

Minutes for October 28, 1958

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	<u>mm</u>	x <u>mm</u>
Gov. Szymczak	x <u>mm</u>	_____
Gov. Vardaman <u>1/</u>	_____	x _____
Gov. Mills	x <u>mm</u>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>mm</u>	_____
Gov. Shepardson	x <u>mm</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 the Board of Governors of the Federal Reserve System on Tuesday, October 28, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Farrell, Associate Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel

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:

	<u>Item No.</u>
Letter to the Presidents of all Federal Reserve Banks requesting the resumption of reports of member bank borrowings on Form F.R. 527.	1
Letter to The First National City Bank of New York, New York, New York, approving the establishment of a branch in Kuala Lumpur, Federation of Malaya. (For transmittal through the Federal Reserve Bank of New York, and with a copy to the Comptroller of the Currency)	2

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Philadelphia concurring in the view that the relocation by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, of its Strafford Office does not require Board approval.	3
Letter to Iowa-Des Moines National Bank, Des Moines, Iowa, regarding purchase of shares of a small-business investment company under the Bank Holding Company Act.	4
Letter to the Federal Reserve Bank of St. Louis approving the appointment of Mr. James E. Conrad as a Federal Reserve Agent's Representative at the Louisville Branch.	5

In connection with the above letter to Iowa-Des Moines National Bank, Des Moines, Iowa (Item No. 4), Governor Mills referred to the Board's action on September 25, 1958, regarding the eligibility of bank holding companies or subsidiaries of bank holding companies to acquire shares of small business investment companies organized under the Small Business Investment Act of 1958. It had been his impression, he said, that a bank holding company as such could own shares of a small business investment company but that it could not distribute such shares to its subsidiaries. He also thought that a subsidiary could own such stock if the parent holding company did not. This led to a general discussion of the Board's action on September 25, and Mr. Hackley outlined the basic provisions of that interpretation. He said that while there was some feeling originally that this would be a matter of considerable concern to bank holding companies, recent conversations with the local counsel for the trade organization of that group had caused him to

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conclude they were not greatly disturbed. It was possible, however, that they would propose a technical amendment to the Small Business Investment Act of 1958 which would clarify this point.

Extension of time for filing hearing examiner's report re

Otto Bremer Company (Item No. 6). Prior to the meeting there had been distributed a memorandum dated October 27, 1958, from Mr. Solomon forwarding a request from Mr. Arthur Leff, Hearing Examiner, on the applications of Otto Bremer Company under Section 4(c)(6) of the Bank Holding Company Act, for an extension of time from October 30 to December 10, 1958, for the filing of his report. Mr. Solomon stated that the request was reasonable in view of the considerable length of the record and recommended that the Board grant the extension.

Thereupon the Board approved an order in the form attached to these minutes as Item No. 6 extending to December 10, 1958, the time within which the Hearing Examiner may file his recommended decision.

Interpretation of Regulation Q re "give-aways" for Colorado

Savings & Trust Company (Item No. 7). Prior to the meeting there had been distributed a memorandum dated October 24, 1958, from Mr. Hackley concerning the question whether the giving of trading stamps by a member bank to new depositors (both checking and savings) involved an indirect payment of interest on deposits in violation of Regulation Q. This question was raised in a letter dated September 5, 1958, from

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The Colorado Savings & Trust Company, La Junta, Colorado, addressed to the Federal Deposit Insurance Corporation and forwarded by that agency to the Board.

The memorandum pointed out that the Federal Deposit Insurance Corporation had taken the position that the giving of such stamps by a nonmember competitor bank of the Colorado bank should be considered an advertising expense and not an indirect payment of interest. The Colorado Savings & Trust Company had requested a ruling whether as a member bank it could follow the same practice. The memorandum recommended that the Board take the position that while it does not look with favor upon "give-aways" as an inducement for the opening of accounts, it would not be disposed to regard them as indirect payments of interest if they were given only at the time of opening a new account and if they had only a nominal value. This would be consistent with the position taken by the Federal Deposit Insurance Corporation. In keeping with this position, the memorandum proposed that the Federal Reserve Bank of Kansas City be requested to reply to the Colorado bank along the lines that the Board would not object to the giving of trading stamps in the manner described but would not approve the practice if it involved the giving of stamps for each \$100 of a new deposit since in that event the value of the gift could well be more than "nominal." The proposed reply would not make any distinction between the giving of trading stamps redeemable only in merchandise and those

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also redeemable in cash, or between gifts to savings depositors and checking depositors.

In commenting upon the memorandum, Mr. Hackley said he had been reluctant to bring this matter to the Board but that there had been an increasing volume of inquiries on the subject and it seemed well for the Board to clarify its position to whatever extent possible. He recognized that the Board had generally followed a practice of not ruling on individual cases except following disclosure of all the facts in an examination report or in obvious or flagrant cases. The issues here, he thought, were three-fold: (1) whether any distinction should be drawn between the giving of cash or credit vs. the giving of an article costing less than a certain amount; (2) whether there was any distinction to be drawn between "give-aways" for savings deposits and checking deposits since the law specifically prohibited the payment of interest on checking accounts; and (3) whether a distinction could be drawn between "give-aways" in connection with existing depositors in contrast to new depositors in the course of a given advertising campaign. In his view, the course recommended by the Legal Division leaned somewhat on the liberal side but it would be no more liberal than the position already adopted by the Board with respect to free services by member banks on a continuing basis.

Governor Mills said he thought the draft letter was completely appropriate.

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Governor Robertson said he thought the position was generally correct but he suggested that the letter to the Kansas City Bank be changed so as to delineate as tightly as possible circumstances under which "give-aways" could be used. He felt it was not desirable to make the give-away rule applicable to existing depositors.

Thereupon the proposed letter was approved with the understanding that it would be changed to incorporate the suggestions made during the discussion. It was also understood that the letter would be issued in the form of an interpretation. In accordance with this action, the letter was sent to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, in the form attached to these minutes as Item No. 7.

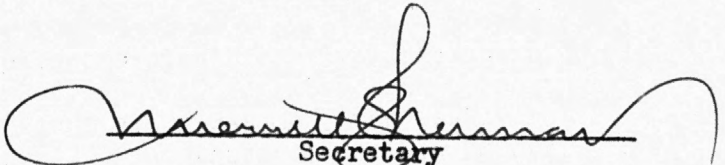
Proposed amendment to Regulation Q regarding grace periods (Item No. 8). In accordance with the discussion at the meeting on October 10, 1958, the Legal Division had prepared and distributed a memorandum dated October 24 to which were attached drafts of letters to the Federal Reserve Banks, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency requesting their comments as to the desirability of an amendment to Section 3(d) of Regulation Q liberalizing the grace periods allowed in computing the maximum rate of interest payable on savings deposits. Governor Balderston pointed out that the letters would merely ask for comments and were based on the Board's consideration recently of the request for an interpretation of Regulation Q by the City National Bank of Rockford, Rockford, Illinois.

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The Board unanimously approved the sending of a letter to the Federal Reserve Banks in the form attached to these minutes as Item No. 8 with the understanding that similar letters would be sent to the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

Thereupon the meeting adjourned.



Secretary

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

Item No. 1
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958.



Dear Sir:


In the letter of May 22, 1958 (S-1657; F.R.L.S. #3949.4) it was stated that reports of member bank borrowings would probably be reinstated when analysis of total member bank borrowings again became important for purposes of monetary and credit policy.

Since borrowings have become significantly large again, it is requested that submission of reports of member bank borrowings on Forms F.R. 527(a), (b), (c), and (d) be resumed, the weekly reports with the week ended October 29, and the semi-monthly reports with the last half of October.

The mimeographed statements, "Borrowings from Federal Reserve Banks by Central Reserve and Reserve City Member Banks - Weekly computation period ended . . ." (L.5.3) and "Borrowings from Federal Reserve Banks by Country Member Banks - Semi-monthly computation period ended . . ." (L.5.4), will be reinstated and copies sent to your Bank as formerly.

The letter of May 22, 1958, will be removed from the Loose-Leaf Service in the next revision of pages in the service.

Very truly yours,


Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 2
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958



The First National City Bank of New York,
55 Wall Street,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Kuala Lumpur, Federation of Malaya, and to operate and maintain such branch subject to the provisions of such Section; upon condition that, unless the branch is actually established and opened for business on or before November 1, 1959, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date. This authorization is made with the understanding that the approval of the appropriate Malayan authorities will be obtained prior to the establishment of the branch.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, (1) when the establishment of the branch has been approved by the authorities in Malaya, and (2) when the branch is established and opened for business, furnishing information as to the exact location of the branch. It is understood that no change will be made in the location of the branch after establishment without the prior approval of the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958



Mr. E. C. Hill, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Hill:

Reference is made to your letter of October 14, 1958, advising of the proposal of The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, to move its Strafford Office now located at 517 West Lancaster Avenue, Radnor Township, Delaware County, Pennsylvania, a distance of approximately one-quarter mile east.

The Board concurs in your view that this constitutes a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served. Accordingly, the approval of the Board of Governors is unnecessary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958.



Mr. John T. McCormick,
Assistant Vice President,
Iowa-Des Moines National Bank,
Des Moines 4, Iowa.

Dear Mr. McCormick:

This refers to your letter of October 14, 1958, requesting the opinion of the Board as to whether or not the Bank Holding Company Act prohibits the proposed purchase by the Iowa-Des Moines National Bank of shares of a small-business investment company, organized under the Small Business Investment Act of 1958, if that bank's parent company, Northwest Bancorporation, does not purchase any such shares.

As indicated in the enclosed copy of the Board's interpretation relating to investment by a bank holding company and its banking subsidiaries in a small-business investment company organized under the Small Business Investment Act of 1958, (see Federal Reserve Bulletin for October 1958, page 1161), the prohibitions of section 6 of the Bank Holding Company Act would not apply to purchase by the holding company alone of voting shares of such a small-business investment company even though that company would constitute a subsidiary under the Bank Holding Company Act. Also as indicated in the enclosed copy of the Board's interpretation, the prohibitions of section 6 would not apply if the holding company and its banking subsidiaries should not together acquire as much as 25 per cent of the voting shares of such an investment company which also was not a subsidiary of the bank holding company.

It is the Board's view that if the subsidiary alone, or together with other subsidiaries of the same bank holding company, should purchase as much as 25 per cent of the voting shares of an investment company organized pursuant to the Small Business Investment Act of 1958 (even though such purchase would be within the limitations prescribed by that Act), such an investment company would constitute a "subsidiary" as defined in section 2(d) of the Bank Holding Company Act. Accordingly, the purchase by Iowa-Des Moines National Bank alone,

Mr. John T. McCormick.

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or together with fellow subsidiaries, of 25 per cent or more of the shares of a small-business investment company would be prohibited by section 6 of the Bank Holding Company Act which, with inapplicable exceptions, makes it unlawful for a bank to purchase capital stock of a bank holding company of which it is a subsidiary, or of any other subsidiary of such bank holding company. Otherwise the prohibitions of section 6 would not be applicable.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

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

Item No. 5
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958

Mr. Pierre B. McBride,
Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. McBride:

In accordance with the request contained in your letter of October 9, 1958, the Board of Governors approves the appointment of Mr. James E. Conrad as a Federal Reserve Agent's Representative at the Louisville Branch, effective November 1, 1958, to succeed Mr. J. Harvey Donahue.

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

When not engaged in the performance of his duties as Federal Reserve Agent's Representative Mr. Conrad may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Louisville Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

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

It is noted from your letter that upon the approval of the appointment of Mr. Conrad by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



UNITED STATES OF AMERICA

Item No. 6
10/28/58

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Applications of
 OTTO BREMER COMPANY
 For determinations pursuant to
 section 4(c)(6) of the Bank Holding
 Company Act

DOCKET NOS.
BHC-29, 31-33, 35ORDER EXTENDING TIME FOR FILING OF
REPORT BY HEARING EXAMINER

Additional time having been requested by the Hearing Examiner within which to file with the Secretary of the Board his report containing his recommended decision and it appearing to the Board that such request should be granted, it is hereby ORDERED that the time within which the Hearing Examiner may file such recommended decision be, and the same hereby is, extended to and including December 10, 1958.

This 28th day of October, 1958.

By order of the Board of Governors.

(SEAL)

(Signed) Merritt Sherman

 Merritt Sherman,
 Secretary.

Washington, D. C.
 October 28, 1958.

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

Item No. 7
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958

Mr. H. G. Leedy, President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Leedy:

There is enclosed a copy of a letter dated September 5, 1958, from a member bank, The Colorado Savings & Trust Company, La Junta, Colorado, requesting permission to give trading stamps for new checking and savings accounts, which has been referred to the Board by the Federal Deposit Insurance Corporation. The member bank states that this practice is being followed by a competitor, The La Junta State Bank, a nonmember insured bank; and there is also enclosed a copy of a letter dated September 18, 1958, from that bank to the Federal Deposit Insurance Corporation, outlining the practice followed by that bank in giving trading stamps, together with a copy of the Corporation's reply of September 30, 1958.

It will be noted that there are some discrepancies between the practices described by these two banks. The member bank indicates that the trading stamps would be redeemable not only in merchandise but also in cash payable by the bank, whereas there is no evidence that the nonmember bank proposes to redeem the stamps in cash. Also, the member bank understands that a certain number of stamps are given for each \$100 of a new deposit; while the nonmember bank states that it gives a certain number of stamps for each new checking account of \$100 or more and each new savings account of \$25 or more.

As you know, the Board's general policy, which has been followed for many years, is not to make detailed interpretations or rulings with respect to questions as to whether particular practices constitute an indirect payment of interest on deposits, but rather to rely upon the cooperation and good faith of member banks in adapting their practices to conform to the spirit and purpose of the statutory provisions on the subject. However, the Board has made exceptions to this policy in cases involving obvious or flagrant practices or proposals.

The Board does not look with favor upon the practice on the part of member banks of giving articles of value to depositors as an



Mr. H. G. Leedy

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inducement for the opening of accounts, particularly because of possible abuses that may result. However, the Board recognizes that it is the practice of many banks on occasion, in order to stimulate new business, to offer premiums to persons opening new deposit accounts. While the Board would not wish to encourage this practice, it is not disposed to regard the practice as involving an indirect payment of interest (1) if such premiums are given by a member bank to new depositors only at the time of the opening of the new accounts and not on a recurring basis, and (2) if the premium or article given has only a nominal value. In such cases, and in the absence of evidence of any intent to evade the law and Regulation Q, the Board would regard the practice as an advertising or promotional medium rather than an indirect payment of interest. This is not intended, however, to suggest that premiums given to depositors in other cases would necessarily involve an indirect payment of interest, since each case would need to be considered in the light of its particular facts.

In the present case, for the reasons above indicated, the Board would not consider the practice described in the letter of The La Junta State Bank as involving an indirect payment of interest if that practice should be adopted by The Colorado Savings & Trust Company. The Board's views would be different, however, if the practice should include the giving of a certain number of trading stamps for each \$100 (or some other amount) deposited in a new account, since the value of the premiums could obviously be far more than nominal.

It will be appreciated if you will advise The Colorado Savings & Trust Company of the Board's views as stated in this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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

Item No. 8
10/28/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 28, 1958.

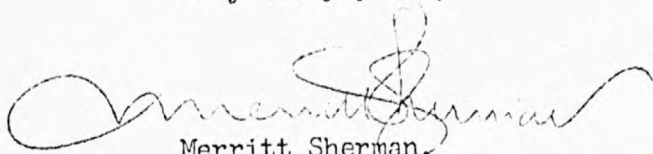
Dear Sir:

As you know, section 3(d) of Regulation Q permits member banks to compute interest at the applicable maximum rate from the first day of the month on savings deposits received during the first 10 business days of any calendar month commencing a quarterly or semiannual interest period or during the first 5 business days of any other calendar month. The Board recently received a letter from a national bank suggesting that this provision be liberalized to permit a grace period of 10 calendar days in any month. There is enclosed a copy of the national bank's letter and of the Board's reply, and it will be noted that the Board undertook only to explain that the provision in question would not be applicable unless the member bank would be paying more than the maximum rate prescribed by the Board for the actual time the deposit is in the bank.

The Board, however, is presently considering whether the regulation should be amended as suggested by the national bank. You may recall that before the present provisions of section 3(d) of Regulation Q were adopted in 1952, consideration was given to an alternative suggestion that a grace period of 10 business days be allowed in every calendar month, and that consideration was also given to the question whether the provision should refer to calendar days rather than business days.

The Board will be glad to have your comments and recommendations as to whether, for the reasons indicated in the national bank's letter or for any other reasons, it would be desirable to amend Regulation Q as suggested by that bank or in some similar manner.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS