

The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on June 29, 1960, which you have previously initialed, have been amended at the request of Governor Mills to revise his comments in the body of the paragraph at the top of page 14.

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

Chairman Martin



Minutes for June 29, 1960

To: Members of the Board

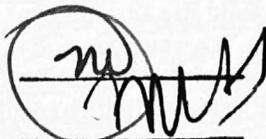
From: Office of the Secretary

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

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

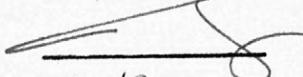
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

Chm. Martin

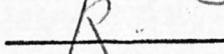


Gov. Szymczak

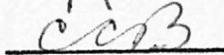
Gov. Mills



Gov. Robertson



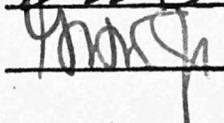
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, June 29, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman 1/
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of
Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Kelleher, Director, Division of Administrative
Services
Mr. Connell, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mr. Landry, Assistant to the Secretary
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Collier, Chief, Current Series Section,
Division of Bank Operations
Mr. Kakalec, Assistant to the Controller

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on June 27, 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.

1/ Entered meeting at point indicated in minutes.

6/29/60

-2-

Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 Bank of Suffolk County, Stony Brook, New York, approving the establishment of a branch at 452 Lake Avenue in the Town of Smithtown, Suffolk County.	1
Letter to the Federal Reserve Bank of Chicago approving (1) the payment of salaries to the Bank's carpenters at specified rates, and (2) the change in the effective date of new rates for the Bank's electricians.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of Bank of Commerce, Milton-Freewater, Oregon, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to Snyder National Bank, Snyder, Texas, approving its application for a specific fiduciary power.	4

Letter to the Brownfield State Bank & Trust Co. (Item No. 5).

Mr. Masters reported that pursuant to the understanding at the meeting on June 27, 1960, the background of the request contained in a letter of June 7, 1960, from the Brownfield State Bank & Trust Co., Brownfield, Texas, for approval of an excess investment in banking quarters made early in 1959 had been gone into. He noted that this was apparently a case of misunderstanding on the part of the member bank, which in order to finance additions to bank premises and also to keep the investment within the limitations prescribed by the Texas Banking Code, borrowed \$100,000 of the cost of

6/29/60

-3-

improvements through an affiliate from an outside source. The application of this loan and depreciation charges had reduced the carrying value of bank premises to less than its \$300,000 capital stock limitation prescribed by section 24A of the Federal Reserve Act as of May 13, 1960, the date of the most recent examination of the bank. He added that the failure to seek approval of the excess investment was a result of confusion on the member bank's part, that the bank now understood the provisions of the law, and that there appeared to be no need for admonition of the bank in the letter approving the investment in bank premises.

The letter to the Brownfield State Bank & Trust Co. approving an investment in bank premises was then approved unanimously. A copy of the letter is attached to these minutes as Item No. 5.

Request by Northwest Bancorporation (Item No. 6). There had been distributed a memorandum dated June 27, 1960, from Mr. O'Connell concerning a request by Northwest Bancorporation, Minneapolis, Minnesota, for determination as to compliance with section 4 of the Bank Holding Company Act of 1956. Mr. O'Connell noted that pursuant to the provisions of this section of the Act, the Board by letter dated May 6, 1960, granted the request of Northwest Bancorporation for a one-year extension from May 9, 1960, of the period within which it might retain direct or indirect ownership or control of voting shares of Northwestern Mortgage Company, Minneapolis, The Shawmut Company, and the DeWitt Seitz Company, both of Duluth, Minnesota. He said that Northwest also requested the Board's views as to whether certain

6/29/60

-4-

proposals would constitute compliance with the divestment required by law with respect to Northwestern Mortgage Company (by virtue of the Board's 1959 section 4(c)(6) determination) and also with respect to The Shawmut Company, a company that clearly did not come within any of the statutory exceptions. The Board's letter of May 6 advised Northwest that these matters were under consideration and would be the subject of subsequent communication, he said, and there was now presented for the Board's consideration drafts of letters to the Federal Reserve Bank of Minneapolis and to Northwest Bancorporation, the latter of which would contain appropriate reservations as to the approval given by the Board to Northwest's plans regarding the Mortgage Company and Shawmut, to which there appeared to be no legal objection. It seemed to the Legal Division that these plans represented good faith efforts by Northwest to comply with the Act. Therefore, it was recommended that the Board transmit to Northwest an expression of its approval as to the plans of Mortgage Company and Shawmut, conditioning such approval on the assumption that the representation made by Northwest would obtain at the time the proposals were actually effected. Mr. O'Connell called attention to the fact that no proposals had been submitted with respect to the voting shares of DeWitt Seitz Company held by Northwest.

Following discussion, unanimous approval was given to the letter to Northwest Bancorporation, Minneapolis, Minnesota, approving its plans for divestment of shares of Northwest Mortgage Company and The Shawmut Company. A copy of the letter is attached hereto as Item No. 6.

6/29/60

-5-

Governor Balderston and Mr. Fauver, Assistant to the Board, joined the meeting during the discussion of the foregoing item, and Messrs. O'Connell, Nelson, and Thompson withdrew at its conclusion.

Letter to Chairman Hardy (Item No. 7). Pursuant to the understanding at the meeting on June 27, 1960, there had been distributed a revised letter to Chairman Hardy that would transmit replies to questions 3, 4, 5, and 6 contained in his letter of June 10, 1960.

Following an observation by Chairman Martin that the material appeared to be in a form suitable for transmission, it was agreed unanimously that the letter and answers be sent today to Chairman Hardy of the Foreign Operations and Monetary Affairs Subcommittee of the Committee on Government Operations of the House of Representatives. A copy of the letter is attached to these minutes as Item No. 7.

Messrs. Shay and Kelleher then withdrew from the meeting.

Letter to Federal Reserve Bank Presidents (Item No. 8). There had been distributed under date of June 28, 1960, a draft of letter to all Federal Reserve Bank Presidents asking for comments on a revised draft reply to question No. 1 regarding float, contained in Chairman Hardy's letter of June 10. The draft letter would note that the proposed reply would take the position that the reasons for going back to a maximum three-day deferment outweighed those opposed but that there were important problems of timing that needed to be considered as well as problems of readjustment that member banks would have to meet.

6/29/60

-6-

The letter to the Federal Reserve Bank Presidents transmitting the proposed reply to question No. 1 from Chairman Hardy was then approved unanimously. A copy of this letter is attached as Item No. 8.

Supplemental retirement benefits (Items 9 and 10). Under date of June 22, 1960, there had been distributed a memorandum from the Division of Personnel Administration with respect to supplemental retirement benefits for Reserve Bank Plan annuitants who retired before qualifying for Social Security.

Mr. Sprecher recalled that at the request of the Board of Trustees of the Retirement System of the Reserve Banks, the Retirement Committee in 1958 made a study of the retirement allowance payments being made to the members of the Retirement System to discover whether any increase in such members' allowances would be justified as a result of the increases in Social Security benefits that became effective January 1, 1959. He noted that the Retirement Committee submitted its report on November 25, 1958, recommending a method whereby an appropriate adjustment might be made if the Presidents and the Board of Governors should agree that some adjustment would be desirable. He referred to the fact that on the basis of the Committee's report, the Presidents' Conference, as a result of a study by a Subcommittee and with further recommendations made by its Personnel Committee, recommended to the Board on March 22, 1960, that supplemental retirement benefits be provided for about 600 Reserve Bank employees who retired before qualifying for Social Security and that such benefits be

6/29/60

-7-

paid outside the Retirement System in the manner suggested by Plan II of the report of the Retirement Committee, a copy of which had been attached to the memorandum of June 22, 1960, from the Division of Personnel Administration. In brief, Mr. Sprecher said, this recommendation would provide a supplemental allowance of up to a maximum of \$18.50 per month to allow for the Social Security amendments of 1954 (\$11.00 per month) and a further increase in Social Security benefits commencing January 1, 1959, (up to \$7.50) with this supplementation to be effected outside the framework of the Retirement System. It was the recommendation of the Division of Personnel Administration that (a) the Board approve the proposal as submitted by the Presidents' Conference subject to the approval of the Boards of Directors of the individual Reserve Banks, to be effective at a date set by the Conference of Presidents; and (b) the Board approve the supplementation of the allowances for four Bank Plan members retired from the Board's staff, effective on the date set by the Conference of Presidents for retired Bank employees.

In this connection, Mr. Sprecher stated his understanding that the Federal Reserve Bank of Dallas was not now prepared to apply the suggested supplemental benefits affecting about 25 retirees out of the total of about 600 for the entire System. It was the view of the Division of Personnel Administration, however, that it would be unfortunate to hold up additional benefits to some 570 retirees because one Bank did not feel justified in providing such benefits for 25 of its retirees.

6/29/60

-8-

Governor Robertson inquired as to the nature of the Dallas Bank's objections to the supplemental benefits referred to, and Mr. Sprecher replied that his understanding was that both President Irons and the Board of Directors of the Dallas Reserve Bank felt that further benefits on top of what had been given during the past few years to the retirees would be exorbitant on general grounds. He added that the amount involved for the Dallas Bank would approximate \$5,000 per year to last for about five years since the average age of the group of retirees was 73 years.

Governor Mills said that the present proposal was one he felt the Board would be well advised to adopt. He wondered, however, whether it was appropriate to term the benefits thereunder as "fringe benefits" when what was actually involved was bringing the retirement income of a group of retirees in line with other beneficiaries of the Reserve Bank retirement program. Although there was a possibility some of the retirees concerned might have qualified for Social Security benefits since leaving the System and could thereby receive dual payments, the amounts involved would be very small, and he doubted that the Board would be subject to criticism on this score from outside sources.

Following further discussion, unanimous approval was given to the recommendations of the Division of Personnel Administration for approval of the proposal for supplemental allowances for Bank Plan annuitants retiring before qualifying for Social Security and for supplementation of the four Bank Plan members retired from the Board's staff. In taking this action,

6/29/60

it was understood that, in the case of annuitants who were employed by the Reserve Banks at the time of their retirement, the proposal was subject to approval by the Boards of Directors of the individual Reserve Banks and that the effective date for both groups affected by the proposal would be set by the Conference of Presidents. Copies of the letters sent to Mr. Johns as Chairman of the Conference of Presidents under date of June 29, 1960, and to the Secretary of the Retirement System under date of July 8, 1960, are attached as Items 9 and 10.

Mr. Dembitz, Associate Adviser, Division of Research and Statistics, entered the room during the discussion of the foregoing item, Messrs. Noyes, Director, and Koch, Adviser, Division of Research and Statistics, entered at its conclusion, and Messrs. Johnson, Connell, Sprecher, and Kakalec withdrew at this point.

Standards for classifying cities for reserve purposes and for granting banks permission to carry lower reserves. A memorandum from Mr. Thomas had been distributed transmitting a staff memorandum dated June 23, 1960, that embodied various views as to a number of different standards for classifying cities for reserve purposes and granting permission for banks in reserve or central reserve cities to carry lower reserves. It was noted in the memorandum that the aim of the analysis contained therein was to find standards for each of the two purposes stated that were not only related to each other but also conformed to the function of reserve requirements as an instrument of monetary regulation and to the purposes of reserve requirement differentials in this respect. Attached to the

6/29/60

memorandum was an appendix giving statistical data with regard to all banks presently classified as central reserve or reserve city banks and all "country" banks that seemed to be possible candidates for reserve city classification under any of the criteria discussed in the memorandum. The appendix did not include banks in reserve cities that had been permitted to carry lower requirements and that were not close to the borderline on the basis of any of the criteria.

Mr. Thomas said that three different bases of classification for selecting reserve cities had been developed: (1) The first of these would be to classify as reserve cities all those having at least one bank with total demand deposits above a given figure such as \$123 million of daily average gross demand deposits during the preceding calendar year. Application of this rule would result in bringing in a substantial number of additional reserve cities, he said, including some that contained banks which consisted mainly of branches, each of which do a business resembling that of a "country" bank, raising the problem of whether such banks should be classed as reserve city banks. (2) Another possible basis for classification of cities as reserve cities would be to employ two measures--aggregate demand deposits of all member banks and also (as at the present) aggregate interbank deposits of all banks in the city. For example, should all member banks in a city have gross demand deposits totaling about \$400 million on the basis of current data, and interbank deposits of about \$44 million, the city in which they were located would be classified as a reserve

6/29/60

-11-

city. (3) A still broader basis for classification of cities that would conform more closely to the functions of reserve requirements as a means of monetary regulation would include not only the size of the city's banks and their interbank deposits, but would also attach weight to their deposit activity and whether the city was the location of a Federal Reserve Bank or branch. Application of this rule would bring about the smallest number of changes from the existing structure. Mr. Thomas noted that under any of the three rules, most of the 51 existing reserve cities would have their status unchanged and that four cities (Hartford, Connecticut; Newark, New Jersey; Albany, New York; and Jackson, Mississippi) would be added to the reserve city list.

Mr. Thomas went on to say that, for purposes of granting permission to individual banks to carry lower reserves, it would seem desirable to set up general guides that could be consistently applied by the Board. One possible combination of criteria to be used in this connection would be to consider member banks in a reserve city eligible for reduced reserve requirements if they had: (1) Total demand deposits of less than \$100 million and (2) interbank deposits of less than \$10 million and (3) annual total debits of less than \$500 million plus 20 times average demand deposits (other than interbank and United States Government deposits). He referred to the need for periodic review of classification of cities and the reserve status of individual banks as the economy and banks grew. At the same time, the particular figures used as standards would be subject

6/29/60

-12-

to revision to avoid unduly large shifts in the proportion of banks or deposits in each class and consequent undesirable movements in the level of required reserves.

Mr. Hackley stated that the Board possessed two distinct powers in the area of reserve requirements. One of these--the power to change the classification of cities for reserve purposes--was not altered in the reserve law enacted in July 1959. On the other hand, the law passed at that time authorized the Board to grant permission to particular banks in reserve cities to carry lower reserves based on the character of their business. He noted that regardless of whatever rule was adopted as to classification of cities, there would always be some banks ineligible for reclassification. At the other extreme, he said, certain banks, due to their small size, would always be eligible for such reclassification. The real problem in his estimation was the borderline cases that would require the Board to evaluate in some detail the situation of individual banks to determine their eligibility to carry reduced reserves. It was his thought that the Board's task in making such evaluations could be simplified by an amendment to section 204.2(a)(2) of Regulation D, Reserves of Member Banks, by adding wording to the effect that any member bank in a reserve city or central reserve city having net demand deposits below a certain figure (such as \$50 million) would, on application to the Board, be granted the right to carry lower reserves. Should net demand deposits of the bank in question exceed the above figure, the Board would take into

6/29/60

-13-

account, in addition, its interbank deposits, its location, the nature of its depositors and borrowers, its competitive situation, and other factors. It could also be pointed out that in no event would the Board grant such permission unless total demand deposits of the bank in question were less than a certain dollar amount, interbank deposits were less than another dollar amount, and total debits to depositors' accounts were below a certain maximum.

Chairman Martin said that this topic had been placed on the agenda for preliminary discussion with no thought of action at this time. He then called for comment on the proposals contained in the staff memorandum.

Governor Mills stated that if a decision had to be reached today he would elect the first rule described by Mr. Thomas, since it employed as its criterion for selecting reserve cities a total demand deposit figure for at least one bank in the city involved, with exemptions of individual banks from reserve city requirements decided largely on the basis of the size of the bank. However, in making this choice he would be troubled by the further proposal that in addition to the size criterion attention also be given to deposit turnover. He thought that injection of this factor was an error because by combining two different ideas it would tend to confuse the banks affected. He went on to say that the first rule was by no means perfect since it played down the liquidity aspect in banking and promoted as the exclusively important criterion the use of required reserves as a credit control measure. In his view, it was

6/29/60

-14-

not beyond reason to consider that the Board should have some form of discretionary reserve requirement restrictions on commercial banks covering both demand and time deposit liabilities. He then cited the Society National Bank of Cleveland, Ohio, a large commercial bank as measured by its total deposits but which received a "country" bank classification because its demand deposits were minor in amount whereas its time deposits constituted an overwhelming proportion of its total deposit liabilities. Gearing reserve requirements of banks of this type solely to their gross total of demand deposit liabilities would tend to encourage a shift from demand to time deposits in order to realize the lower reserve requirements resulting therefrom as well as the advantages of a country bank classification. In the final analysis, therefore, he believed adoption of the first rule would defeat the purposes of the reserve requirement law to control credit and exercise an influence on the liquidity of commercial banks. Therefore, he would suggest that the first rule be amplified to make the dividing line between reserve city and "country" classifications a certain total of demand and time deposits combined, not solely demand deposits.

Indicating that he also was in no position to reach a decision on this question today, Governor Robertson expressed the view that any rule adopted should be simplified to the maximum to promote widespread understanding. In addition, it would be desirable to differentiate between reserve city and "country" classifications, explaining in the process why these two classes have been created. He also thought it desirable to deal with the question of changing the classification of central reserve

6/29/60

-15-

cities as required by the 1959 legislation simultaneously with the question of the reclassification of reserve cities. In dealing with this problem as well as with the related question of the reclassification of reserve cities and granting permission to individual banks therein to carry lower reserves, his thought would be to have a general dividing line with a single figure approach for total demand deposits with the presence of at least one bank having total demand deposits above a given figure determining that the city wherein it was located was a reserve city, leaving to the Board the granting of exceptions to individual banks according to the criteria mentioned by Mr. Hackley. In this connection, the figure of \$123 million suggested by the staff seemed awkward. It was his thought that a round figure such as \$100 million would be preferable; and he would not be concerned about the fact that this would increase the number of reserve cities and the number of banks considered as reserve city banks, since all would be treated equally. Governor Mills' point concerning the use of total deposit liabilities instead of total demand deposits as a basis for classification of reserve cities and granting individual banks permission to carry lower reserves was a novel one that he would like to think about.

At the invitation of the Chairman, Mr. Koch said that he leaned towards an approach that would minimize changes. Therefore, his preference was for the third alternative rule mentioned by Mr. Thomas as it pertained to granting the permission to carry lower reserves, which also had greater logic. On the other hand, he was disturbed by the complications of the formula that was proposed to be used under this rule. In his estimation,

6/29/60

-16-

it would be better for the Board not to announce any set formula. Rather it could simply have a list of the various factors to be considered with each decision being arrived at on an individual basis for each bank, once cities had been reclassified for reserve purposes.

Mr. Conkling replied, in answer to a question from the Chairman, that since he was the author of the second rule, under which reserve cities would be designated on the basis of total demand or total interbank deposits of all member banks in each city, he was somewhat prejudiced in favor of this rule, although he had no objection to incorporating Governor Mills' suggestion to use as a basis the total of all deposit liabilities. He had found it impossible to exclude interbank deposits as a criterion in this connection because of the necessity to have some means of dealing with borderline cases. Furthermore, this standard had been in Regulation D since the revisions of 1947. He went on to say that he could live with other rules, such as one that employed a deposit-turnover criterion, although the figures on bank debits were not reliable in every instance.

Governor Balderston observed that he was in sympathy with the approach taken by Governors Mills and Robertson on this question, namely, to use size of banks as a means of classifying cities and for granting permission to banks to carry lower reserves, with the Board going into the merits of individual cases on the basis of additional factors such as the competitive situation, location of the banks, and deposit turnover, whenever the bank involved was a borderline case.

6/29/60

-17-

Mr. Thomas noted that if size alone were used as the basis for classifying reserve cities, it would bring in banks that were really "country" banks on the basis of the character of their business--that is, banks doing a retail rather than a wholesale business and consisting of a large number of branches with an office in the reserve city. Therefore, it was his thought that deposit turnover should be included in the rule for classifying cities so that, if the banks in a city such as Helena, Montana, did not qualify as reserve city banks by virtue of large size or high deposit turnover, the city would not be so classified.

Mr. Farrell commented that if the Board were not concerned about movements in the level of required reserves brought about by a change in its classification standards for reserve purposes, it would be possible to go back to the situation existing prior to 1947, whereby certain cities were more or less arbitrarily designated as reserve cities.

Governor King said that he was convinced that the problem at hand was essentially a question of equity rather than of monetary policy. He referred to the fact that by virtue of the July 1959 legislation central reserve cities were to be classified as reserve cities within three years after the passage of the law. To his way of thinking this required a recasting of the idea of the nature of a reserve city, which he would be inclined to restrict to a rather small group, since the equity consideration appeared to require as great a uniformity of reserve requirements among banks as possible.

6/29/60

-18-

After some further discussion, it was understood that the questions of classification of cities for reserve purposes and granting permission for banks to carry lower reserves would be considered again in the near future.

The meeting then adjourned.

Secretary's Notes: On June 21, 1960, pursuant to the action at the meeting of the Board on June 15, there was sent to Under Secretary of the Treasury Baird a letter prepared for Chairman Martin's signature with respect to proposed revised regulations of the Treasury Department covering the redemption, verification, and destruction of United States paper currency. On June 28, 1960, advice was received from the Fiscal Assistant Secretary of the Treasury that the revised Treasury Department regulations had been issued and advice sent to the Federal Reserve Banks by the Treasury that they were to become effective July 1, 1960. Thereupon, pursuant to the Board's action on June 15, a letter to the Presidents of all Federal Reserve Banks in the form of attached Item No. 11, noting with approval the adoption of the above revised regulations, was mailed under date of June 28, 1960.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board on June 28, 1960, the following actions affecting the Board's staff:

Employment notwithstanding failure to meet physical requirements

James C. Wallace, whose appointment as Economist in the Division of International Finance was approved by the Board on May 10, 1960, subject to satisfactory references and meeting the physical requirements, to be employed notwithstanding his failure to meet the physical requirements.

6/29/60

-19-

Acceptance of resignations

Billie H. Emerson, Training Technician, Division of Personnel Administration, effective June 24, 1960.

Margery K. Phillips, Statistical Clerk, Division of Research and Statistics, effective July 8, 1960.

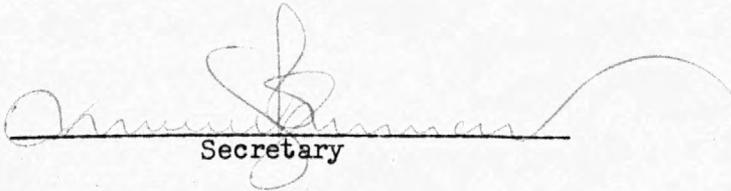
Permission to work additional period prior to maternity leave

Dorothy Bujno, Secretary, Division of Research and Statistics, to work through July 22, 1960, before starting maternity leave.

Outside business activity

Katharine E. Brown, Statistical Clerk, Division of Research and Statistics, to work on a part-time basis (Saturdays) as a secretary in a doctor's office.

Pursuant to the recommendation contained in a memorandum from Mr. Koch, Adviser, Division of Research and Statistics, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the appointment of Margaret L. Campbell as Clerk-Stenographer in that Division, with basic annual salary at the rate of \$3,755, effective the date of entrance upon duty.


Secretary

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

Item No. 1
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960

Board of Directors,
Bank of Suffolk County,
Stony Brook, 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 452 Lake Avenue, in the unincorporated Village of Saint James, Town of Smithtown, Suffolk County, New York, by Bank of Suffolk County, provided the branch is established within six months from the date of this letter.

It is understood that the capital structure of the bank will be increased \$150,000 through the sale of additional common stock.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



2388

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

Item No. 2
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960



CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

The Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates indicated, retroactive to June 1, 1960, in accordance with the request contained in your letter of June 15, 1960:

<u>Title</u>	<u>Annual Salary</u>
Head Carpenter	\$8,132.80
Carpenter	7,319.52

The Board also approves a change from July 1 to July 5, 1960, in the effective date of new rates for the Bank's Electricians. Board approval of increased rates for these employees was granted in a letter dated June 16, 1960.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3

6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960



The Honorable Jesse P. Wolcott, Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of June 15,
1960, concerning the application of Bank of Commerce,
Milton-Freewater, Oregon, for continuance of deposit
insurance after withdrawal from membership in the
Federal Reserve System.

No corrective programs which the Board believes
should be incorporated as conditions to the continuance of
deposit insurance have been urged upon or agreed to by 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. 4
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960



Board of Directors,
Snyder National Bank,
Snyder, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for a specific fiduciary power and grants Snyder National Bank authority to act, when not in contravention of State or local law, as trustee under deed of trust, dated July 1, 1960, of a first mortgage bond issue of \$250,000 of the First Methodist Church, Snyder, Texas. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A certificate covering such authorization is enclosed.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

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

Item No. 5
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960



Board of Directors,
Brownfield State Bank & Trust
Co. Brownfield, Texas,
Brownfield, Texas

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors approves, under the provisions of Section 24A of the Federal Reserve Act, the investment by Brownfield State Bank & Trust Co. Brownfield, Texas, Brownfield, Texas, of \$112,517.83 together with \$14,732.49, conforming to the amounts already expended in connection with the expansion of bank premises and nearby parking facilities.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960

Mr. John A. Sweeney, Vice President,
Northwest Bancorporation,
1215 Northwestern Bank Building,
Minneapolis, Minnesota.

Dear Mr. Sweeney:

This refers to your letters of March 29 and June 14, 1960, relative to the divestment of shares of certain nonbank companies owned directly or indirectly by Northwest Bancorporation.

In particular, you requested (a) that, pursuant to section 4(a) of the Bank Holding Company Act of 1956, the Board of Governors grant extensions of one year from May 9, 1960, of the periods within which Northwest Bancorporation might retain direct or indirect ownership of the voting shares of Northwestern Mortgage Company, Minneapolis, Minnesota, The Shawmut Company and DeWitt Seitz Company, both of Duluth, Minnesota; (b) as to Northwestern Mortgage Company, that the Board advise whether the voting shares of that corporation need be finally disposed of or the corporation legally dissolved on or before May 9, 1961, or whether under circumstances that you set forth, hereinafter summarized, Northwestern Mortgage Company may continue as a "completely dormant corporation until such time, if any, as a legally permissible use may be made of the corporation"; and (c) as to The Shawmut Company, that the Board advise as to whether it would regard as a satisfactory compliance with the divestment requirements of section 4 of the Bank Holding Company Act a contribution by Northwestern National Bank of the voting shares in The Shawmut Company to a charitable foundation, the organization of which is being considered by Northwestern National Bank.

The extensions of time requested by you were granted by the Board's letter of May 6, 1960.

As to your request for the Board's opinion relative to the proposal for retention of shares in Northwestern Mortgage Company ("Mortgage Co."), it is understood that Mortgage Co. is in the process of terminating its business activities and that, apart from its holdings of cash and United States Government bonds, its assets consist of

Mr. John A. Sweeney

-2-

real estate mortgages on residential properties presently under construction, and monies due on contractual sales of servicing contracts which contracts have been transferred to other non-affiliated interests. It is further understood that the loans secured by real estate mortgages will be liquidated under existing purchase commitments prior to May 9, 1961, and that the contracts of sale related to the servicing contracts call for payments extending, in some cases, over a 4-year period. On the basis of the facts presented, including your statement that Mortgage Co. no longer maintains an office or payroll, it would appear that subsequent to May 9, 1961, Mortgage Co., if retained, will in fact be a mere corporate shell, wholly dormant in nature. Implicit in this opinion is the conclusion that the receipt by Mortgage Co. of payments from the sales of servicing contracts does not constitute engaging in a business as that term is used in section 4 of the Act. Assuming that the status of Mortgage Co. would be as described, there would seem to be no prohibition under the Bank Holding Company Act of retention of the shares of Mortgage Co. by Northwest Bancorporation. It is to be understood, of course, that this opinion obtains only to the extent that the circumstances you have described actually occur and that any reactivation of the corporation would violate the statute unless it should fall within the exceptions provided by the statute.

In regard to The Shawmut Company ("Shawmut"), you advise that Northwest Bancorporation's subsidiary, Northwestern National Bank, owner of 3,222 shares of Shawmut, is considering the formation of a nonstock, nonprofit charitable corporation to be organized under the laws of the State of Minnesota, to which the shares of Shawmut would be contributed. You advise further that such charitable corporation, if organized, would be operated exclusively for charitable purposes with no part of its net earnings inuring to the benefit of any private shareholder or individual and no substantial part of its activities will be carrying on propaganda or otherwise attempting to influence legislation; and that such corporation would in all respects conform to the requirements of the Comptroller of the Currency for the establishment of charitable foundations by national banks as set forth in Paragraph 7220 of the Comptroller's Digest of Opinions.

On the basis of your statements as to the nature of the corporation, organization of which is being considered by Northwestern National Bank, it appears that such corporation would fit the exclusionary language of section 2(b) of the Act relating to the definition of "company". Accordingly, the Board is of the opinion that such corporation would not be subject to the provisions of the Act and that a contribution by Northwestern National Bank of its shares in Shawmut to such a corporation would constitute satisfactory compliance with the

Mr. John A. Sweeney

-3-

divestment requirements of section 4 of the Act. It is to be understood that compliance with the divestment requirement of section 4, either in the manner herein discussed, or otherwise, must be accomplished on or before May 9, 1961. As indicated above, the views herein expressed are premised on your statement of facts and of proposed action and quite possibly would not obtain were the facts or proposed plans to be altered in any substantial manner.

It will be appreciated if you will inform the Board through the Federal Reserve Bank of Minneapolis, as to the date (prior to May 9, 1961, in each case), when (1) all business activities of Mortgage Co. shall have ceased, and (2) divestment of ownership or control of voting shares of Shawmut and the DeWitt Seitz Company has been accomplished. As to Mortgage Co., it should be understood that Northwest Bancorporation will submit for consideration by the Board any proposal for reactivation of such Company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

2396

Item No. 7

6/29/60

OFFICE OF THE CHAIRMAN

June 29, 1960

The Honorable Porter Hardy, Jr.,
Chairman,
Foreign Operations and Monetary Affairs Subcommittee
of the Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

As indicated in my acknowledgment of June 15 and in our subsequent telephone conversation, the Board is glad to have an opportunity to comment on the several questions presented in your letter of June 10, 1960, regarding your Subcommittee's survey of the operations of the Board of Governors of the Federal Reserve System. Some of the questions deal with matters that have been the subject of extensive study by the Board over a long period of time. Others touch upon subjects on which a judgment has been reached by the Board without equally exhaustive study. We have been glad to re-examine all of these questions in the light of your letter.

Copies of memoranda that deal with each of the questions, excepting Nos. 1 and 2 which relate to "float" and to a single Federal Reserve note issue, are enclosed. As was indicated when I talked with you by telephone on June 16, we are able to give fairly complete comments at this time on several of the questions you ask, while the replies to some will be sent later, and in certain cases we shall wish to supplement the comments in the memoranda with this letter after a more complete survey.

We hope that you will find the material transmitted with this letter helpful to the work of your Subcommittee. It is the Board's intention to continue to work on a number of these questions as indicated, and the results of these studies will be transmitted to you as soon as they are completed.

Sincerely yours,



Wm. McG. Martin, Jr.

Enclosures.

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

Item No. 8
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960.



Dear Sir:

This refers to item No. 1 in the letter sent to Chairman Martin under date of June 10, 1960, by the Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the Committee on Government Operations of the House of Representatives.

At the Board's direction the staff has been drafting a response to the question, which relates to the proposal that the maximum deferment time for checks deposited with Federal Reserve Banks for collection be raised to 3 days. A copy of a draft reply is enclosed. It will be noted that, under this draft, the Board would take the position (pages 5 and 6) that the reasons for going back to the maximum 3-day deferment outweigh those opposed but that there are important problems of timing that need to be considered as well as problems of readjustment member banks have to meet.

It will be recalled that in September 1958 the Presidents' Conference, by majority vote, approved the proposal for restoring the 3-day deferment schedule and that the Board, as stated in its letter of October 20, 1958, concurred in the prospective action. It will also be recalled that, as a result of further considerations, including discussions with the Presidents on November 10 and December 16, 1958, and March 3, 1959, and with the Federal Advisory Council on February 19, 1959, the Board concluded that the matter should be laid on the table. Accordingly, you were advised by the Board's letter of March 10, 1959, that the last two paragraphs of its letter of October 20, 1958, with respect to the change in the deferment schedule were without effect. The action taken on March 10, 1959, was without prejudice to reconsideration of the proposal at some future time and without commitment on the part of any Board member as to what his position might be at a later date.

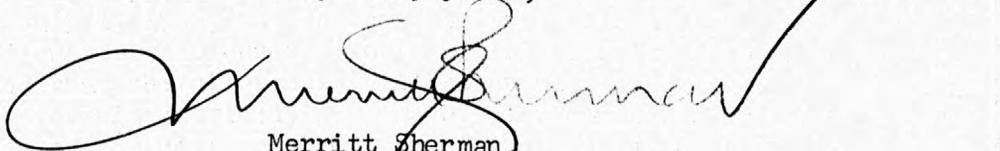
Chairman Martin has advised Mr. Hardy, Chairman of the above-mentioned Subcommittee, that a reply to question No. 1 will be deferred. For guidance and consideration in the preparation of

the reply, the Board would appreciate the benefit of your current comments and suggestions on the enclosed draft, including your views on potential advantages and disadvantages of restoring the 3-day deferment from the standpoint of the Federal Reserve System, the member banks, and the general public. The draft should be regarded merely as a basis for discussion and comment, pro and con, by both the Presidents and the Board.

The staff, in preparing the draft, reviewed available information in the Board's files relating to changes in deferment schedules made in 1939 and 1951, but it was unable to find anything which supports conclusions as to the possible effect such changes might have on the general public. For instance, there were no statements made as to what the general public might reasonably have been expected to gain when the 2-day deferment schedule was adopted in 1951, nor when the 3-day schedule was adopted in 1939, although it may have been then assumed that any material benefits accruing to member banks would in the normal course be passed on to their customers in analyzing deposit accounts and assessing service charges. In the light of this situation, the Board would particularly like to have your suggestions as to whether comments should be made, in the reply to question No. 1, concerning the public welfare aspect of the actions taken in 1939 and 1951, and as to what might be expected in this regard if the 3-day deferment schedule is restored.

It will be appreciated if your reply to this letter is submitted within two weeks, if practicable.

Very truly yours,



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. 9
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 29, 1960



CONFIDENTIAL (FR)

Mr. D. C. Johns,
Chairman,
Conference of Presidents of the
Federal Reserve Banks,
c/o Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

The Board of Governors has considered the proposal of the Conference of Presidents to supplement the retirement allowances of certain groups of former Reserve Bank employees who retired prior to becoming eligible for Social Security benefits. This proposal was set forth at a joint meeting of the Board and the Presidents' Conference on March 22, 1960, and was supplemented by your letter of May 17, 1960, and a letter of May 6 addressed to you from Mr. Bryan, in his capacity as Chairman of the Personnel Committee of the Conference of Presidents.

The Board understands this proposal covers the retirement allowances of surviving Bank Plan retirees of the Retirement System of the Federal Reserve Banks whose allowances were subject to adjustment effective April 1, 1953, and Bank employees who retired on disability between July 1, 1952, and January 1, 1956, without the necessary number of quarters to qualify for a Social Security disability benefit; and that the allowances will be supplemented in accordance with the formula provided in Plan No. II recommended by the Retirement Committee of the Retirement System of the Federal Reserve Banks in the November 25, 1958, report to the Chairman of the Board of Trustees of the Retirement System.

It is further understood that the supplemental payments will be made outside the framework of the Retirement System of the Federal Reserve Banks with the Retirement Office administering the payments on behalf of the Reserve Banks; the arrangements for supplementation to be worked out and agreed upon by the Conference of Presidents and the Retirement Committee of the Retirement System of the Federal Reserve Banks.

The Board approves this proposal as submitted by the Presidents' Conference, subject to the approval of supplemental payments by the boards of directors of the individual Federal Reserve Banks, with the effective date to be set by the Conference of Presidents.

Mr. D. C. Johns

-2-

The Board has also authorized payment to the Retirement System of an amount necessary to increase the allowances of annuitants who are members of the Bank Plan and formerly were employees of the Board of Governors, in accordance with the formula approved for retired Bank employees, to be effective on the date set by the Conference of Presidents for retired Bank employees.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
6/29/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 8, 1960

Confidential (FR)

Mrs. Valerie R. Frank,
Secretary, Retirement System
of the Federal Reserve Banks,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mrs. Frank:

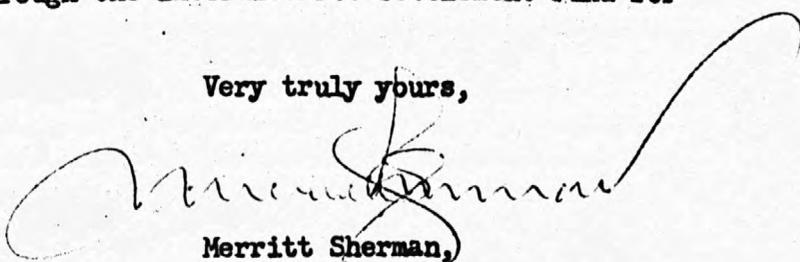
The Board of Governors has approved the proposal of the Presidents' Conference to supplement the retirement allowances of certain former Reserve Bank employees who retired prior to becoming eligible for Social Security benefits. A copy of the Board's letter of June 29, 1960, approving this proposal, addressed to Mr. D. C. Johns, Chairman of the Presidents' Conference, is enclosed.

The Board has also authorized payment to the Retirement System of an amount necessary to increase the allowances of annuitants who are members of the Bank Plan and formerly were employees of the Board of Governors, in accordance with the formula and under the same provisions as approved for retired Bank employees to be effective on the date set by the Conference of Presidents for retired Bank employees. In this connection, we understand that the following named retirees' allowances will be supplemented effective August 1, 1960, and that the annual cost to the Board will approximate \$813.

Mrs. A. K. Croxton
Mr. John DeLaMater
Mr. George M. Ringen
Mr. Walter Wyatt

If you will bill the Federal Reserve Bank of Richmond in advance each month for the estimated cost of this supplement, we will make arrangements with the Federal Reserve Bank of Richmond to credit the Federal Reserve Bank of New York through the Interdistrict Settlement Fund for the amounts involved.

Very truly yours,


Merritt Sherman,
Secretary.

Enclosure

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

Item No. 11
6/29/60
S-1748

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 28, 1960.



Dear Sir:

This refers to the Treasury Department regulations governing the redemption, verification, and destruction of unfit U. S. paper currency as revised effective July 1, 1960.

The Board notes with approval that the revised regulations require uniform observance by all Federal Reserve Banks, and that an additional safeguard has been established by provision for a destructor whose only connection with this work will be (a) to strap-and-bundle-count the canceled currency just prior to destruction in the presence of the two representatives of the currency verification unit, and (b) to join in the destruction certification.

The Board understands that the provision for observation of the canceling operation discussed by the Ad Hoc Committee was omitted from the Treasury regulation in order that each Reserve Bank's implementing instructions could provide for such observation in the manner best suited to the requirements of the individual Bank. The Board concurs in this view with the understanding that the canceling operation shall be observed by at least one person who does not work in the Currency Verification and Destruction Unit and who would not otherwise participate in either the sorting and counting function or the canceling operation of the Cash Division.

In addition to the safeguards in the proposed procedure the Board believes that each Reserve Bank should consider the desirability of rotating employees in key positions in the verification and destruction operation even though provision therefor was not incorporated in the revised regulations. While it is recognized that absences due to vacations and sick leave provide some rotation it is believed that assignments of key employees should be further rotated on an unannounced basis.

As previously indicated, the Board agrees that procedural variations in this operation should be avoided, and assumes that the Banks concerned will discontinue practices varying from the revised

regulations, such as longitudinal banding, longitudinal cutting, weighing, and the fanning of canceled ones not otherwise verified. In this connection the regulations revised as of July 1, 1960, should be considered as superseding any procedural instructions that may heretofore have been given by the Board's examiners, who will review each Reserve Bank's operation in the light of the new regulation.

To avoid the possibility of misunderstanding, however, it should be noted that the provision in the Treasury regulations concerning uniform observance and the Board's position with respect to this matter are intended to apply to normal day-to-day procedures. It is understood, of course, that the Reserve Banks will take such additional steps as may be appropriate to effect correction of a situation requiring special attention. Shortly after the first of the year, when the revised regulations will have been in effect for six months, the Board will request comments on the experience of your Bank under the revised procedures, particularly with respect to the effect, if any, of the discontinuance of procedures previously followed, the effectiveness of the observation of the canceling operation, and the frequency of the need to employ special measures not provided for in the regulations.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS