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 Tuesday, August 9, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Robinson, Adviser, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Hooff, Assistant Counsel
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on August 8, 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.

Payment of premium for new savings accounts (Item No. 1). A Memorandum dated August 5, 1960, from Mr. Hooff had been distributed in connection with a proposed plan of Southwest National Bank of Wichita, Wichita, Kansas, to pay a premium of $1 for the opening of each new savings
account of $10 or more. The memorandum pointed out that the Board's previous conclusion on the general question had been that the giving of a premium in the form of an article of nominal value in connection with the opening of a new account would not amount to a payment of interest if the premium was given only once and during a limited promotional campaign. In Mr. Hackley's memorandum of October 24, 1958, on the subject of "give-aways" the question of credit to an account was considered, with the conclusion reached that it would be difficult to distinguish logically between cases in which a bank might give an article costing $1 and those in which it might give $1 in cash or credit. However, no specific question of a cash or credit premium was before the Board at that time.

When the Federal Reserve Bank of Kansas City submitted the plan of Southwest National Bank of Wichita for consideration, the Legal Division consulted the Federal Deposit Insurance Corporation and was advised that in recent letters that agency had taken a position that the practice of crediting a small amount to a new depositor's account was regarded as an incentive to promote good will and encourage thrift. If nonrecurring and not done with the intention of providing financial compensation to the customer for the use of his funds, such a credit would be considered by the Corporation as an advertising expense and not a payment of interest. The memorandum from Mr. Hooff, which recommended that the Board take the same position, submitted a draft of reply to the Federal Reserve Bank of Kansas City.
In discussion the view was expressed that, although the logic of the matter would suggest going along with the position proposed in the memorandum, the giving of premiums or credits as an inducement to the opening of new accounts was not a desirable practice and efforts should be continued, whenever the opportunity presented itself, to obtain a change in the law.

The proposed letter to the Federal Reserve Bank of Kansas City, of which a copy is attached as Item No. 1, was then approved unanimously. It was understood that copies would be sent to all Federal Reserve Banks, but that the letter would not be published in the Federal Reserve Bulletin or the Federal Register.

Payment for unused vacation of deceased employees (Item No. 2). At the meeting on August 4, 1960, consideration was given to a request from the Federal Reserve Bank of Atlanta for reversal of a ruling by the Board prohibiting payment to the beneficiary for vacation earned but unused at the time of death of a Reserve Bank officer or employee. This ruling, made in 1938, was reaffirmed in February 1954 following consideration of a recommendation by the Conference of Presidents that such payments be permitted. At its August 4 meeting the Board authorized such payments to beneficiaries of Reserve Bank officers or employees, effective from that date forward, but reserved for further consideration the question presented
by the request of the Federal Reserve Bank of Atlanta, namely, whether the authorization should be given also on a retroactive basis.

Governor Szymczak, who had now had an opportunity to review the matter, indicated that he thought it would be desirable to find out what cases might have occurred at the Federal Reserve Banks since 1954, because if the Atlanta Bank were allowed to make a payment to the beneficiary of an officer who died in 1959 it would not seem equitable to deny similar payments in other cases.

Upon inquiry by Governor Shepardson as to the position of the Legal Division, Mr. Hexter said it continued to be his view that it was questionable whether payments on a retroactive basis could be regarded as compensation, and that they might be regarded instead as in the nature of gifts to the beneficiaries. In his own judgment, the authorization preferably should date from the Board's decision. Although he recognized that from the point of view of personnel management it could be argued that back payments might result in benefits to morale sufficient to justify the expenditure, he felt that the Board might be subject to legal criticism since the policy of paying for unused vacation was not in effect at the time of death in such cases. In future cases, the policy of making such payments would provide an additional incentive to accept employment and to remain with the Reserve Bank, but considerations of this nature obviously were not present in those cases where employees already had died.
There followed a discussion of the strong feeling the Atlanta Bank apparently had in regard to the Snyder case, and of possible harmful effects on the Bank's employee relations if the payment to the beneficiary was not authorized. It was generally agreed, however, that a retroactive authorization covering one specific case would not be warranted, and the possibility of referring the general question of retroactive payments to the Reserve Bank Presidents therefore was suggested. On the other hand, the view was expressed that placing the matter before the Presidents formally might give it undue importance, and it was suggested as an alternative that the Division of Personnel Administration might make an informal inquiry through the Reserve Bank personnel officers.

The Board then considered further the difficulties involved in selecting a cut-off date in the past if retroactive payments were authorized. While it was thought that the most logical date might be 1954, the date of the most recent action with respect to the basis on which payments for unused vacation are made to beneficiaries of Board employees, it was recognized that many complications, such as the reopening of estates that had been closed, might be involved in an authorization that would extend retroactively over a substantial period.

Governor Mills then stated that, although he had no strong feeling on the matter, he would be inclined to request the Personnel Division to explore the situation further with the Reserve Bank personnel officers in
an effort to obtain additional views and facts, and Governor Szymczak indicated that he also would be inclined to follow such a procedure. Governors Robertson, Shepardson, and King expressed the opinion that the better procedure would be to deny the specific request of the Atlanta Reserve Bank and consider the matter closed. Governor Balderston indicated that although his original preference had been to explore further the possibility of authorizing retroactive payments on some basis that might be justifiable, he would abstain from voting. Accordingly, it was the consensus that the question of a general authorization on a retroactive basis should not be explored further.

The foregoing consensus having been reached, it was agreed that a letter should be sent to the Federal Reserve Bank of Atlanta denying its request for authorization to make payment to the beneficiary of the officer who died in 1959 for vacation leave unused at the time of the officer's death. A copy of the letter sent to the President of the Atlanta Bank pursuant to this action is attached as Item No. 2.

During the foregoing discussion Messrs. Molony, Assistant to the Board, and Noyes, Director, Division of Research and Statistics, joined the meeting and Mr. Hooff withdrew, and at the end of the discussion Mr. Johnson left the room.

Classification of reserve cities. On the basis of the Board's recent discussions of criteria for the classification of reserve cities, the staff
had made test runs to show the results if the Board were to designate as a reserve city any city in which there was located:

1. A Federal Reserve Bank or branch (unless every bank in the city qualified for reduced reserves), or,
2. A single bank having aggregate demand deposits of $200 million and over, or
3. Two banks having aggregate demand deposits of $300 million and over or interbank deposits of $40 million and over.

Governor Balderston inquired if, rather than consider immediately the indicated results of the application of such a standard, the Board would wish to consider several basic questions designed to bring out the thinking that existed on appropriate criteria. For this purpose, he said, he had drawn up a list of questions, having in mind particularly the suggestion of Governor Mills that the Board's study be divided into two parts, first, the criteria for classifying reserve cities, and second, the criteria for declassifying individual banks from reserve city status.

After copies of the questions had been distributed, Governor Mills expressed the view that the first problem to be decided was whether the classification of reserve cities should be based on total deposits or demand deposits. He stressed the opinion that consideration should be given to this question because he thought the Board would be moving onto treacherous ground if it established procedures that were not understood
by the commercial banking system. After citing certain examples of recent actions that he thought presented difficulties of understanding for the commercial banks, he suggested that the banks likewise would be confused if demand deposits were used as a basis for the classification of reserve cities. In practical effect, he noted, the difference in terms of cities included or excluded would not appear to be substantial.

There was general concurrence in Governor Mills' view that the question whether demand deposits or total deposits should be used as a measure should be the first item to be considered. Accordingly, there followed a lengthy discussion of various reasons that would suggest the use of total deposits or, on the other hand, the use of demand deposits. Among other things the discussion touched upon the reserve requirement differential as between demand deposits and time deposits; the practice of banks, in making investments, not to segregate funds coming in through the various windows; the origin and rationale of the concept of regional money markets; and the varying importance in different areas of nonmember banks, savings banks, and other financial institutions.

From this discussion it developed that Governors Balderston, Mills, Robertson, and King were inclined to use total deposits as a criterion for the classification of reserve cities, while Governors Szymczak and Shepardson were inclined toward the use of gross demand deposits. It was the consensus that, in either event, classifications should be based on deposits of member banks only, although it was
indicated that the staff should have in mind in its further work on the subject any situations where the inclusion of nonmember banks would be of significance.

Governor Balderston then turned to the list of questions he had drawn up, the first of which was whether the initial screening of cities should be based on the largest single bank or the largest two banks.

The opinions expressed on this point favored using a formula somewhat along the following lines, although it was indicated that the opinions stated were not necessarily in terms of particular deposit figures:

Any city in which there is located a single bank having total deposits of $300 million and over, or two banks having total deposits of $400 million and over.

The second of Governor Balderston's questions concerned the inclusion of interbank deposits as part of the formula for classifying reserve cities, and the discussion touched upon several arguments pro and con. On the side of inclusion of such deposits, reference was made to the tie-in with criteria that had been in use over a period of years, the suggestion that character of business should connote something more than size, and the thought that exclusions of cities from the reserve city designation should not be permitted simply because the banks therein failed to meet a certain standard based on the volume of deposits other than interbank deposits. Reasons for exclusion of interbank deposits related
to the assumption that such size criteria as were decided upon might be expected to pick up those banks having substantial interbank deposits, and the desirability of keeping the formula for classification of reserve cities as simple as possible.

While two of the members of the Board leaned initially toward the exclusion of interbank deposits, they indicated that their views were not held strongly. Accordingly, they later joined the other Board members in a tentative position favoring a formula which, in addition to taking into account the size of the largest bank or of the two largest banks in a city, would also take into account the volume of interbank deposits of such bank or banks.

On the question as to whether a bank having any office in a reserve city should be required to meet reserve city requirements unless it was subsequently found to be eligible for declassification, a unanimous view in the affirmative was expressed.

There was also general agreement with the principle that all Federal Reserve Bank and branch cities should be classified as reserve cities regardless of other criteria, leaving for further consideration the question whether such cities should continue to be listed as reserve cities if all member banks therein subsequently were exempted from maintaining reserve city requirements.

There was unanimous agreement that, for the purpose of classification of reserve cities, the size of a bank should be measured by its
aggregate deposits at all offices, even though they might be rather widely dispersed.

After further discussion it was agreed that the staff should prepare data showing the effect of the application of the principles agreed upon at today's meeting as a basis for further discussion. For purposes of comparison, these data were to be based on a formula calling for classification as a reserve city of any city containing a single bank with total deposits of $300 million and over or interbank deposits of $30 million and over, or two banks having total deposits of $400 million and over or interbank deposits of $40 million and over. An alternative set of data was to be provided for situations in which the figures of $300 million and $400 million in the above formula would be dropped to $250 million and $350 million, respectively.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items relating to the Board's staff:

Appointment

Lucy R. Scala as Stenographer in the Legal Division, with basic annual salary at the rate of $4,355, effective August 15, 1960.

Acceptance of resignation

John D. O'Regan, Operator, Tabulating Equipment, Division of Administrative Services, effective August 12, 1960.
Governor Shepardson also approved today on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 3) approving the designation of Thomas J. Kyde as special assistant examiner; and a letter to the Federal Reserve Bank of Dallas (attached Item No. 4) approving the designation of five persons as special assistant examiners.

Assistant Secretary
Mr. L. F. Mills, Vice President,  
Federal Reserve Bank of Kansas City,  
Kansas City 6, Missouri.

Dear Mr. Mills:

This refers to your letter of July 22, 1960, addressed to Mr. Frederic Solomon, requesting a ruling on the proposed plan of Southwest National Bank of Wichita, Wichita, Kansas, to pay a premium of $1.00 for the opening of each new savings account of $10.00 or more.

The Board's letters on this general subject (S-1676 and S-1683; FRIS #6245) dealt only with premiums in the form of articles of "nominal value". Although a premium in the form of a credit to the new depositor's account suggests a payment of interest to a greater degree than the giving of some article of similar value, there would seem to be no defensible basis for making a distinction between the cases. Accordingly, the Board will not object to the proposed plan for payment of a premium of nominal amount in the form of credit to the new depositor's account if such premium is given only once, and during a limited promotional campaign.

As the Board has previously stated, it does not look with favor upon the practice of giving premiums to depositors as an inducement for the opening of accounts. However, the Board recognizes that it has become the practice of many banks, in order to stimulate new business, promote good will and encourage thrift, to offer such premiums as an advertising or promotional medium rather than an indirect payment of interest.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.
Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

Reference is made to your letter of January 25, 1960, and subsequent correspondence with your Bank, concerning the payment for earned, but unused, vacation of Mr. John Wylly Snyder, deceased, former Cashier at the Jacksonville Branch of your Bank.

On August 4 the Board authorized payment to the beneficiary for any earned, but unused, vacation leave of any officer or employee of a Reserve Bank who died on or after that date. The Board considers that there is no proper basis on which an exception can be made to the uniform rule set out in S-108-a, dated August 3, 1938, so as to permit payment of Reserve Bank funds to the estate of an officer or employee on account of unused leave where his death occurred while that rule was in effect. Therefore, the Board regrets that it cannot approve the payment to the widow of Mr. Snyder of the salary equivalent of his leave unused at the time of death.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
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 August 1, 1960, the Board approves the designation of Thomas J. Kyde as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of member banks except The Newport National Bank, Newport, Kentucky. The authorization heretofore given your Bank to designate Mr. Kyde as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
August 9, 1960

Mr. L. C. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of August 3, 1960, the Board approves the designation of the following named individuals as special assistant examiners for the Federal Reserve Bank of Dallas for the purpose of participating in the examinations of Southern Arizona Bank and Trust Company, Tucson, Arizona, only:

Charles R. Bell       Richard D. Ingram
James F. Lucky        A. J. Sullivan
Charles R. Norris

The authorization heretofore given your Bank to designate these individuals as special assistant examiners is hereby canceled.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.