Minutes for November 30, 1959.

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 9 -- Amendments to Regulation D, Reserves of Member Banks.

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

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

on Monday, November 30, 1959. 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. King

Mr. Sherman, Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Young, Director, Division of Research and Statistics
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Koch, Associate Adviser, Division of Research and Statistics
Mr. Dembitz, Research Associate, Division of Research and Statistics
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Young, Assistant Counsel
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, and San Francisco on November 25, and the Federal Reserve Banks of Minneapolis, Kansas City, and Dallas on November 27, 1959, of the rates on discounts
and advances in their existing schedules was approved unanimously, with
the understanding that appropriate advice would be sent to those Banks.

Limited voting permits--Sottile, Inc. banks (Items 1, 2, and 3).

There had been circulated a memorandum from the Division of Examinations
dated November 27, 1959, recommending the issuance of limited voting
permits to Sottile, Inc., Sottile National Banks, Inc., and Sottile
Coral Gables Corporation, all of Miami, Florida, to vote the stock
which they own or control of Pan American Bank of Miami, Coral Gables
First National Bank, and American National Bank of Fort Lauderdale,
at special meetings to be held for the purpose of increasing the capital
of such banks, subject to certain conditions.

Governor Mills inquired whether there was any way in which the
Board could be assured that the bulk of the additional funds that were
to be raised through the proposed increase in capital stock of these
member banks up to a maximum of $3 million would be directed toward
the Pan American Bank of Miami and not spread among the other banks,
which perhaps did not have the same need as Pan American.

Mr. Solomon replied that Board approval of the issuance of
limited voting permits in this instance did not authorize a vote on
a specific capital program, but the provision that all action taken
should be in accordance with plans satisfactory to the respective
supervisory authorities might help in accomplishing what Governor Mills
had in mind.
Unanimous approval was then given to the issuance of the requested limited voting permits to the Sottile group. Copies of the telegrams authorizing the Federal Reserve Agent at Atlanta to issue the permits are attached as Items 1, 2, and 3.

Tentative decision re application of Wisconsin Bankshares Corporation, Milwaukee, Wisconsin (Items 4 and 5). There had been distributed under date of November 25, 1959, a memorandum from the Legal Division prepared pursuant to the Board's request of October 8, 1959, transmitting drafts of (1) a Notice of Tentative Decision that would be published in the Federal Register, stating that the Board proposed to approve the application of Wisconsin Bankshares Corporation to acquire 2,950 of the 3,000 voting shares of Mayfair National Bank of Wauwatosa, Wauwatosa, Wisconsin, (2) an accompanying tentative statement which would not appear in the Federal Register but would be released to the press and would be available for inspection, and (3) a proposed press statement regarding this action of the Board.

Chairman Martin called upon Mr. Hackley, who commented that the proposed Notice of Tentative Decision was prepared in accordance with the views indicated by the members of the Board at the meeting on October 8, at which time the application by Wisconsin Bankshares Corporation, a bank holding company located in Milwaukee, Wisconsin, for prior approval of the acquisition of shares of a proposed new bank to be established in the Mayfair shopping district near Wauwatosa was reviewed in detail by
the Board. Mr. Hackley stated that if this Notice was approved by the Board, it would be sent to the Federal Register today and the proposed statement for the press also would be released today.

Chairman Martin noted that at the meeting on October 8 all members of the Board had indicated that they were prepared to approve the application of Wisconsin Bankshares Corporation, and he inquired whether any member was of a different view at the present time.

All members of the Board indicated that they were prepared to approve the proposed Notice and statement of tentative decision, and it was agreed unanimously that the Notice should be sent to the Federal Register today in the form attached to the memorandum from the Legal Division with the understanding that a statement also would be issued to the press for release at four o'clock this afternoon. Copies of the Notice of Tentative Decision and tentative statement are attached to these minutes as Items 4 and 5.

Tentative decision re application of Farmers and Mechanics Trust Company, Childress, Texas (Items 6 and 7). A memorandum from the Legal Division dated November 25, 1959, had been distributed transmitting, pursuant to the understanding at the meeting of the Board on November 18, 1959, drafts of (1) a Notice of Tentative Decision that would be published in the Federal Register, stating that the Board proposed to approve the application by Farmers and Mechanics Trust Company to acquire 5 per cent (150 shares) of the voting shares
of The First National Bank, Paducah, Texas, (2) an accompanying tentative statement which would not appear in the Federal Register but would be released to the press and would be available for inspection, and (3) a proposed press statement regarding this action of the Board.

Mr. Hackley stated, in response to Chairman Martin's request for comments, that the draft of Notice of Tentative Decision had been prepared in accordance with the discussion at the meeting of the Board on November 18, at which time two members of the Board indicated they would not favor granting the application of Farmers and Mechanics Trust Company. However, in view of the fact that this was a tentative decision, no dissenting statements had been prepared at this time, and the fact that the tentative decision was by a divided vote would not be indicated in the published notice which, if the Board approved, would be sent to the Federal Register today and released to the press at 4:00 p.m.

Approval was given to the Notice and Tentative Decision, statement, and press release, Governors Szymczak and Robertson dissenting. Copies of the Notice of Tentative Decision and the tentative statement are attached to these minutes as Items 6 and 7.

Mr. Hostrup withdrew from the meeting at this point.

Letter from Mr. E. B. Crowe, St. Louis, Missouri. A memorandum from Mr. Hackley dated November 17, 1959, referred to a further letter that had been received from Mr. E. B. Crowe of St. Louis dated November 9, 1959, and suggested that since there appeared to be nothing further to say to Mr. Crowe his letter be filed without reply.
Governor Balderston noted that Mr. Crowe's latest letter implied that he might write to the directors of all Federal Reserve Banks and possibly to members of Congress regarding what he believed to be improper handling of a V-loan by the Federal Reserve Bank of St. Louis, a matter that had been discussed at earlier meetings of the Board. He raised the question whether any purpose would be served in bringing Mr. Crowe's latest letter to the attention of all Federal Reserve Banks at this time.

Chairman Martin suggested that such action would indicate the Board was taking Mr. Crowe's correspondence more seriously than was warranted. He noted that Mr. Crowe had received numerous letters from the Board, that the complaint he had made had been thoroughly investigated not only by the Federal Reserve Bank of St. Louis but also by a representative from the Board's Division of Examinations and a member of the Legal Division, that the Board had reached the conclusion that there was no basis for the charges Mr. Crowe had made against the St. Louis Bank, and that, in his judgment, the time had arrived for ceasing to try to answer letters received from Mr. Crowe. His judgment, therefore, was that the Legal Division's recommendation that Mr. Crowe's latest letter be filed without reply should be adopted, and that no attempt should be made to communicate with the Federal Reserve Banks in advance of anything that Mr. Crowe might send to them.

There was unanimous agreement with Chairman Martin's suggestion.

Mr. Hexter withdrew from the meeting at this point.
Service as branch director by a member of the governing body of a suburban community. There had been distributed under date of November 25, 1959, a memorandum from the Legal Division with respect to service as a director of the Louisville Branch by William H. Harrison, a member of the governing body of Mockingbird Valley, a suburb of Louisville.

Mr. Harrison had indicated he would accept an appointment to the Louisville Board, if tendered, but he had noted his membership on the Mockingbird Valley governing body.

Mr. Hackley stated that there was no legal question involved regarding Mr. Harrison's service and that the matter was solely a question of policy. Mockingbird Valley had a population of 120 and members of the governing body were elected on an independent ticket, he said, which apparently meant a nonpartisan ballot. He doubted under the circumstances whether any embarrassment to the Louisville Branch or to the Federal Reserve System would result if Mr. Harrison became a director of the branch.

Governor Mills stated that he was in sympathy with Mr. Hackley's reasoning. On the other hand, the Board's policy was to discourage political affiliation by directors, and if the Board made exceptions because a community was small it might find difficulty in knowing where to draw the line. Since Mr. Harrison had indicated he was willing to give up the elected office in Mockingbird Valley, his disposition would be to encourage him to do so and to make the appointment.
Governor Shepardson said that this seemed to be a small matter in the present case, but, like Governor Mills, he thought it preferable for Mr. Harrison to withdraw from his elective office. He would not, however, make that an express condition to the appointment.

Governor Robertson said that he saw nothing in the statement of facts that made Mr. Harrison's service as a member of the governing body of Mockingbird Valley inconsistent with his serving on the Louisville Branch Board. He did not feel strongly about the question and would be satisfied to complete the appointment regardless of whether he resigned from the governing body.

Governor Szymczak indicated that his view was similar to that of Governor Robertson, and Governor Balderston said that he would approve the appointment whether or not Mr. Harrison resigned his elective office.

Chairman Martin suggested that, since it was the sense of the meeting that Mr. Harrison's appointment be completed, he talk with President Johns of the St. Louis Bank by telephone indicating that the Board had considered the case, that it was prepared to appoint Mr. Harrison, and that, although it was a small matter, as a question of principle the Board would prefer that Mr. Harrison not serve as a member of an elective governing body while a member of the Louisville Branch Board. However, if any embarrassment were going to be caused by Mr. Harrison's resigning from this office, the Board would not object to his continuing that affiliation and would proceed to complete the appointment. There was agreement with the Chairman's suggestion.
Mr. Walter Young withdrew from the meeting at this point.

Amendments to Regulation D--Vault Cash (Items 8 through 11).

Chairman Martin referred to the discussion at the meeting on November 25, 1959, regarding the proposed procedure outlined in a memorandum from Messrs. Thomas, Hackley, and Farrell, dated November 24, 1959, for releasing a portion of vault cash to be counted as part of member bank legal reserves. The proposal was that, effective December 3, 1959, for central reserve and reserve city member banks, currency and coin in excess of 2 per cent of their net demand deposits be counted as part of their legal reserves; and effective December 1, 1959, for so-called country banks, currency and coin in excess of 4 per cent of their net demand deposits be counted as part of their legal reserves. If action were taken by the Board to adopt this proposal, a revised Regulation D, Reserves of Member Banks, would be issued which would include the following: (a) Vault cash would be reported, and counted as legal reserves to the extent permitted, as of the beginning of the day, rather than as of the end of the day as are reserves held at the Federal Reserve Banks. (b) The definition of currency and coin for purposes of Regulation D would be similar to that now contained in the instructions for the preparation of condition reports. (c) Beginning Thursday, December 31, 1959, country banks would compute reserve requirements based on biweekly periods ending every other Wednesday instead of on the present semimonthly basis. (They would report their deposits and
related items weekly). (d) Drafts drawn upon or other authorizations to charge a member bank's reserve account at the Federal Reserve Bank would no longer be considered as deposits subject to reserve requirements. They would be treated as other liabilities or as a deduction from the reserve account if carried on a member bank's books, at the option of the member bank. (e) One of the present waiver provisions for a penalty when a member bank was deficient for reserves would be incorporated in Regulation D permitting a member bank during a reserve computation period ending on a nonbusiness day to include that day in the last reserve computation period to the extent that such inclusion would reduce or eliminate the deficiency in reserves.

Chairman Martin stated that since the discussion of vault cash with the Presidents of the Federal Reserve Banks on Tuesday, November 24, he had received only one comment from a Reserve Bank President unfavorable to action by the Board at this time to permit the counting of a portion of vault cash along the lines of the proposal now before the Board. President Allen had called on the telephone from Chicago to say that the staff of that Bank had pointed out that only a third of approximately 900 nonreserve city banks in the Seventh District would receive any benefit from the proposal, whereas 80 per cent of the reserve and central reserve city banks would be benefited. President Allen had indicated that he and his staff had come to the conclusion that no action at this time would be preferable to adoption of this
Proposal for counting a portion of vault cash. Chairman Martin said that this rather surprised him, but in view of the extensive consideration that had been given to the matter of whether any action should be taken at this time and to various proposals for taking some action, he had come to the conclusion that some experimentation might not be a bad thing. While he was not enthusiastic about taking any action or about the proposal before the Board, he hoped that if the Board decided to act on this question it could be by unanimous vote. This would not indicate that everybody was in agreement that this was the best possible proposal, but it would be a step toward finding out what would result from permitting some vault cash to be counted. In his judgment, the proposal under discussion was not one that was likely to cause the Board or the System serious difficulties or serious embarrassment. Chairman Martin then said that he would be glad to have further expressions of opinion from any of the members of the Board with respect to the proposal to which he had referred.

Several of the members of the Board indicated that they were prepared to adopt the proposal that was presented in the memorandum from the staff of November 24 and which had been discussed at the meeting of the Board on November 25. A number of suggestions for changes in the wording of the press release were agreed on, and there was general discussion of the procedure that would be followed in announcing the Board's action to the press and in advising the Federal Reserve Banks and others of the action taken.
Chairman Martin then stated that it appeared that the Board was in agreement that this proposal to count vault cash should be adopted, effective as indicated in the staff memorandum of November 24, and that the several other amendments to Regulation D described in that memorandum should be approved. He said that he had been informed by Treasury officials that representatives of the Mint were holding a meeting today for the purpose of discussing the possible effect on demand for coin of action to permit the counting of some vault cash toward reserve requirements. It was the Chairman's judgment that the partial release of vault cash under discussion was not likely to have much, if any, effect on the demand for coin, but if the discussions of the Mint officials made it seem desirable to do so he might wish to reconvene the meeting of the Board later today before announcing the Board's action.

Governor King commented that he would vote to approve the proposal before the Board. This would permit the reserve and central reserve city banks to count vault cash in excess of 2 per cent of their net demand deposits and other banks to count vault cash in excess of 4 per cent of their net demand deposits. He wished to repeat, however, that he still believed it would be better to adopt a procedure that would permit all member banks to count a specified percentage of their vault cash holdings against their reserve requirements, rather than to adopt the proposal under discussion which would mean that a great many banks received no benefit whatsoever from this action of the Board.
His reason for preferring the approach he had indicated was that under it all member banks would participate to some extent, that such an action would have the effect of moving toward the ultimate counting of all vault cash against reserve requirements, that the action would not in any way increase inequities that might exist at the present time among member banks, that in his judgment it would be a step in the direction of reducing inequities, and that for these reasons he believed the Board would be in better position if it took the approach of permitting a specified percentage of vault cash holdings to be counted by all member banks. Governor King said he desired to have those views recorded, but he would vote with the other members of the Board in approving the proposal that had been outlined by Chairman Martin.

Governor Szymczak said that, as he had indicated before, most recently at the meeting on November 25, he believed that the best course would be for the Board to do nothing to release vault cash at this time. However, he would not vote against the proposal that was under discussion since a majority of the Board favored taking some action now.

Chairman Martin called for further comments and none were heard. Unanimous approval was then given to the amendment of Regulation D, Reserves of Member Banks, to incorporate therein the proposal for releasing a portion of member bank holdings of currency and coin and to permit such portion to be counted as part of their legal reserves as discussed at this meeting and as set forth in the staff memorandum of November 24, 1959,
to publication of a notice of the action in the Federal Register, to a letter to all Federal Reserve Banks in the form of the draft that had been distributed on November 27 informing them of the action taken by the Board, and to a statement for the press for release at 4:00 p.m., Eastern Standard Time, today, in the form agreed upon at this meeting.

In taking this action it was understood the Presidents of all Federal Reserve Banks would be advised by wire today of the Board's action and that a letter would be sent to the Bureau of the Budget requesting approval for the new reserve reporting forms for member banks. Copies of the amendments to Regulation D in the form published in the Federal Register, the statement for the press, the letter to the Presidents of all Federal Reserve Banks, and the letter to the Bureau of the Budget are attached as Items 8, 9, 10, and 11, respectively.

During the foregoing discussion Mr. Noyes, Adviser, Division of Research and Statistics, entered the room, and at its conclusion all members of the staff with the exception of Messrs. Sherman, Johnson, and Sprecher withdrew from the meeting.

Salaries of officers at Memphis Branch. Before this meeting there had been circulated a draft of letter to the Federal Reserve Bank of St. Louis that would approve salaries, effective December 1, 1959, for Messrs. DeVos, Monaghan, and Breen as Vice President, Cashier, and Assistant Cashier, respectively, at the Memphis Branch of the Federal Reserve Bank of St. Louis, at the rates reported to have been fixed by
the directors of the Bank in a letter received from Mr. Johns dated
November 12, 1959. Governor King had indicated while the draft letter
was in circulation that he wished to be present when this matter was
considered by the Board.

In commenting on the proposals, Mr. Johnson stated that Mr.
DeVos was being promoted from Cashier to Vice President with an increase
in his salary from $11,500 to $15,000 or approximately 30 per cent, and
that Mr. Breen was being promoted from a nonofficer position at a salary
of $5,400 per annum to be Assistant Cashier at a salary of $8,500 per
annum, an increase of approximately 60 per cent. In calling attention
to the large increases proposed, Mr. Johnson noted that in each case
the salary fixed would be at the minimum of the grade in which the new
position was classified. He assumed Mr. Johns had suggested these
rates, which had been approved by the directors of the St. Louis Bank,
on the assumption that the men should be moved to the minimum of their
grades upon receiving the appointments proposed. Mr. Johnson noted that
in an earlier case, where the St. Louis Bank salary scale had been
relatively low, Mr. Johns had proposed salary adjustments in two or more
steps to take some of the individuals to the bottom of the new grade
levels. In this case, however, he may have assumed that the Board would
prefer that the salaries be increased at once to the minimum of the new
grade minimums.
Governor Balderston stated that Mr. Johns recently called his attention to Mr. Breen, who seemed to have potential for development, indicating that there would be a problem in adjusting Mr. Breen's salary to an appropriate level relative to the responsibilities he might assume in the next few years.

Chairman Martin commented that this was a managerial problem for the St. Louis Bank and that there was a question how far the Board should go into the individual adjustments proposed.

Governor King stated that, as he had indicated at the meeting on November 10, he believed strongly in the idea of having the management of the Banks assume their responsibilities with only general supervision from the Board of Governors except in the case of the President of the Federal Reserve Bank concerned. In this case, he was not proposing to discuss the qualifications of the individuals or the suitability of their appointments, but he questioned whether it was good salary administration to move a man from $5,400 to $8,500 a year in one step. His first reaction was that a man given such a large increase either was not properly treated in his old position or that he was not ready for the full responsibility of the new one. A much better procedure, he said, would be to make only a partial adjustment toward the minimum of the new grade at this time, and over the next year to observe the man and to give an additional adjustment in six months or a year if the individual demonstrated that he was ready to carry the responsibilities
in the new position. Governor King emphasized that he was not talking about the qualifications of the individual, whom he did not know, and that his remarks were directed only to the principle of good salary administration. He had something of the same feeling with respect to the 30 per cent increase proposed in Mr. DeVos' salary but that did not show up as strongly as in the case of Mr. Breen. Governor King stated that he would not insist on raising the question with the St. Louis Bank, but he did not feel that he could avoid presenting to the Board here the views he had as to how the Board might exercise its proper responsibility in a case where its function was to approve the salary—not the individual or the position. That was the reason for his having requested that this matter be docketed for consideration at a meeting when he would be present.

There followed a general discussion during which Chairman Martin suggested again that this was basically a management problem, adding that for reasons with which the Board members were thoroughly familiar Mr. Johns was particularly concerned at this time with senior management problems at the St. Louis Bank. His view was that to a large extent the management problems of the Reserve Banks must be left to the directors and President of the Bank, with, of course, the understanding that if the Bank was not dealing properly with those problems the Board must consider what action should be taken. He commented that on more than one occasion he had accepted the judgment of the Reserve Bank directors
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or President on a matter when he individually did not feel the conclusion was in line with the best judgment, but he believed he would have been exceeding his true responsibility if he had interfered with the judgment of the Bank in the particular matter.

Governor Mills stated that he would accept this expression as a statement of his philosophy in dealing with such matters.

Governor Robertson indicated that he generally agreed with this reasoning. He wondered, however, whether in this case Mr. Johns might have been acting on the assumption that the Board would prefer that the officer be brought to the minimum of his grade immediately. If that were the case, Mr. Johns might appreciate having an opportunity to consider the matter further before the Board acted.

Governor Shepardson expressed views similar to those of Governor Robertson.

Following further discussion, it was understood that Chairman Martin and Governor King would talk with Mr. Johns by telephone, not with a view to discussing the qualifications of any of the individual appointees but rather with a view to inquiring if he might feel that a better procedure would be to move gradually rather than by such large amounts in making salary adjustments, after which they would report back to the Board.

Foreign travel for Mr. Furth. There had been distributed a memorandum from Mr. Marget, Director, Division of International Finance,
dated November 13, 1959, recommending that the Board authorize J. Herbert Furth, Associate Adviser in the Division of International Finance, to take official leave for a period of approximately seven weeks during the summer of 1960 in order to permit him to serve as Associate Professor at the International University of Comparative Sciences in Luxembourg, Europe. The invitation that had been extended to Mr. Furth offered to pay a stipend equivalent to $1,000 plus travel expenses, but as an alternative Mr. Marget recommended that the Board pay Mr. Furth's salary and that the University be asked to reimburse the Board for his travel expenses and his per diem allowance during the period of his participation in the University session. Mr. Marget also recommended that Mr. Furth be authorized to stay on for approximately two weeks in Europe in order to visit the Bank for International Settlements and the central banks of Germany and the Netherlands, such additional time and travel to be at Board expense.

Governor Szymczak stated that he thought it would be a good thing for Mr. Furth, who had not been in Europe since 1949, to be able to accept the invitation.

Other members of the Board indicated similar views, noting that the University proposed to pay an amount that would be sufficient to cover travel costs.

In response to Chairman Martin's inquiry as to whether the method proposed by Mr. Marget for handling the expenses was satisfactory,
Governor Shepardson stated he felt it would be satisfactory to permit Mr. Furth to continue on the Board’s payroll during this period, thus, in effect, making this a Board assignment but recovering the costs of travel to and from Luxembourg and per diem while Mr. Furth was on that part of the assignment.

Governor Balderston noted that Mr. Furth would also visit certain central banks in Europe during this period and that in his opinion this would be desirable. He felt that it was fortunate from the standpoint of the Board’s work for Mr. Furth to be able to make such a visit on a basis whereby his main travel expenses to and from Europe would be paid by the University.

Governor Robertson said that he felt the arrangement would be desirable, and the recommendations contained in Mr. Marget’s memorandum were then approved unanimously.

Outside business and teaching activities. Before this meeting there had been sent to the members of the Board a memorandum from the Division of Personnel Administration dated November 9, 1959, relating to outside business and teaching activities of the members of the Board’s staff. The memorandum pointed out that 50 members of the staff were carrying on activities previously reported to the Board, while 14 new activities were included on the list.

Governor Shepardson said that he had gone over the memorandum, that he could see nothing to which exception should be taken, and that,
therefore, he recommended the Board approve the continuation of the various activities by the individuals concerned.

Governor Robertson stated that he did not object to any of the activities listed. He had a question, however, as to why so many members of the Board's staff, including some of those in senior positions, were carrying on outside activities of the types indicated. If this was in order to provide income to meet necessary living expenses, he felt it presented a problem that needed study.

Governor Shepardson said that without question there were some cases where the activities were purely for the purpose of supplementing income. In a considerable number of cases, part of the reason for carrying on the outside activities undoubtedly was related to the individual's professional work and the income factor might be relatively less important. However, even if the income was the reason for the outside work, he was not sure there was any reason for objecting so long as the nature of the activity was not inappropriate and not likely to be embarrassing to the individual or the Board. In his view, an employer might give some consideration to an individual who found that he had the time and initiative beyond his regular position to work two to four hours a day or some other period a week as a means of helping to get himself and his family ahead, so long as it did not impair his performance on his main job.
Governor Robertson stated that he was not objecting to approval of the activities listed in the memorandum and that there was much to be said for the position indicated by Governor Shepardson.

At Chairman Martin's suggestion, the Board took note of the memorandum without objection, including the recommendation that those individuals on the staff reporting writing or editorial activities be advised of the Board's policy regarding honoraria and royalties, as stated in a memorandum from Governor Shepardson dated September 24, 1958.

Messrs. Johnson and Sprecher withdrew from the meeting at this point.

Attendance at Reserve Bank directors' meeting. Chairman Martin recalled that at the meeting on November 9, 1959, Governor Robertson mentioned a suggestion by Mr. Mangels that a member of the Board attend the meeting of the directors of the Federal Reserve Bank of San Francisco on December 9, 1959, which would be the last meeting that Mr. Brawner would attend as Chairman. He then inquired of Governor Mills whether he would be able to attend, to which Governor Mills responded that, while he would enjoy going, other engagements would make it difficult for him to do so.

In the ensuing discussion, Governor Shepardson indicated that, while he was not anxious to go to San Francisco at this particular time, his schedule was such that he would be able to do so if the Board felt
it desirable to comply with the suggestion of Mr. Mangels. It was understood that Chairman Martin would discuss this matter with Mr. Brawner when he was in Washington later this week, and that the decision as to whether a member of the Board should attend the meeting would be made in the light of that discussion.

Appointment of Reserve Bank and branch directors. Chairman Martin then referred to the fact that a successor to Mr. Bierwirth as a Class C Director and Chairman of the Federal Reserve Bank of New York, would have to be selected shortly. Both Mr. Bierwirth and Mr. Hayes strongly recommended the appointment of Mr. Phillip D. Reed, presently a Class B Director of the New York Bank, who was retiring as Chairman of the Board of General Electric Corporation. Chairman Martin noted that Mr. Reed would continue active in business as a director of a number of corporations. On the other hand, this would be another instance in which a Chairman at the New York Bank was selected from among the elected directors, and a question could be raised as to whether this was a desirable pattern to follow. After some further discussion, Chairman Martin was authorized unanimously to take the steps necessary to ascertain whether Mr. Reed would accept appointment as a Class C director and designation as Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York, with the understanding that, if so, the appointment would be tendered in the usual manner.
Chairman Martin next referred to the prospective vacancy on the Board of Directors of the Denver Branch of the Federal Reserve Bank of Kansas City that would occur when Mr. Nielsen completed his second full term at the end of this year. He stated that the suggestion was now made that Mr. Aydelott, President of the Denver and Rio Grande Railroad might be available for this appointment, that Mr. Aydelott was considered to be an extremely able individual, and that he would be a good appointee if he could accept.

After some discussion, it was understood that Chairman Martin would explore further the availability of Mr. Aydelott, and that, if he were found to be available and eligible within the usual restrictions applied to branch directors, the appointment as a director of the Denver Branch of the Federal Reserve Bank of Kansas City, would be tendered him for the term beginning January 1, 1960.

Meeting of Chairmen's Conference in spring 1960. Governor Shepardson recalled that the Board had discussed upon a number of occasions the possible desirability of having a meeting of the Conference of Chairmen of the Federal Reserve Banks to which the chairmen of the Federal Reserve Bank branches would also be invited. He stated that, while the executive committee of the Chairmen's Conference had indicated that it did not intend to raise this question again, it would be desirable for the Board to have a definite position in the event a question should come up during the Conference to be held on December 3 and 4 regarding the possibility of such a meeting in the spring of 1960.
In a brief discussion, there was unanimous agreement that the Board would prefer to avoid having an additional conference such as that mentioned by Governor Shepardson and that, therefore, the question should not be raised by members of the Board. If it were brought up by any of the Chairmen or Deputy Chairmen, the matter would, of course, be given consideration subsequently at a meeting of the Board.

Thereupon the meeting adjourned.

Secretary’s Note: On November 27, 1959, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board’s staff, effective November 29, 1959:

Peter M. Keir, Chief, Government Finance Section, Division of Research and Statistics, from $11,595 to $12,770 per annum.

Mary Patricia Barlow, Statistical Clerk, Division of Bank Operations, from $4,135 to $4,340 per annum.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 12), approving the appointment of Lovick Clark Lindley as assistant examiner.

Memorandum dated November 24, 1959, from Mr. Kern, Assistant Director, Division of Administrative Services, recommending that permission be granted to Thresia Elting, an employee in that Division, to work part-time at a local department store.
MITCHELL - ATLANTA

KECEA

A. Sottile Coral Gables Corporation, Miami, Florida.
C. None.
D. At any time prior to April 1, 1960, to increase the capital of such bank and take all action necessary in connection therewith, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Merritt Sherman
SHERMAN

Definition of KECEA:
The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
November 30, 1959.

MITCHELL - ATLANTA

KECEA

A. Sottile, Inc.; Miami, Florida.

B. American National Bank of Fort Lauderdale, Fort Lauderdale, Florida.
   The Coral Gables First National Bank, Coral Gables, Florida,
   Pan American Bank of Miami, Miami, Florida.

C. None.

D. At any time prior to April 1, 1960, to increase the capital of
   such banks and take all action necessary in connection therewith,
   provided that all actions taken (1) with respect to each national
   bank are in accordance with plans satisfactory to the Comptroller
   of the Currency, and (2) with respect to Pan American Bank of
   Miami are in accordance with plans satisfactory to the Federal
   Reserve Bank of Atlanta.

Definition of KECEA:

(Signed) Merritt Sherman

The Board authorizes the issuance of a limited voting permit,
under the provisions of section 5144 of the Revised Statutes
of the United States, to the holding company affiliate named
below after the letter "A", entitling such organization to
vote the stock which it owns or controls of the bank(s) named
below after the letter "B", subject to the condition(s) stated
below after the letter "C". The permit authorized hereunder
is limited to the period of time and the purposes stated after
the letter "D". Please proceed in accordance with the instruc-
tions contained in the Board's letter of March 10, 1947, (S-964).
November 30, 1959.

MITCHELL - ATLANTA

KECEA

B. American National Bank of Fort Lauderdale, Fort Lauderdale, Florida.
C. None.
D. At any time prior to April 1, 1960, to increase the capital of such bank and take all action necessary in connection therewith, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Merritt Sherman
SHERMAN

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
NOTICE OF TENTATIVE DECISION ON APPLICATION BY BANK HOLDING COMPANY FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF A BANK

Notice is hereby given that, pursuant to section 3(a) of the Bank Holding Company Act of 1956, Wisconsin Bankshares Corporation, a bank holding company located in Milwaukee, Wisconsin, has applied for the Board's prior approval of the acquisition of 2,950 of the 3,000 voting shares of a proposed new bank, Mayfair National Bank of Wauwatosa, Wisconsin. Information relied upon by the Board in making its tentative decision is summarized in the Board's Tentative Statement of this date, which is attached hereto and made a part hereof and which is available for inspection at the Federal Register Division, at the Office of the Board's Secretary, and at all Federal Reserve Banks.

The record in this proceeding to date consists of the application, the Board's letter to the Comptroller of the Currency inviting his views and recommendations on the application, the Comptroller's reply, this Notice of Tentative Decision, and the facts set forth in the Board's Tentative Statement.

For the reasons set forth in the Tentative Statement, the Board proposes to grant the application.
Notice is further given that any interested party may, not later than fifteen (15) days after the publication of this notice in the Federal Register, file with the Board in writing any comments upon or objections to the Board's proposed action. Communications should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington 25, D. C.

Following expiration of the said 15-day period, the Board's Tentative Decision will be made final by order to that effect, unless for good cause shown other action is deemed appropriate by the Board.

Dated at Washington, D. C., this 30th day of November, 1959.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)
APPLICATION BY WISCONSIN BANKSHARES CORPORATION OF MILWAUKEE, WISCONSIN, FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF MAYFAIR NATIONAL BANK

TENTATIVE STATEMENT

Wisconsin Bankshares Corporation, Milwaukee, Wisconsin ("Bankshares"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of Bankshares' acquisition of 2,950 of the 3,000 voting shares to be issued by Mayfair National Bank of Wauwatosa, Wauwatosa, Wisconsin ("Mayfair"), a proposed new bank.

Views and recommendations of the Comptroller of the Currency. - Since Mayfair would be a national bank, notice of the application was given, as required by section 3(b) of the Act, to the United States Comptroller of the Currency. In his reply, the Comptroller commented on the application from the point of view of each of the factors enumerated in section 3(c) of the Act (see following paragraph) and recommended that the Board approve the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of the acquisition...
would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Bankshares is a bank holding company, as defined in section 2(a)(1) of the Act. It owns a large majority of the stock of six commercial banks in Wisconsin, with aggregate deposits in the neighborhood of $880 million at the end of 1958. By far the largest of these subsidiary banks in the First Wisconsin National Bank of Milwaukee, the largest bank in Wisconsin, with deposits in excess of $700 million. In Milwaukee County (in which Milwaukee and Wauwatosa are situated) Bankshares' banks maintain fourteen offices, thirteen being offices of First Wisconsin National Bank. The remaining banks in the group, located in Eau Claire, Fond du Lac, Madison, and Oshkosh, compete only to a negligible extent, if at all, in the Milwaukee area.

Mayfair National Bank is to be located in the Mayfair Shopping Center, a large new center in the community of Wauwatosa, which is chiefly a residential suburb of Milwaukee, located to the west of that city and extending to the western boundary of Milwaukee County. The primary service area of the bank would include part of Wauwatosa and would extend into Waukesha County to the west and slightly into the residential portion of Milwaukee to the east. The population of this area has more than doubled within the past decade, and is estimated to exceed 60,000 at present. There are no banking offices in the primary service area, but there are two banks in
the business section of Wauwatosa, a little more than two miles from the proposed site of Mayfair.

The financial history, condition, prospects, and management of the holding company are satisfactory. The prospects and proposed management of Mayfair also are satisfactory; since the bank has not yet been established, financial history and condition are not relevant factors with respect to it.

First Wisconsin National Bank, Bankshares' principal subsidiary, is unquestionably the dominant banking institution in the major urban area centered about the city of Milwaukee. Together with the small Southgate National Bank (Bankshares' other subsidiary in that area), it has almost 33 per cent of the banking offices and over 43 per cent of the deposits held by all banks in Milwaukee County. In these circumstances, any expansion in the size or extent of the holding company system - even the relatively small expansion that would result from the establishment of Mayfair - necessarily raises the question whether the acquisition would be "consistent with . . . the public interest and the preservation of competition in the field of banking", which is one of the factors enumerated in section 3(c) of the Act.

However, the decisive factor in this situation, in the Board's judgment, relates to "the convenience, needs, and welfare of the communities and the area concerned." As previously indicated, the area that would be served by Mayfair has been growing in population at a rapid rate, and further growth must be anticipated. Despite the increase in population of the area by tens of thousands,
as well as the substantial increase in business activity in the area, no additional banking offices have been established in Wauwatosa since 1920. The numerous business interests in the large Mayfair Shopping Center and elsewhere in the area, as well as the residents of the area and others who would be drawn to the shopping center, are entitled to the very considerable convenience that would result from the establishment of the proposed bank.

In view of Bankshares' dominant position in Milwaukee and its vicinity, it cannot be denied that the public interest might be better served if banking facilities could be furnished to the area around the Mayfair Shopping Center by an institution that would not be a part of that holding company group. However, the shopping center has been planned for many years and has been in operation for some time, and it does not appear that any other groups or individuals have evinced any interest in establishing banking facilities in the neighborhood.

In view of the continuing growth of the area involved, it does not appear to the Board that the establishment of the proposed new bank would have a materially adverse effect on the soundness or prospects of the two existing banks in Wauwatosa. These are substantial institutions with total deposits in excess of $16 million in one case and $28 million in the other (including the deposits of a branch situated about 2-1/2 miles from the proposed site of Mayfair). It also seems quite clear that no other bank could be materially affected by the establishment of Mayfair, although some business that currently goes to offices within a four-mile radius
of the site of the new bank inevitably would be drawn to Mayfair, which would be more conveniently situated for some present customers of existing banks.

Conclusion. - The situation regarding this application is similar, in many respects, to that involved in the application by Bankshares to establish a new bank in the Southgate Shopping Center, which was approved by the Board on October 9, 1957 (1958 Fed. Res. Bulletin 10). As pointed out in a later decision, in that case

"...the Board granted its approval for a large holding company to establish a new bank in a shopping center because, considering all the relevant circumstances, including the population and prospects of the area concerned and the existing banking facilities, the probable service to the area was deemed by the Board to outweigh adverse considerations with respect to the fifth factor."


In the present case, also, it seems clear that the convenience, needs, and welfare of the area concerned would be served by establishment of the new bank to a degree that outweighs the adverse consideration that the proposed acquisition will increase, in small measure, the extent to which banking offices and bank deposits in Milwaukee County will be concentrated in the Bankshares holding company group.

Viewing the relevant facts in the light of the general purposes of the Act and the factors enumerated in section 3(c), it is the judgment of the Board that the proposed acquisition would not be inconsistent with the statutory objectives and the public interest and that the application should be approved.

November 30, 1959
Notice is hereby given that, pursuant to section 3(a) of the Bank Holding Company Act of 1956, Farmers and Mechanics Trust Company, Childress, Texas, has applied for the Board's prior approval of action whereby said bank holding company would acquire 5 per cent (150 shares) of the voting shares of The First National Bank, Paducah, Texas. Information relied upon by the Board in making its tentative decision is summarized in the Board's Tentative Statement of this date, which is attached hereto and made a part hereof and which is available for inspection at the Federal Register Division and at the Office of the Board's Secretary and at all Federal Reserve Banks.

The record in this proceeding to date consists of the application, the Board's letter to the Comptroller of the Currency inviting his views and recommendations on the application, the reply of the Comptroller, this Notice of Tentative Decision, and the facts set forth in the Board's Tentative Statement.
For the reasons set forth in the Tentative Statement, the Board proposes to grant the application.

Notice is further given that any interested party may, not later than fifteen (15) days after the publication of this notice in the Federal Register, file with the Board in writing any comments upon or objections to the Board's proposed action. Any such comments or objections should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington 25, D. C.

Following expiration of the said 15-day period, the Board's Tentative Decision will be made final by order to that effect, unless for good cause shown other action is deemed appropriate by the Board.

Dated at Washington, D. C., this 30th day of November, 1959.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
APPLICATION BY FARMERS AND MECHANICS TRUST COMPANY, CHILDRESS, TEXAS, FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF THE FIRST NATIONAL BANK, PADUCAH, TEXAS

TENTATIVE STATEMENT

Farmers and Mechanics Trust Company ("Farmers"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of 5 per cent (150 shares) of the outstanding voting shares of The First National Bank, Paducah, Texas ("National"). As required by section 3(b) of the Act, the Board gave notice of this application to the Comptroller of the Currency and it was the Comptroller's recommendation that the application be approved.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) The financial history and condition of the holding company and the bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of such acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound
banking, the public interest, and the preservation of competition in the field of banking.

**Discussion.** - Farmers (which is not itself a bank) presently has two subsidiary banks: one, with deposits of about $2.3 million, in the town of Childress in Childress County, Texas, and the other, with deposits of about $2.7 million, in the town of Hollis in Harmon County, Oklahoma. Harmon County is northeast of, and partly contiguous to, Childress County. National, the bank in which Farmers seeks to acquire stock, is located in Paducah in Cottle County, Texas, which is just south of Childress County. National is the only banking office in Cottle County, and holds deposits of about $4 million.

At present, Farmers owns 5 per cent of National's stock. The proposed acquisition of 150 additional shares of stock would cause Farmers to own 10 per cent of National's outstanding stock. National would not become a "subsidiary" of the holding company within the meaning of the Act, since subsidiary status is based upon ownership of 25 per cent or more of the voting shares of a bank.

Insofar as the first three statutory factors are concerned, it appears that the financial history and condition of Farmers and National are satisfactory and that their prospects and the character of their management are good. As to the fourth factor, Farmers asserts that its increased stock ownership of National would enable it to use its greater influence in the management of the bank to
expand the bank's loan operations to accommodate worthy farmers, ranchers, and business men in the Paducah area. However, there is no evidence that National has not been serving its area adequately or that demand for loans by qualified borrowers has not been satisfied. In the Board's opinion, the proposed stock acquisition would not substantially contribute to, although it would not be inconsistent with, the "convenience, needs, and welfare of the communities and the area concerned".

Turning to the fifth statutory factor, there is no suggestion that the proposed expansion of the size or extent of the holding company system involved would be inconsistent with adequate and sound banking. The crucial question is whether such expansion would be consistent with the public interest and the preservation of competition in the field of banking.

The area concerned is sparsely populated and the towns are relatively small. Paducah accounts for a large part of the population of Cottle County. The nearest town with banking facilities is Childress, 31 miles to the north, which has two banks. One is a subsidiary of Farmers, as previously mentioned; the other is about twice the size of Farmers' bank and is not controlled by a holding company. There are four banks located in three other small towns in adjoining counties, located from 32 to 42 miles distant from Paducah.
To the extent that the proposed transaction might result in a diminution of banking competition, it would, in the Board's opinion, be limited to the area between and around Paducah and Childress in which there are three banks, one being Farmers' subsidiary in Childress. Assuming that the acquisition by Farmers of additional stock of National would tend to draw further within its influence a second of the three banks in this area, it might diminish, to some degree, the availability to residents of the area of alternative sources of banking services under separate and independent control. However, one of the remaining alternative sources would be the second bank in Childress, the largest bank in the area; and, as previously indicated, there are four other banks in towns which, in view of geographic and population factors, may be regarded as only a relatively short distance from the Childress-Paducah area.

**Conclusion.** - After considering the facts in the light of the purposes of the Act and the factors stated in section 3(c) of the Act, it is the Board's judgment that the proposed acquisition would not be inconsistent with the statutory objectives and the public interest and that the application should be approved.

November 30, 1959
(Statement filed with Federal Register November 30, 1959, regarding amendments to Regulation D.)

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

Part 204. Reserves of Member Banks

1. Effective December 1, 1959, except as otherwise indicated, Part 204 is amended in the following respects:

(a) § 204.1 is amended by changing paragraph (f) thereof to read as follows:

(f) Gross demand deposits. The term 'gross demand deposits' means the sum of all demand deposits, including demand deposits made by other banks, the United States, States, counties, school districts and other governmental subdivisions and municipalities, and all outstanding certified and officers' checks (including checks issued by the bank in payment of dividends), and letters of credit and travelers' checks sold for cash.
(b) § 204.1 is amended by adding the following new paragraph (i) at the end thereof:

   (i) **Currency and coin.** The term 'currency and coin' means United States currency and coin owned and held by a member bank, including currency and coin in transit to or from a Federal Reserve Bank. 'Countable' currency and coin means that part of a member bank's currency and coin which is permitted to be counted as partial compliance with its reserve requirements.

(c) § 204.2(a) is amended to read as follows:

   (a) **Amounts of reserves to be maintained.** (1) Every member bank shall maintain on deposit with the Federal Reserve Bank of its district an actual net balance equal to 3 per cent of its time deposits, plus 7 per cent of its net demand deposits if it is not located in a reserve or central reserve city or 10 per cent of its net demand deposits if it is located in a reserve or central reserve city, or such different percentages of its time deposits and net demand deposits as the Board of Governors of the Federal Reserve System, pursuant to and within the limitations contained in section 19 of the Federal Reserve
Act, 1/ may prescribe from time to time in the Supplement to this Part; provided, that a member bank's currency and coin shall be counted in partial compliance with such requirements to such extent as the Board of Governors of the Federal Reserve System, pursuant to section 19 of the Federal Reserve Act, may permit from time to time in the Supplement to this Part.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, a member bank located in a reserve city may hold and maintain the reserve balances which are in effect for member banks not located in reserve or central reserve cities, and a member bank located in a central reserve city may hold and maintain the reserve balances which are in effect for member banks located in reserve

7/ Any such different percentages prescribed by the Board may not be less than 3 per cent of time deposits, 7 per cent of net demand deposits of banks not located in reserve or central reserve cities, or 10 per cent of net demand deposits of banks located in reserve or central reserve cities, nor more than 6 per cent of time deposits, 14 per cent of net demand deposits of banks not located in reserve or central reserve cities, or 22 per cent of net demand deposits of banks located in reserve or central reserve cities."
cities or for member banks not located in reserve or central reserve cities, if permission for the holding and maintaining of such lower reserve balances is granted by the Board of Governors of the Federal Reserve System on such basis as the Board may deem reasonable and appropriate in view of the character of business transacted by the member bank.

(3) For the purposes of this Part, a member bank shall be considered to be in a central reserve city if the head office or any branch of such bank is located in a central reserve city, and a member bank shall be considered to be in a reserve city if the head office or any branch thereof is located in a reserve city and neither the head office nor any branch thereof is located in a central reserve city.

(d) § 204.3(a) is amended to read as follows:

(a) Computation of deficiencies. (1) Deficiencies in reserve balances of member banks in central reserve cities and in reserve cities shall be computed on the basis of average daily net deposit balances and average
daily countable currency and coin covering weekly periods. Deficiencies in reserve balances of other member banks shall be computed on the basis of average daily net deposit balances and average daily countable currency and coin covering semimonthly periods.

(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances and countable currency and coin at the opening of business on the same day; and the weekly and semimonthly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System. When, however,

2/ However, deficiencies in reserve balances of member banks in central reserve and reserve cities which have been authorized by the Board of Governors, under the provisions of § 204.2(a)(2), to hold and maintain the reserve balances in effect for member banks not in central reserve and reserve cities will be computed on the basis provided for such latter member banks in this § 204.3(a)(1)."
the reserve computation period ends with a non-business day, or two or more consecutive non-business days, of the member bank or its Federal Reserve Bank, such non-business day or days may, at the option of the member bank, be included in the next reserve computation period.

(e) Effective at the opening of business on December 31, 1959, subparagraphs (1) and (2) of paragraph (a) of § 204.3 are amended by changing the word "semimonthly" where it occurs therein to read "bi-weekly".

(f) Footnotes 5a and 7 and textual references thereto are renumbered 6 and 8, respectively.

(g) Effective as to member banks not in reserve and central reserve cities at opening of business on December 1, 1959, and as to member banks in reserve and central reserve cities at opening of business on December 3, 1959, § 204.5 [Supplement to Regulation D] is amended to read as follows:

§ 204.5. Supplement: (a) Reserve percentages.

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a), but subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:
(1) If not in a reserve or central reserve city -
   (i) 5 per cent of its time deposits,
   plus
   (ii) 11 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph) -
   (i) 5 per cent of its time deposits,
   plus
   (ii) 16-1/2 per cent of its net demand deposits.

(3) If in a central reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) or (2) of this paragraph) -
   (i) 5 per cent of its time deposits,
   plus
   (ii) 18 per cent of its net demand deposits.
(b) **Counting of currency and coin.** In partial compliance with the reserve requirements of paragraph (a) of this section, the amount of a member bank's currency and coin shall be counted to the extent that it exceeds 2 per cent of the bank's net demand deposits in the case of a bank subject to the requirements for banks located in central reserve and reserve cities, and to the extent that it exceeds 4 per cent of the bank's net demand deposits in the case of a bank subject to the reserve requirements for banks not located in central reserve and reserve cities.

2. a. The purposes of these amendments are to permit member banks to count a portion of their currency and coin in partial compliance with their reserve requirements under the law and the Regulation, such permission being granted pursuant to amendments made to section 19 of the Federal Reserve Act by the Act of July 28, 1959; to conform the language of the Regulation to changes in the law made by such Act; to exclude from the definition of "gross demand deposits" drafts drawn by a member bank upon its reserve account at its Federal Reserve Bank or other authorizations to charge such account; to provide for biweekly, instead of semimonthly, computations of reserves by member banks not located in reserve and central reserve cities; and to permit a member bank, at its option, to consider a nonbusiness day or nonbusiness days at the end of a reserve computation period as included within the next succeeding computation period.
b. 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 these amendments for the reasons and good cause found as stated in § 262.2 (e) of the Board's rules of procedure (Part 262) and especially because in connection with these amendments such procedures are unnecessary because they would not aid the persons affected and would serve no other useful purpose.


(Signed) Merritt Sherman

(SEAL)  
Merritt Sherman,  
Secretary.
The Board of Governors of the Federal Reserve System today amended its Regulation D so that member banks having large holdings of vault cash in relation to their deposits will be permitted to count a part of this cash in meeting their reserve requirements.

Effective December 1, 1959, so-called "country" banks (that is, banks not classified as reserve city or central reserve city banks) having vault cash in excess of 4 per cent of their net demand deposits will be permitted to count the excess as part of their required reserves. Also, effective December 3, banks classified as reserve city and central reserve city banks will similarly be permitted to count vault cash in excess of 2 per cent of their net demand deposits.

On the basis of average vault cash holdings for the past 12 months, it appears that almost half of the 6,250 member banks will be in a position to count a part of their vault cash in meeting their required reserves. As a result, total member bank reserve balances at the Federal Reserve Banks may be lower than would otherwise be required by as much as $230 million, of which $160 million would be at country banks and $70 million at reserve city banks. Total vault cash held by member banks has averaged about $2.2 billion.

This Federal Reserve action was taken under the terms of an Act of Congress in 1959 designed in part to remedy inequities that have arisen because many banks, particularly small country banks, find it necessary for operating purposes to hold relatively larger amounts of vault cash than other banks do. No change in the System's general monetary or credit policy is involved. The beginning of December is a logical time for this action inasmuch as the Federal Reserve System needs to make additional reserves available to the banking system each year at this season in order to meet the seasonal requirements of the economy.

At the same time, the Board adopted several amendments to technical provisions of Regulation D, including an amendment (effective December 31, 1959) whereby the reserve computation period for country banks will be bi-weekly instead of semimonthly.
CONFIDENTIAL (FR)

Dear Sir:

The Board has taken the following action with respect to the counting of currency and coin in meeting the reserve requirements of member banks by an amendment to the supplement to Regulation D:

Effective December 1, 1959, country banks will be permitted to count as part of their legal reserves currency and coin in excess of four per cent of their net demand deposits; and

Effective December 3, 1959, central reserve and reserve city banks will be permitted to count as part of their legal reserves currency and coin in excess of two per cent of their net demand deposits.

Before taking this action, the Board had considered various alternative methods for the release of currency and coin and their effect on individual member banks as indicated by the statistical data prepared from punched cards received in response to its letter of August 4. It appears that the release of only a small proportion of the total currency and coin of member banks at this time, on the basis outlined above, has the advantage of reducing some of the inequities of those banks that hold relatively large proportions of currency and coin and doing so without an offsetting action in higher reserve requirements that would have adverse effects on other banks.

Based on banks' average holdings of currency and coin during the past 12 months, it is estimated that this action will permit member banks to reduce their average reserves maintained at the Reserve Banks by an aggregate of $230 million, of which about $160 million would be at country banks and $70 million at reserve city banks. During the year-end period when member bank holdings of currency and coin are relatively high, the amounts that could be counted as reserves would also be higher. There would be practically no effect on central reserve city banks.

The Board has also adopted a recommendation of the System Research Advisory Committee providing for a biweekly reserve computation period for country banks, with weekly reporting, to be effective with the biweekly period beginning December 31, 1959. A revised form F.R.414 as submitted to the Bureau of the Budget is attached, and telegraphic
advice will be dispatched when the new Budget Bureau number is received. A draft of a reporting form, indicating how the biweekly forms might be printed at the Reserve Banks to provide a tear-sheet for weekly reporting, is also attached. Weekly reporting by country member banks and weekly tabulations at the Reserve Banks would make available earlier benchmark data to correct the levels of country member bank required and excess reserves which are now estimated.

Revised forms, replacing the present forms F.R. 422 and F.R. 413, for reporting weekly and biweekly averages of member bank deposits, currency and coin, reserves, and borrowings from the Federal Reserve Banks, and including the new item of currency and coin allowable as reserves, will be forwarded by the Board’s Division of Bank Operations.

Country member banks should be requested to submit their semi-monthly report of deposits for reserve purposes for the second December period to cover December 16 through December 30, 1959, and forms F.R. 413 should be submitted on the basis of this shortened period.

Enclosed is a copy of amendments to the Board’s Regulation D and the supplement to the Regulation in the form in which they will be published in the Federal Register. Copies of the amended Regulation and supplement will be forwarded as soon as they are printed. Please advise by wire the number of copies that will be required by your Bank.

The amendments to Regulation D contain the provision for biweekly computation periods by country banks; a definition of currency and coin for purposes of Regulation D which corresponds with the related instructions for the preparation of condition reports; a provision that currency and coin shall be reported and counted as legal reserves, to the extent permitted, as of the beginning of the day; a revision with respect to drafts drawn upon or other authorizations to charge the member bank’s reserve account; and the inclusion of one of the present waiver provisions.

Present Regulation D and the present instructions pertaining to reports of condition both include as deposits the amounts due to Federal Reserve Bank (transit account) as represented by outstanding drafts on or other authorizations to charge the reporting bank’s reserve account with the Federal Reserve Bank. Many banks, and most of the small banks, immediately reduce their own book balance of the amount held at the Reserve Bank the same as they reduce their account with a correspondent when they draw a draft on it. Attempts were made to educate member banks with respect to this type of reporting, but the attempt to obtain correct reporting with respect to the reserve account on the report of condition was dropped in 1942, when the instructions were changed to state that the item "...should represent the bank’s total reserve balance with the Reserve Bank as shown by the reporting bank’s books."

The present instructions regarding the waiver of penalties for deficiencies in reserves of member banks (F.R.L.S. #6120) include a discretionary waiver (Paragraph D) for use in certain circumstances when a reserve computation period ends on a nonbusiness day. The substance of
this provision has been incorporated into the revised Regulation D in a way that gives the member bank the option of including such nonbusiness day in the next computation period; and Paragraph D of the present instructions regarding the waiver of penalties is canceled.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Enclosures
Mr. Paul F. Krueger, Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Krueger:

Enclosed are two copies of your form 83 and a draft of revised form F.R. 414, Computation of reserves to be carried with the Federal Reserve Banks by member banks.

The only change in the form is to provide that part of currency and coin will be allowable as reserves in accordance with the Board's action following the recent amendment to Section 19 of the Federal Reserve Act.

Weekly computation periods and reporting will be continued for central reserve and reserve city banks, but beginning December 31, 1959, country member banks will be requested to compute their reserves on a biweekly basis, instead of a semimonthly basis as heretofore, and to report on a weekly basis by means of a tear sheet. Weekly reporting by country member banks would make available earlier benchmark data to correct the levels of country member bank required and excess reserves which are now estimated. Each Reserve Bank prints its own reporting forms for this purpose, but an example of how a form for country banks may be devised is enclosed.

Also enclosed are two copies of related form F.R. 105 for your convenience.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures
CONFIDENTIAL (FR)

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of November 19, 1959, the Board approves the appointment of Lovick Clark Lindley as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

It is noted that Mr. Lindley owns 12 shares of stock of The First National Bank of Pecos, Pecos, Texas, and that he has taken steps to dispose of such stock. Accordingly, the Board's approval of the appointment of Mr. Lindley is given with the understanding that he will not participate in any examination of The First National Bank of Pecos until he has disposed of his holdings of stock in that institution.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.