FR 609
Rev. 10/59

Minutes for May 31, 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 ______

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Minutes of the Board of Governors of the Federal Reserve System on Tuesday, May 31, 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. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations

Application of Old Kent Bank and Trust Company to establish a branch (Item No. 1). Pursuant to the understanding reached on May 27, Mr. Solomon had called Vice President Diercks of the Chicago Reserve Bank regarding an application of Old Kent Bank and Trust Company, Grand Rapids, Michigan, to establish a branch, at 1500 Kalamazoo Avenue, S.E., in Grand Rapids. The Reserve Bank had recommended favorably on the application but, on the basis of the discussion at the May 27 meeting, a majority of the Board was inclined to deny the application.

Mr. Solomon reported that the Chicago Bank had no strong feeling in the matter, the Bank's favorable recommendation apparently having reflected a view that Old Kent already had a dominant position in the area in question and that the situation would not be worsened by establishment of the additional branch. The Reserve Bank acknowledged, according to

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Mr. Solomon, that it had no strong basis on which to resist concurring in the view that the application should be denied.

Thereupon, the application of Old Kent Bank and Trust Company was denied, Governor Mills voting "no" for reasons he had stated at the meeting on May 27, 1960. A copy of the letter sent to Old Kent Bank and Trust Company pursuant to this action is attached as Item No. 1.

Messrs. Molony and Fauver, Assistants to the Board, entered at this point.

Monthly payment of interest on time and savings deposits (Item No. 2). There had been distributed a memorandum dated May 24, 1960, from Mr. Hackley attaching letters from Mr. Patterson, First Vice President and General Counsel, Federal Reserve Bank of Atlanta, with enclosures, which raised the question whether, under Regulation Q, Payment of Interest on Deposits, a member bank may pay interest monthly by check on a one-year time certificate of deposit in an amount computed at a rate of 3 per cent compounded quarterly. The memorandum pointed out that there was no question but that a bank could pay interest monthly in an amount equal to one-twelfth of the amount that would be paid for the year at a straight or "simple" rate of 3 per cent. The question here was whether the monthly cash payment could be one-twelfth of the amount that would have been paid for the year if interest had been compounded quarterly.

It was brought out in the memorandum that the Supplement to Regulation Q prohibits a member bank from paying interest on a time deposit

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with a maturity of six months or more "at a rate in excess of 3 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed." A footnote to this provision states that "this limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly."

As noted in the memorandum, it could be argued that these provisions of Regulation Q contemplate that a member bank may compute and pay interest in any manner it pleases, provided the aggregate amount paid does not exceed the amount that would have been paid at a rate of 3 per cent if the bank had compounded interest quarterly. This was the position that had been taken by Mr. Patterson of the Atlanta Bank.

On the other hand, it could be argued that the Regulation meant that if a member bank compounds interest, it may compound on any basis it wishes, that is, semiannually, monthly, or otherwise, provided the amount paid when "so compounded" (as stated in the footnote) does not exceed the amount that would have been paid if it had been compounded quarterly; but that the Regulation does not permit payment at a rate in excess of 3 per cent when interest is disbursed monthly by check or cash and is not actually compounded. In such a case, only the initial deposit remains in the bank; there is no interest upon which the bank pays interest, as in the case where interest is compounded. This construction would

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give recognition to the distinction between simple and compound interest and full effect to the limitation actually placed by the Board on interest rates.

As also noted in the memorandum, the Legal Division favored the latter position, which had been taken by Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, and by the Federal Deposit Insurance Corporation in respect to nonmember insured banks.

Attached to the memorandum was a draft letter to Mr. Patterson that would express the view that payment of interest in the manner described would be in violation of Regulation Q. In the memorandum Mr. Hackley also recommended that this interpretation be sent to the Presidents of all Federal Reserve Banks and be published in the Federal Register and the Federal Reserve Bulletin.

In commenting on the question raised by the Federal Reserve Bank of Atlanta, Mr. Hackley observed that Regulation Q fixes the maximum permissible rate of interest compounded quarterly. The amount of interest paid, when so compounded, may not exceed the amount that would have been paid if the interest had been compounded quarterly. In the case being considered, he noted, the bank would pay interest monthly by check in an amount equal to one-twelfth of the amount it would have paid for one year if the interest had been compounded quarterly.

Mr. Hackley said that the Legal Division was of the opinion that the question raised by the Atlanta Bank was not of great significance. However, on principle, the practice described would seem to be in violation

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of the intent of Regulation Q, and the Comptroller of the Currency had taken this position. The question had arisen in several Federal Reserve Districts and, in order to prevent the practice from spreading, it seemed desirable for the Board to issue an interpretation on the subject.

Governor Mills observed that the practice involved payment of interest that had not been earned and added to an account on a compounded basis. This, he stated, appeared clearly to be in violation of Regulation Q; under the practice described, interest was being paid on funds that had not been actively generated through the compounding process.

After further discussion, the Board approved the proposed letter to Mr. Patterson, a copy of which is attached as Item No. 2, along with a letter to the Presidents of all Federal Reserve Banks advising them of the Board's position in this matter. It was understood that the interpretation would be published in the Federal Register and the Federal Reserve Bulletin and that copies would be sent to the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

After the foregoing discussion Mr. Nelson withdrew from the meeting and Mr. Farrell, Director, Division of Bank Operations, entered, along with Messrs. Herz, Resident Partner, and Drake, Manager of the Washington office, of Price Waterhouse & Co.

Depreciation and fixed asset accounting procedures. There had been distributed a draft of letter to the Presidents of all Federal Reserve Banks that would enclose copies of a memorandum dated May 24, 1960, from Mr. Farrell regarding depreciation and fixed asset accounting

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procedures, a subject on the agenda of the forthcoming Presidents' Conference. The letter would indicate that the Board would like to have, during the joint meeting on June 14, 1960, the views of the Presidents with respect to certain recommendations appearing in the memorandum.

The memorandum from Mr. Farrell pointed out that following discussions of Federal Reserve Bank capital accounts and related matters at the joint meeting with the Presidents of the Reserve Banks on December 15, 1959, and with Mr. Herz of Price Waterhouse & Co. at the Board meeting on December 17, 1959, (1) the Board directed the Division of Bank Operations to work with Price Waterhouse in developing, in connection with Reserve Bank buildings, an accounting procedure that would be, on the one hand, as simple as possible and, on the other hand, based on an orthodox rationale; and (2) the Presidents' Conference directed the Subcommittee on Accounting to re-examine the present classification of fixed assets and the present depreciation schedules.

As noted in the memorandum, at present the cost of furniture and office equipment is charged to current expenses when purchased; while buildings (including vaults) are depreciated at the rate of two per cent per annum of the gross book value or at such other rate as may be approved by the Board, and fixed machinery and equipment is depreciated at a rate not to exceed ten per cent per annum of the gross book value of all fixed machinery and equipment. The present procedure also provides for charging replacements to the depreciation allowance, thereby restoring the book

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value of the asset. However, the determination of whether the cost of building alterations and replacements should be charged to the depreciation allowance or to current expenses is left largely to the judgment of the individual Banks, with the result that practices in this respect have varied considerably.

The following objections to the present procedure were cited in the memorandum: (1) it has produced asset valuations that do not reflect the useful life of Reserve Bank buildings; (2) it is a conglomerate of conventional and unconventional accounting concepts; and (3) it is unnecessarily complex in the light of the fact that the Reserve Banks have no pricing problems, no dividend determination problems, and are not subject to income taxes.

The memorandum referred to and commented on suggestions with respect to depreciation and fixed asset accounting procedures appearing in the April 29, 1960, report of the Presidents' Conference Subcommittee on Accounting, and reference was also made to the views of Price Waterhouse & Co. on this subject.

On the basis of the suggestions in the Subcommittee report and those of Price Waterhouse, Mr. Farrell recommended in the memorandum that the Board's Accounting Manual be revised to provide for the following procedures:

1. Accumulate in a construction account all costs of new buildings, additions to buildings, and of extensive remodeling projects (usually in connection with an addition). Upon completion of

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such projects--

(a) Charge to the building account all of the project costs except the cost of demolitions and removals, which should be charged to current expenses.

(b) Reduce the building account and the depreciation allowance by amounts reflecting the gross book value of elements demolished or removed (either on the basis of actual cost or reasonable estimates thereof).

2. Accumulate in a suspense account, to be closed out only at the end of the year, all other charges for property additions, replacements, improvements, and other building expenses including routine maintenance.

3. At the end of the year close out the suspense account mentioned in Item 2 above in the following manner--

(a) Charge to the building account the cost of projects which provide additional square feet of space or finish off partially completed space, and of additional facilities or equipment having a cost of more than $10,000. As an example, the latter might include a new loading dock in the security court, a new coin vault, a new sprinkler system in a supply room, or additional booster fans for the air conditioning system.

(b) Of the balance remaining in the suspense account after charges pursuant to (a) above, charge to current expenses for ordinary maintenance all of the remaining amount up to one per cent of the gross book value of the building and equipment therein.

(c) Charge any balance then remaining in the suspense account to the depreciation allowance.

4. For purposes of expense reports, the cost of day-to-day maintenance should be accrued at least monthly by estimates based on previous experience. Charges to expenses resulting from such accruals should be adjusted at the end of the year when the final charge is determined pursuant to Item 3(b) above.

5. Depreciation should be charged to current expenses at the rate of two per cent per annum of the gross book value of the building and the fixed machinery and equipment therein.

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According to the memorandum, Price Waterhouse representatives had indicated that they "could live with the proposed procedure," and that it could be defended as being appropriate for use under the special circumstances for which it was intended.

Commenting on the memorandum, Mr. Farrell said that an effort had been made to work out a system that would be simple and yet would conform generally to accounting conventions. He believed that the recommended procedure would provide such simplicity and would result in fairly consistent practices. To illustrate the operation of the formula, Mr. Farrell reviewed how it would apply to various items in the Board's accounts, although it had not, of course, been developed for that purpose.

With reference to Item 1 in the proposal, he noted that it would apply only to new buildings, additions to buildings, and extensive remodeling projects--for example, if another story were to be added to the Board's building or if the wings were to be filled in. Under these circumstances the entire cost of the project would be added to the building account, with the exception of the cost of demolition and removals, which would be charged to current expense. The building account and the reserve for depreciation would be reduced by amounts reflecting the gross book value of the elements demolished or removed. This procedure, Mr. Farrell noted, would be in accordance with conventional procedures.

As examples of the application of Item 2 of the proposal, Mr. Farrell referred to projects such as recaulking the Board's building and installation of a new compressor or cooling unit in the air conditioning

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system. Both of these projects would be charged temporarily to a suspense account. In this account there would also be other items such as, for example, day-to-day building maintenance, expenses connected with refurnishing the Board Room, and miscellaneous expense items.

Under Item 3, at the end of the year the cost of new air conditioning equipment would be charged to the building account because this is a new capital item. Of the balance remaining in the suspense account one per cent of the gross book value of the building and equipment would be charged to current expense; the remainder to reserve for depreciation, reflecting mainly the caulking project which would extend the useful life of the building.

Commenting on the proposal outlined in the May 24 memorandum, Mr. Herz noted that in the System's structure questions arising from property and depreciation accounting are of relatively minor significance. The proposal, he observed, was aimed at producing a greater simplicity in day-to-day operations and a higher degree of consistency, when considered in view of the variety of expenditures made by the System. He had no objection to this simplification and said that it came pretty close to being in accord with suggestions made by Price Waterhouse. He saw no pressing need for a study of the present status of Federal Reserve Bank properties so that building valuations could be readjusted. However, if these accounts were not adjusted and discrepancies as to the useful

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life of buildings that had accumulated over the years were left in the accounts, it would be even less important whether the simplification of accounting procedures was strictly in line with usual private accounting practices. After endorsing the proposal outlined in the memorandum, Mr. Herz repeated that essentially this was not a matter of great importance. The proposed procedure would bring about a substantial degree of simplification of day-to-day work, and it would not violate any accounting conventions.

In the ensuing discussion based on the May 24 memorandum and the comments by Mr. Farrell and Mr. Herz, several questions were raised and opinions expressed by members of the Board.

Governor Mills said he interpreted the proposal as a rejection of the conventional approach originally proposed by Price Waterhouse. He agreed that the Federal Reserve Banks could do what they chose; however, a choice should be made as to whether they were Government and could follow their own whims or whether they were quasi-Government and had a status that would justify following strictly conventional depreciation practices. He did not regard the current proposals as conventional depreciation practices; they varied enough from the conventional approach to reopen the question whether the Reserve Banks wanted to follow their own pattern. He referred to a caulking job such as mentioned by Mr. Farrell and said that, as he understood it, the alternative would be to charge the cost directly to expense. If it were charged to a depreciation

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reserve account, that practice, as he saw it, would hide a legitimate expenditure that should justifiably be charged directly to expense, and the tendency would be to build up depreciation accounts of individual Federal Reserve Banks at a loss to the Treasury. For these reasons, he questioned whether the proposed procedure should be followed.

With respect to charging depreciation reserve accounts with items such as recaulking, Mr. Herz remarked that accounting practice would support this procedure, although the subject was not free from controversy. If annual provision were made for depreciation of a building, recognition would be given to the fact that certain things were taking place over a period of time. One was that the building needed caulking and, by taking care of that, the building was restored to its previous condition. Therefore it would be appropriate from that standpoint to charge the cost of recaulking the building to a reserve for depreciation.

Mr. Farrell pointed out that if the cost of such a job were charged to expense, there would be an immediate effect on the payments made to the Treasury. If handled through a depreciation reserve, the tendency would be to spread out the effect on payments to the Treasury because of higher depreciation charges.

After further comments by Mr. Herz on the arguments for and against charging to expense an item such as a recaulking job, question was raised by Governor Mills as to what the objections of the Subcommittee

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on Accounting had been to adopting a more conventional approach to depreciation.

Mr. Farrell replied that the majority of the members felt it was too much work to record the cost of each component that was added to a building and set up a separate depreciation schedule. He also stated that attempts to define items for handling one way or the other had bogged down because of difficulty encountered in dealing with minor replacement items.

At this point Governor Mills again stated that the current proposal was not in accord with his recollection of the approach originally suggested by Mr. Herz and his colleagues, to which Mr. Farrell replied by noting that one member of the Presidents' Conference (Mr. Bryan) had favored a strictly conventional approach under which the Federal Reserve Banks would follow the practices of private business concerns that must submit reports to the Internal Revenue Service. The feeling of Price Waterhouse was that this would represent unnecessary record keeping as far as the Federal Reserve was concerned. The Subcommittee on Accounting took the same point of view, but went so far as to favor charging to current expense everything that did not amount to more than 2 per cent of the gross value of the building and equipment.

Governor King referred to a statement in Mr. Farrell's memorandum to the effect that Price Waterhouse representatives had expressed an opinion that they "could live with the proposed procedure," and he asked

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Mr. Herz what would be necessary in order for him to endorse the proposal completely.

Mr. Herz replied that he had no difficulty with the proposed procedure; it did not depart very much from conventions. The proposal of the Accounting Subcommittee to limit what is added to capital accounts on the basis of a percentage of the gross value of the building would create distortions because of differences between smaller and larger Reserve Bank buildings. The current proposal, on the other hand, would provide that an expenditure normally be over $10,000 before it would be considered a capital item. He felt this was a reasonable limit in the System, and it was in accordance with the practice of business concerns, because they too must break at a practical point. Accordingly, he had no quarrel with that limitation. Basically, the decisions each year between what a firm will capitalize and what it will handle in another way are decisions reflecting certain conventions, and the proposed procedure would be acceptable from his standpoint. As regards charges to reserve accounts, he belonged to the school that did not favor that practice, but he would not object if anyone wanted to follow that procedure. The current proposal provided for charging expense for ordinary maintenance each year up to 1 per cent of the gross book value of the building and equipment. The cost of ordinary repairs and alterations in Federal Reserve Bank and branch buildings for a five-year period had been about 1 per cent a year. Accordingly, this was a convention applied here, and he saw no

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objection to it. The proposal, he noted, involved a further simplification by lumping building and equipment together in the total of depreciable assets whereas they had been separated before.

In commenting further on the proposal, Mr. Herz reiterated that his only reservation was that, if charges were to be made to depreciation accounts, the building accounts should be adjusted to reflect more nearly the remaining useful life of the various buildings.

During the discussion that followed concerning the effects of adopting the procedure outlined in the May 24 memorandum, Governor King expressed the thought that the procedure seemed unnecessarily complicated and that the same effects could be achieved by a simpler, more straightforward approach, charging items either to expense or capitalizing them. The depreciation reserve accounting, he thought, could get so involved over a period of years that it would be difficult to understand. A more fundamental question, as he saw it, was whether the present book values were going to be adjusted.

Mr. Herz commented that the features of the proposal relating to depreciation reserves could, if they were deemed objectionable, be separated from the remainder of the proposal.

Governor King then inquired regarding the reasoning behind the proposal to establish suspense accounts, to which Mr. Herz replied that the intention was to reduce the day-to-day workload and permit items to be reviewed in better perspective. Mr. Farrell pointed out that what

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was being sought was a system that would be simple and still would provide consistency of reporting results. If there were piecemeal expensing and capitalizing, there must be difficult decisions. For example, some of the Reserve Banks would charge projects such as installation of coin vaults to current expense whereas others would capitalize these items. If the formula provided in the proposal were eliminated, there would be the problem of deciding which procedure to follow.

Governor King observed that businessmen constantly make decisions of this type. There was, he thought, no problem in making such decisions under general guidelines.

Mr. Herz commented that in the case of large expenditures, such as installation of coin vaults, where a bank might charge the cost to current expense, it would seem that the item would come to light quickly in any review. At that time the charge could be adjusted so that it would be in line with practices followed throughout the System. In the case of smaller items, it would not seem to make any particular difference whether they were handled uniformly. It was his view that the System need not be greatly concerned about minor inconsistencies.

Governor Balderston suggested that the problem was relatively unimportant except that earnings should neither be overstated nor understated because of public relations and relations with the Treasury. If necessary, however, he would not hesitate to have the Board prescribe

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a procedure different from that suggested by the Subcommittee on Accounting, and he thought there would be general agreement that major inconsistencies should be avoided.

Governor Mills brought out that the subject had come up because of concern that fixed asset accounting practices followed by the Federal Reserve Banks were not in accord with conventional accounting methods. He felt the Board should be careful not to accept any proposal if it appeared to be faulty in any substantial respect.

There ensued a general discussion of the operation of the procedure recommended in the May 24 memorandum from Mr. Farrell, along with the distinctions between that procedure and the practices suggested in the report of the Subcommittee on Accounting. In the course of this discussion, Mr. Herz said that if the historical record had been read accurately, it seemed that there would seldom be a case where consequential charges would be made against depreciation reserves, except in connection with an item such as recaulking. In connection with such an expenditure there could be argument among accountants as to how the item should be handled.

At this point Chairman Martin asked Mr. Herz whether he felt that the System would be violating any conventional practices by following the procedures recommended in Mr. Farrell's memorandum, and Mr. Herz replied that he did not think so.

Governor King then stated that he would be inclined to favor the procedures outlined in the report of the Subcommittee on Accounting

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except that he would not have suggested a distinction whereby projects would be charged to current expense automatically if their cost was less than 2 per cent of the gross book value of the building and equipment. He would prefer the placing of judgment in the hands of each Reserve Bank for he doubted the feasibility of writing rules and regulations of general applicability.

Mr. Herz agreed that one can never get away completely from the necessity of making interpretations and added that there always would be differences of opinion about certain items. Mr. Farrell commented that the proposal in the May 24 memorandum was designed to reduce the number of occasions on which judgments would be required.

Governor Balderston then referred again to the distinctions between the suggestions of the Subcommittee on Accounting and the procedure proposed in Mr. Farrell's memorandum. He indicated that his principal question related to the suggestion of the Subcommittee that a distinction be made in the treatment of expenditures based on whether or not the cost exceeded 2 per cent of the gross value of the building and equipment. Except for that feature, he had hoped it might be possible to go along with the views of the Subcommittee, for he felt that the problem was not important enough to stir up the Federal Reserve Banks. He would be able to live with the recommendations set forth in Mr. Farrell's memorandum, which as he understood it, reflected a compromise proposal advanced by the staff after studying the views

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of the Subcommittee and of Price Waterhouse. These recommendations would, in his opinion, provide a system of accounting that would not be hard to accept.

Mr. Farrell noted that the proposal included the only recommendation that the Subcommittee on Accounting actually made; namely, that the building and fixed machinery and equipment accounts be combined and that depreciation be taken thereafter at an annual rate of 2 per cent rather than the present 2 per cent on building and 10 per cent on fixed machinery and equipment. Other statements in the Subcommittee's report were more in the nature of suggestions submitted for consideration.

Chairman Martin then asked Mr. Herz whether he could go along with the recommendations in Mr. Farrell's memorandum and feel that no serious violence would be done to anybody.

Mr. Herz replied that he thought these recommendations could be adopted without encountering any serious objection from Price Waterhouse or other accountants. He proceeded to review in some detail the nature of the recommendations and the results that their adoption would produce.

Governor King asked Mr. Herz whether he felt that adoption of the recommendations would result in both an improvement and a simplification of present practices, to which Mr. Herz replied that he thought their adoption would result in simplification. While they would not necessarily represent an improvement, their adoption would not result in a reverse of improvement. He would favor their adoption on the basis

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of simplification; the elimination of inconsistencies would not in his opinion amount to so much that the elimination would constitute a major improvement.

Governor King then stated that he would be willing to accept the recommendations on the basis mentioned by Mr. Herz.

Messrs. Herz and Drake then withdrew, along with Messrs. Kenyon, Daniels, and Smith.

Chairman Martin inquired as to what action the Board wished to take in the light of the meeting with Messrs. Herz and Drake, and after some discussion it was agreed to send to the Presidents of the Federal Reserve Banks copies of the memorandum from Mr. Farrell dated May 24, 1960, with a letter requesting the views of the Presidents at the joint meeting of the Presidents and the Board on June 14, 1960, concerning the procedure recommended in Mr. Farrell's memorandum.

Miss Carmichael and Mr. Farrell then withdrew from the meeting.

Appointment of director and Deputy Chairman at the Richmond Reserve Bank. Dr. D. W. Colvard, Dean of Agriculture of North Carolina State College, resigned as a Class C director and Deputy Chairman of the Federal Reserve Bank of Richmond, effective June 30, 1960, inasmuch as he had accepted the presidency of Mississippi State University. After considering persons mentioned in a memorandum from Mr. Fauver dated May 26, 1960, it was agreed unanimously to request the Chairman of the Richmond Bank to ascertain whether Mr. William H. Grier, President, Rock Hill Printing & Finishing Company, Rock Hill, South Carolina, would accept appointment,

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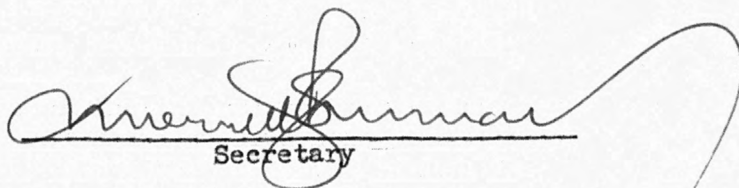
if tendered, as a Class C director of the Bank for the unexpired portion of the term ending December 31, 1960, with the understanding that the appointment would be made if it were found that Mr. Grier would accept.

> Secretary's Note: It having been ascertained that Mr. Grier would accept appointment, if tendered, as a director of the Federal Reserve Bank of Richmond, a telegram making the appointment was sent to him on June 2, 1960.

Mr. Edwin Hyde, presently a Class C director of the Federal Reserve Bank of Richmond, was appointed Deputy Chairman of that Bank for the remainder of 1960, effective July 1, 1960, to succeed Dr. Colvard.

The meeting then adjourned.



Secretary

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

Item No. 1
5/31/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 1, 1960

Board of Directors,
Old Kent Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

Reference is made to your request submitted through the Federal Reserve Bank of Chicago for permission to establish a branch at 1500 Kalamazoo Avenue, Southeast, in Grand Rapids.

After considering all of the information submitted with respect to this proposal, the Board of Governors does not feel justified in approving the establishment of the branch in view of the adverse effect which its establishment would seem likely to have on competition in the area.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
5/31/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1960

Mr. Harold T. Patterson, First Vice President
and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Patterson:

This refers to your letters of May 16 and May 20, 1960, addressed to Mr. Hackley, with their enclosures, regarding the question whether a member bank's plan for payment of interest on a one-year time certificate of deposit conforms with the requirements of Regulation Q.

It is understood that under the plan the bank would pay interest monthly by means of check in an amount equal to one-twelfth of the amount that would have been paid for the year if the bank had compounded interest quarterly at the maximum permissible rate of 3 per cent.

The Supplement to the Board's Regulation Q prohibits a member bank from paying interest on a savings deposit or on a time deposit having a maturity of 6 months or more "at a rate in excess of 3 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed." A footnote states that this limitation "is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly."

These provisions in effect permit a member bank to pay interest in an amount somewhat greater than that paid on a straight 3 per cent basis *if* the bank's practice is to compound interest, provided that on *whatever* basis interest is compounded the amount "so compounded" does not exceed the amount that would have been paid at the maximum rate when compounded quarterly. The Regulation does not prevent a member bank from paying interest monthly by check

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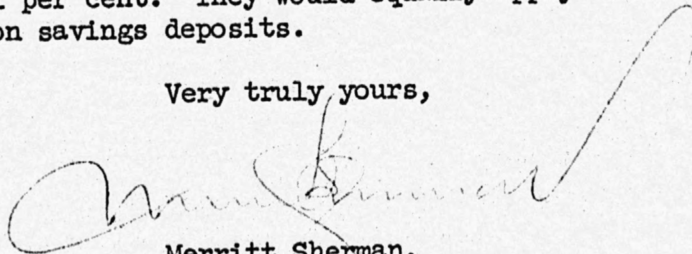
instead of compounding interest. However, the Regulation does not contemplate payment of interest in excess of a straight or simple rate of 3 per cent except where it is paid on interest left in the account, that is, where interest is compounded. Accordingly, a plan under which monthly payments are made by check in an amount equal to one-twelfth of the amount that would have been paid for a year if the bank had compounded interest quarterly at a rate of 3 per cent would not be in accordance with the Regulation.

The same principles would, of course, apply to monthly payments of interest by check on a time deposit having a maturity of less than 6 months and on which the maximum permissible rate would be 2-1/2 per cent or 1 per cent. They would equally apply to monthly payments of interest on savings deposits.

Very truly yours,



Merritt Sherman,
Secretary.

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