

Minutes for March 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

W

Gov. Szymczak

MSZ

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

SS

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, March 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. Sherman, Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Shay, Legislative Counsel  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Harris, Coordinator, Office of Defense Planning  
Mr. O'Connell, Assistant General Counsel  
Mr. Kiley, Assistant Director, Division of Bank  
Operations  
Mr. Hostrup, Assistant Director, Division of  
Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas on March 10, 1960, 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.

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

	<u>Item No.</u>
Letter notifying the Department of Justice of receipt of applications from The Citizens and Southern National Bank and Citizens and Southern Holding Company, Savannah, Georgia, for acquisition of capital stock of American National Bank of Brunswick, Georgia.	1

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Item No.

Letter notifying Department of Justice of four holding company applications that were pending on January 29, 1960.

2

Letter to the Federal Reserve Bank of New York concerning operations of the Nassau County and Bergen County Clearing Bureaus.

3

With respect to Item No. 3, following a question from Governor Balderston, Mr. Farrell indicated that the arrangement with the Clearing Bureaus had resulted in a saving to the Federal Reserve Bank of New York.

Messrs. O'Connell and Hostrup withdrew from the meeting following approval of the foregoing items.

Report of Presidents' Conference on emergency planning. (Item No. 4). There had been distributed two memoranda from Mr. Harris dated February 19 and March 8, 1960, concerning the report on emergency planning by the Conference of Presidents, submitted to the Board at the joint meeting on December 15, 1959. The February 19 memorandum outlined the individual items contained in the report and commented on each. It noted that most of the matters contained in the report appeared to be for information only, but that the report requested the Board (1) to advise guaranteeing agencies under the V-loan program that Reserve Banks should not issue emergency V-loan guarantees without reference to guaranteeing agencies, and (2) to make inquiry of the guaranteeing agencies as to their plans, if any, to adopt appropriate measures for the decentralization of authority to certify V-loans in an emergency.

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The February 19 memorandum pointed out that the ten guaranteeing agencies had been informed of recommendation (1) and a meeting had been arranged for March 7 to determine what arrangements should be made to decentralize the certification of loans in an emergency.

The March 8 memorandum, which was prepared following the March 7 meeting, attached a proposed letter to the Presidents of all Federal Reserve Banks that would advise them as to current developments with the guaranteeing agencies and concur in other recommendations contained in the report on emergency planning.

Mr. Harris indicated that the purpose of the letter was to keep the Reserve Bank Presidents informed as to the current status of recommendations they had made at their December 15, 1959, meeting.

Mr. Farrell said that he had talked with Mr. Bachman, Chairman, Contract Finance Committee, Department of Defense, concerning the sentence in the proposed letter that would indicate guaranteeing agencies would submit tentative plans to the Board not later than April 1, 1960, and Mr. Bachman was uncertain whether he would have anything of significance to report by that date. Mr. Farrell thought it might be preferable to postpone sending the letter to the Reserve Bank Presidents until after the next meeting with representatives of guaranteeing agencies, at which time it was hoped to work out a number of problems involving the defense agencies.

Chairman Martin inquired whether there was any urgency in sending the letter, and Mr. Harris replied that he had discussed the matter with

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Governor Robertson who had thought it highly desirable to keep the Reserve Bank Presidents informed. Mr. Harris was of the opinion that the Reserve Bank Presidents should receive a letter at this time indicating the status of the recommendations, and he suggested that the wording of the letter be changed so as not to suggest that a formal plan would be presented by each guaranteeing agency at any specified time.

Chairman Martin suggested that the letter might be modified and sent as a progress report, and, after further discussion, the letter to the Reserve Bank Presidents was approved in the form attached to these minutes as Item No. 4.

During the foregoing discussion Messrs. Thomas and Young, Advisers to the Board, Molony and Fauver, Assistants to the Board, and Noyes, Director, Division of Research and Statistics, entered the room, and at the end of the discussion Mr. Harris withdrew.

Service charges of member banks. There had been distributed a draft of reply to Senator Jennings Randolph concerning a letter about bank service charges which he had received from West Virginia State Senator Moreland, who had requested available information relative to the First National Bank of Morgantown and asked for suggestions as to what might be done to impress banks with the fact that they were public service institutions.

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The proposed letter to Senator Randolph would indicate that section 16 of the Federal Reserve Act provides that "nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds," and further provides for the fixing of such charges by this Board. The letter would also point out that in view of the express provision that a member bank may not be prohibited from recovering its actual expense, and since these expenses vary among individual banks, among different parts of the country, and among particular items handled, it has not been deemed practicable for the Board to fix a rule of general application.

Mr. Molony referred to the section 16 provision in the Act and expressed the opinion that something more than the reply to Senator Randolph was involved. He felt there might be a basis for criticism since the Board had not fixed the check collection charges that could be made by member banks as provided in section 16 and that it might be desirable to make clear on the record that the Board had considered the matter fully.

Mr. Sherman stated that there was quite a history of Board consideration of this question, that the section 16 provision referred to was in the original Federal Reserve Act, that in the early 1920's the Board considered issuing a regulation that would fix the charge that member banks might make for collecting and remitting funds but had not done so, that the question of charges by member banks for cashing checks

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was presented to the Board in 1943 at which time the Legal Division made a study of the provisions of section 13 and section 16 of the Federal Reserve Act as they might apply to the regulation of charges of this type, and that as a result the conclusion was reached by the Board that it was not possible to prohibit charges of this type and not practicable to fix an amount that would not exceed the actual expense incurred by a member bank for such service. The substance of the draft letter to Senator Randolph was consistent with the content of numerous letters written since 1943 in response to inquiries relating to various types of collection and service charges.

Mr. Hackley referred to the 1943 study of the question, indicating that a principal question was whether the first paragraph of section 13 of the Act applied to collection charges as well as to exchange charges, and whether the provision of paragraph 14 of section 16 was applicable to any charges other than those made for the collection and remittance of funds. At that time the Board concluded that it was not practicable to prescribe any rule with respect to service or collection charges. One of the principal problems was the variation in actual expenses incurred by banks in collecting and remitting funds in various sections of the country and as between different banks in the same section of the country. In its studies of the matter the Board had construed the word "shall" in the last sentence of paragraph 14 of section 16 as "may", which seemed a necessary conclusion within the context of the entire paragraph.

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Mr. Molony expressed the thought that it might be well to suggest to the Congress that the provision in section 16 for the Board to fix collection charges be repealed. If it was to be retained, he thought that some information concerning charges made by banks should be compiled, perhaps through the examination process or by a spot check. To this, Mr. Farrell indicated that the American Bankers Association had information concerning service charges, and Mr. Solomon noted that earnings reports showed service charge income, but that they did not indicate whether the charges were exorbitant.

After a further discussion during which several changes were suggested for the proposed letter, Mr. Thomas said that there was another side to the question. He noted that banks offered various services in order to attract deposits. In the early days banks secured compensation for handling deposit accounts through income from such accounts; service charges were not widely applied until interest rates became low.

Governor Balderston was of the opinion that the proposed letter was not fully responsive to the request of Mr. Moreland in his letter to Senator Randolph. After making a suggestion to take care of this point, he commented that it might be a satisfactory procedure for a member bank to apply service charges based on the cost per transaction.

Governor Mills observed that the service charge theory in banks was that an account handled for a depositor had a certain value to the

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bank, but if the cost of handling the account and rendering service to the depositor exceeded the earning power of the balance in the account, the theory was to recover deficiencies by imposing service charges.

Some banks reason that there should be a profit to the bank for handling the account. He spoke of the possibility that in the long run banks might assess service charges that would be out of line both with the actual costs involved and with a reasonable profit for handling the account.

Governor Szymczak suggested that, if the Board were going to undertake a study of the question or submit any recommendation to the Congress in this field, it first should take the matter up with the Presidents of the Federal Reserve Banks in order to have them fully informed and to get the benefit of their thinking.

Mr. Hackley pointed out that, if the Board were to issue a ruling that purported to regulate service charges, it could be charged with exceeding its authority in that the provisions of section 16 of the Federal Reserve Act referred only to actual collection charges as distinct from service charges based on the number of items handled for an account. With this in mind, Mr. Hackley said it might not be necessary to mention section 16 in the reply to Senator Randolph.

Chairman Martin then suggested that another draft of letter to Senator Randolph be prepared in the light of this discussion and returned to the Board for further consideration, and it was understood this procedure would be followed.

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All of the members of the staff except Mr. Sherman then withdrew from the meeting.

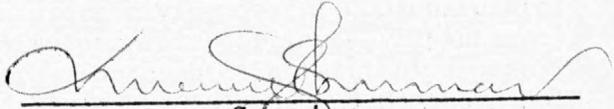
Press report of March 7 meeting with department store representatives. At Chairman Martin's request, Mr. Sherman reported a telephone call that he had received yesterday afternoon from Mr. Flanel, General Manager, Controllers' Congress of the National Retail Merchants Association, regarding a press report that had appeared in the March 10 edition of Women's Wear Daily concerning the meeting of representatives of National Retail Merchants Association with the Board on the afternoon of March 7. Mr. Flanel was disturbed about the article on the grounds that the members of the delegation who had met with the Board had been under the impression the Board would not make any press statement regarding the meeting, and more particularly because the purport of the article was that the Board was not budging from a decision to transfer the department store reports to the Bureau of the Census. Mr. Sherman stated that he had informed Mr. Flanel that he did not know how the material relating to the meeting was released to the press, that it was not the practice for the Board or Board personnel to discuss with the press private meetings with the Board, and that the Board had not met as a Board to consider or act upon the representations made by the National Retail Merchants Association at the time they met with the Board on March 7.

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Chairman Martin stated that the story contained comments which made it apparent that the writer had had access to the transcript of the discussion at the meeting. After commenting on the unfortunate aspects of the release of such material to the press, Chairman Martin stated that he planned to call Mr. Flanel on the telephone and to give him his personal assurance that the Board had not made a decision regarding changes in the department store reporting service. Chairman Martin also emphasized the point that action on the department store reporting service was a matter for Board decision and that he felt all members of the Board would wish to consider all aspects of the problem before reaching a decision. In any event, the Board would be the one to make the decision and to announce it when such a decision had been reached.

The meeting then adjourned.

  
Secretary

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

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Item No. 1  
3/11/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 11, 1960.

Mr. Robert A. Bicks,  
Acting Assistant Attorney General,  
Antitrust Division,  
Department of Justice,  
Washington 25, D. C.

Dear Mr. Bicks:

Pursuant to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842), The Citizens and Southern National Bank, Savannah, Georgia, and Citizens and Southern Holding Company, Savannah, Georgia, which are bank holding companies having the same subsidiary banks, have applied to the Board of Governors for approval of the acquisition of 500 shares of capital stock of American National Bank of Brunswick, Brunswick, Georgia.

The foregoing information is furnished pursuant to the Board's letter to you dated January 29, 1960.

For your further information regarding this particular case, you are advised that, prior to a recent increase in the capital stock of the American National Bank, Citizens and Southern Holding Company owned, and The Citizens and Southern National Bank controlled, 2500 shares (12-1/2 per cent) of the 20,000 outstanding shares of American National Bank. The latter bank has issued a stock dividend of 1,000 shares (of which the Holding Company received its pro rata portion -- 125 shares) and has issued 4,000 additional shares for cash. The stated purpose of the proposed acquisition of 500 shares by Citizens and Southern Holding Company is to "enable the Applicant to retain its exact percentage of stock ownership in the Bank ... ."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 2  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 11, 1960.

Mr. Robert A. Bicks,  
Acting Assistant Attorney General,  
Antitrust Division,  
Department of Justice,  
Washington 25, D. C.

Dear Mr. Bicks:

In its letter of January 29, 1960, the Board stated that it would thereafter inform the Department of Justice of the receipt of applications, under section 3(a) of the Bank Holding Company Act of 1956, for the Board's approval of the acquisition of bank shares or bank assets.

Several applications under section 3(a) of the Act that were received before January 29 were pending on that date, and the Board has previously notified the Department of Justice with respect to some of these by transmittal of copies of notices of public hearing or tentative decision. In order that you may be informed as to all other pending applications under section 3(a) that were received prior to January 29, 1960, they are listed below:

Application by The First Virginia Corporation,  
Arlington, Virginia, for prior approval of the acquisition of 3,107 or more of the 4,000 voting shares of The Purcellville National Bank,  
Purcellville, Virginia.

Application by New Hampshire Bankshares, Inc.,  
Nashua, New Hampshire, for prior approval of the acquisition of up to 60 per cent (1,001 to 1,200) of the 2,000 voting shares of The Peoples National Bank of Claremont, Claremont, New Hampshire.



## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Robert A. Bicks

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Application by The Marine Corporation, Milwaukee, Wisconsin, for prior approval of the acquisition of 80 per cent or more of the 5,000 voting shares of Peoples Trust & Savings Bank, Green Bay, Wisconsin.

Application by Eastern Trust and Banking Company, Bangor, Maine, for prior approval of the acquisition of 51 to 70 per cent of the 2,000 voting shares of Guilford Trust Company, Guilford, Maine.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
3/11/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 11, 1960.

Mr. M. A. Harris, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Harris:

This will acknowledge receipt of your letter report dated February 18, 1960, concerning the 1959 operations of the Nassau County Clearing Bureau and the operations of the new Bergen County Clearing Bureau from October 20, 1959 to December 31, 1959.

It is noted that the Bank believes the Nassau County arrangement continues to provide a most efficient service and that no change in the basic agreement with the Bureau is warranted at this time. It is also noted that similar comment on the Bergen County Bureau is being withheld for the time being. The Board would appreciate receiving another report of that operation as soon as sufficient data are available to permit the Bank to reach a conclusion regarding the efficiency of the operation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
3/11/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 14, 1960.



Dear Sir:

Reference is made to the report of the Presidents' Conference on "Emergency Planning" at the joint meeting with the Board on December 15, 1959. The Presidents' Conference requested the Board (1) to advise guaranteeing agencies under the V-loan program that Reserve Banks should not issue emergency V-loan guarantees without reference to guaranteeing agencies, and (2) to make inquiry of the guaranteeing agencies as to their plans, if any, to adopt appropriate measures for the decentralization of authority to certify V-loans in an emergency.

All guaranteeing agencies have been advised of the foregoing, and at their request a meeting with their representatives was held at the Board's offices March 7, 1960, for an exchange of views. It was the consensus of the meeting that each agency would prepare a tentative statement based on its best judgment as to the need for decentralization of certification authority in (1) a limited war situation such as the Korean conflict, and (2) a general war situation involving a nuclear attack on the United States. It was recognized that there might be great urgency for production and V-loan credit in a limited war situation in order to obtain the maximum quantity of both military and survival items in the event the limited war should deteriorate into an all-out war. It was further recognized that in the postattack period of an all-out war the need for V-loan credit might also materially increase, due to inhibitions within the commercial credit field, even though the purpose of V-loan credit might shift decidedly from military production to the production and processing of survival items. Another consideration which the agencies wished to explore is whether it would be more convenient for all concerned to locate the agencies' representatives having decentralized certification authority at the OCDM Regional Offices where Federal Reserve Bank representatives would also be present or at the Federal Reserve Banks' regular or relocation offices.

The agencies agreed to submit their tentative statements to the Board at an early date, and meet again shortly thereafter for an exchange of views and for providing the information requested by the Federal Reserve Banks.

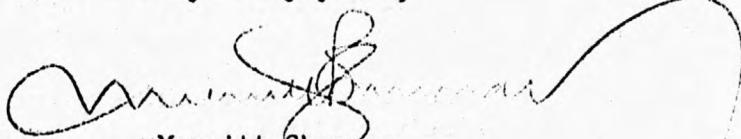
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The Board concurs in the other recommendations contained in the report on "Emergency Planning" with the following observations:

First, that uniformity on pre-positioning of cash is unnecessary at this time; however, it might become necessary on short notice. Adequate decentralization of supplies of currency is one of the basic planning policies of the Government.

Second, that centralized control of System cash operations seems undesirable during the immediate postattack period when communications necessary for centralized control might be disrupted; however, it would appear that when centralized control becomes feasible, it might also become desirable in order to assure the availability of scarce currency where it is most needed.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS