

Minutes for October 9, 1957.

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, 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 <u>M</u>	_____
Gov. Szymczak	x <u>[Signature]</u>	_____
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	x <u>[Signature]</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>[Signature]</u>	_____
Gov. Shepardson	x <u>[Signature]</u>	_____

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 9, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Furth, Chief, International Financial Operations Section, Division of International Finance
Mr. Sammons, Chief, Latin American Section, Division of International Finance
Mr. Davis, Assistant Counsel
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

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Item No.

- Letter to Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, approving the establishment of six out-of-town branches incident to the proposed merger of Ambler National Bank, Ambler, Pennsylvania, and The National Bank of Narberth, Narberth, Pennsylvania, into the applicant bank. (For transmittal through the Federal Reserve Bank of Philadelphia) 1
- Letter to the Federal Reserve Bank of Richmond extending the time within which County Trust Company of Maryland, Cambridge, Maryland, may establish a branch in Annapolis, Maryland. 2
- Letter to The Selma National Bank, Selma, Alabama, approving the bank's application for permission to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Atlanta) 3
- Letter to The First National Bank, Palestine, Texas, regarding a possible offer to pay interest on demand deposits in accordance with a proposed contract. (With a copy to the Federal Reserve Bank of Dallas) 4

Application of Wisconsin Bankshares Corporation (Item No. 5).

At the meeting on May 24, 1957, the Board considered the application of Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, to acquire control of the proposed Southgate National Bank of Milwaukee and decided to request the applicant, through the Federal Reserve Bank of Chicago, to submit any additional and pertinent information that it might have, or be able to obtain, relative to whether the need for this banking facility was such as to offset the question of further expansion by the holding company.

There had now been distributed to the members of the Board copies of a memorandum from the Division of Examinations dated October 2, 1957, in which the Division again recommended approval of the application.

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The memorandum summarized the additional data submitted by the applicant, including detailed information with respect to the local area to be served by the proposed bank, and the view was expressed that this added to the previous information relating to convenience, needs, and welfare in such a way as to strengthen the application substantially.

There had also been distributed copies of a memorandum from the Legal Division, dated October 4, 1957, which brought out that although the supplemental information submitted by the applicant presented a strong case with respect to the need for the new bank, it must be borne in mind that the Board did not have the benefit of any contrary evidence that might be presented by parties opposed to the proposed transaction. However, while a public hearing in Milwaukee would provide the best way of developing any such evidence, it was thought questionable whether a hearing would result in presentation of any significant factual information not already before the Board. Accordingly, it continued to be the opinion of the Legal Division that the issue turned upon whether the Board, in its judgment, felt that the showing of need was sufficient to outweigh the resulting increase in the size and extent of the applicant's holding company system and the possible deterrent effect on the establishment of independent banks in the particular area. It was felt that approval of the application would probably be sustained by the courts in the event of judicial review but that, on the other hand, denial of the application would probably also be sustained.

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At the request of the Board, Mr. Masters made a statement in which he said that, as brought out in the memoranda from the Division of Examinations and the Legal Division, the decision appeared to turn on whether considerations relating to the convenience, needs, and welfare of the community to be served were sufficiently strong to offset adverse considerations growing out of the dominant position of the applicant in the Milwaukee area. He went on to say that the additional information which had now been obtained from the applicant seemed to add considerable strength to the position which formed the basis of the earlier favorable recommendation from the Division of Examinations. He noted that the Southgate area has a population of about 60,000; that it is separated from other outlying areas by certain natural and man-made barriers; that the area has no banking facilities at the present time; that there has been a very substantial growth in population and industry; and that prospects for further growth are favorable. The growth of the area since 1950 was demonstrated rather convincingly, he thought, by comparative aerial photographs submitted by the applicant. In addition, the trading area of the proposed bank had been the subject of study by a firm of economic analysts, and growth and opinion surveys had been made by independent organizations retained by the applicant. All of this, he felt, combined to present a much stronger picture from the standpoint of convenience, needs, and welfare, and the Division of Examinations was led to feel that favorable action should be taken on the basis of that factor alone. This was also the conclusion of the Federal Reserve Bank of Chicago.

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On the other side, Mr. Masters pointed out, was the dominant position of Wisconsin Bankshares Corporation in the Milwaukee area. After elimination of interbank deposits, the holding company system was found to control 46 per cent of the bank deposits in the city and 41 per cent of such deposits in the county, and the percentages in respect to banking offices were 41 and 31, respectively. However, the proposed transaction would increase the percentage of controlled deposits only very nominally. In the 3-1/2 mile area surrounding the site of the proposed bank, having a population of about 175,000, the applicant controlled only about 20 per cent of the deposits and 17 per cent of the banking offices. Furthermore, the other banking offices in this area were beyond the aforementioned natural and man-made barriers.

Mr. Masters concluded by bringing out that some objections to the proposed transaction had been raised. Two or three of the local banks within the 3-1/2 mile area had protested on the ground that they had provided, and could continue to provide, adequate banking services. There had also been objections from certain downtown Milwaukee banks and from the Wisconsin Bankers Association, but within the Association the objection was not unanimous.

Mr. Hackley then summarized the memorandum from the Legal Division. He said that on the basis of the fifth factor required to be considered in a matter of this kind, it seemed seriously questionable whether approval of the application would be in accordance with the purposes of the Bank Holding Company Act unless there was a showing of need for the bank

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sufficient to offset the adverse considerations. As stated in the memorandum, a public hearing would be the best way to determine the actual extent of such need, but such a hearing might not develop anything new in the way of factual information. On the basis of the available facts and the analysis by the Division of Examinations, it was the feeling of the Legal Division that, despite the adverse considerations, approval of the application on the basis of need for the bank would be a reasonable exercise of the Board's discretion and probably would be upheld by the courts.

Governor Shepardson inquired regarding the accuracy of the applicant's statement that its percentage of the banking business in the Milwaukee area had decreased over the past twenty years, and Mr. Thompson responded that this was correct from the standpoint of relative growth. However, he said, it was the view of the Division of Examinations that under the Bank Holding Company Act applications of this kind must be appraised in the light of the current situation.

Governor Shepardson also inquired whether there had been any reason why other parties would have been precluded from establishing a bank in the Southgate area, and Mr. Hostrup replied that the applicant had obtained approval from the Comptroller of the Currency in 1952 to establish a bank at that location. Since that time, no steps had been taken by others to organize a bank in the area despite the fact that Wisconsin Bankshares let the matter lapse until late 1955.

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In this connection, Governor Robertson suggested that others might have been deterred by the fact that Wisconsin Bankshares, a large organization, had already obtained the right to establish a bank at the Southgate location.

Mr. Hackley then pointed out that the failure of Wisconsin Bankshares to establish a bank after it had obtained approval could be regarded, although not conclusively, as an indication of a lack of sufficient need for banking services in the area. In another area in Milwaukee where a somewhat similar situation prevailed, independent interests had, in fact, established a bank.

Chairman Martin inquired how this application might be distinguished from the current application of Baystate Corporation to acquire the Union Trust Company of Springfield, Massachusetts, and Mr. Hackley said that this was a difficult question. However, in the Milwaukee case the elimination of a large existing bank would not be involved. Also, the percentage of area deposits controlled by Wisconsin Bankshares, while already large, would be increased only slightly through control of the proposed new bank, according to projected deposits for the new institution. On the other side, the relative position of Baystate in the general Springfield area was not as dominant as that of Wisconsin Bankshares in the Milwaukee area and the establishment of the new bank in Southgate could be regarded as giving the applicant the advantage of prior occupancy and perhaps deterring independent interests from establishing a bank in the future. On balance, the Baystate application seemed to present a somewhat more serious question under the law because it would result in the

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elimination of a large competing independent bank. There appeared to be a relatively strong showing of need in the Milwaukee case, while in the Baystate case the principal benefits from the proposed acquisition and subsequent merger would be largely those resulting from any consolidation of banking institutions.

Governor Mills expressed the view that when the Board was considering applications involving the expansion of a bank holding company, a distinction was necessary as between the establishment of an additional unit which would be equivalent to a branch and expansion through purchase of a bank, or establishment of a new bank, in the overall area within which the holding company had been operating. In his opinion, it was the global expansion of a holding company's activities that the Bank Holding Company Act was directed at, rather than the first type of application. Where an application did not go beyond expanding services and facilities within a community already served by a bank holding company, denial of the application would not only limit the opportunity of the applicant to provide services but would deprive the community of services beneficial to its development. Through denial in such a case, he felt that the Board, as an administering authority, would be going beyond determining the need of a community for banking services and would be saying that such services should not be provided because the additional facilities would lessen competition. It seemed to him that in making a determination, the Board should consider the advantages that the banking services could bring to the community just as seriously as the problem of competition within banking.

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To deny the application of Wisconsin Bankshares Corporation, Governor Mills said, could represent denying a growing community banking services being offered by a responsible banking organization. On the other hand, the application, if approved, would not result in any substantial expansion of the general position of Wisconsin Bankshares within the entire area that it now serves. Instead, this would merely add a unit, within such area, in a growing community which appeared to need and desire additional banking services.

Governor Robertson said that in the light of the purposes of the Bank Holding Company Act this seemed to be a case where a holding company having a dominant position in an area should not be permitted to expand unless the need of the community to be served was sufficiently great to outweigh the adverse factors. Looking at the record now available, it seemed to him that in this case the need was sufficiently great. While he had some feeling that the Board had only a one-sided picture of the need and that the only way to get the other side would be through a public hearing, he doubted whether this particular case warranted a public hearing. On the strength of the available record, therefore, he would favor approving the application.

After Governor Shepardson had stated that he concurred in the views expressed by Governor Robertson, Governor Szymczak said that he would lean somewhat toward a public hearing because of the interest in this application in the State of Wisconsin. Regardless of the information that had been developed, it seemed to him that a public hearing

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in Milwaukee would be desirable and consistent with proper procedure from a public relations point of view. However, he would be willing to go along with the position expressed by the members of the Board who had spoken previously.

Governor Balderston said that he did not regard the case as an easy one to decide because of the position of Wisconsin Bankshares in the Milwaukee area. In this connection, he noted that the percentages of deposits and offices controlled by the applicant in this case were higher than those of the applicant in the Baystate case. He subscribed fully to the views of Governor Mills up to the point where the latter's line of reasoning touched upon the impairment of competition; in his own mind, he found it impossible to determine exactly when the point had been reached beyond which further expansion should not be permitted. If looked at from this standpoint, it might be said that the position of the applicant was such that the Board clearly should deny the application. However, since it seemed necessary to decide these applications on a case-by-case basis by balancing out the various factors, he felt that he could vote to approve the application.

Governor Shepardson added to his previous comments by saying that he was influenced by two factors. First, while the percentage of business in the area controlled by the applicant was high, it apparently had not been increasing - in fact had declined over a period of years. Also, if he understood correctly, other parties had not been estopped

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from going into the Southgate area and meeting the need for banking services. In view of the size of the Southgate area, he felt that other parties probably could have found a satisfactory location had they desired to establish a bank, even if one particular location had been preempted by Wisconsin Bankshares.

There followed a further discussion regarding the practice in respect to the holding of public hearings on applications under the Bank Holding Company Act, and it was brought out by Mr. Hackley that, while such a procedure might be necessary to develop all of the facts and views on both sides, it seemed questionable whether the Board would want to follow a policy of holding a public hearing on each application. Therefore, it appeared that the question of a hearing probably must be resolved in each individual case.

Mr. Hackley also pointed out that the five factors which the Board is required by the Act to consider in an application of this kind are vague in nature, so that the Board must, in fact, set standards in each case. In other words, each decision would tend to establish a principle. In this particular case, approval of the application would seem to mean that it was all right for a large bank holding company to establish a new bank in an area where a definitely proven need for banking facilities existed and the services were not otherwise available.

With reference to Mr. Hackley's comments, Chairman Martin said the heart of the problem seemed to rest in the fact that the Congress had not been able to develop precise legislation and thus gave the Board a

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broad area of discretion. Therefore the Board was faced, in each case, with the question whether it was going to handle the matter on a public relations basis or make a decision according to the available facts. He felt that the Board should follow the first course when any real doubt on its part existed. In the absence of such doubt, it was his thought that the Board should not hold a hearing, much as he sympathized with the point of view stated by Governor Szymczak.

On this point, Mr. Hackley referred to the legislative history as seeming to indicate that the Board would hold hearings only when required by the Bank Holding Company Act and that in other cases the Board would decide the matter on a more informal basis.

Mr. Hexter then suggested a possible alternative method of developing factual information which would involve retaining the services of persons who would investigate the various applications from an objective viewpoint. This led to a discussion of the functions performed by the Federal Reserve Banks in investigating and appraising applications prior to their submission to the Board. Reference also was made to the fact that the applicants, as in this case, sometimes procured the services of independent organizations to develop evidence on factors such as the need for additional banking services and the area which would be served by the proposed banking facility. It was the general view of the Board, however, that a procedure such as suggested by Mr. Hexter was worthy of consideration and study.

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Thereupon, it was agreed unanimously that an order should be issued approving the application of Wisconsin Bankshares Corporation, with the understanding that the order would be published in the Federal Register and that copies would be sent to the appropriate parties. A copy of the order issued pursuant to this action is attached hereto as Item No. 5.

Messrs. Hexter, Hostrup, Davis, and Thompson then withdrew from the meeting and Mr. Koch, Assistant Director, Division of Research and Statistics, entered the room.

Maximum rates of interest payable by member banks on time deposits (Item No. 6). The Federal Reserve Bank of New York had forwarded to the Board letters from The First National City Bank of New York, The Chase Manhattan Bank, and Irving Trust Company, dated August 30, September 3, and September 13, 1957, respectively, in which those banks requested that the Board amend the Supplement to Regulation Q, Payment of Interest on Deposits, to increase the maximum permissible rates of interest payable on time deposits other than savings deposits. The principal concern of the New York City banks was that they would continue to lose time deposits held for foreign banks (mostly central banks) and other foreign customers if the present disparity between the maximum rates for time deposits and short-term money market rates were to continue. These letters had been distributed to the members of the Board along with a letter from the New York Reserve Bank dated September 27, 1957, in which the Reserve Bank

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expressed the view that some increase in maximum rates for time deposits was justified because of (1) the substantial increase in short-term market rates since the maximum time deposit rates were last considered and adjusted, and (2) the fact that the primary purpose of the limitations respecting the payment of interest in section 19 of the Federal Reserve Act and in Regulation Q was to eliminate competition between banks for deposits through the payment of interest at rates so high as to cause them to make unsound loans and investments to cover the interest cost. The New York Bank did not believe that a modest increase in the rates on time deposits would create such a situation. Specifically, the Reserve Bank recommended establishment of the following maximum rates: 3-1/4 per cent on any time deposit (except postal savings deposits which constitute time deposits) having a maturity date of six months or more from date of deposit; 3-1/4 per cent on any time deposit having a maturity date less than six months and not less than 90 days; 3 per cent on any savings deposit and on any postal savings deposit which constitutes a time deposit; and 1 per cent on any time deposit having a maturity date less than 90 days. The Reserve Bank also renewed the suggestion made in its letter of September 24, 1956, for a longer-range study of the principles that should govern the establishment of maximum rates of interest payable on time and savings deposits.

At the request of the Board, Mr. Thomas made a statement in which he first discussed the arguments that could be made for increasing the maximum rates on time deposits, including the relationship of the current

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maximum rates to short-term money market rates. He pointed out, however, that there was a question as to whether banks should necessarily be able to pay rates on time deposits competitive with other types of investments. After observing that the interest of the New York City banks in obtaining higher maximum interest rate authority appeared to be related principally to their foreign time deposits, he said that these deposits consist largely of funds which are in a sense liquid or working balances. Whether the banks ought to compete for that kind of money and pay a higher rate of interest than now permissible seemed seriously questionable. While it might be argued that savings deposits are in practice payable on demand, they are limited to thrift accounts likely to remain on deposit for a substantial period.

Mr. Thomas then reviewed certain preliminary statistics from the latest available call report data in order to show the approximate volume of deposits that would be affected by a decision with regard to the maximum rates of interest on time deposits, along with the composition of such deposits. In this connection, he noted that most of the foreign-owned time deposits appeared to be centered in New York City.

Mr. Young said that as long as Regulation Q was in effect, the Board was going to be confronted with the type of problem now presented to it, and that a case could certainly be made that the Regulation as it now operates is too inflexible. He also pointed out that the problem was one involving the allocation of funds in the market rather than a problem affecting the total volume of funds. He noted that the New York City

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banks have a considerable investment in their foreign correspondent relationships, that they are anxious to preserve these relationships, and that they would like to be in a position to compete with the market for the foreign funds. On balance, it seemed to him that some action with respect to the maximum rates perhaps should be taken.

Mr. Young then referred to the New York Reserve Bank's suggestion for a basic study to appraise the considerations that the Board ought to take into account in fixing the level of maximum interest rates under Regulation Q, and to develop appropriate principles. It was his view that such a study should be made and that the principles which might evolve from it should be made known to the market as well as the Federal Reserve System.

Views on the matter were then expressed by the members of the Board and Governor Mills, who was the first to speak, said that he regarded the fixing of maximum rates on savings deposits and on other time deposits as being so interrelated that any adjustment in either area was bound to affect both types of deposits and present complications. On the basis of that line of reasoning, he believed that the Board should make no adjustment in the present maximum rates.

Governor Robertson stated that although he would like to study the matter more carefully before any final action was taken, at present it was his view that no change should be made in the current maximum rates.

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After Governors Shepardson and Szymczak had expressed concurrence in this point of view, Governor Balderston said he agreed with Governor Mills that time deposits could not be considered apart from savings deposits. At the same time, he continued to be somewhat concerned that this country's banking regulations might tend to prevent its banks from exercising leadership in international financing for the benefit of other nations as well as this country. Therefore, while he subscribed in general to the views that had been expressed previously, he had some reservation as to whether "the easy answer here was necessarily the right one."

Governor Szymczak said he felt that the views just stated by Governor Balderston were correct, and that a case could be made from the standpoint of international relationships. However, from the standpoint of the Board's statutory responsibility, he did not think that it could move on time deposits without moving on savings deposits since both are part of the whole package.

On this point, Mr. Marget expressed the view that "the tail should not be allowed to wag the dog" and that the Board's decision therefore could well be made on the grounds stated by Governor Mills. He did not think that the New York banks had made an important case from the standpoint of the national interest and he asked in what manner the national interest would be injured if the foreigners should decide to put their money in Treasury bills or in alternative types of investments.

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Chairman Martin said he was glad that the discussion had come out in this way since he felt that this was probably the wisest course to follow. However, he found the whole theory of Regulation Q somewhat difficult. It perhaps colored his own thinking, he said, that the disparity between the maximum rates on time deposits and short-term market rates might not last too long. In summary, although he agreed with the other members of the Board regarding the disposition of the immediate issue, he felt that the whole problem deserved much study.

There followed a discussion of the suggestion for a study along the lines proposed by the New York Reserve Bank and the manner in which such a study might be conducted, at the conclusion of which it was agreed that the study should be made and Mr. Young was requested to present to the Board a procedural outline. In this connection, some advantage was seen in utilizing personnel from the Federal Reserve Banks on an advisory basis to assist the Board's staff.

Thereupon, it was agreed unanimously to advise the Federal Reserve Bank of New York that the Board had decided, because of the close relationship between savings and other time deposits, to make no change in the current maximum permissible rates of interest applicable to the latter, and to ask the New York Bank to advise the interested commercial banks accordingly. It was understood, however, that the letter to the Reserve Bank would indicate concurrence in the suggestion for a study of the principles that should govern the establishment of maximum rates

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payable on time and savings deposits. A copy of the letter sent to the Federal Reserve Bank of New York pursuant to this action is attached hereto as Item No. 6.

Messrs. Young, Marget, Koch, Furth, and Sammons then withdrew from the meeting.

Major medical insurance (Item No. 7). On April 18, 1957, the Board authorized the Division of Personnel Administration to invite a number of insurance companies to submit competitive bids for major medical insurance covering the Board's staff. Invitations to submit bids were subsequently distributed, sealed bids received from all participating companies were opened on June 20, 1957, and the Division of Personnel Administration then made a detailed analysis and evaluation of the proposals submitted by the various companies. In three memoranda submitted to Governor Shepardson in August 1957, the Personnel Division discussed the recommended disposition of requested alternatives to basic specifications, additional alternatives suggested by the various companies, and points to be reviewed in selecting the carrier. On the basis of this analysis, the Division made the following recommendations: (a) that a contract for major medical insurance for the Board's employees be entered into with the Prudential Insurance Company of America, the low bidder, at the rate of \$1.04 per month for an individual employee and \$2.37 for a family (including the employee), this rate being subject to adjustment based on the exact characteristics of the population finally enrolled for major medical insurance; (b) that the contract include basic

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specifications previously approved by the Board, with a three-year maximum period for each illness at no additional cost as against the two-year period in the basic specifications; (c) that the following changes in the basic specifications be adopted, with no additional cost in the case of the low bidder: (1) coverage from birth rather than 14 days, (2) coverage to age 23 if the dependent is in school or is economically dependent upon the insured, rather than the 19 years of age originally provided, and (3) expansion from 3 to 12 months of the period for establishment of a deductible amount for an illness; (d) that the following additional specifications be provided at no additional cost: (1) coverage of preexisting illness conditions, (2) coverage from date of employment, (3) full coverage while overseas on Board business, and (4) overseas coverage for at least 30 days following departure while on leave.

With regard to the cost of the health insurance program, including the hospital-surgical plan currently in effect and major medical insurance, four alternatives for financing the program were discussed and the estimated cost to the Board of each alternative was presented. According to the recommended alternative, the Board would pay one-third of the cost of major medical insurance and one-third of basic hospitalization, at a cost estimated at \$20,436 per year. This would be applicable to both employees and dependents.

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The memoranda from the Personnel Division were accompanied by a memorandum from the Legal Division dated August 12, 1957, discussing the Board's authority to make payments toward the health insurance program, to contract for group insurance, and to make employee payroll deductions.

At the suggestion of Governor Shepardson, copies of these memoranda had been distributed to the members of the Board, and a detailed evaluation of the bids received for major medical insurance was circulated to the Board.

Following an introductory statement by Governor Shepardson, Mr. Johnson discussed, with the aid of a group of charts which he distributed, the work which had been done by the Division of Personnel Administration on this matter, the costs and alternatives involved, and the reasons underlying the Division's recommendations. With respect to financing the health insurance program, he discussed also a fifth possible alternative under which the Board would pay the full cost of the program for employees but would make no contribution for the coverage of dependents.

Governor Shepardson then commented further on the proposals. He emphasized that in his own view it was fundamental that the employee make some contribution to the cost of the insurance. On such a basis, he felt that a strong program could be built up under which a large percentage of the Board's staff would participate in the basic plan as well as the major medical plan. With regard to the question of paying a part of the cost of the insurance for dependents, he referred

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to the Board's interest in the families of its employees and suggested that it would be good personnel policy to include some Board contribution on a family basis. Accordingly, he favored the alternative recommended by the Personnel Division. In this connection, he brought out that such an arrangement would not be unreasonably out of line with the provisions of S.2339, introduced at the last session of the Congress, even if there should be some cutback in what was contemplated by that bill. His recommendation contemplated, of course, that the Board's contribution would be made only when employees and their dependents were covered by the Board's program of health insurance.

Governor Mills said that, as he understood the plan and the recommendations, he would concur in them, recognizing that this might well lead to major medical insurance plans at the Federal Reserve Banks which would have an effect from the standpoint of the Banks' budgets.

In the light of Governor Mills' comments, there was a discussion of the situation at the Reserve Banks from which it developed that they now pay two-thirds of the cost of basic hospitalization programs for employees and their dependents, but that only two Banks now have major medical plans, in each case on a noncontributory basis. With no contributions by the two Banks, it had been found necessary to limit participation to the higher salary brackets from which a sufficient number of employees could be enrolled. It was considered likely, however, that major medical insurance plans would be initiated or expanded throughout the System.

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Governor Robertson expressed himself as very much in favor of the general program, although he felt there was something to be said, in the interest of equitable treatment, for a larger contribution by the Board toward the cost of the plan for employees and reduction or elimination of contributions to meet the cost of insurance for members of the family.

Governors Szymczak and Balderston indicated that they agreed with the recommendations of Governor Shepardson, and accordingly the remainder of the discussion dealt with the point raised by Governor Robertson.

Mr. Johnson said it had been found that the trend among private business organizations was toward a larger percentage of contributions by the employer. He also brought out that the basic plan now in effect at the Board provides a substantially higher rate for employees with dependents than for individual employees. The family being fundamental to the social structure of the country, he thought that it would be desirable to contribute a portion of the cost to cover dependents.

Chairman Martin agreed, stating that the family structure was an institution that he thought must be recognized.

At the conclusion of the discussion, the recommendations of Governor Shepardson and the Division of Personnel Administration were approved unanimously, with the understanding that the major medical insurance program would be put into effect at the beginning of a payroll period as soon after November 1, 1957, as the necessary arrangements

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could be completed. The letter sent to the insurance company pursuant to this action is attached as Item No. 7.

Messrs. Johnson, Hackley, Masters, Sprecher, and Solomon then withdrew from the meeting and Mr. Young returned to the room.

Interagency meeting. Chairman Martin referred to work done by the Council of Economic Advisers in connection with United States budget projections and said that a member of the Council was planning a meeting tomorrow at which representatives of various interested agencies would go over these statistics. He thought it desirable that Mr. Young attend on behalf of the Board.

In response to a question as to whether this meeting or future meetings of the same kind would go into policy matters, Chairman Martin stated that although policy decisions might of course ultimately be made on the basis of this statistical information, the meeting tomorrow would be for the purpose of evaluating the accuracy of the available data.

Following further discussion, it was agreed unanimously that Mr. Young should attend the meeting on behalf of the Board. There was also agreement with a suggestion by Governor Robertson that Mr. Young or others attending such meetings keep the members of the Board informed of any facts or points of view which were developed that might be helpful to them.

At this point Mr. Thomas returned to the meeting and Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, entered the room.

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Treasury financing. In the light of an exploratory conversation which Under Secretary of the Treasury Baird had had with Chairman Martin and Vice Chairman Balderston, there was an informal discussion of problems that might be encountered by the Treasury over the remainder of the year and in early 1958 under the existing statutory debt limit. Reference was made to the various alternatives available to the Treasury for financing outside the debt limit, if necessary, including the sale of securities by the Federal National Mortgage Association, borrowing through the Export-Import Bank, or the sale of gold. The discussion also covered alternative methods for obtaining funds within the debt limit, including the sale of additional Treasury bills, direct borrowing from the Federal Reserve Banks, arrangement of a stand-by credit from a group of commercial banks, and borrowing from the Federal Reserve Banks on special certificates which the Reserve Banks would sell to commercial banks. In addition, the discussion touched upon possible borrowing needs of defense contractors in view of the proposed curtailment of progress payments by the Defense Department. This development was reported to have caused some banks to be concerned about pressure on their reserve position, but it was the view of Chairman Martin, with which other members of the Board concurred, that it would be inappropriate at this time for the Federal Reserve to make any move in the nature of a commitment that the supply of reserves would be increased for this purpose. It appeared to be the general view that no single bank

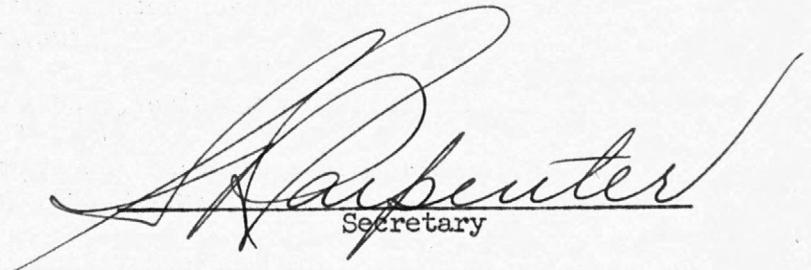
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would be likely to find itself under particularly great reserve pressure on this account and that the problem, therefore, should not present serious difficulties from the standpoint of reserves and member bank borrowing.

The meeting then adjourned.

Secretary's Note: On October 8, 1957, Governor Shepardson approved on behalf of the Board a letter to the Federal Reserve Bank of New York approving the appointment of Marshall H. Johnson as assistant examiner. A copy of the letter is attached hereto as Item No. 8.



Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1957

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

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of branches by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, at the following locations:

Corner of Essex and Haverford Avenues,
Narberth, Pennsylvania,

18 East Wynnewood Road, Wynnewood,
Pennsylvania,

1 Bala Avenue, Bala-Cynwyd, Pennsylvania,

Butler Avenue and Spring Garden Street,
Ambler, Pennsylvania,

Wissahickon Avenue and Bethlehem Pike,
Flourtown, Springfield Township,
Pennsylvania, and

Pennsylvania Avenue at Fort Washington
entrance to Pennsylvania Turnpike, Fort
Washington, Pennsylvania,

provided (1) the merger of The National Bank of Narberth, Narberth, Pennsylvania, and the Ambler National Bank, Ambler, Pennsylvania, with and into Girard Trust Corn Exchange Bank, is effected substantially in accordance with the agreement between the parties dated July 9, 1957, (2) shares of dissenting stockholders of the constituent corporations which may be acquired, are disposed of within six months from the date of such acquisition, and (3) the establishment of the branches is effected within six months from the date of this letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1957

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In view of the circumstances outlined in your letter of September 26, 1957, and the Reserve Bank's favorable recommendation, the Board of Governors extends until January 22, 1958, the time within which the County Trust Company of Maryland, Cambridge, Maryland, may establish a branch on the south side of West Street between Ritchie Street and Edgewood Avenue, Annapolis, Maryland, under the authorization contained in its letter of October 24, 1956.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1957



Board of Directors,
The Selma National Bank,
Selma, Alabama.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers in connection with the proposed merger of the Selma Trust & Savings Bank, Selma, Alabama, with your bank. The Board grants you authority, effective if and when the proposed merger is consummated, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Alabama. The exercise of all such rights shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

This letter will serve as authority for The Selma National Bank to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you after the merger becomes effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 4
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 9, 1957

Mr. C. L. Hufsmith, Chairman,
The First National Bank,
Palestine, Texas.

Dear Mr. Hufsmith:

This refers to your letter of September 20, 1957, with further reference to the questions raised in your letter of March 7, 1957, as to whether a possible offer by your bank to pay interest on demand deposits in accordance with a contract set forth in that letter would violate section 19 of the Federal Reserve Act. Your recent letter in effect requests that the Board provide more direct and definite answers to your questions than you feel were provided by the Board's letter of April 8, 1957.

The proposed contract described in your letter of March 7 states that your bank "will pay interest at the rate of 2% per annum on demand deposit balances" in accordance with the following terms: (1) settlement for "interest due" would be made monthly; (2) "interest" would be computed at the rate of 2 per cent per annum on the minimum monthly balance; (3) "interest" would be payable in "those forms of bank service determined by the bank, such service to be rendered when requested by the depositor", and the "interest payment value" of each type of service would be fixed by the bank and posted in its lobby; (4) a depositor receiving an amount of bank service with an "interest payment value" in excess of the amount of "interest" due him would be charged with the current price of the excess service; (5) the bank would appropriate each month as profit that part of the depositor's "interest" remaining unpaid under the method above provided; and (6) the bank would reserve the right to change the rate of interest and the "interest payment value" of any service. Your letter further asked whether, if the above terms of the contract would not violate section 19, it would be a violation of the law for you to add a provision to the contract to the effect that, if a depositor should desire S&H Green Trading Stamps for that part of his "interest" not paid him under the above rules, the bank would give the depositor such stamps in a ratio to be fixed by the bank.

As you know, section 19 of the Federal Reserve Act, as amended in 1933, clearly and explicitly prohibits any member bank from paying interest on demand deposits, directly or indirectly, by any device whatsoever. As further amended in 1935, the law authorizes the Board to determine what shall be deemed to be a payment of interest and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions of its provisions. Your recent letter suggests that the Board has not



Mr. C. L. Hufsmith

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discharged its responsibilities under the law for determining what constitutes a payment of interest and that there can be no violation of the law, therefore, until the Board has determined the acts that produce a violation.

Shortly after the Board was authorized by Congress to determine what constitutes a payment of interest, the Board revised its Regulation Q to include a detailed definition of the term "interest". (See 1935 Federal Reserve Bulletin, page 863) However, because of differences of opinion between the Board and the Federal Deposit Insurance Corporation as to whether absorption of exchange charges involved an indirect payment of interest, the proposed regulatory definition of interest was never made effective. In 1937, both agencies amended their regulations on this subject to define a payment of interest simply as "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit", and the Board and the FDIC in a joint statement at that time declared that the question of what in a particular case is a payment of interest or a device to evade the prohibition against the payment of interest on demand deposits would be considered a matter of administrative determination under the general law in the light of experience and as specific cases might develop. (See 1937 Federal Reserve Bulletin, page 186)

Since 1937, as indicated in the Board's letter of April 8, 1957, it has been the general policy of the Board not to attempt to determine whether particular practices involve a payment of interest, except in flagrant or obvious cases, unless all the pertinent facts have been fully developed in the course of examination of the member bank involved. It seems apparent that it was not the intention of Congress, in prohibiting the payment of interest on demand deposits, to outlaw all banking services rendered by banks to their customers. On the other hand, the broad language of the law was clearly designed to prevent the indirect payment of interest under the guise of services or other benefits given to depositors. Accordingly, it is necessary for the Board in each case to have detailed information as to the exact nature of a particular service or benefit before it can express any opinion as to whether it would involve an indirect payment of interest in violation of the law and regulation.

Your letter of March 7, 1957, did not request an opinion as to whether any particular service or benefit would involve a payment of interest. On the contrary, the proposed deposit contract set forth in your letter purported on its face to be an agreement to make direct payments of interest to demand depositors and, as indicated in the Board's letter of April 8, such a contract would be tantamount to a statement by the bank that it proposes to violate the law.

Mr. C. L. Hufsmith

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With these considerations in mind, the specific questions asked in your letter of September 20 are answered as follows:

(1) It is impossible to determine whether any particular service offered by your bank under the proposed contract would involve a payment of interest without knowledge of the exact nature of such service; but, as previously suggested, the flat statement in the contract that the bank will pay interest on demand deposits and references throughout the contract to payment of "interest" appear to be inconsistent with the statutory prohibition against the payment of interest on demand deposits by member banks.

(2) Since the particular services have not been described and the Board cannot determine whether they would violate the law, it is impossible to state the reasons for any such determination.

(3) If, as paragraph 7 of the proposed contract seems to indicate, your bank should give demand depositors each month S&H Green Trading Stamps in lieu of a specific dollar amount representing the difference between 2 per cent on the demand deposit and the "interest payment value" of services actually rendered to the depositor, it would seem difficult to distinguish such a practice from a direct monetary payment of interest.

(4) The reason for the views stated in (3) is that, whereas paragraphs 1 through 6 of the proposed contract do not describe any particular services or benefits, the proposed paragraph 7 is more specific.

(5) It is believed that the reasons for declining or failing to give answers to your questions have been fully stated above.

The Board appreciates your concern with respect to this matter and the spirit in which your letter was written. For many years it has been apparent that administration of the provisions of the law regarding payment of interest on deposits involves practical difficulties. For this reason, the Board last year, in connection with the proposed Financial Institutions Act, recommended that the law be clarified in

Mr. C. L. Hufsmith

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order to define more specifically what constitutes a payment of interest on deposits. In its recommendations to the Senate Banking and Currency Committee, the Board suggested that the law be changed to eliminate reference to indirect payments of interest and to define the term "interest" as including only cash payments or credits for the benefit of depositors. (See Committee Print, "Study of Banking Laws, Legislative Recommendations of the Federal Supervisory Agencies", October 12, 1956, page 107) This recommendation, however, was not incorporated in the bill as it passed the Senate. As you know, that bill is now pending before the House Banking and Currency Committee.

The Board is glad to have the expression of your views regarding this problem, and it is hoped that this letter may serve to explain and clarify the Board's position.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE BOARD

Item No. 5 2866
10/9/57

In the Matter of the Application of
Wisconsin Bankshares Corporation for
Approval of Acquisition of Voting Shares
of Southgate National Bank of Milwaukee,
Milwaukee, Wisconsin.

ORDER

The above matter having come before the Board on the application of Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, dated February 27, 1957, filed pursuant to the provisions of section 3(a)(2) of the Bank Holding Company Act of 1956, for prior approval of acquisition by Wisconsin Bankshares Corporation of direct ownership of 2,950 shares of a total of 3,000 voting shares of the proposed Southgate National Bank of Milwaukee, Milwaukee, Wisconsin, and it appearing after due consideration thereof in the light of the factors enumerated in section 3(c) of the Bank Holding Company Act of 1956 that such application should be granted,

IT IS HEREBY ORDERED that the said application be and hereby is granted and the acquisition by Wisconsin Bankshares Corporation of 2,950 voting shares of Southgate National Bank of Milwaukee is hereby approved, provided that such acquisition is completed within three months from the date hereof.

By order of the Board of Governors.


S. R. Carpenter,
Secretary.

SEAL
Dated: October 9, 1957

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 6
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 11, 1957

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

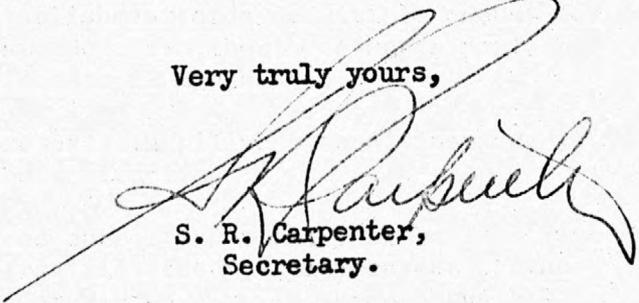
Dear Mr. Hayes:

The Board of Governors has given consideration to the questions raised by The First National City Bank of New York, The Chase Manhattan Bank, and the Irving Trust Company in letters transmitted to the Board with your letter of September 4 and Mr. Bilby's letter of September 16, and in this connection the comments made in your letter of September 27 and its attachment were taken fully into account.

However, after a discussion of the various aspects of the matter, the Board concluded that, because of the close relationship between time and savings deposits, it should not now establish a higher maximum rate on time deposits. It will be appreciated if you will inform the banks which raised the matter with you of the Board's decision.

The Board concurs with the suggestion contained in your letter of September 27 that a longer-range study of the principles that should govern the establishment of maxima for rates payable on time and savings deposits should be undertaken and is looking into the manner in which such a study should be conducted.

Very truly yours,


S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 7
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 11, 1957



The Prudential Insurance Company
of America,
Box 594
Newark 1, New Jersey.

Gentlemen:

It is requested that you issue a contributory policy of Group Major Medical Expense Insurance for the employees of the Board of Governors of the Federal Reserve System and their dependents based on the specifications contained in Plan V of your proposal dated June 18, 1957.

Kindly include the following revisions in the provisions contained in the previously mentioned plan:

1. Coverage for dependent children from birth rather than from age 14 days as provided in the basic specifications.
2. Coverage to age 23 rather than the 19 years of age originally provided in the case of dependent children who are full-time students at an accredited institution of higher learning.
3. The establishment of a deductible amount for an illness be extended from the three-month period originally provided to 12 months.
4. That pre-existing illness conditions are to be covered by the contract.
5. Employees out of the country on business are covered with no restrictions. Employees out of the country on leave are to be covered through the balance of the policy month of departure plus the following policy month.

The Prudential Insurance
Company of America

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We desire immediate coverage for present employees and immediate coverage for future employees, i.e., no service waiting period.

We desire an effective date of November 17, 1957.

A check in the amount of \$1,000 is enclosed, which it is understood will be applied against any premium or premiums hereafter becoming due.

It is agreed that the final application form will be signed upon delivery to and acceptance by us of the policy contract.

The question as to the authority which the Board of Governors has for contracting for Major Medical Insurance has been examined by our Legal Division and an opinion has been rendered to the effect that such authority exists within Section 10 of the Federal Reserve Act as amended by the Banking Act of 1933.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 8
10/9/57

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 8, 1957



CONFIDENTIAL (F. R.)

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Bilby:

In accordance with the request contained in your letter of October 2, 1957, the Board approves the appointment of Marshall H. Johnson as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date upon which the appointment is made effective.

It is noted that Mr. Johnson is indebted to First National Bank in Highland Falls, Highland Falls, New York, on an unsecured loan amounting to \$1,705 and a secured loan for \$500, and that Mr. Johnson will refinance part of this indebtedness with the Metropolitan Life Insurance Company and the balance will be paid by arrangements with his family.

Accordingly, the appointment of Mr. Johnson is given with the understanding that he will not participate in any examinations of First National Bank in Highland Falls, until his indebtedness to that bank has been liquidated or otherwise eliminated.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.