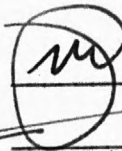


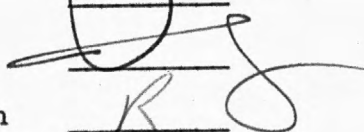
The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on June 8, 1960, which you have previously initialed, have been amended at the request of Governor King to include an expression of his views on page 10.

If you approve these minutes as amended, please initial below.

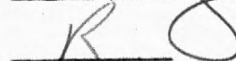
Chairman Martin



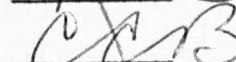
Governor Mills



Governor Robertson



Governor Balderston



Governor Shepardson



Minutes for June 8, 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	<u>W</u>
Gov. Szymczak	<u>[Signature]</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, June 8, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. Koch, Adviser, Division of Research and
Statistics
Mr. Robinson, Adviser, Division of Research and
Statistics
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary

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:

	<u>Item No.</u>
Letter to the Federation Bank and Trust Company, New York City, approving the establishment of a branch at 85-19 Queens Boulevard, Borough of Queens.	1
Letter to the First Trust & Deposit Company, Syracuse, New York, approving the establishment of a branch at 315 Nottingham Road, Town of Dewitt.	2

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	<u>Item No.</u>
Letter to the New Jersey Bank and Trust Company, Clifton, New Jersey, approving the establishment of a branch at 294 Main Avenue.	3
Letter to the Charlevoix County State Bank, Charlevoix, Michigan, approving the establishment of a branch in Ellsworth.	4
Letter to The Detroit Bank and Trust Company, Detroit, Michigan, approving the establishment of a branch in Shelby Township.	5
Letter to the Roachdale Bank and Trust Company, Roachdale, Indiana, approving the establishment of a branch in Bainbridge.	6
Letter to the Pacific State Bank, Hawthorne, California, approving the establishment of a branch in the Palos Verdes Shopping Center in Los Angeles County.	7
Letter to The Chase Manhattan Bank, New York City, approving an extension of time to relocate its branch now located at 325 Spring Street to a new location at 345 Hudson Street.	8
Letter to the Manufacturers Trust Company, New York City, approving an extension of time to establish a branch at 1180 Third Avenue.	9
Letter to the Long Island Trust Company, Garden City, New York, approving an extension of time to establish a branch at 180 Atlantic Avenue, South Freeport.	10
Letter to the American Bank and Trust Company, Lansing, Michigan, approving an extension of time to establish a branch in Lansing Township.	11
Letter to the Marshall and Ilsley Bank, Milwaukee, Wisconsin, approving an extension of time to establish a branch on North Market Street.	12
Letter to the Greenfield State Bank, Bakersfield, California, approving an extension of time to establish a branch in East Bakersfield.	13

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	<u>Item No.</u>
Letter to the County Bank of Santa Cruz, Santa Cruz, California, approving an extension of time to establish a branch in West Santa Cruz.	14
Letter to the Federal Reserve Bank of Boston authorizing waiver of a penalty incurred by the First National Bank of St. Johnsbury, Vermont, because of a deficiency in its required reserves.	15

Reports on H. R. 5135, H. R. 5197, and H. R. 5203 (Items 16 and 17). A draft of letter had been distributed addressed to Chairman Dawson of the House Committee on Government Operations relative to H. R. 5135 and H. R. 5197, bills "To amend the Employment Act of 1946 to establish policies with respect to productive capital investments of the Government," and regarding H. R. 5203, "To amend the Budget and Accounting Act, 1921, to provide for the retirement of the public debt..." through the establishment of a debt retirement fund from the first 5 per cent of the Treasury's estimated budgetary receipts.

Following discussion, unanimous approval was given to a letter to Chairman Dawson reporting on the identical bills H. R. 5135 and H. R. 5197, as well as to a second letter reporting on H. R. 5203. Copies of these letters are attached Items 16 and 17.

Messrs. Thomas, Adviser to the Board, and Molony, Assistant to the Board, joined the meeting at this point.

Letter to Department of Justice re merger between Harris Trust and Savings Bank and Chicago National Bank (Item No. 18). There had been distributed under date of June 7, 1960, a memorandum from the

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Division of Examinations attaching a draft of letter to the Justice Department replying to a request of June 1, 1960, for access to the Board's files to assist in preparing a report on the proposed merger between Harris Trust and Savings Bank and Chicago National Bank, Chicago, Illinois. Mr. Masters recalled that on May 25, 1960, the Board had forwarded to Justice a copy of the application filed by Harris Trust and Savings Bank for approval of its contemplated merger with Chicago National Bank with a request for a report by that Department on the competitive factors involved, all pursuant to the recently enacted bank merger legislation, Public Law 86-463. In acknowledging receipt of this request, Justice asked that the Board make available for examination its files concerning not only the two banks involved but any other competing banks in the Chicago area. Mr. Masters noted that the draft reply indicated a willingness to cooperate although it was believed that the relevant material in the Board's files would not add appreciably to the 32-page information in the application filed by Harris Trust and Savings Bank. He added that the Board responded to a somewhat similar request from Justice regarding a study being made of the competitive situation in the Pittsburgh area on January 19, 1960, in terms that representatives of the Department could examine certain applications filed by a State member bank and portions of examination or supervisory information that might appear to be related to the study. At that time, Mr. Masters said, a representative from Justice came to the Board's offices to review some of the material, but examination reports were not made available to him.

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Following a discussion, during which certain changes in wording were made, the letter was approved unanimously in the form of attached Item No. 18.

Provision to Department of Justice of comments by State supervisors of banking on bank holding company applications. Mr. Hackley referred to the Board's action on January 28, 1960, with respect to notifying the Department of Justice of receipt of applications under section 3(a) of the Bank Holding Company Act for approval of the acquisition of bank shares or bank assets and making available for that Department's inspection such applications on a confidential basis. Question had arisen as to whether, in such instances, comments received from State supervisors of banking regarding such applications could be made available. Although these comments did not constitute a part of the formal application, they normally contained no confidential information. Mr. Hackley said that before making the supervisors' comments available, he would like to know whether the Board saw objection to doing so.

No objection was indicated to including letters from supervisors of banking commenting on applications received by the Board under the Bank Holding Company Act of 1956, when such applications were made available to the Justice Department.

Certificate of publication under Public Law 86-463 (Item No. 19).

A draft of letter to the Presidents of all Federal Reserve Banks had been distributed transmitting a suggested form of certificate of publication

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to be filled out by banks giving public notice through newspapers of a proposed merger, consolidation, or absorption, as required under Public Law 86-463 enacted May 13, 1960. Mr. Nelson observed that a certificate of the type referred to seemed desirable in order to give evidence of compliance with the publication provision of the law. He noted that the form to be enclosed with the draft letter to Reserve Bank Presidents was similar to the certificates being used by the Federal Deposit Insurance Corporation and the Comptroller of the Currency, but it was subject to revision if experience indicated that to be desirable.

The letter to all Reserve Bank Presidents transmitting a suggested form of certificate of publication to be used by banks planning mergers, consolidations, or absorptions and the form of certificate were then approved. A copy of the letter is attached as Item No. 19.

Messrs. Hexter and Nelson then withdrew from the meeting.

Maximum rates of interest payable under Regulation Q. Pursuant to the understanding at the Board meeting on May 27, 1960, the question of maximum rates of interest payable under Regulation Q, Payment of Interest on Deposits, had been placed on the agenda for today's meeting.

Asked by Chairman Martin to comment, Mr. Thomas said that the sharp drop in market rates of interest recently suggested that the issue was not a live topic at the moment. He saw little basis for the Board's acting to raise the maximum rate at the present time when market rates were declining, since the purpose of an increase presumably would be to

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permit banks to pay higher rates of interest on time and savings deposits when they were under competitive pressure to do so.

Chairman Martin suggested that this was a point worth exploring: would it be better to increase the maximum permissible rate when interest rates were easing, as at present, or to do so when rates were rising?

Mr. Robinson said that it could be argued that it would be preferable to give banks more flexibility in formulating policies with respect to interest rates by raising the maximum rates payable under the Regulation at a time such as the present. An increase in the ceiling at a time when rates generally were declining would mean presumably that only those banks quite confident that they were in a position to employ additional savings obtained at higher cost would venture to offer the higher return; others would not feel as much pressure to bid for savings through offering an increased rate if there was doubt that they could employ the additional funds profitably.

The Chairman noted that it was possible to argue the merits of the most appropriate time for raising the maximum permissible rates on both the public relations and the economic sides of the question. He drew a parallel between this issue and the question of removing the 4-1/4 per cent interest rate ceiling in effect on Treasury debt obligations of more than five years' maturity. Although the argument was heard that there was no longer a necessity for the removal of this ceiling because of the recent reversal in interest-rate movements, he thought there might

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be as much reason for removing the ceiling now as had been true before the recent declines in market rates. As he saw it, the banking system needed latitude to encourage savings because they would be required in the future, and the problem of the Board was how to encourage such savings without endangering the banking system.

Mr. Robinson then referred to his memorandum of May 27, 1960, containing a modified approach for revision of Regulation Q which he felt might avoid some of the difficulties that appeared in connection with a straight increase in the maximum permissible rates. The proposal contained in the May 27 memorandum would provide for (1) extending the schedule of maturities for permissible rates on time deposits to include two new categories: time deposits having a maturity of one to two years on which a 3-1/2 per cent interest rate would be permitted and time deposits having a maturity of more than two years on which 4 per cent would be permitted; (2) granting permission to banks to pay 3-1/2 per cent on portions of savings deposits that had been undisturbed for at least one year and payment of 4 per cent on portions of such deposits undisturbed for at least two years. Under such an arrangement, parallel treatment of time and savings deposits would be insured, and more generous treatment of true savings would be permitted although not required. Mr. Robinson felt that this proposal conformed to the philosophy that the terms of Regulation Q should permit but not force commercial banks to pay the ceiling rate specified at any given time. It would be calculated to encourage commercial

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banks to attract a rather permanent type of savings and time deposits and to discourage the building up of certificates of deposit or savings accounts that were highly active. Thus, adoption of a permissive rate structure such as that envisaged by the modified approach would provide opportunity for banks to adjust to local competitive situations through offering to pay the higher rates only on deposits that remained dormant for at least the periods specified. Furthermore, it appeared that such a rate structure could be adopted to apply to funds that had been on deposit prior to this time, if the Board wished to take such action.

There ensued a discussion of the factors to be considered in changing maximum permissible rates under Regulation Q, particularly as regards a change of the type suggested in the memorandum from Mr. Robinson. During this discussion, Governor Robertson suggested that it would be helpful in considering any change in present maximum rates to explore with the Treasury the relationship of a maximum of 4 per cent on savings at commercial banks to the existing 3-3/4 per cent rate on U. S. savings bonds. Also, he would be interested in having the staff explore the effects that an increase to 4 per cent in the maximum permissible rate under Regulation Q might have on the funds presently held by savings and loan associations. Mr. Hackley suggested that, if the Board contemplated early action on Regulation Q maximums, it would be desirable to ascertain the attitude of the Federal Deposit Insurance Corporation because of that Corporation's companion regulation applicable to insured nonmember banks, especially if a modified approach such as was suggested in Mr. Robinson's memorandum were to be considered.

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Governor King said that he felt there was less need at present for considering a change in the maximum rates than there had been earlier, and he did not think a change should be made now. The question in his mind was whether the ceiling should be removed entirely. He did not like ceilings or other regulatory measures, but he would not now wish to remove this ceiling. From the bank relations standpoint, relatively few banks had requested an increase in the maximum permissible rates, and some of those banks were continuing to experience an increase in their savings and time deposits. He was mystified as to why the few banks that had requested increases should want a higher ceiling.

Chairman Martin commented that it would be desirable for the staff to look into all of these questions, although for reasons that he stated he doubted that this was a suitable time for changing the permissible rates. The problem as he saw it was to stimulate savings over the longer term to help meet the needs for capital in coming years. Member banks as well as savings and loan associations should be in a position to attract savings for this need, and the larger question was how this might be done, rather than the competition between banks or between banks and savings and loan associations. The Chairman concluded with a statement that this discussion had been helpful, including the consideration of the modified approach suggested by Mr. Robinson, although he doubted that the Board should take up this subject for action with less than six or seven members present.

Eligibility of Mr. Grier as a director of the Richmond Reserve Bank. Referring to the recent appointment of Mr. William H. Grier as a Class C director of the Federal Reserve Bank of Richmond, Mr. Hackley

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said that the Richmond Bank had informed the Legal Division that Mr. Grier was a member of the board of trustees of a State-operated women's college in South Carolina, an office filled through election by the State Assembly. He noted that Mr. Grier was willing to resign this position if the Board believed that holding the office was inconsistent with his service as a Board appointed director of the Bank. Mr. Hackley said that no legal question was involved and that the circumstances did not indicate that the holding of this office was inconsistent with the Board's 1915 resolution regarding the holding of public or political office by a director of a Federal Reserve Bank.

None of the members of the Board indicated objection to Mr. Grier's serving as a member of the board of trustees of the State-operated college while serving as a Class C director of the Richmond Reserve Bank.

Meeting with representatives of Pan American Bank of Miami. Governor Robertson reported that the plans of the Pan American Bank of Miami, Florida, to improve its capital position referred to by him at the Board meeting on February 19, 1960, had fallen through. Consequently, he had arranged for a meeting today in his office at which Mr. Sottile and the President of the Pan American Bank would be present along with staff members of the Board.

The meeting then adjourned.

Secretary's Notes: Governor Robertson today approved on behalf of the Board the sending of a letter to Prudential Insurance Company of America in the form of attached Item No. 20 terminating as of July 9, 1960, the Board's Group Major Medical Insurance contract with that company.

Governor Robertson also approved today a recommendation of the Division of Personnel Administration that the Board continue its present rate of contribution toward the cost of basic hospital-surgical

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insurance for present retirees, i.e., 1/2 cost of standard hospital-surgical coverage. Under this action a retired employee having standard hospital-surgical individual coverage would continue to contribute \$1.76 per month and the Board would contribute the same amount; while a retired employee having family coverage would continue to contribute \$4.92 and the Board would contribute a like amount. This action also provided that in the case of retired employees having insurance with Group Health Association the Board would continue to contribute a like dollar amount, not to exceed 1/2 of the monthly premium cost of the retiree's insurance.

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

Salary increases, effective June 12, 1960

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Legal</u>		
Patricia D. Kevilly, Stenographer		\$3,945	\$4,040
	<u>Research and Statistics</u>		
Reba Catherine Driver, Statistical Assistant		4,940	5,090
Mary B. McKee, Clerk-Stenographer		3,945	4,040
Richard C. Pickering, Economist		7,990	8,230
Nell Tyson Postles, Librarian		4,790	4,940
Frances D. Skehan, Statistical Clerk		4,135	4,230
C. Lavon Watson, Statistical Assistant		4,490	4,640
	<u>Bank Operations</u>		
Charles W. Bryson, Analyst		5,130	5,280
Mary Teresa Johnson, Clerk-Stenographer		3,945	4,040
Barbara J. Wrenn, Statistical Clerk		4,230	4,325

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Salary increases, effective June 12, 1960 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Examinations</u>			
Patricia A. D'Ambrosio, Stenographer		\$4,040	\$4,135
<u>Personnel Administration</u>			
Sada A. Johnson, Clerk-Stenographer		4,135	4,230
<u>Administrative Services</u>			
J. Frank Bell, Supervisor, Motor Transport Unit		5,240	5,390
Jeanette V. Breden, Assistant Manager, Cafeteria		4,640	4,790
Charles Evans, Messenger		3,245	3,340
Joan C. Bell, Printing Clerk		4,340	4,490

Acceptance of resignations

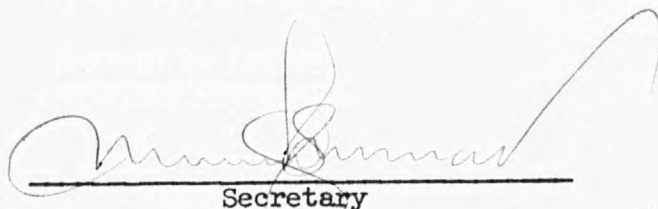
Anita L. Tidler, Stenographer, Legal Division, effective June 17, 1960.

Sylvia L. Harris, Special Assistant Federal Reserve Examiner, Division of Examinations, effective July 11, 1960.

Memorandum dated June 8, 1960, from the Division of Personnel Administration, recommending arrangements for cooperation with the American Red Cross in connection with the Emergency Chilean Relief Fund Appeal, including a program to solicit contributions from Board employees on a voluntary basis. The memorandum noted that this emergency appeal had been approved by the President's Committee on Fund Raising within the Federal Service.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 21) approving the designation of Donald Barnett as special assistant examiner.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 22) approving the appointment of James William Ferguson as assistant examiner.



Secretary

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

Item No. 1
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
Federation Bank and Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 85-19 Queens Boulevard, Borough of Queens, New York, by Federation Bank and Trust Company, New York, New York, provided the branch is established within six months from the date of this letter.

As previously indicated in its letter of December 23, 1959, approving the establishment of your branch at 87-24 Midland Parkway in Queens, New York, the Board is of the opinion that the capital structure of the bank is below the desired level. In this connection, it is noted that the approval granted by the State banking authorities for the establishment of the proposed branch is subject to the provision that, should conditions reflect the need of additional capital one year after the opening of the proposed branch, you will recommend to the stockholders of your bank an appropriate increase in capital.

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
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Board of Directors,
First Trust & Deposit Company,
Syracuse, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch in the Nottingham Shopping Center, 315 Nottingham Road, Town of Dewitt, Onondaga County, New York, by First Trust & Deposit Company, Syracuse, New York, provided the branch is established within one year from the date of this letter.

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. 3
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
New Jersey Bank and Trust Company,
Clifton, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 294 Main Avenue, Clifton, New Jersey, by the New Jersey Bank and Trust Company, Clifton, New Jersey. This approval is given provided the branch is established within one year from the date of this letter and formal approval of the State authorities is effective at the time the branch is established.

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. 4
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
Charlevoix County State Bank,
Charlevoix, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 6966 Center Street, Ellsworth, Michigan, by Charlevoix County State Bank, provided the branch is established within six months from the date of this letter.

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. 5
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Board of Directors,
The Detroit Bank and Trust Company,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment by The Detroit Bank and Trust Company, Detroit, Michigan, of a branch on the west side of Van Dyke Road near the intersection of Van Dyke Road and Twenty-One Mile Road in Shelby Township, Macomb County, Michigan. This approval is given provided the branch is established within six months from the date of this letter.

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. 6
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
Roachdale Bank and Trust Company,
Roachdale, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch in Bainbridge, Indiana. This approval is given provided (1) that prior to establishment of the branch capital stock is increased to \$100,000, and (2) the branch is established within six months from the date of this letter.

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. 7
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Board of Directors,
Pacific State Bank,
Hawthorne, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the Palos Verdes Shopping Center in the vicinity of the intersection of Hawthorne Boulevard and Indian Peak Road, Los Angeles County, California, by Pacific State Bank, provided the branch is established within one year from the date of this letter.

It is understood that capital funds of the bank will be increased by \$150,000 from the sale of additional capital stock as required by the California State Banking Department.

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. 8
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System extends to September 1, 1960, the time within which The Chase Manhattan Bank, New York, New York, may relocate its branch now located at 325 Spring Street to a new location at 345 Hudson Street, New York, New York.

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. 9
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System extends to December 12, 1960, the time within which the Manufacturers Trust Company may establish a branch at 1180 Third Avenue, New York, New York.

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. 10
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
Long Island Trust Company,
Garden City, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to December 29, 1960, the time within which Long Island Trust Company may establish a branch at 180 Atlantic Avenue, South Freeport, New York, under the authorization contained in the Board's letter of December 29, 1959.

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. 11
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Board of Directors,
American Bank and Trust Company,
Lansing, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors has approved an extension of time until November 29, 1960, in which American Bank and Trust Company, Lansing, Michigan, may establish a branch at the intersection of West Saginaw Street and Waverly Road, Lansing Township, Ingham County, Michigan. The establishment of this branch was authorized in a letter dated September 29, 1959.

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. 12
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Board of Directors,
Marshall and Ilsley Bank,
Milwaukee, Wisconsin.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System further extends the time within which Marshall and Ilsley Bank may establish a branch on North Market Street, Milwaukee, Wisconsin, to July 12, 1960, under the authorization contained in the Board's letter dated July 29, 1959.

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. 13
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Board of Directors,
Greenfield State Bank,
Bakersfield, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System extends until December 30, 1960, the time within which Greenfield State Bank may establish a branch in East Bakersfield, California, under the authorization contained in the Board's letter of June 30, 1959.

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. 14
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System extends until December 2, 1960, the time within which County Bank of Santa Cruz may establish a branch in West Santa Cruz, California, under the authorization contained in the Board's letter of June 26, 1959.

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. 15
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.

Mr. Earle O. Latham,
First Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Latham:

This refers to your letter of May 27, regarding a penalty of \$40.56 incurred by the First National Bank of St. Johnsbury, Vermont, for an average daily deficiency of \$17,626 in its required reserves for the biweekly computation period ended May 18, 1960.

It is noted that this deficiency resulted from an unintentional error by a clerk in reporting the member bank's reserve balance to the cashier responsible for maintaining the bank's reserve position, and that the bank has an excellent record of maintaining its reserve balances.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalty of \$40.56 for the period ended May 18.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 16
6/8/60

OFFICE OF THE CHAIRMAN

June 8, 1960.

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request for reports on H.R. 5135 and H.R. 5197 which are identical in wording. These bills provide for a distinction between productive capital expenditures and operating expenditures in Federal Government accounting. The Council of Economic Advisers would be required to consider this distinction in its evaluation of the Federal budgetary situation and to present a six-year budget of proposed capital expenditures. The distinction would cover the accounting for Federal governmental corporations. The bill also proposes to exclude productive capital expenditures from the statutory definition of the public debt.

Proposals for capital budgets have been made many times. Experiments with such budgets, in various forms, have been tried in several countries. These systems may have served to improve analytical understanding of the budgetary process, but sometimes they have obscured the presence of unbalanced budgets and have concealed the inflationary dangers implicit in such situations.

The statistical facts that would be produced by a capital budget would unquestionably be of considerable interest to social accountants. National saving is, of course, exactly the same thing as national investment. To get a complete idea of the total investment of the nation, public investment should be measured as well as private investment. For this reason social accountants have often urged the preparation of estimates of public capital expenditures. The Board has considerable sympathy with this view.

Whether or not this distinction should have a bearing on public policies for taxation, expenditure, and debt management is a quite different issue. The relative need for various Federal Government expenditures is already subject to detailed administrative and Congressional review. The budget-making process and the Congress in

The Honorable William L. Dawson - 2 -

its consideration of proposed appropriations look, by tradition, at each expenditure in terms of its social utility. The degree to which expenditures promise to be "productive" is given detailed consideration. Once all outlays have been determined by present budgetary and appropriation processes, the extent to which the total costs should be paid for out of currently collected taxes or possibly covered by borrowing is determined by general economic considerations. This financing decision is not, and should not, be influenced by the nature of the expenditures. The traditional feeling that private capital expenditures can be properly covered by borrowing is not a safe guide to follow in the formation of public financial policy. The cogent considerations governing this decision are: the extent to which economic resources--particularly labor--are fully employed; the nature of price developments, and the character of prevailing economic expectations. The Employment Act of 1946 is based on the assumption that the state of balance in the Federal budget should be used as an offset to unstabilizing developments in the private economic sphere. Under this approach the budget balance should not be influenced by the specific character of the expenditures made by the Federal Government.

The provision in these bills that would exclude productive capital investments from the computation of public debt is illustrative of the dangers implicit in this proposal. Aside from the ambiguity that adheres to this requirement, it might result in quite deceiving results. In private financial management, it can be said that a person or a business is more justified in incurring a debt if it is to acquire a productive and durable asset. Private individuals and businesses cannot, however, offset such assets against their debts. For the nation as a whole the futility of this device would be even more evident: one man's debt is another man's credit; all capital expenditures are met from current saving. Offsetting productive capital expenditures against the public debt, if it were technically possible (in a literal sense it is not), would not erase any part of the public debt nor ease the problems of managing the total.

In other respects these bills would also create awkward problems of management as well as concept. Distinguishing between capital expenditures and current operating expenditures is always difficult. This difficulty is well illustrated by the problems the parallel distinction presents in the administration of our tax laws. In the case of governmental accounting, it would be particularly hard to make. For example, would "productive" capital expenditures include those that would be useful but which would not produce revenues? A toll road that produces revenues adequate to fund its financing might be very properly considered a productive capital expenditure, but should free roads which serve very much the same economic purposes be counted as "productive" expenditures? An even harder zone to

The Honorable William L. Dawson - 3 -

define would be the expenditures of Government which would have undoubted long-run benefits though not identifiable in the short run as having definite capital characteristics. The best example of such expenditures would be those for education. Outlays of government for education undoubtedly are income-producing and "productive" in any sense of those words. In private accounting, however, it is not common to capitalize such expenditures. What should be done in Federal Government accounting? Another example of debatable outlays would be those involved in research and development.

An effort to distinguish between current and capital military outlays would be particularly awkward. A very large proportion of the expenditures of the armed services are for equipment of a type that would, in private accounting, be considered capital goods. Many of these outlays are, in fact, for quite durable products; that is, they are durable until they are rapidly expended in a war emergency. Is a strategic bomber a "productive" capital expenditure?

Another vexing problem raised by this proposal is the application of depreciation charges to governmental assets. It would be quite imprudent to designate some expenditures as for capital purposes unless they should be subsequently written down by depreciation charges. The estimation of depreciation charges is difficult for identifiable durable goods expenditures in the private economy, as experience in tax administration has shown. These difficulties, however, would be multiplied many times if an effort were made to apply them to public capital expenditures.

For these reasons the Board believes that adoption of the proposed budgetary system would not serve a constructive purpose.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 17
6/8/60

OFFICE OF THE CHAIRMAN

June 8, 1960.

The Honorable William L. Dawson,
Chairman,
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request for a review of H.R. 5203 which would require the establishment of a debt retirement fund from the first five per cent of estimated budgetary receipts.

The intention of H.R. 5203 to hasten retirement of the public debt is laudable, but the proposal fails to provide a mechanism which would effect this purpose. The designation of a special fund for retirement of public debt, even though it had a purported priority on tax receipts, would not change the amount of public debt retired unless total receipts or total expenditures were also changed. Since this measure would not increase receipts and does not provide any mechanism for the limitation of expenditures, it would simply mean that the debt retired at the front end of the budget would be offset by an equivalent increase of debt at the residual end of the budget. If the debt of the Federal Government is to be reduced effectively, the problem must be attacked directly by a program that either raises taxes or puts some curb on expenditures. A debt retirement fund of the sort proposed here might have a salutary effect on the preparation of the budget and on appropriations and taxes adopted by the Congress itself, but it is doubtful if these effects would be sufficient to justify its enactment.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 18
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 8, 1960.

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

Dear Mr. Bicks:

We have your letter of June 1, 1960, acknowledging receipt of a copy of the application of the Harris Trust and Savings Bank, Chicago, Illinois, to merge with the Chicago National Bank, Chicago, Illinois, under the charter of the State member bank. In order to assist in your evaluation of the competitive factors involved in this proposal, you ask that we make available for examination any files concerning the consolidating banks or any of the other competing banks in the Chicago area.

In addition to the Harris Trust and Savings Bank, there are 13 other State member banks in Chicago under the supervision of the Federal Reserve System. As indicated in the material accompanying the application forwarded to you, there are a total of 78 commercial banks in Chicago and 240 in the Chicago standard metropolitan area. Most of these banks are supervised by the Comptroller of the Currency or the Federal Deposit Insurance Corporation. Accordingly, information in our files relates only to a small portion of the banks in the area.

While it is believed that the information which we would furnish you from our files on the competitive factors would not add appreciably to that which was furnished with the application, the Board would be glad to have representatives of your division go over the material with our staff. It is suggested that they get in touch with Mr. Robert C. Masters, Associate Director of the Board's Division of Examinations, to make the necessary arrangements.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

S-1745 Item No. 19
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960.



Dear Sir:

On May 19, 1960, you were furnished with a form of notice to be published prior to approval or disapproval of a proposed merger, consolidation, or absorption as required under Public Law 86-463 enacted May 13, 1960.

In order to determine compliance with this provision of the law, the Board should be furnished with a certificate of publication. A suggested form of certificate is enclosed. A supply of the form is not being prepared at this time, and it would be appreciated if you would make a copy available to appropriate parties for their use. The notice of merger, consolidation, or absorption may be required to be published in more than one community, and a certificate should be furnished with respect to each newspaper in which the notice appears.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 20
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 8, 1960

Prudential Insurance Company
of America,
Calvert and Redwood Streets,
Baltimore 2, Maryland.

Attention: Mr. Anthony E. Forziati, Group
Sales Representative.

Gentlemen:

Following passage of the Federal Health Benefits Act of 1959, representatives of your company informed the Board's staff that unless seventy-five per cent of the Board's eligible employees were willing to continue with the Board's present health insurance program, your company would not be in a position to continue major medical insurance coverage for any of the Board's employees. The results of a recent poll of Board employees indicated that over forty per cent preferred to enroll under the Government program. It is therefore apparent that the Board will not be able to maintain the required minimum enrollment of seventy-five per cent of eligible employees after July 10, 1960.

In view of these circumstances, it has become necessary to terminate the group major medical insurance contract between the Board of Governors and the Prudential Insurance Company of America (Policy No. GZ-30051), as well as all riders and amendments thereto, and such termination is hereby requested to be effective as of the end of July 9, 1960.

The final premium payment by the Board and the Board's employees will be prorated on a basis of 23/30ths of the regular monthly amount and will represent the cost of coverage for the period from June 17, 1960 through July 9, 1960.

The Board and its staff wish to express their appreciation for the excellent service rendered by your company under this contract.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 21
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960



Mr. G. T. Quast, Chief Examiner,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Quast:

In accordance with the request contained in your letter of May 27, 1960, the Board approves the designation of Donald Barnett as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in the examination of member banks except The Fifth Third Union Trust Company, Cincinnati, Ohio. The approval heretofore given your bank to designate Mr. Barnett as a special assistant examiner is hereby canceled.

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. 22
6/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 8, 1960



CONFIDENTIAL (FR)

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of May 31, 1960, the Board approves the appointment of James William Ferguson as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Ferguson is indebted to New Britain National Bank, New Britain, Connecticut, Federal Reserve District No. 1, in the amount of \$730, but that he will not participate in any examinations of that bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.