FR 609
Rev. 10/59

Minutes for February 11, 1960.

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

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 Thursday, February 11, 1960. 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
Miss Carmichael, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Hooff, Assistant Counsel
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

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

	Item No.
Letter to The Rittman Savings Bank, Rittman, Ohio, approving an investment in bank premises.	1
Letter to the Federal Reserve Bank of Minneapolis, with copies to the Presidents of all Federal Reserve Banks, regarding allowable grace periods for payment of interest on savings deposits under section 3(d) of Regulation Q.	2

Letter to Federal Reserve Bank of Chicago concerning insurance on savings accounts (Item No. 3). There had been circulated to the Board a letter dated January 22, 1960, from the Federal Reserve Bank

of Chicago concerning an inquiry from City Bank and Trust Company, Jackson, Michigan, as to whether a member bank, paying the maximum amount of interest permitted on savings deposits, might purchase insurance for its depositors from a private insurance company to cover all savings deposits in amounts in excess of $10,000 and up to $100,000. Also circulated was a draft of reply that would indicate that the purchase of such insurance by a bank would constitute an indirect payment of interest on savings deposits within the meaning of section 3(a) of Regulation Q, Payment of Interest on Deposits.

Governor Shepardson said that he did not follow the reasoning in the proposed reply. He suggested that any expense for insurance of bank accounts could be considered in the same category as an expense incident to handling an account. A depositor in effect makes a loan to the bank, and the bank offers various types of services. Also, he noted that mention had been made in the proposed letter that the Board had in the past taken the position that the cost to a member bank of absorbing the insurance premiums on the lives of its depositors in amounts corresponding to the amount of the savings depositor's account would constitute an indirect payment of interest on savings deposits within the meaning of section 3(a) of the Regulation Q. He was of the opinion that the present proposal was quite different since here the depositor was being protected only to get back the amount he had deposited. Under life insurance contracts, the depositor's estate might gain additional money.

Mr. Hackley said that the question was clearly arguable and that there was much to be said for the view that the additional insurance on the deposit was an incident to the relationship whereby the bank assured the depositor his funds would be returned. In preparing the proposed letter, the Legal Division had been influenced by previous rulings in which the Board had taken the position that where the insurance premium paid by a bank was not passed back to the depositor, it would be regarded as an indirect payment of interest. Insuring deposits over $10,000 was a competitive device enabling a bank to give something to a depositor in addition to a stated rate of interest, and that appeared to be quite different from the Federal Deposit Insurance Corporation assessment to cover all deposits up to $10,000. The question was debatable, Mr. Hackley said, but on balance he would apply the same rule to the insurance for more than $10,000 as that applied to life insurance.

Governor Shepardson reiterated that the plan proposed by City Bank and Trust Company would not return any additional dollars to the depositor; it merely assured him that he would get back what he had deposited. He then commented on the additional service provided when drive-in windows were established, noting that this type of service made it possible for a person to deposit funds without getting out of his automobile and thus was a competitive device.

Governor Balderston suggested that the taking out of an insurance policy covering deposits in excess of $10,000 would give the impression

that a bank was exceptionally safe, and Governor Shepardson agreed that this too would be a competitive consideration.

There ensued a general discussion of competitive devices used by banks in an effort to attract deposits and of Board rulings on whether various premiums constituted only nominal advertising expenses or whether they should be considered as indirect payments of interest.

Governor Mills said that he was much impressed with the reasoning of the Legal Division in this case. This proposal was a competitive device to attract deposits. It did not differ essentially from any premium given on savings deposits, such as fountain pens, etc. He noted the Board had ruled that giving gifts was equivalent to payment of interest if those gifts represented more than nominal advertising expenses to attract general business to the bank.

Mr. Hackley said that gifts representing nominal and nonrecurring expenditures could be regarded as legitimate advertising. Also, the Board had taken the position that general overhead expenses are not a payment of interest. For example, the cost of printing checks was considered as a part of general overhead expense, but absorption of exchange charges was not a nominal overhead expense but a direct out-of-pocket expense and under Regulation Q was considered a compensation for the use of funds. In the case before the Board, the Legal Division felt that payment of the additional insurance premium would be compensation for the use of the funds.

Governor Shepardson noted that the expenditure for drive-in windows and the operation of them was an added expense which, until recently, was not usual in a bank's business. He raised a question whether it could be said that banks were not justified in providing as overhead expense this competitive attraction for deposits.

Chairman Martin indicated that the Board, in considering cases arising under Regulation Q, had never decided what would be a nominal advertising expense.

Mr. Hackley said that this was true, and Mr. Hooff noted that nominal gifts such as fountain pens were given only once, whereas in the case being considered the payment of premiums would be recurring.

Mr. Hexter referred to Governor Shepardson's feeling that insurance on deposits over $10,000 was merely to assure return of the deposit and would not add anything to his income or estate, thus making it different from payment of a life insurance premium. It was Mr. Hexter's thought that the real point was that the insurance was an economic benefit to the depositor.

Governor Robertson observed that City Bank and Trust Company proposed to pay the insurance premium which an individual would pay himself if he wanted to provide this protection. He noted that in the case of exchange charges, the individual did not get anything extra, yet the Board ruled that if banks absorbed these charges they were payments of interest.

After Governor Balderston suggested that the ultimate solution to this problem was to get legislation repealing the provision on which this part of Regulation Q was based, Chairman Martin noted that there was a fine point of distinction as to what was considered payment of interest and what was thought to be nominal advertising expense. He also said that he felt a discussion such as this was helpful in pointing up one of the supervisory problems.

Mr. Hooff commented that representatives of the Federal Deposit Insurance Corporation were surprised that it was possible to obtain insurance covering savings accounts over $10,000, and Mr. Hackley said that if the Board should decide to take a different position from that proposed in the letter to the Federal Reserve Bank of Chicago, it would seem advisable to consult with the Federal Deposit Insurance Corporation before doing so.

Governor King said it was interesting to ponder what might develop if banks were to start insuring deposits in excess of $10,000. He questioned whether this was the sort of thing that represented an insurable risk for private companies to undertake. He doubted whether it would be wise to issue a ruling that would encourage insurance of this kind.

After a further discussion of the question, including consideration of several suggestions for possible change in the draft of letter, Governor Shepardson indicated that it might be best to stand by the

position taken by the Board in the past. He felt, however, that there were inconsistencies in what was being done in treating some things as indirect payments of interest and ruling that other devices were not.

Approval was then given the letter to the Federal Reserve Bank of Chicago, indicating it was the Board's opinion that the purchase of insurance by the bank covering a deposit in excess of $10,000 would constitute an indirect payment of interest within the meaning of Regulation Q. A copy of the letter is attached as Item No. 3.

Messrs. Molony, Assistant to the Board, and Shay, Legislative Counsel, entered the room during the foregoing discussion.

Request for reduction in reserve requirements by Security Bank, Washington, D. C. (Item No. 4). There had been circulated to the Board a memorandum dated February 9, 1960, from the Division of Bank Operations presenting a recommendation from the Federal Reserve Bank of Richmond that Security Bank, Washington, D. C., be permitted to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, instead of the reserves required of reserve city banks. The Richmond Reserve Bank had indicated that Security Bank was the only bank in Washington, D. C. with its head office in the downtown retail district east of 10th Street, about eight blocks from what is considered the financial center of the city; its total deposits amounted to

$38 million (75 per cent demand); its nearest competitor was the McLachlen Banking Corporation with demand deposits of $17 million; and its interbank deposits were insignificant as compared with the three largest banks in the city. It was the feeling of the Richmond Bank that, under any criteria likely to be established, the Board would seem justified in granting the requested permission to carry reserves on a "country bank" basis. The Richmond Bank letter included pertinent information on Washington banking as a whole which was summarized in the memorandum. It was noted that there were at present nine member banks in the City of Washington, D. C.--seven reserve city banks and two country banks. The Reserve Bank suggested that the seven member banks now maintaining reserves required of reserve city banks could be classified in two groups: the three banks with demand deposits of over $195 million in the category of "probable remaining reserve city banks" and the four with demand deposits of less than $50 million in the category of "probable country banks." Only one of the four "probable country banks" held any interbank deposits, and their ratios of excess reserves to required reserves during the first six months of 1959 were considerably higher than the "probable remaining reserve city banks." The National Savings and Trust, which was the largest bank in the "probable country banks" group, was the only frequent buyer or seller of Federal funds. There appeared to be no significant difference in the deposit activity between the two groups of banks. If all four

were to be reclassified as country banks, the net release of reserves would be approximately $6 million; if only the smaller three, this figure would be reduced to $4 million.

Attached to the memorandum from the Division of Bank Operations were tables showing deposits and activity of member banks in Washington, D. C. and selected asset and deposit data of member and nonmember banks in the metropolitan area of Washington, D. C.

In the memorandum the Division of Bank Operations recommended (1) that Security Bank be granted permission to maintain the same reserves as banks outside central reserve and reserve cities, instead of the reserves required of reserve city banks, and (2) that the Reserve Bank be informed that the Board will consider applications for country bank status from the other three banks included in the list of "probable country banks," but that action on an application for reduced reserves from National Savings and Trust Company (which falls in the $40 million-$70 million demand deposit category) would be deferred until such time as information was available from all districts on which to base distinctions as to the appropriate reserve classification for the borderline banks. A draft of letter to the Richmond Bank to this effect was attached to the memorandum.

Governor Robertson said he thought the Board had to follow the procedure recommended by the Division of Bank Operations in view of actions taken before. He observed that the Board was getting into a

position of setting up a magic figure of $40 million for classification of country member banks. This standard was being established without thinking the whole thing through, and the Board was releasing reserves each time it approved one of these requests.

Mr. Farrell said he did not think the Board could get into much trouble with a $40 million standard. He felt the question was whether that standard was high enough.

Governor Mills suggested that if the Board could agree to exclude velocity in determining classification of banks or cities for reserve purposes, it could move to a set of standards promptly. He said he thought it was a mistake to consider velocity for this purpose.

Governor Balderston wondered whether the answer to Governor Robertson's problem would not be to follow the type of analysis the staff had used in this case, try to draft some standards that could be agreed on, and then continue the process now being carried on. He said if the Board was willing to forego the one standard of velocity, perhaps adequate information to set up standards would be readily available. If the Board waited for that final bit of information, he visualized months and months passing, whereas if the Board should take the information which it now had and attempt to agree on standards, the solution might be reached within weeks.

Governor Shepardson recalled the Board's recent request that the staff prepare a memorandum presenting various points of view as

to how classification criteria might be developed, and Chairman Martin asked Mr. Farrell how soon such a memorandum might be available. Mr. Farrell indicated that Messrs. Thomas and Dembitz were now working on such a memorandum.

Messrs. Noyes, Director, and Dembitz, Associate Adviser, Division of Research and Statistics, entered the room at this point.

A general discussion of factors entering into the determination of standards for classification of banks and cities for reserve purposes followed, during which Governor Robertson reiterated his opinion that a memorandum on the subject should be gotten before the Board promptly. During the discussion, Mr. Dembitz reported that he and Mr. Thomas were working on a memorandum which he hoped would provide the information Governor Robertson suggested be furnished the Board.

Chairman Martin then returned to the proposal that the Security Bank of Washington, D. C., be granted permission to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, indicating that if there were no objection, the recommendation of the Division of Bank Operations would be approved. There was unanimous agreement with this suggestion, and a copy of the letter to the Federal Reserve Bank of Richmond is attached as Item No. 4. Chairman Martin also suggested that Governor Shepardson discuss with Mr. Thomas the preparation of a statement showing the various factors entering into standards for classification of banks for

reserve purposes, such a statement to be presented to the Board before further staff studies were made of the individual items.

Messrs. Noyes, Dembitz, and Collier then withdrew from the meeting.

Statement in Bulletin regarding notice to Justice Department of holding company applications (Item No. 5). There had been circulated to the Board with a covering memorandum from Mr. Hackley dated February 10, 1960, a proposed statement for publication in the Federal Reserve Bulletin regarding Board action on January 28, 1960, by which the Board agreed to inform the Justice Department of the receipt of bank holding company applications. The memorandum pointed out that the statement was based on a letter sent to the Federal Reserve Banks and registered bank holding companies on January 29, 1960, but it had been modified slightly in order to clarify the Board's position. It seemed desirable that appropriate notice of this procedure be included in the Bulletin, and it was hoped that publication of the Board's statement would correct or prevent any misunderstanding that might have resulted from a recent article in the press that gave the impression that the Justice Department would be participating in the Board's decisions on holding company matters.

After incorporating several suggested changes in wording, the statement was approved for publication in the Bulletin and is attached as Item No. 5.

Mr. Hooff then withdrew from the meeting.

Testimony before House Banking and Currency Committee on S. 1062. There had been distributed to the Board a memorandum dated February 10, 1960, from Mr. Hexter, and a draft of statement to be made by Chairman Martin on February 16 before the House Banking and Currency Committee regarding S. 1062, an Act to amend the Federal Deposit Insurance Act to provide safeguards against mergers and consolidations of banks which might lessen competition unduly or tend unduly to create a monopoly in the field of banking. When S. 1062 was passed by the Senate in 1959, the Board and other Federal bank supervisory agencies indicated they favored the bill.

The memorandum pointed out that the proposed statement was much shorter than the one on S. 1062 made by Governor Robertson before the Senate Banking and Currency Committee on March 18, 1959. It omitted certain "orienting" information that seemed unnecessary at this time, as well as any discussion contrasting S. 1062 with bills that would bring bank mergers within the coverage of section 7 of the Clayton Antitrust Act. Also, the statement did not go into the question of the relative merits of the terms "unduly" and "substantially" in the proposed legislation, nor the compromise solution of this controversy informally suggested by Mr. Cardon, the Clerk of the House Banking and Currency Committee, and discussed by the Board on January 28, 1960. It was noted in the memorandum that brief discussions of these questions were being

prepared for use in the event they were taken up with Chairman Martin during his testimony. The proposed statement would deal with S. 1062 as amended by the Senate and would support its aims and general approach without drawing any distinction between the bill as introduced and as amended in the Senate. In this connection, it was noted that the Senate amendment, which made it mandatory for the Federal banking agencies to obtain a report from the Attorney General on bank mergers and required the banking agencies to submit semiannual reports to Congress regarding bank mergers, did not materially undermine the desirable main features of the bill.

Mr. Hackley indicated that the proposed statement had been discussed informally with representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency and said that it would be consistent with their views. Mr. Hexter noted that the Comptroller of the Currency preferred S. 1062 as introduced rather than as amended by the Senate, that the Comptroller's statement would probably precede Chairman Martin's testimony, and that, if the Board should feel that the Senate amendment was not of major significance, the draft statement might be changed to deal only with S. 1062 as amended by the Senate. If the Senate amendment should be brought up, he assumed the Chairman would agree with Mr. Gidney's preference of the bill without the amendment.

Chairman Martin indicated that there would be no objection to sending his proposed statement to Mr. Gidney for comment, and Governor Mills suggested that it be shown to the Federal Deposit Insurance Corporation also. Governor Robertson suggested several changes that he felt would clarify the statement.

Governor Shepardson suggested that it was the intent of those advocating this legislation to restrain mergers unless there was a positive need for them.

Mr. Hackley responded that this involved a question of fundamental approach to this subject. It was the feeling of the Legal Division and the Comptroller of the Currency that it was not the intent of this bill that bank supervisory agencies should be required to justify mergers by showing that they would be in the public interest. Mr. Hexter added that, at the present time, many mergers could take place without supervision, and the purpose of the bill was to put all bank mergers under supervision so that undesirable ones could be stopped.

Governor Shepardson said it seemed to him that a large part of the discussion that had been taking place over the merger bill pointed up clearly the reaction to the position the Board had taken as to the purpose of the Bank Holding Company Act, a position that was also implied in the proposed statement. He felt it important to determine the real intent of those advocating such legislation. All antitrust legislation, in his opinion, was aimed in the direction of restraint on concentration

of economic power except where it could be shown there was a positive justification for letting a consolidation go ahead. In matters arising under the Bank Holding Company Act, the Board had put itself in the position of granting approval if there were no serious adverse reasons against doing so. He felt the Board had drawn a pretty thin line in some holding company cases and believed it was strengthening the hand of the Justice Department by failing to recognize the firm purpose of the people who pushed this legislation. Governor Shepardson suggested that the Board would be in a stronger position if it recognized that point of view. He agreed that the intent of the Holding Company Act was not to create a freeze but to keep holding companies from going ahead unless there was some reason why they should not.

Governors Szymczak and King indicated agreement with Governor Shepardson's general approach, Governor King adding, however, that there were cases of minimum markets where it was extremely difficult to draw a line.

Governor Mills stated that he would have to object to such an approach and that he would tie himself closely to the position stated by Messrs. Hackley and Hexter. We are living in a laissez faire community and we are strong advocates of free markets and the premise for business or banking or other types of organizations to choose their own bedfellows unless positive reasons are found to prohibit them from doing so, Governor Mills said. For the Board to set itself up as an

arbiter to decide whether business organizations could choose their own line of development was, in his judgment, contrary to the very spirit of the Federal Reserve System itself.

During further discussion of the proposed statement, Governor Balderston said he shared some of the concern Governor Mills had expressed. The Board's primary purpose should be to prevent such lessening of competition as would be incompatible with the public interest. Noting that the statement implied that the Board was concerned over the number of bank mergers in recent years, he said that the Board should not be naive enough to think that the wave of mechanization in the banking industry could or should be stopped. Nothing that the Board could do would keep in existence all the present unit banks. Governor Balderston went on to say that he did not regret the differences that had appeared in the Board on some of the bank holding company decisions. However, until the question could be answered more clearly, he believed the Board might with some wisdom take the position that unless a holding company application was clearly incompatible with the public interest because it would lessen competition unduly, it could be approved. He observed that it was one thing to say that the Board saw no lessening of competition sufficient to require an adverse decision; it was quite another thing to require clear and substantial reasons that would warrant the Board's approval of a merger or a holding company acquisition.

Governor Shepardson stated he did not disagree with Governor Balderston's philosophy, and he referred to an earlier comment he had made regarding the enlargement of the size of farms which he felt was justified affirmatively because of mechanization. He added that in that case, larger farms did not mean they were no longer family farms.

Mr. Hackley said that there was a fundamental question of philosophy involved. The present bill was a direct descendant of one drafted by the Board some years ago at Congressman Celler's request. Ever since 1950, there had been a feeling on the part of the three Federal bank supervisory agencies that the purpose of bank merger legislation was not to bring banks under the antitrust laws, on the theory that in the banking field this would not be in the public interest. There might well be cases where too much competition was just as bad as too little. The position suggested by Governor Shepardson would be regarded as a complete reversal of the position taken traditionally by the three Federal bank supervisory agencies. The intent of this merger legislation was (1) to bring all bank mergers under supervision and (2) to make it clear in the statute that the bank supervisory agencies would take into account not only the usual banking considerations but also the effect of mergers on competition, but without giving competition a controlling importance. If bank mergers were made subject to section 7 of the Clayton Act, competition would be controlling, and the bank supervisory agencies had consistently opposed such action.

Governor Shepardson said he did not see where the views he had expressed were inconsistent. There was, he thought, a strong general philosophy reflected in various legislative acts against the significant lessening of competition and the concentration of economic power. The banking agencies, foreseeing this pressure to put banks under strictly antitrust legislation, took the position of trying to get a law that would let them take a look at the mergers, recognizing the competitive problem but also being in a position to examine other factors peculiar to banks and to use these other factors where justified. This was in lieu of having the administration of such legislation in an agency that paid little or no attention to banking. The legislation, however, was part and parcel of controlling the concentration of economic power. He believed that the Board's position had not been to get away from the competitive factor but to have the legislation administered by an agency cognizant of banking's peculiar problems. Governor Shepardson said he was of the opinion that, in light of the position the Board had taken heretofore, it needed to re-examine this point carefully. He felt the general picture of competitive legislation did not follow the philosophy of permitting mergers whenever they did not lessen competition unduly. Only Congress could determine the intent of legislation, and he recalled that in considering some of the amendments to the Bank Holding Company Act an attempt had been made to clarify this point. If there was as much doubt as there seemed to be as to the intent of Congress, then in

testimony or otherwise he believed the point should be raised; perhaps the Board should raise with the Congress the question as to which of the two philosophies that had been discussed this morning was intended by the legislation. Governor Shepardson concluded with a statement that he was groping with an idea that bothered him. In some of the bank holding company cases he had taken a position in line with what he thought was consistent with the rationale developed for the Board, although in some specific cases it was contrary to his own feeling. He thought he was in an inconsistent position, and that bothered him.

After some further discussion of the proposed statement, it was understood that Mr. Hexter would incorporate several suggested changes, copies would be submitted to the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and, when in a form satisfactory to Chairman Martin, the statement would be agreeable to the Board.

Permission to make information available to District Chief National Bank Examiner (Item No. 6). There had been distributed a memorandum dated February 10, 1960, from the Division of Examinations concerning a request from the Federal Reserve Bank of Richmond for permission to advise the District Chief National Bank Examiner of an apparent kiting operation disclosed by the Bank's examination of a State member bank and involving a national bank. Attached to the memorandum was a proposed wire to the Richmond Reserve Bank granting the requested permission. The memorandum also suggested that since questions

arose from time to time concerning the treatment of information regarding kiting operations, it might be desirable to send a general authorization to all Reserve Banks to exchange information of this nature with other bank supervisory authorities, district attorneys, the Federal Bureau of Investigation, the Post Office Department (because of the possibility of mail fraud in such cases), and other law enforcement agencies.

The Board approved the proposed telegram, which is attached as Item No. 6. It was understood that, in line with the recommendation of the Division of Examinations, a letter would be sent to all Reserve Banks granting general authorization to exchange information of this nature.

The meeting then adjourned.

Secretary

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

Item No. 1
2/11/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 11, 1960.

Board of Directors,
The Rittman Savings Bank,
Rittman, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of $225,000 in bank premises exclusive of a charge off of $30,000 in 1959 for the purpose of a remodeling program by The Rittman Savings Bank, Rittman, Ohio.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
2/11/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 11, 1960.

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

This refers to Mr. Olin's letter of January 15, 1960 requesting an expression of the Board's views as to the application of the 10-calendar-day grace period, permitted by section 3(d) of Regulation Q, to seven situations arising when the 10th calendar day falls on a holiday. The specific question and situations are as follows:

> Should the tenth of the month fall on Saturday, Sunday, or a legal holiday, would savings deposits received under any of the following conditions be eligible to receive interest from the first of the month -
>
> 1. Mail deposits received postmarked the 8th, 9th, or 10th -
>
> 2. Deposits received in the "drop box" located in the bank lobby and opened the morning of the 11th -
>
> 3. Deposits received in the night depository and opened the morning of the 11th -
>
> 4. Collections outstanding received on or before the 8th and outstanding until the 11th or a subsequent date -
>
> 5. Auto bank deposits not received in the savings department until the morning of the 11th -

6. Transfers from branches on the 8th and received at the Main Office on the 11th -

7. Inter-department credits held over until the 11th due to late hour business.

As to the first situation, it is the Board's opinion that the postmark does not determine when the deposit is delivered to the bank; that is, received by it. The customer adopts the post office as his agent and, therefore, must rely upon such agent making the deposit within the first 10 calendar days. The provision for grace periods is a liberal one, and the Board does not believe that it should be further extended.

In the second and third situations, deposit in the drop box or night depository during the first 10 calendar days amounts to receipt by the bank and the day the bank opens the drop box or night depository does not change this. The extreme situation would be when the 10th day is Saturday and the drop box or night depository is not opened until Monday, the 12th. Although a deposit may possibly have been made on the 11th, the bank might reasonably assume that the deposit was made within the 10 calendar days.

As to the fourth situation, items received for collection on or before the 10th calendar day may be included although final credit is not given until after the 10th day.

In situations five, six, and seven, if the deposit is delivered to the bank, branch, or any office thereof by the 10th calendar day, interest may be credited from the 1st day of the month regardless of when the item is processed and credit is given.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
2/11/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 11, 1960.

Mr. Paul C. Hodge, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

This refers to your letter of January 22, 1960, to Mr. Hackley inquiring whether a member bank, paying the maximum amount of interest permitted on savings deposits, may purchase insurance for its depositors from a private insurance company to cover all savings deposits in amounts in excess of $10,000 and up to $100,000.

It is the Board's opinion that the purchase of such insurance by the bank would constitute an indirect payment of interest within the meaning of Regulation Q. This is in line with the Board's letter of April 19, 1956 (S-1590; F.R.L.S. # 6393) which took the position that the cost to a member bank of absorbing the insurance premiums on the lives of its depositors in amounts corresponding to the amount of the savings depositor's account would constitute an indirect payment of interest on savings deposits within the meaning of section 3(a) of the Regulation.

Payments of F.D.I.C. assessments are not analogous. Such payments are required by law and are a necessary expense similar to other "overhead", such as fidelity insurance, taxes, utilities, etc., which the bank must assume in the normal course of its operations.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
2/11/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 11, 1960.

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Leach:

Reference is made to your letter of December 31, 1959, recommending that the Security Bank, Washington, D. C., be permitted to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities. The Board has also considered the suggested classifications of all member banks in Washington, D. C., which were included in your letter.

After consideration of the information submitted, the Board of Governors concurs in your recommendation, and pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to the Security Bank of Washington, D. C., to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, effective with the first biweekly reserve computation period beginning after the date of this letter. Please forward the enclosed letter addressed to the subject bank. A copy is enclosed for your file.

The Board is prepared to consider applications for country bank status from the other three banks included in your list of "probable country banks," but it is probable that action on an application from the National Savings and Trust Company will be deferred until information is available from all districts on which to base distinctions as to the appropriate reserve classification for banks in the borderline size category. Similar deferments have been made with respect to banks in another district.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosures.

Item No. 5
2/11/60

Advice to Justice Department of
Bank Holding Company Applications

Under Section 8(c) of the Rules of Organization of the Board of Governors, applications for Board approval pursuant to Section 3(a) of the Bank Holding Company Act of 1956 constitute unpublished information which ordinarily is not disclosed. Section 7(b) of the Rules of Organization provides that the Board may make such information available to agencies of the United States for use where necessary in the performance of their official duties.

Administration of the Bank Holding Company Act is, of course, vested in the Board of Governors. However, the Department of Justice has certain statutory responsibilities under the anti-trust laws with respect to banks. Accordingly, pursuant to a request from the Department of Justice, and solely for the purpose of facilitating performance of its responsibilities under the anti-trust laws, the Board had agreed to inform it of the receipt by the Board of applications under Section 3(a) of the Bank Holding Company Act.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
2/11/60

February 11, 1960.

Armistead - Richmond

IN RESPONSE TO YOUR WIRE OF FEBRUARY 9, 1960, YOU ARE AUTHORIZED TO ADVISE THE DISTRICT CHIEF NATIONAL BANK EXAMINER OF AN APPARENT KITING OPERATION DISCLOSED BY YOUR EXAMINATION OF A STATE MEMBER BANK AND INVOLVING A NATIONAL BANK.

(Signed) Merritt Sherman

SHERMAN