

Minutes for August 12, 1960

To: Members of the Board

From: Office of the Secretary

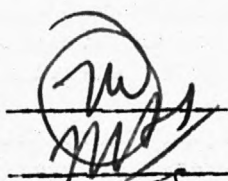
Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

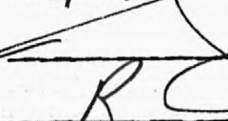
Page 6 Approval of a discount rate of 3 per cent for the Federal Reserve Bank of Minneapolis.

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.

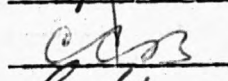
Chm. Martin



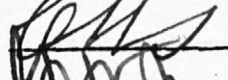
Gov. Szymczak



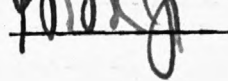
Gov. Mills



Gov. Robertson



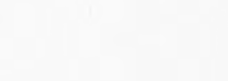
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System
on Friday, August 12, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Hooff, Assistant Counsel

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>
Telegram to the Federal Reserve Agent at Richmond authorizing the issuance of a general voting permit to The First Virginia Corporation, Arlington, Virginia, covering its stock in The Purcellville National Bank, Purcellville, Virginia.	1
Letter to Wells Fargo Bank American Trust Company, San Francisco, California, approving the establish- ment of a branch in Palo Alto.	2
Letter to the Federal Reserve Bank of Atlanta approving the appointment of W. H. Hutchison, Jr., as Federal Reserve Agent's Representative at the Nashville Branch.	3
Letter to the Federal Reserve Bank of San Francisco approving certain adjustments in the rates and coverage of the Blue Cross plan applicable to retired employees of the Portland Branch.	4

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Proposed national banks at Universal City, Texas, and Randolph Air Force Base, Texas (Items 5 and 6). There had been circulated to the Board files on two applications to organize national banks--one at Universal City, Texas, and the other at Randolph Air Force Base, Texas. The Federal Reserve Bank of Dallas and the Division of Examinations had suggested an unfavorable recommendation in each case, and letters to the Comptroller of the Currency reflecting such recommendations had been submitted for consideration.

The Randolph Air Force Base application contemplated the establishment of a bank to replace a military facility operated on the Base by Broadway National Bank of Alamo Heights. The Attorney General of the State of Texas had ruled that military facilities were branches and illegal under State law, and the Broadway National Bank, as well as other banks operating such facilities, had been joined in a suit to close them. The proposed new bank would be an affiliate of Broadway National and would occupy quarters now furnished the present facility of the national bank at the Base. Since the principal purpose of the application apparently was to guard against loss of business in case the facility had to be closed, Mr. Pondrom, Vice President of the Federal Reserve Bank of Dallas, felt that the application was premature until such time as the legality of the operation of the facility was resolved.

The Universal City application also had been filed in contemplation that the facility at the Air Force Base would be closed. Universal

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City, a town with 1,200 to 1,500 population located adjacent to Randolph Air Force Base, was reported to be comprised principally of businesses offering services. In addition to the military facility of the Broadway National Bank located at the Air Force Base, a small State bank was located one mile east and a private bank five miles east.

In commenting on these applications, Mr. Nelson stated that according to a press article a lower court had now ruled that facilities such as the one operated at Randolph Air Force Base were legal and could continue to operate. The case might be carried to a higher court, of course. Although there had been some indication in the application that Broadway National wanted to discontinue the facility, regardless of the outcome of the current litigation, and replace it with an affiliated unit bank, Mr. Nelson expressed doubt that a unit bank could operate profitably, particularly in view of the relatively small volume of deposits that had been built up by the existing facility.

After further discussion of the question of developing a profitable banking operation in the vicinity of Randolph Air Force Base, the two letters to the Comptroller of the Currency recommending disapproval of the respective applications were approved unanimously. Copies of the letters are attached as Items 5 and 6.

Discount rate. At Governor Balderston's request, Mr. Fauver commented briefly on press coverage of the announcement yesterday of a decrease in discount rates at the Federal Reserve Banks of New York,

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Cleveland, Richmond, and Kansas City. His impression was that thus far, at least, the rate reduction had been regarded generally as a technical adjustment to market rates.

Absorption of exchange charges. At its meeting on August 11, 1960, the Board considered a draft of reply to Mr. W. D. Malone, Chairman of the Board of The First National Bank of Dothan, Dothan, Alabama, in regard to the application of the Board's recent ruling on absorption of exchange charges as an indirect payment of interest on deposits. The Board had agreed to consider the matter further after a meeting to be held that afternoon with representatives of the American Bankers Association in regard to the Board's ruling.

There was a discussion of the draft of reply in the light of the comments made by the representatives of the American Bankers Association, especially the suggestion that the Board publish in the Federal Reserve Bulletin or elsewhere a statement explaining the circumstances that caused the Board to issue the August 4 ruling.

During the discussion Governor Mills expressed the view that the Board should go slowly in publishing any kind of a statement, especially since there were no effective sanctions to enforce compliance with the recent ruling. Some banks, he noted, had stretched the previous interpretations of the Board out of context and had not been checked by the supervisory authorities. Whereas the Board had, by interpretation, permitted the absorption of exchange charges in nominal amounts, some

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banks had followed the practice of absorbing exchange on all nonpar checks up to some predetermined amount, thus absorbing for some individual accounts much more per month than permitted by the \$2 rule. Also, since banks determined their own costs, they were in a position to absorb exchange charges quite liberally and claim to be proceeding on the basis that the amounts absorbed were less than the cost of charging back, as permitted under another Board interpretation. Now the Board had issued an interpretation prohibiting the absorption of exchange charges in any amount, and there was a serious question as to how the interpretation should be handled. Perhaps the best course would be to wait and let the American Bankers Association come back with some formula, acceptable to the Board, that might encourage compliance with the ruling.

Governor Balderston then suggested that the letter from Mr. Malone be held and discussed with President Bryan of the Atlanta Reserve Bank when the latter was in Washington next Tuesday for a meeting of the Federal Open Market Committee. He also suggested that the staff might be able to present an alternative draft of reply to Mr. Malone, that the Board could consider the alternative replies on Monday, and that the matter could then be discussed with Mr. Bryan.

There was agreement with the procedure suggested by Governor Balderston.

The meeting then adjourned.

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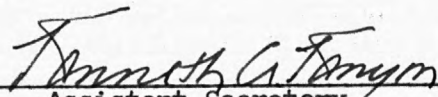
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Secretary's Notes: During the day advice was received from the Federal Reserve Bank of Minneapolis that the directors of that Bank had established, subject to the approval of the Board of Governors, a rate of 3 per cent (rather than 3-1/2 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, a rate of 3-1/2 per cent on advances to member banks under section 10(b), and a rate of 4 per cent on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13. Pursuant to the authorization given to the Secretary's Office by the Board on August 11, 1960, the Minneapolis Reserve Bank was advised of the approval of such rates, effective August 15, 1960. All Federal Reserve Banks and branches were notified by telegram, a press statement in the usual form was issued at 4:00 p.m. EDT, and arrangements were made for publication of a notice in the Federal Register.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated August 10, 1960, from Mr. Johnson, Director, Division of Personnel Administration, recommending the appointment of Elizabeth Ann Poole as a Clerk-Stenographer in that Division, with basic annual salary at the rate of \$3,970, effective the date of entrance upon duty.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 7) approving the designation of Robert L. Thurman as special assistant examiner.


Assistant Secretary

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

August 12, 1960

DECKER - RICHMOND

KEBJE

- A. The First Virginia Corporation, Arlington, Virginia.
- B. The Purcellville National Bank, Purcellville, Virginia.
- C. Prior to the issuance of permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).

(Signed) Kenneth A. Kenyon
KENYON

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

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Item No. 2
8/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1960

Board of Directors,
Wells Fargo Bank American Trust Company,
San Francisco, 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 vicinity of Willow and Arboretum Roads, Palo Alto, California, by Wells Fargo Bank American Trust Company, 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
8/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1960



Mr. Walter M. Mitchell,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Mitchell:

In accordance with the request contained in your letter of July 25, 1960, the Board of Governors approves the appointment of Mr. W. H. Hutchison, Jr., as a Federal Reserve Agent's Representative at the Nashville Branch to succeed Mr. Ewin Davis, effective September 1, 1960.

This approval is given with the understanding that Mr. Hutchison will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Hutchison may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Nashville Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Hutchison is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is assumed that Mr. Hutchison will execute the usual Oath of Office, which will be forwarded to the Board of Governors.

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
8/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1960

Mr. Ralph H. Morrill,
Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Morrill:

Reference is made to your letter of July 15, 1960, informing the Board that, effective September 1, there will be adjustments in the rates and coverage of the Blue Cross plan applicable to retired employees of the Portland Branch.

The Board approves the additional expense involved in providing increased benefits under the new contract.

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
8/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1960

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated April 6, 1960, enclosing copies of an application to organize a national bank at Universal City, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure of the bank would be adequate and that the proposed management would be fairly satisfactory. However, in view of the existing banking facilities now being operated in the area, it is not believed there is a sufficient need for the bank and its profitable operations are open to question. Accordingly, the Board of Governors does not feel justified in recommending favorable consideration of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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
8/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1960

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated April 20, 1960, enclosing copies of an application to organize a national bank at Randolph Air Force Base, Bexar County, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure and management of the bank would be satisfactory. However, it is reported that the legality of the operation of a facility now located at Randolph Air Force Base is in litigation and as long as this matter is pending there would appear to be no need for the proposed bank, and its profitable operations would be questionable. In the circumstances, the Board does not feel justified in recommending favorable consideration of the application at this time.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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
8/12/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1960

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 August 9, 1960, the Board approves the designation of Robert L. Thurman as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks only, except The Bank of Virginia, Richmond, Virginia.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.