Minutes for December 3, 1956

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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below.

Page 17 Increase in maximum rates of interest payable on time and savings deposits by member banks of the Federal Reserve System provided in Supplement to Regulation Q, Payment of Interest on Deposits.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x	
Gov. Szymczak	x	
1/ Gov. Vardaman		x
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	

1/ The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 3, 1956. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman 2/
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Carpenter, Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Hackley, Associate General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Farrell, Assistant Director, Division of Bank Operations
Mr. Molony, Special Assistant to the Board
Mr. Massey, Technical Assistant, Division of Bank Operations
Mr. Stetson, Personnel Assistant, Division of Personnel Administration

The following matters, which had been circulated to the members of the Board, were presented for consideration and the action taken in each instance was as stated:

Letter to the Board of Directors, The Marine Trust Company of Western New York, Buffalo, New York, reading as follows:

> Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by The Marine Trust Company of Western New York, Buffalo, New York, of a branch on the

1/ Withdrew from the meeting and returned at the points indicated in minutes.
2/ Entered the meeting at point indicated in minutes.

north side of New Walden Avenue, approximately 570 feet east of the east line of Harlem Road in an unincorporated area of the Town of Cheektowaga, Erie County, New York, provided the branch is established within six months from the date of this letter and the approval of State authorities is in effect at the time of the establishment of the branch.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.

Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

Reference is made to your letter of November 13, 1956, submitting with a favorable recommendation a request of the Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, for permission under section 24A of the Federal Reserve Act to invest $4,013,045 in connection with a revised program for remodeling and expanding its main office banking premises rather than $1,500,000 as was contemplated in the Board's approval of March 8, 1956.

The Board has given consideration to the information which has been submitted and, due to the reported substantial changes in the facts and circumstances involved, now approves an additional investment of not exceeding $4,100,000 by the Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, for the purpose of remodeling and expanding its main office banking premises. This approval supersedes the approval given in the Board's letter of March 8, 1956. Please advise the trust company accordingly.

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

The Board of Governors of the Federal Reserve System has considered the recommendation of the Management Committee of your Bank contained in your letter of November 16, 1956, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Kelly Field National Bank of San Antonio, San Antonio, Texas, to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, effective as of October 15, 1956, the date of commencement of business by the subject bank.

Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

As recommended in your letter of November 20, 1956, the Board of Governors extends to March 15, 1957, the time within which Nevada Bank of Commerce, Reno, Nevada, may establish a branch at 533 North Virginia Street, Reno, Nevada.

Approved unanimously.

Letter to the Board of Directors, Continental State Bank, Boise, Idaho, reading as follows:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Continental State Bank to exercise the fiduciary powers now or hereafter authorized by its Articles of Incorporation and the laws of the State of Idaho.

Approved unanimously, for transmittal through the Federal Reserve Bank of San Francisco.

Chairman Martin withdrew from the meeting at this point.

Consideration was given to a memorandum dated November 29, 1956, from Mr. Solomon regarding the possible loan of a trial examiner for a hearing under the Bank Holding Company Act, copies of which had been distributed to the members of the Board before the meeting. Mr. Solomon reviewed the contents of his memorandum and emphasized that arrangements could be made with the National Labor Relations Board to borrow a trial examiner for a period of six months. The Board of Governors would pay for his services only during the time actually spent on System matters. It appeared that Mr. Charles W. Schneider of the Labor Board's staff might be the best qualified person, although he did not have specialized experience in banking matters or in questions concerning the preservation of competition.

Mr. Solomon said the primary question was a procedural one, whether the Board should make its arrangements directly with the National Labor Relations Board and then ask the Civil Service Commission to approve those arrangements, or whether it should proceed by asking the Civil Service Commission to make all the arrangements. It was his recommendation for reasons which he outlined that the former method be followed.

Governor Mills indicated that he was impressed with the qualifications of Mr. Schneider and would favor Mr. Solomon's suggestion as to procedure.

Governor Robertson agreed, pointing out that eventually the Board probably would have to arrange for its own trial examiner but that it would be advisable now to begin reviewing the qualifications of those on the approved Civil Service list of trial examiners.

It was unanimously agreed that negotiations should be undertaken with the National Labor Relations Board for the availability of Mr. Charles W. Schneider as a trial examiner and that approval of the Civil Service Commission then be sought for such arrangements.

During the foregoing discussion Chairman Martin returned to the meeting, and Vice Chairman Balderston and Mr. O'Connell, Assistant General Counsel, joined the meeting.

The discussion then turned to a memorandum from Mr. Hackley dated November 19, 1956, which had been circulated to the members of the Board prior to this meeting, regarding the policy to be followed for distribution of copies of the new edition of the Federal Reserve Act. Mr. Hackley summarized the memorandum, including his reasons for the following recommendations:

1. That one paper-bound copy be furnished without charge to any member bank that requests a copy from the Board or from its Federal Reserve Bank (unless the Board should now feel that free copies should be sent automatically, as was done in 1946, to all of the approximately 6,500 member banks);

2. That complimentary copies be sent, without request, to members of the Banking and Currency Committees, the Joint Economic Committee, and the Federal Advisory Council, and also to the Secretary of the Treasury, the Comptroller of the Currency and Deputy Comptrollers, and directors of the FDIC;

3. That free copies be furnished, upon request, to members of Congress, Government officials, libraries of educational institutions, public libraries, foreign central banks and Governments, and the press;

4. That loose-leaf sets be furnished to present holders of loose-leaf sets of the 1946 edition at the Board and at the Reserve Banks and to such additional staff members, including Federal Reserve examiners, as may have need for such sets;

5. That the Reserve Banks be asked to indicate the number of loose-leaf copies needed by them for the use of their staffs and the number of paper-bound copies they will require for the use of their staffs and for distribution, in accordance with the Board's distribution policy, to member banks and to the public over the next two years;

6. That a charge of $1.00 be made for copies requested by banks and the public, except where free distribution is contemplated by 1, 2, and 3 above; and

7. That, when copies of the new edition are available, an appropriate announcement be published in the Federal Reserve Bulletin, stating that one copy will be sent without charge to any member bank upon request and that additional copies can be obtained at a price of $1.00 each.

In connection with the distribution of complimentary copies to member banks, Mr. Hackley commented that in 1946 a copy was automatically sent to each member bank but that in view of the more limited number of copies currently being printed, it might be better if all member banks were advised through an appropriate announcement in the Federal Reserve Bulletin that a copy would be sent without charge to any member bank upon request.

Mr. Young, Director, Division of Research and Statistics, entered the meeting at this point.

Mr. Hackley went on to explain that all copy was now set in type and much of it had reached the page-proof stage, and that it was possible that final copies would be available within six to eight weeks.

There followed a discussion about the timing of this revised edition of the Act in the light of possible changes resulting from the activities of the Robertson Committee's study of banking laws. It was agreed that the Committee's activities might result in another revision at some time in the future. However, since it was noted that the most recent edition was 10 years old, that the supply of such copies was exhausted, and that such a large portion of the work had already been done, it was the consensus that the project should move forward now.

Therefore, the distribution policy as outlined in Mr. Hackley's memorandum was approved unanimously, together with a letter to the Presidents of all Federal Reserve Banks reading as follows:

It is expected that there will be available for distribution early in 1957 a revised edition of the Federal Reserve Act and related statutes which will supersede the edition printed in 1946. The new edition will include all amendments through the last session of Congress. It is contemplated that the printing will comprise 15,000 paper-bound copies and 1,000 loose-leaf sets.

In view of the limited number of copies to be printed, the Board has determined that the following policy should be followed in the distribution of the new edition:

(1) One paper-bound copy will be sent without charge to any member bank requesting a copy;

(2) Copies will be furnished without charge, upon request, to members of Congress, Government officials, libraries of educational institutions, public libraries, foreign central banks and Governments, and the press; and

(3) Additional copies will be furnished to member banks, and copies will be available to the public, upon request, at a charge of $1.00 each.

It will be appreciated if you will advise the Board of the number of paper-bound copies which your Bank will expect to need for the use of your officials and staff and for distribution and sale to member banks and to the public in accordance with the policy above indicated. In view of the limited number of copies that will be available, it is requested that you limit your request to a minimum consistent with your anticipated needs over the next two years.

In addition, it will be appreciated if you will indicate the number of loose-leaf copies of the new edition which your Bank will require for replacement of loose-leaf sets now held by officials of your Bank and for use by other members of your staff, including examiners, who have need of such copies. It should be understood that those who now have loose-leaf sets should retain the binders furnished in 1946. Any additional loose-leaf sets will not be accompanied by binders at this time.

Mr. O'Connell then withdrew from the meeting.

There had been sent to each member of the Board prior to this meeting copies of the 1957 budgets of the Federal Reserve Banks, together with an analysis and summary of those budgets prepared by the Divisions of Bank Operations, Research and Statistics, and Personnel Administration, and Mr. Thurston's office. Mr. Farrell summarized the provisions of the budgets of the Reserve Banks for the coming year, indicating that generally speaking the budget procedures were improving each year and that while there might be small points to be raised about individual budgets, on the whole he felt they represented a good budget presentation. He pointed out that the combined gross budgets total $149.2 million, an increase of $9.1 million or 6.5 per cent over 1956 expenses. About $1.7 million of this increase was represented by a larger assessment for Board expenses. Slightly more than two-thirds of the increase in total operating expenses represented officers' and employees' salaries and retirement contributions which showed an increase of $5.2 million (about 6 per cent). He pointed out that furniture and equipment purchases in connection with current building programs at several offices were another important factor in larger 1957 expenditures. The total number of Federal Reserve Bank employees is expected to go up from 18,770 to 19,076 mainly as a result of an anticipated increase in the volume of checks handled. The Treasury Department's simplification of Government check handling procedures was expected to permit some reduction in employees used for this purpose.

Mr. Farrell indicated that there were four instances in which he thought the letters to individual Banks should comment on some phase of the budget presentation:

1. The budget of the Federal Reserve Bank of Boston was the only one which did not reflect some decrease in employees as the result of the revised procedures for handling Government checks, although the budget did include anticipated increased amounts for postage and equipment rental charges for this function. It was felt that the Bank might have overlooked this item in the preparation of its budget.

2. The budget of the Federal Reserve Bank of New York indicated no provision had been made for any change in employee salaries that might result from a current survey being made of comparable salaries being paid throughout the business community in that area. The 1956 budget of this Bank contained a similar statement and later in the year the Bank requested an increase of approximately $500,000 based on the results of such a survey. It was felt that acceptable budget procedures should take such developments into account and make reasonable allowances for projecting trends.

3. The budget of the Federal Reserve Bank of Minneapolis included in current expenses a charge of $800,000, a substantial portion of which was attributable to the current building program. The question was one of accounting technicalities and distribution of the construction costs in connection with the remodeling of their building. A more precise distribution would have to await completion of the project.

4. The original budget submitted for the Federal Reserve Bank of Kansas City had not included estimates for furniture and equipment needed in connection with renovation of a portion of their building. A subsequent letter from the Bank, however, provided estimates for such expenditures. Again it was felt that it would be better for the Bank to provide its best estimate of expenditures rather than to indicate that the budget did not include estimates for certain expenditures that could be anticipated.

Governor Balderston raised a question as to whether the Dallas Reserve Bank budget had reflected adequately the efficiencies that would result from changes in the procedure for handling Government checks. Mr. Farrell replied that he thought they had, inasmuch as the figures represented an over-all average for the year. This was so because the changed procedure would be applicable first to the districts in the east and gradually would become applicable in the other districts so that it would not be effected in Dallas until later in the year.

Governor Mills asked if the budgets this year appeared to conform in general with the recommendations made by the Coleman Committee in 1953. Both Messrs. Johnson and Farrell indicated that it was their view that the 1957 budgets would reflect the recommendations of that Committee. Mr. Johnson said that the Division of Personnel Administration was not entirely satisfied with the allocations of the time of Bank officers but that he thought improvements were being made and that some of these difficulties would be worked out in the coming year.

Mr. Thurston indicated that his only comment on the budgets from the standpoint of the public relations programs related to the continued use of Reserve Bank funds for club memberships and the proposed expenditures at some of the Banks for dedicatory ceremonies upon the completion of building programs. Mr. Leonard then read a schedule of proposed expenditures for the latter purpose. It was the consensus of the Board that this matter might be discussed with the Chairmen when they are here for the Chairmen's Conference later this week and that it might also be discussed by individual members of the Board with Federal Reserve Bank directors whenever opportunity presented itself.

Governor Robertson said he felt the record should show that this subject had been reviewed and discussed by the Board.

Chairman Martin said it was his view that expenditures for club dues should be eliminated as soon as possible and that the salaries paid to Federal Reserve officials should be sufficient to enable them to pay personally for any memberships they felt were essential to their duties. The payment of club dues by a Reserve Bank leaves the System in a difficult position no matter how justifiable these payments may be in individual cases. It was agreed that a summary of such payments for the coming year would be circulated to the Board.

Governor Balderston then asked about the proposed expenditure for the reference library at the Federal Reserve Bank of Cleveland, as contrasted with New York for example. Mr. Noyes said it appeared that differences in library expenditures among the Banks were due to a distinction in the degree of public use. At Cleveland a special effort was made to make the library generally available for public reference purposes, especially on monetary and credit matters. The New York Bank, on the other hand, followed a somewhat more restrictive policy and made such facilities available to the public only when information could not be readily obtained from other sources.

Mr. Thomas, Economic Adviser to the Board, joined the meeting at this point.

Mr. Johnson then reviewed the provisions of the Reserve Bank budgets relating to personnel and discussed the summary that had been distributed to the Board. In response to a question, he explained the management development function and said expenditures for this item varied widely among the different Banks. Mr. Leonard added that to some extent the amounts spent for this function were simply a matter of the allocation of costs. It was brought out that in many Banks the program was still in the development stage, while in others, particularly New York and Philadelphia, considerable progress had been made.

Mr. Noyes then commented on the research budgets and said he felt the objectives of the Coleman Committee were being achieved. The revision in the budget procedure, however, made it somewhat more difficult to analyze the number and responsibilities of personnel in research departments at the Reserve Banks. The Division of Research and Statistics found it necessary to rely on other sources for such data.

Governor Mills raised a question as to whether any Banks other than Boston were spending funds for outside research activities.

Mr. Noyes replied that, while no other Bank has made such arrangements a regular feature of its research program as Boston has, other Banks had engaged university professors and others on an ad hoc basis. He distinguished between the occasions where Reserve Banks make arrangements for part-time employment of academicians from instances in which honorariums or grants for specific research work were made.

Governor Robertson then returned to the subject of Bank memberships in various organizations and pointed out he would have no doubt of the justification for membership in professional organizations and for Bank sponsorship of the American Institute of Banking. He did have serious reservations, however, about some of the other organizations that had been mentioned.

Chairman Martin said he agreed that the American Institute of Banking could be distinguished from the rest but that he had some doubts about support of State and local bankers' associations and about some of the bankers' meetings held by the Reserve Banks.

Mr. Molony mentioned that the New York Reserve Bank had reconsidered its program of dinners for bankers' associations and now made each of these an occasion for a talk on a matter of interest to the Federal Reserve System.

Mr. Riefler, Assistant to the Chairman, joined the meeting at this point.

Governor Balderston indicated it had been his original feeling that some of the budgets still contained padding, particularly in overestimates of the number of employees required. After studying the matter thoroughly he had changed his mind and believed now the budgets for next year included more reasonable estimates and better targets for operations than previous budgets. He noted, however, that there were indications that some of the new branch buildings were going to be costly to operate in terms of the facilities they provided and would probably add to System operating expenses.

Following a further discussion of other points raised, the 1957 budgets of the Federal Reserve Banks were accepted as submitted, with the understanding that advice of such action would be sent to each Federal Reserve Bank, and that the special problems raised during the discussion with respect to the budgets of the Federal Reserve Banks of Boston, New York, Minneapolis, and Kansas City would be brought to the attention of these Banks.

Secretary's Note: Pursuant to the foregoing action, the following letters were sent under date of December 11, 1956:

Letter to the Federal Reserve Bank of Philadelphia reading as follows and similar letters to all of the other Federal Reserve Banks except that the letters to Boston, New York, Minneapolis, and Kansas City contained additional paragraphs shown below.

The Board of Governors has reviewed and accepts the 1957 budget of the Federal Reserve Bank of Philadelphia, which was submitted with Mr. McCreedy's letter of September 25, 1956.

During its consideration of the budgets, the Board expressed some concern with respect to provisions that were being made in certain cases for discretionary expenditures, such as for membership dues and for dedicatory ceremonies in connection with the opening of new buildings. At the recent meeting of the Conference of Chairmen, I referred in particular to questions that had been raised about various budgetary provisions for membership dues and contributions. A letter dealing specifically with this phase of the matter will be forwarded later.

Because of the special relationship between the Federal Reserve Banks and the Government, the Board has consistently taken the position that careful consideration must be given to any proposed expenditures that do not clearly come within the meaning of "necessary expenses" under Section 7 of the Federal Reserve Act. Accordingly, I am taking this opportunity to urge the exercise of prudence and good judgment by all Banks in connection with expenditures of this nature.

Separate advice is being given with respect to the Board's action concerning the 1957 salaries proposed for the various officers of your Bank.

Special paragraphs contained in letter to Federal Reserve Bank of Boston

An apparent inconsistency has been noted, however, in the budget provisions for the Government Check operation in which a substantial change is to be made next year. In anticipation of the change in procedure, your Bank's budget provides for increases of about $4,100 in Postage and Expressage and of about $22,000 in Equipment Rental. On the other hand, the number of employees budgeted for this operation during the forthcoming year is approximately the same as current requirements, although the new Treasury procedure is expected to reduce substantially the work done by the Reserve Banks. The explanatory material accompanying the budget states that the timetable for converting to the new procedure was so indefinite that the expenses for this operation had to be forecast on a more or less arbitrary basis.

It is recognized that when the budgets were prepared the Treasury had not yet determined the exact dates on which the new procedure would become effective, but it is understood that the changes were generally expected to take place during the first part of 1957. In anticipation of the changes, all of the other eleven Reserve Banks showed a substantial reduction in the number of employees budgeted for the Government Check Unit for 1957. These reductions averaged around 30 per cent.

This inconsistency is being called to your attention with the thought that it may have escaped your notice. In view of the nature of your Bank's budgetary provisions for this operation, it would seem desirable to take appropriate steps to assure that the cost of this activity is effectively controlled by some other means during the forthcoming year.

Special paragraphs contained in letter to Federal Reserve Bank of New York

However, the Board notes the indication in Mr. Treiber's letter that, in the light of preliminary results from a community salary study which was being completed when the budget was submitted, the budget provisions for year-end salary increases may be inadequate. It is recalled in this connection that a similar reservation was made with respect to the 1956 budget, and that subsequent salary increases amounted to about $500,000 more than had been provided for in the budget for this purpose.

The Board appreciates the difficulty of determining how much salaries may be affected by community surveys before such studies are completed. It believes, however, that the budgets will be more effective and meaningful if they contain estimated allowances for probable developments than if they are based on firmer figures with a reservation as to the accuracy of the forecast. Accordingly, it is requested that salary trends and other available information be taken fully into account in the preparation of future budgets in order that the figures submitted may reflect as accurately as possible the cost of operations during the forthcoming year.

Special paragraph contained in letter to Federal Reserve Bank of Minneapolis

The Board notes, however, that your budget report indicates that at the Head Office $385,500 will be charged to Repairs and Alterations in 1956 and $536,000 is budgeted for this purpose in 1957. The supplemental information submitted with the budget further indicates that most of these charges are in connection with the building improvement program, and raises the question as to whether a substantial part of them should not be capitalized. Accordingly, the Board's acceptance of the budget as submitted does not necessarily imply agreement with the proposed distribution of the construction costs. The Board has requested Mr. Leonard, Director of the Division of Bank Operations, to follow up this matter with you.

Special paragraphs contained in letter to Federal Reserve Bank of Kansas City

Mr. Boysen's letter of November 21 not only requested a revision in the Head Office budget but stated that, because the estimates of the amounts involved had not been completed, the Omaha Branch budget did not include provision for substantial furniture and equipment purchases expected to be made in 1957.

I am sure that you and your Directors can appreciate that the Board's task of considering the budgets is made more difficult by omission of provision for substantial contemplated expenditures. It would have been preferable to have included in the Omaha budget, on the basis of the best estimate available, some provision for the furniture and equipment purchases mentioned by Mr. Boysen, even though the figures submitted were not in final form. Any material variation between the budget and actual expenses would be explained in the budget experience reports. It will be appreciated if such a procedure is followed in case a similar situation arises in the future.

All of the members of the staff then withdrew and the Board went into executive session.

> Following the executive session, Governor Shepardson informed the Secretary that question had been raised by Governor Vardaman before he left whether the Board actually took action during the executive session on November 21, to approve the refurbishing of the Board members' dining room (the Brown Room), Governor Vardaman having been willing at the earlier meeting to approve only on condition that the Board take action on another matter which he proposed. Governor Shepardson said that at the meeting today all six of the members reaffirmed that at the meeting on November 21, 1956, they voted to approve the refurbishing and it was understood that there would be entered in the minutes of this meeting the substance of a statement by Governor Shepardson that Governor Vardaman had told him that he wished to restate his opposition to that action unless the other action which he had proposed was also taken by the Board.

The Board then recessed and reconvened at 2:30 p.m. with the same members of the Board present. Messrs. Carpenter, Fauver, Thurston, Riefler, Thomas, Leonard, Vest, Young, Hackley, and Molony of the Board's staff also were present.

Chairman Martin informed the Board that he had just been advised by Mr. Cook, Chairman of the Federal Deposit Insurance Corporation, that the Corporation had acted to adopt the same schedule of maximum interest rates on time and savings deposits as that on which the Board reached a consensus at its meeting on November 29, 1956. Mr. Cook, he said, had indicated that they would like to coordinate the Corporation's announcement of the change with the Board's announcement.

Governor Szymczak then made a statement as follows:

I have studied Governor Robertson's statement over the week-end and still think it is a very good statement, but believe it is more on the potential side rather than on the actual side of what might develop as a result of an increase of the maxima for time and savings deposits. In other words, I feel that his points are all valid in some degree, but appear to me to be outweighed by reasons in favor of an increase.

I feel that Congress intended that the maxima rates on savings and time deposits be changed from time to time and not remain fixed indefinitely. I also feel that in case these increases in the maxima permissable rates of increase should indicate a trend toward some of the points made by Governor Robertson, the maxima rates can be changed by the Board and by the Federal Deposit Insurance Corporation.

I feel that with yields on long-term Treasury bonds at around 3-1/2 per cent, Treasury bill rates at close to 3 per cent, loan rates to prime customers at 4 per cent, other loan rates higher, rates on mortgages at 5 per cent or higher, and rates paid by many mutual savings banks and most savings and loan associations above 3 per cent, the proposed schedule of 3 per cent maximum on savings deposits and time deposits payable after six months and of 2-1/2 per cent on time deposits payable in 3 to 6 months should neither endanger the profits position of banks nor offer undue competition to Government securities or other investments. On the contrary, in view of this rate structure, banks probably need to increase their present rates paid on time deposits in order to protect their positions.

I feel that current earnings records indicate that most banks could afford to pay higher rates on time deposits without serious impairment of earnings. Earnings might be improved if they could attract more time deposits. Although a number of banks would find it difficult or impossible to pay the highest authorized rates on time and savings deposits, it is likely that most banks will not find it necessary to raise rates to the maxima permitted in order to compete.

Also banks are threatened with a loss of deposits because the rates they pay on time deposits are becoming less competitive with returns available from other uses of savings.

Such a loss would diminish the service that banks can perform; it might necessitate liquidation of assets at a loss; and it would for these reasons be a threat to position of the commercial banking system.

I also feel that although a 3 per cent rate on savings deposits would unquestionably be competitive with U. S. savings bonds at existing rates, the rates on these bonds now need to be raised in any event to compete adequately with other available forms of investment and also to give the small saver a return that is consistent with the present interest rate structure.

I feel that some graduation in rates payable on time deposits is necessary to minimize pressure for shifting of liquid funds into banks and the proposed schedule provides such graduation. By maintaining a low and noncompetitive rate on time deposits payable in less than 90 days, the risk of attracting truly liquid funds that should be in demand accounts is minimized. Any return, even with a 6-month requirement, will attract some such funds, but this could be prevented only by prohibiting any interest payment on time deposits or impose various other conditions that would be unrealistic, inequitable, and contrary to the intent of existing legislation.

Governor Mills indicated his agreement with the proposed schedule of rates but said that he would still prefer to see a distinction between the rates on savings deposits and time deposits of six months or more with savings deposits carrying the higher rate.

Thereupon, the Board approved the following amended supplement to Regulation Q, Payment of Interest on Deposits, effective January 1, 1957, with the understanding that (1) the Secretary would telephone President Ritchie of the National Association of Supervisors of State Banks; (2) the amendment would be sent by wire to the Federal Reserve Bank Presidents with the request that the amendment be printed and distributed to member banks in their districts, and that they advise the State banking authorities of the States whose capitols are in their district of the Board's action; (3) that the action would be released to the press at 4 p.m., E.S.T., today in the form set forth below; and (4) that a notice of the action for publication in the Federal Register would contain the paragraph also set forth below. On this action Governor Robertson voted "no" for the reasons stated at the meeting on November 30, 1956.

Amended Supplement to Regulation Q

Pursuant to the provisions of section 19 of the Federal Reserve Act and section 3 of its Regulation Q, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates[1/] of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(1) Maximum rate of 3 per cent.--No member bank shall pay interest accruing at a rate in excess of 3 per cent per annum, compounded quarterly,[2/] regardless of the basis upon which such interest may be computed,--

(A) On any savings deposit,

(B) On any time deposit having a maturity date six months or more after the date of deposit or payable upon written notice of six months or more,

(C) On any Postal Savings deposit which constitutes a time deposit.

1/ The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

2/ This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

(2) Maximum rate of 2-1/2 per cent.--No member bank shall pay interest accruing at a rate in excess of 2-1/2 per cent per annum, compounded quarterly,2/ regardless of the basis upon which such interest may be computed,--

(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than six months and not less than 90 days after the date of deposit or payable upon written notice of less than six months and not less than 90 days.

(3) Maximum rate of 1 per cent.--No member bank shall pay interest accruing at a rate in excess of 1 per cent per annum, compounded quarterly,2/ regardless of the basis upon which such interest may be computed,--

(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days.

Joint Statement for the Press

The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation today changed the maximum permissible rates of interest payable by member banks of the Federal Reserve System and nonmember banks insured by the FDIC on savings deposits and time deposits and certificates as follows, effective January 1, 1957:

	Maximum Permissible Rate, At Present	Maximum Permissible Rate, Effective January 1, 1957
Savings deposits	2-1/2%	3%
Time deposits and certificates, 6 months or more	2-1/2%	3%
Time deposits and certificates, 90 days to 6 months	2%	2-1/2%

2/ This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

No change was made in the maximum permissible rate, now 1%, payable on time deposits and certificates of less than 90 days.

Paragraph in Notice for Publication in the Federal Register

The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such Act, are not followed in connection with this amendment for the reasons and good cause found, as stated in section 2(e) of the Board's Rules of Procedure (12 C.F.R. 262.2(e)), and especially because in connection with this liberalizing amendment such procedures would prevent the action from becoming effective as promptly as necessary.

The Secretary then stated that the Board had received a request from the Bureau of the Budget to report on a proposed amendment to the Federal Unemployment Tax Act. At the request of the Chairman, he discussed the nature of this amendment, which would have the effect of bringing employees of the Federal Reserve Banks, and certain other Federal instrumentalities, within the coverage of that Act. The Budget Bureau had asked for a reply by December 13 and it was suggested that the views of the Federal Reserve Banks should be obtained by wire for use in preparation of the Board's report.

Thereupon, unanimous approval was given to a telegram to the Presidents of all Federal Reserve Banks requesting the views of the Banks on the draft bill.

The meeting then adjourned.

S R Carpenter

Secretary