

Minutes for April 22, 1969

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.

Chairman Martin	<u> </u>
Governor Robertson	<u> </u>
Governor Mitchell	<u> </u>
Governor Daane	<u> </u>
Governor Maisel	<u> </u>
Governor Brimmer	<u> </u>
Governor Sherrill	<u> </u>

(Handwritten initials: M)

(Handwritten initials: JM)

(Handwritten initials: DA)

(Handwritten initials: SM)

(Handwritten initials: CB)

(Handwritten initials: WS)

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, April 22, 1969. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Robertson, Vice Chairman
 Mr. Maisel
 Mr. Brimmer

Mr. Holland, Secretary
 Mr. Kenyon, Deputy Secretary
 Mr. Broida, Assistant Secretary
 Mr. Forrestal, Assistant Secretary
 Mr. Brill, Senior Adviser to the Board and Director, Division of Research and Statistics
 Mr. Hackley, Assistant to the Board
 Mr. Molony, Assistant to the Board
 Mr. Coyne, Special Assistant to the Board
 Mr. Nichols, Special Assistant to the Board
 Mr. Hexter, General Counsel
 Mr. Solomon, Director, Division of Supervision and Regulation
 Mr. O'Connell, Deputy General Counsel
 Mr. Partee, Associate Director, Division of Research and Statistics
 Mr. Norwood, Adviser, Division of International Finance
 Mr. Leavitt, Deputy Director, Division of Supervision and Regulation
 Mr. Dahl, Assistant Director, Division of Supervision and Regulation
 Mr. Egertson, Assistant Director, Division of Supervision and Regulation
 Miss Hart, Assistant Director, Division of Supervision and Regulation
 Miss Wolcott, Technical Assistant, Office of the Secretary
 Messrs. Doyle and Lynch of the Legal Division
 Mr. Cleaver of the Division of Research and Statistics
 Messrs. Cloth and Goodfellow of the Division of Supervision and Regulation

Report on competitive factors. A report on the competitive factors involved in the proposed merger of Bank of Yadkin, Yadkinville,

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North Carolina, into Central Carolina Bank & Trust Company, Durham, North Carolina, was approved unanimously for transmittal to the Federal Deposit Insurance Corporation. The conclusion stated that consummation of the proposed merger would have no adverse competitive effects.

Policy record entry. With a memorandum of April 18, 1969, Mr. Broida submitted a draft of policy record entry covering the meeting of the Federal Open Market Committee on February 4, 1969, as revised to take account of comments received from Committee members and staff following distribution of a preliminary draft.

The entry was approved by the Board, subject to the understanding that it would be distributed to the Reserve Bank Presidents for possible further comments and that it would be released to the press about May 5, 1969, after final review by the Board.

Approved items. The following items were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective numbers indicated.

Item No.

Letter to the Assistant Secretary of the Federal Advisory Council submitting suggested topics for discussion at the forthcoming meeting of the Council.	1
Six interpretations of provisions of Regulation Z, Truth in Lending.	2

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Item No.

Letter to The Times Mirror Company, Los Angeles, California, relating to its request that Regulation G be amended to permit a corporation's employee stock option and purchase plans to qualify for exemption from the credit limitations of the Regulation. 3

Question raised by Continental Illinois. There had been distributed a memorandum from the Legal Division dated April 14, 1969, relating to a request from Continental Illinois National Bank and Trust Company, Chicago, Illinois, and its Edge subsidiary, Continental Bank International, New York City, for a ruling on the question whether an Edge corporation might act as trustee, paying agent, and conversion agent with respect to securities payable either in Europe or the United States but distributed solely outside the United States.

It was pointed out that section 211.5(b)(2) of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, provides that an Edge corporation may not "act in the United States as trustee, registrar, or in any similar capacity, with respect to securities distributed in the United States." Counsel for Continental contended that this provision implied that an Edge corporation could act in the United States in such capacity with respect to securities not distributed in the United States.

Messrs. Shay (Assistant General Counsel) and Doyle agreed that such an interpretation would be justified. On the other hand, Mr. Lynch was of the view that the legislative history of the Edge Act

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would prevent the Board from permitting Edge corporations to engage in such activities. Mr. Lynch based his argument on the fact that Senator Edge's bill originally contained a provision authorizing Edge corporations, with the Board's permission, to act as trustee and registrar of securities and to exercise other specified fiduciary powers when necessary in the conduct of their international and foreign business. This provision was deleted from the bill, at the Board's suggestion, as being unnecessary in relation to the purposes for which Edge corporations were to be organized.

It was agreed in the Legal Division that the question was close. The memorandum set forth the rationale for permitting Edge corporations to perform the limited functions described above, and there was attached a draft of interpretation for publication in the Federal Register that would reflect this view if the Board should conclude that it was the appropriate one. Should the Board conclude that these functions should not be permitted, there was attached a draft letter to counsel for the Edge corporation along those lines.

Following comments by Messrs. Doyle and Lynch summarizing their conclusions, members of the Board posed a number of questions seeking clarification of various points. However, there was no crystallization of Board opinion. At the conclusion of the discussion it was agreed that further consideration would be given

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BOARD OF DIRECTORS
FEDERAL RESERVE SYSTEM

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to the matter when additional members of the Board were present and that in the meantime other members of the Legal Division would study the subject.

The meeting then adjourned.


Secretary

Mr. William J. Sarver,
Reserve Bank of Chicago,
Member Advisory Council,
26 South Dearborn Street,
Chicago, Illinois 60603

Dear Sir:

The Board of Governors suggests the topic
discussed in the attached list for discussion at the meeting
of the Federal Advisory Council on May 20, 1969, and the
later meeting of the Board and the Council on May 20.

The arrangements for the Council meeting
requested in your letter of April 16 have been made.

Sincerely,

(signed) Robert C. Holland

Robert C. Holland,
Secretary.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
4/22/69

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 22, 1969.



Mr. William J. Korsvik,
Assistant Secretary,
Federal Advisory Council,
38 South Dearborn Street,
Chicago, Illinois. 60690

Dear Bill:

The Board of Governors suggests the topics shown on the attached list for discussion at the meeting of the Federal Advisory Council on May 19, 1969, and the joint meeting of the Board and the Council on May 20.

The arrangements for the Council meeting requested in your letter of April 18 have been made.

Sincerely,

(signed) Robert C. Holland

Robert C. Holland,
Secretary.

Attachment

Suggested topics for Discussion at Meeting of
Federal Advisory Council on May 19-20, 1969

1. Economic conditions and prospects.
 - A. How does the Council appraise the general economic outlook for the rest of 1969?
 - B. Have Council members received any recent indications of significant changes in business capital spending or inventory plans? To what extent are business decisions in these areas being affected by (1) current and prospective monetary conditions? (2) the proposed repeal of the 7 per cent investment tax credit?
 - C. In the Council's judgment, has there been any modification recently in business community attitudes with respect to the prospects for price and cost developments?
2. Banking developments.
 - A. What is the Council's assessment of the probable strength of business loan demand in the period ahead? Is there any difference regarding the outlook for term-loan demand and use of outstanding firm loan commitments and regular lines of credit?
 - B. What are the Council's views with respect to the current and prospective availability of short-term funds to banks through the CD, Euro-dollar, and Federal funds markets?
 - C. To what extent has bank liquidity been reduced since outstanding large-denomination CD's began to decline last December? Is there room for much further reduction? What types of adjustments in policies affecting loans and investments have been made or are in prospect in response to the reduction in liquidity and the general increase in monetary restraint?
 - D. What, in the Council's judgment, are the implications for monetary policy and bank regulation of the various devices some banks have recently been exploring and using to obtain funds in forms not subject to Regulations D and Q--such as sales of commercial paper by a wholly-owned subsidiary or by a one-bank holding company, sales of assets to foreign branches, and sales of loan participations to nonbank customers under repurchase agreements?

3. Regulatory matters.

- A. The Board would be interested in the views of Council members with respect to the one-bank holding company legislation now under consideration in Congress.
- B. The Board would appreciate having any views of the Council regarding the regulations designed to foster greater clarity in advertisements by member banks of the interest they pay on deposits.
- C. The Board would be interested in any comments the Council might have regarding the adequacy of the preparations being made by commercial banks, the creditors from whom they purchase paper, and other lenders in connection with the Truth in Lending regulation, which becomes effective on July 1. Are the Council members aware of any major problems requiring the attention of the Board in the period remaining before July 1?

4. Balance of payments.

What are the Council's views regarding the revised balance of payments program, including the Board's guidelines?

5. What are the Council's views on monetary and credit policy under current circumstances?

TITLE 12 - BANKS AND BANKING

Item No. 2
4/22/69

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. 2]

PART 226 - TRUTH IN LENDING

Miscellaneous Interpretations

1. In order to group current and future interpretations of this Part according to their subject matter, the following sections are redesignated as follows:

<u>Former section number</u>	<u>New section number</u>
226.101	226.501
226.102	226.601
226.103	226.602
226.104	226.603
226.105	226.701

2. The following interpretations are added:

§ 226.603 incapable State residents.

(a) Section 226.6(b) of Regulation Z, which requires that any disclosures with respect to...

...require that any disclosures with respect to...

...the method of dealing with such disclosures...

State law...

§ 226.401 Service charges on accounts not paid within a given period of time.

(a) Some vendors bill their customers for property or services purchased under the terms of a credit plan which requires that the full amount of each billing be paid within a stipulated period after billing, with no privilege of paying in instalments. If the bill is not paid within that stipulated period of time, the vendor imposes a service charge periodically on the unpaid balance until the account is paid in full. The question arises as to whether Regulation Z applies to such transactions.

(b) When in the ordinary course of business a vendor's billings are not paid in full within that stipulated period of time, and under such circumstances the vendor does not, in fact, regard such accounts in default, but continues or will continue to extend credit and imposes charges periodically for delaying payment of such accounts from time to time until paid, the charge so imposed comes within the definitions of a "finance charge" (§ 226.2(q)) applicable in each case to the amount of the unpaid balance of the account. Under such circumstances the credit so extended comes within the definition of "open end credit" in § 226.2(r), the vendor is a creditor as defined in § 226.2(m), and the disclosures required for open end credit accounts under § 226.7 shall be made.

(Interprets and applies 12 U.S.C. 1604 and 1605.)

§ 226.604 Inconsistent State requirements.

(a) Section 226.6(b) of Regulation Z indicates types of State law requirements that are inconsistent with Regulation Z, and § 226.6(c) indicates the methods of dealing with such inconsistent requirements of State law.

(b) Whether State laws are inconsistent with Regulation Z necessarily depends on the nature of the State laws. Section 226.6(b)(1) provides that State law is inconsistent to the extent that it "requires a creditor to make disclosures different from the requirements of this part with respect to form, content, terminology, or time of delivery." This refers to disclosures of the kinds of information covered by Regulation Z, and not to other or collateral information such as a statement telling the customer that he should read the contract carefully, or that there should be no blanks in the contract. Similarly, it does not refer to headings that State law may require on a contract such as "Retail Installment Contract." Similarly, a specification in a State law that certain size type must be used is not necessarily inconsistent with the requirements of Regulation Z.

(Interprets and applies 12 U.S.C. 1611.)

§ 226.702 Location of statement of how the balance was determined.

(a) Section 226.7(b)(8) requires the creditor of an open end credit account to disclose on the periodic statement, "the balance on which the finance charge was computed, and a statement of how that balance was determined." Under § 226.7(c) which relates to the location of disclosures there is no specific reference to the placement of the "statement of how that balance was determined" when separated from the balance to which it relates. The question arises as to where, under such circumstances, this required statement shall appear on the periodic statement.

(b) If separated from the balance to which it relates, the required statement of how the balance was determined may be placed on the face of the

periodic statement, the reverse side of the periodic statement, or on an enclosed supplement; however, where such statement and balance do not appear together, the statement shall make clear the balance to which it refers.

(Interprets and applies 12 U.S.C. 1636.)

§ 226.801 Location of disclosures when contract, security agreement, and evidence of transaction are combined in a single document.

(a) Some creditors incorporate the terms of a contract, a security agreement, and evidence of a transaction in a single document. These documents are designed for processing by mechanical and electronic equipment. If all of the required disclosures under § 226.8 should be placed on the face of such a document, the creditor will be unable to utilize conventional accounting and record keeping equipment because of the size of the resulting document. The question arises as to whether required disclosures may be made on the face and the reverse side of such a document.

(b) Where a creditor elects to combine disclosures with the contract, security agreement, and evidence of a transaction in a single document, the disclosures required under § 226.8 shall, in accordance with § 226.6, be made on the face of that document, on its reverse side, or on both sides, provided that the amount of the finance charge and the annual percentage rate shall appear on the face of the document, and, if the reverse side is used, the printing on both sides of the document shall be equally clear and conspicuous, both sides shall contain the statement, "NOTICE: See other side for important information," and the place for

the customer's signature shall be provided following the full content of the document.

(Interprets and applies 12 U.S.C. 1638.)

§ 226.1001 Advertising of credit terms in other than open end credit.

(a) The statement of certain credit terms in advertisements such as "no downpayment", the amount of any installment payments, dollar amount of finance charge, number of payments, etc., as provided in § 226.10(d)(2), requires that certain other terms also be stated in the same advertisement. The question arises as to how a creditor may advertise credit terms in a meaningful way when all of his credit sales or loans are not made on the same basis.

(b) The advertising of credit terms may be made by giving one or more examples of typical extensions of credit and stating all of the terms applicable to each example. In any such case, the advertiser shall set forth one or more examples which are, in fact, typical of the type of credit and terms usually and customarily made available by the creditor to present and prospective customers and each shall be clearly and conspicuously identified as examples of typical transactions.

(Interprets and applies 12 U.S.C. 1664.)

§ 226.1002 Catalogs-tables or schedule of credit terms.

(a) Under § 226.10(b) in order that a catalog may qualify as a single advertisement, among other things, it must include a table or schedule of credit terms. It has been the practice of catalog houses to include such tables in catalogs; however, such tables generally state

amounts of purchases, amounts of finance charges, and number and amount of payments for brackets up to a certain level and then contain an instruction to include a specified dollar amount in computing the finance charge by application of a percentage rate on any purchase in excess of that level. Tables to show the actual terms including annual percentage rates for all purchases into thousands of dollars would be unwieldy, present a formidable appearance, and may be more confusing than helpful to the user. The question arises as to whether a creditor who publishes a catalog is required to include tables in detailed amounts from the minimum up to, for example, \$5000, his highest priced cataloged merchandise.

(b) Tables or schedules of terms in catalogs must include all amounts up to a level of the more commonly sold higher priced property or services which are offered for sale, but in no event greater than \$1000 unless the creditor elects to do so. If the creditor offers property or service for sale at prices higher than the uppermost level covered by his table, he shall state the method by which the finance charge is computed on larger amounts, how the amount of payments and the number and periods of payments are determined and state, for each representative amount in increments of not more than \$500 up to the highest priced property or service offered, the annual percentage rate. Any catalog which contains such a table or schedule of credit terms will comply with requirements of § 226.10(b) provided all other requirements are met and such catalog shall be considered adequate for the purpose of § 226.8(g)(1).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
4/22/69

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 24, 1969.

Mr. Robert F. Erburu, Vice President,
General Counsel and Secretary,
The Times Mirror Company,
Times Mirror Square,
Los Angeles, California. 90053

Dear Mr. Erburu:

This refers to your request of January 13, 1969, that the Board amend section 207.4(a) of Regulation G, "Credit By Persons Other Than Banks, Brokers, or Dealers for Purpose of Purchasing or Carrying Registered Equity Securities," to permit a corporation's employee stock option and purchase plans to qualify for the section's exemption from the credit limitations of Regulation G, where the plans are to be financed by a company sponsored-membership thrift organization and membership in such organization is not "limited to employees and former employees of such corporation, subsidiaries or affiliates," as presently required by that section.

You represent that while the vast majority of the membership of the Los Angeles Times Federal Credit Union consist of employees of the Los Angeles Times, its subsidiaries or affiliates, there is also included within the credit union membership a small group of circulation dealers who are not employees (less than 10 per cent of total membership) and who are responsible for the distribution of the Times. Although these individuals are considered to be independent contractors, they have been permitted to be credit union members because their business activities are closely related to an essential part of the business of the Times. While they are entitled to all privileges of membership, transactions with this group of non-employee members make up a very small percentage of the business of the credit union. Moreover, the circulation dealers are not eligible to participate in the corporation's stock option plan.

In August 1968, section 207.4(a) of Regulation G was amended to permit company-related credit unions and thrift plans to make loans to finance employee stock option and purchase plans of the sponsor company on the same terms and conditions as was permitted lenders

Mr. Robert F. Erburu,

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wholly controlled by the company itself. In pertinent part, section 207.4(a), as amended, provides exemption from certain of the regulation's credit limitations "in respect to any credit extended and maintained by a corporation, . . . or by a lender which is a membership thrift organization whose membership is limited to employees and former employees of such corporation, its subsidiaries or affiliates . . .".

While an independent contractor is in a somewhat different status, from a legal standpoint, than an employee, there is a corresponding mutuality of interest between the employer corporation and an independent contractor whose principal business--as in most of the dealerships herein--is to serve the corporation. It may be noted that circulation dealers were found to be "employees" under the National Labor Relations Act for the purpose of forming collective bargaining units. National Labor Relations Board v. Hearst Publications, 322 U.S. 111 (1943). In addition, the existence of dealer members of the credit union appears to the Board to be de minimis, in view of the small number involved, the fact that none are eligible for credit under section 207.4(a) of the regulation, and that none, according to the Times, has sought or been elected to office in the credit union since its organization in 1935. Thus, there is little likelihood that any dealer member would be in a position to direct or influence credit union policy in connection with its "plan-lender" activities.

Under the circumstances described, the inclusion of a small group of circulation dealers in the credit union's membership is apparently compatible with the objectives of the above-quoted language. Accordingly, the Board concludes that credit extended by the Times Mirror Company's credit union to finance the company's stock option plan would not be disqualified in respect to the exemption afforded by section 207.4(a) from the credit limitations of Regulation G merely because the membership of the credit union includes a small number of circulation dealers who are, technically, not employees of the company.

Very truly yours,

(signed) Robert P. Forrestal

Robert P. Forrestal.
Assistant Secretary.