed jointly by a Treasury-Federal Reserve Ad Hoc Coin Committee. Also referred to was an agreement reached by the Conference of Presidents at a meeting on June 27, pursuant to a request by the Board in a letter dated June 10, 1966, to adopt a program under which all Reserve Banks would accept orders for coin from nonmember banks as well as from member banks. In conclusion, assurance was given that the Federal Reserve stood ready to assist the Treasury Department in any way possible with respect to orderly production and distribution of coin supplies.

6/30/66

-3-

After brief comment by Mr. Farrell concerning the nature of the recommended actions, the letter was approved unanimously for transmittal to Chairman Dawson. A copy is attached as Item No. 4.

Messrs. Cardon, Farrell, McClintock, and Maguire then withdrew from the meeting.

Application of Barnett National Securities Corporation. There had been distributed a memorandum dated June 24, 1966, with supporting papers, from the Division of Examinations, analyzing and recommending approval of an application under the Bank Holding Company Act by Barnett National Securities Corporation, Jacksonville, Florida, for the Board's prior approval to acquire 80 per cent or more of the outstanding voting shares of First National Bank at Winter Park, Winter Park, Florida.

Following a summary presentation by Mr. Lyon, the application was approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. O'Connell, Thompson, Egertson, Lyon, and Smith then withdrew from the meeting and Mr. Molony, Assistant to the Board, entered the room.

Interpretation of Regulation O (Item No. 5). There had been distributed a memorandum dated June 27, 1966, from the Legal Division, to which was attached a draft of letter to the Federal Reserve Bank of New York advising that participation by executive officers of Manufacturers

6/30/66

-4-

Hanover Trust Company in an "Education Loan Plan" offered by that bank would not violate section 22(g) of the Federal Reserve Act or the Board's Regulation O (Loans to Executive Officers of Member Banks).

The plan in question was described as a loan to a parent for the purpose of financing his child's college education. The borrower would enter into an agreement with the bank and make a note whereby he promised to pay the gross amount of the loan, representing principal, interest, and the cost of life insurance, in equal monthly instalments over the entire period of the education being financed.

Under the provisions of the agreement, when the first payment for tuition and other school charges fell due, the bank would issue a check to the borrower for this amount and the balance of the loan principal would be credited to a collateral trust account with the student as beneficiary. When subsequent payments to the educational institution became due, the bank would make disbursements by issuing checks to the borrower, charged against the trust account.

The question whether the bank's executive officers might participate in the plan arose because section 22(g) of the Federal Reserve Act prohibits such persons from borrowing or obtaining extensions of credit from the institution which they serve in this capacity, except where the indebtedness does not exceed \$2,500 and prior approval of the bank's board of directors is secured. The statute delegates to the Board authority to define the transactions that fall within the ambit of this

6/30/66

-5-

prohibition, and the enumeration embodied in section 215.1 of Regulation O would appear, on its face, to cover the "Education Loan Plan" of Manufacturers Hanover Trust Company.

At issue was the question whether the total amount of the note required to be executed by a borrower under the plan represented the amount of the credit extended, in which case any agreement calling for aggregate disbursements in excess of \$2,500 over the period for which the loan was made would be forbidden insofar as concerned the bank's executive officers. On the other hand, if the amount actually outstanding under the terms of the agreement was \$2,500 or less, and there had been advance approval of the transaction by the bank's board of directors, it could be argued that neither the statute nor the regulation would be contravened. The Legal Division recommended adoption of the latter view.

Governor Brimmer inquired whether there was any assurance that in a given case the aggregate outstanding obligation of an executive officer might not exceed \$2,500.

Mr. Via responded by saying that the usual contract under this plan called for a four-year outlay of \$10,000 or less, and that the monthly repayment provisions would therefore keep the amount actually outstanding at any given time from exceeding \$2,500. He added that while conceivably circumstances might be suggested where this general rule would not hold true, the bank had pledged that, with respect to transactions with its executive officers, diligence would be exercised

6/30/66

-6-

to insure that at no time more than \$2,500 would be permitted to be outstanding.

Governor Brimmer then observed that while the specific question before the Board related to one member bank's inquiry, the subject matter was such that the Board's decision might very well be of general interest. Therefore, he suggested that the decision on this question be publicized in appropriate fashion as an interpretation of Regulation O.

There was agreement by members of the Board to this approach, Governor Shepardson noting that it would be well to include reference to the fact that this action was merely an exception to, not repudiation of, the general principle announced by the Board in 1937 (1937 Federal Reserve Bulletin 1074) that any loan or extension of credit by a member bank to an executive officer should not exceed a 12-month duration.

The letter to the Federal Reserve Bank of New York was then approved unanimously in the form attached as Item No. 5, with the understanding that an interpretation based thereon would be published in the Federal Register.

Mr. Via then withdrew from the meeting.

Increase in prime rate by certain member banks. Governor Brimmer noted that late the previous afternoon certain member banks had announced an increase in their "prime" lending rate from 5-1/2 per cent to 5-3/4 per cent, and commented that since members of the Board undoubtedly would be queried from various quarters concerning their reaction

6/30/66

-7-

to this development, it might be well to agree upon a principle to govern responses.

Chairman Martin observed that the action was a business decision by a private enterprise, and therefore no comment from the Board or individual members was either called for or appropriate.

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 Atlanta (copy attached as Item No. 6) approving the appointment of Arthur Moylan as Alternate Assistant Federal Reserve Agent.

Memoranda recommending the following actions relating to the Board's staff:

Salary increase

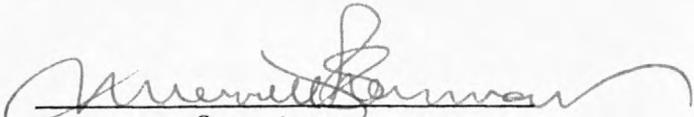
Carla S. Butler, Statistical Clerk, Division of Data Processing, from \$4,289 to \$4,641 per annum, effective July 3, 1966.

Acceptance of resignations

Dorothy M. Manley, Substitute Maid, Division of Personnel Administration, effective June 29, 1966.

Stuart G. Schmid, Economist, Division of Research and Statistics, effective the close of business June 30, 1966.

Lorraine T. Hirz, Secretary, Division of Research and Statistics, effective the close of business July 1, 1966.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
6/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1966

Board of Directors,
Girard Trust Bank,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to January 27, 1967, the time within which Girard Trust Bank, Philadelphia, Pennsylvania, may establish a branch at 3459 Walnut Street, Philadelphia, Pennsylvania.

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. 2
6/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1966

Board of Directors,
Girard Trust Bank,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 1, 1967, the time within which Girard Trust Bank, Philadelphia, Pennsylvania, may establish a branch in the vicinity of the intersection of Lincoln Highway and Woodbourne Road, Middletown Township, Bucks County, Pennsylvania.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

2350

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

Item No. 3
6/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1966

Board of Directors,
Nevada Bank of Commerce,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 5, 1966, the time within which Nevada Bank of Commerce, Reno, Nevada, may establish a branch at the intersection of Rancho Drive and Sahara Avenue, Las Vegas, Nevada.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
6/30/66

OFFICE OF THE CHAIRMAN

The Honorable William L. Dawson,
Chairman, Committee on Government Operations,
House of Representatives,
2157 Rayburn House Office Building,
Washington, D. C. 20515.

June 30, 1966

Dear Mr. Chairman:

This refers to your letter of May 5, 1966, concerning the Twenty-Ninth Report by the Committee on Government Operations, entitled "The Coin Situation." Your letter mentioned that this Report contains several recommendations and requested that the Board take appropriate action with respect to these recommendations, and advise the Committee of any comments it may have and of any actions it may have taken or proposes to take to implement the recommendations.

In considering a reply that would be responsive to the request in your letter of May 5, 1966, the Board noted that in all cases implementation of the recommendations contained in the subject Report would require action by the Treasury Department. The Board also noted that in those cases where participation by the Federal Reserve System would be required or desirable, the recommendations in the Report reflect proposals previously made by a joint Treasury - Federal Reserve Ad Hoc Coin Committee.

As mentioned in the body of the Report by the Committee on Government Operations, the recommendations by the Ad Hoc Coin Committee have been approved by the Federal Reserve System, with certain minor exceptions which are no longer applicable because of subsequent developments, and are now under consideration by the Treasury Department.

At a meeting on June 27, 1966, the Conference of Federal Reserve Bank Presidents agreed to adopt a program under which all Reserve Banks would accept orders for coin from nonmember banks as well as from member banks and the Board has approved this program. Further action by the Board will, of course, depend on the Treasury's reaction to the various recommendations it now has under consideration. You may be assured, however, that the Federal Reserve System stands ready to offer whatever assistance it can give in the interest of orderly production and distribution of coin supplies.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 5
6/30/66

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1966



Mr. Fred W. Piderit, Jr.,
Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Piderit:

This refers to your letter of April 13, 1966, enclosing a copy of a letter from counsel for Manufacturers Hanover Trust Company requesting a ruling as to the applicability of section 22(g) of the Federal Reserve Act and the Board's Regulation O to loans under an Education Loan Plan that are proposed to be made available by Manufacturers to its executive officers.

The Board understands that the Plan is typically used by a parent to finance his child's four-year college education. The borrower enters into an "Agreement" and makes a note whereby he promises to pay to the bank a specified amount described as the "Gross Amount of the Loan", which is defined as the sum of the "Amount Required for Education", "Insurance Cost", and "Interest". The borrower undertakes to repay the "Gross Amount of the Loan" in equal monthly instalments, which normally extend over the entire period of the education being financed.

Under the provisions of the "Agreement", when the first payment (for tuition and other related charges) is due the educational institution, the bank issues a check to the borrower for the agreed amount, which is one-eighth of the "Amount Required for Education" in the typical case. The balance of the "Amount Required for Education" is credited to a collateral trust account, described as a Totten trust, in trust for the student, but subject to a lien granted to the bank and a right to set off against the account any amounts due the bank from the borrower. The borrower agrees not to make the trust account irrevocable during his lifetime, and that it will be a noninterest bearing account against which he will not draw checks or other orders of withdrawal. As subsequent payments to the educational institution fall due, the bank makes disbursements by issuing checks to the borrower that are charged against the trust account.

Repayments by the borrower commence with the month following the month of the first disbursement by the bank. The interest charge is calculated only on the unpaid principal balance of the amounts actually disbursed from time to time by the bank. If the borrower dies, the unpaid balance of the note is paid to the bank from the proceeds of insurance on the borrower's life, and the amount remaining in the trust account is paid over to the student. Either the borrower or the bank may terminate the Plan, whereupon the amount in the trust account is applied toward the note and the borrower is required to pay any deficiency remaining after such application.

Section 22(g) of the Federal Reserve Act provides that no person shall "borrow from or otherwise become indebted" to a member bank of which he is an executive officer, and no member bank shall "make any loan or extend credit in any other manner" to its executive officers. However, an exception permits an executive officer to "become indebted" to the member bank he serves if the amount does not exceed \$2,500 and if the extension of credit has the prior approval of a majority of the member bank's entire board of directors. The section delegates to the Board the authority "to determine what shall be deemed to be a borrowing, indebtedness, loan, or extension of credit". In section 215.1 of Regulation O, the Board has defined "loan" and "extension of credit" to include "the acquisition by discount, purchase, exchange, or otherwise of any note . . . or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety".

The acquisition by a member bank of a note upon which one of its executive officers is liable as maker, as contemplated by the Plan, is an extension of credit or a loan within the literal meaning of section 215.1 of Regulation O. The essential question is whether a member bank may offer the Plan to its executive officers even though the note evidencing the "Gross Amount of the Loan" exceeds the \$2,500 limitation of section 22(g), if the amount actually disbursed by the bank and not repaid through the monthly instalments will at no time exceed \$2,500.

The substance of the transaction, and not its mere form, is dispositive of the issue. In this connection, it is noted that the borrower has no right to the funds credited to the account that is created under the Plan, except as each scheduled tuition disbursement falls due. He pays interest only on the amounts actually disbursed. If the Plan is terminated at any time for any reason, the funds must be applied toward the note. Although the borrower is technically liable as maker of the note for more than \$2,500, the funds in the trust

account, plus the amount owed in instalments for funds disbursed, will always be sufficient to discharge the instrument. Thus, if the amount actually disbursed and not repaid in instalments will at no time exceed \$2,500, then the bank will at no time look directly to the borrower for more than the amount permitted by section 22(g). The function of the note is to enable the borrower to obtain group credit life insurance and thereby assure that should he die during the term of the Plan adequate funds would be provided for financing the completion of his child's college education.

The Board is of the view that, within the meaning of section 22(g) and Regulation O, the extension of credit or loan under the conditions of the Plan is the amount actually disbursed by the bank and not repaid through the monthly instalments. If that amount will at no time exceed \$2,500 and if the extension of credit is properly approved in advance by the directors of the member bank, then the Plan does not violate the statute or the Regulation. With respect to the requirement of prior approval by the member bank's directors, the Board ruled in 1937, as pointed out in your letter, that a grant of continuing authority to an executive officer to borrow up to \$2,500 could remain in effect "for only a reasonable period of time and in no event longer than twelve months". The Board is of the opinion that the twelve-month period is appropriate as a general rule, but that a four-year period is reasonable in the case of loans under the Plan described in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
6/30/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 30, 1966

Mr. Jack Tarver,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia 30303.

Dear Mr. Tarver:

In accordance with the request contained in your letter of June 23, 1966, the Board of Governors approves the appointment of Mr. Arthur Moylan as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta to succeed Mr. James L. Jones.

This approval is given with the understanding that Mr. Moylan will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent, Mr. Moylan may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Moylan is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Moylan execute the usual Oath of Office which should be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.