FR 609
Rev. 10/59

Minutes for October 20, 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 Thursday, October 20, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Rudy, Special Assistant, Legal Division
Mr. Smith, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations

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:

	Item No.
Letter to Union Bank & Trust Company, Montgomery, Alabama, amending the Board's approval of the establishment of a branch at Coliseum Boulevard and Pelzer Avenue.	1
Letter to the Federal Reserve Bank of Dallas extending the time for Texas Bank and Trust Company, Dallas, Texas, to register as a bank holding company.	2

1/ Withdrew from meeting at point indicated in minutes.

Mr. Rudy then withdrew from the meeting and Mr. Fauver, Assistant to the Board, entered the room.

Report on competitive factors (Tarboro and Fountain, North Carolina). Copies had been distributed of a proposed report to the Federal Deposit Insurance Corporation on the competitive factors involved in a planned merger of Edgecombe Bank and Trust Company, Tarboro, North Carolina, with Bank of Fountain, Fountain, North Carolina.

During a discussion of the report, Governor Balderston suggested deletion of the portion of the conclusion which stated "The only substantial common relationship between the two (banks involved) is that of ownership, which would be expected to minimize rather than increase or perpetuate competition between the two." In explanation, Governor Balderston said he was apprehensive that the use of statements to such effect might convey the impression that common ownership of banks applying for permission to merge was a factor that would cause the Board to look more favorably on the proposed merger. Should such an impression be gained, parties might be encouraged to acquire stock in competing banks with a view to setting forth later that the element of common ownership argued in favor of approval of a proposed merger of the institutions.

The report was then approved unanimously in a form containing the following conclusion:

> The two banks involved in the application do not appear competitive with each other to an important degree. Other and sizable banks, including the largest two in the State, compete effectively in the general area and the location of various banking offices suggests that the most immediate competition for each of the offices of constituent banks originates with these other banks.

Consummation of the proposed transaction would apparently have no adverse effect on competition and would, by reason of the expanded facilities of the larger bank, increase the competitive capabilities of the Resulting Bank's Fountain branch.

Report on competitive factors (Pasadena, Texas). There had been distributed a proposed report to the Federal Deposit Insurance Corporation on the competitive factors involved in a planned merger of Pasadena State Bank, Pasadena, Texas, with the First National Bank of Pasadena.

In a discussion of this report, suggestions were made for certain modifications in the arrangement of the language of the conclusion, following which the report was approved unanimously in a form in which the conclusion read as follows:

> The two banks involved are indicated to be highly competitive. In their present locations a combination through merger would eliminate one of the two banking offices and there would be no competition for Resulting Bank in that section of the city. If the banks move south into the immediately competitive area of San Jacinto State Bank, the proposed transaction would eliminate one-third of the banking offices and would appear to reduce competition materially and also to effect a 75 per cent concentration of Pasadena deposits. If viewed in the context of banking resources of greater Houston, the proposed transaction would appear to have no significant effect from a competitive point of view. However, with regard to the six-mile service area, as defined by the applicant, the proposed transaction would create a fairly important concentration of deposits in Resulting Bank.

Mr. Leavitt then withdrew from the meeting.

Fixed asset accounting (Item No. 3). Distribution had been made of a memorandum dated October 11, 1960, from the Division of Bank Operations attaching a draft of letter to Price Waterhouse & Co., Washington, D. C., concerning fixed asset accounting by the Federal Reserve Banks. Reference was made in the memorandum to the action of the Presidents' Conference on September 12, 1960, approving the report on fixed asset accounting submitted by the Committee on Collections and Accounting, as well as to the discussion of this topic at the joint meeting of the Board and the Presidents on September 13.

In commenting on the matter, Mr. Farrell noted that the draft of letter to Price Waterhouse reflected a suggestion by Chairman Martin at the joint meeting on September 13 that the recommendations of the Committee on Collections and Accounting might be submitted to that accounting firm for review and comment in the same manner that previous proposals on the subject of fixed asset accounting had been submitted to the firm.

Following a suggestion for a change in the wording of the proposed letter in the interest of clarification of intent, unanimous approval was given to a letter to Price Waterhouse & Co. in the form attached as Item No. 3, with the understanding that the sending of the letter would be supplemented by discussions between members of the Board's staff and representatives of the accounting firm for the purpose of providing a full exchange of information.

Proposed changes in Weekly Statement of Condition of the Federal Reserve Banks (Item No. 4). There had been distributed to the members of the Board copies of a memorandum from the Division of Bank Operations dated October 18, 1960, and attachments, relating to two proposed changes in the Weekly Statement of Condition of the Federal Reserve Banks which it was suggested be transmitted to the Reserve Banks for comment. If the contemplated changes should be adopted, the total assets and liabilities of all Reserve Banks would be presented on the second page of the statement on a consolidated, rather than a combined, basis and all figures in the statement would be presented in terms of millions of dollars, instead of using millions on the first page and thousands on the other three pages. It was noted that the use of combined figures on the second page of the statement resulted in overstatement of certain asset and liability items and that the growth of inter-district transactions in recent years had enlarged the differences between combined figures and consolidated figures.

In discussion of the proposals, Mr. Farrell reported that in the opinion of the Division of Bank Operations and other interested members of the staff the presentation of the statement would be improved by adoption of both of the suggested changes. However, it was deemed desirable to obtain the views of the Federal Reserve Banks before making any change in order to be certain that no substantial problems, including problems of an accounting nature, had been overlooked.

After Mr. Conkling had provided background information on consideration of the proposals at the staff level over a period of time, Mr. Thomas expressed agreement with the suggested changes. He went on to point out, however, that the Board might wish to consider certain other changes, relating generally to the definition of U. S. Treasury, foreign, and other deposits, which in his opinion would improve the value of the weekly statement for analytical purposes. Consideration of such changes would entail discussion with the Treasury and the New York Reserve Bank, but it would not be necessary to defer submission to the Reserve Banks of the changes proposed by the Division of Bank Operations for the purpose of obtaining comments on those proposals.

Following discussion of various aspects of the changes mentioned by Mr. Thomas, it was agreed that the staff would submit a memorandum to the Board for consideration, with the thought that, if the Board then so desired, discussion of those items with the interested parties could proceed independently of the collection of comments from the Reserve Banks on the other suggested changes in the weekly statement.

At the instance of Governor Balderston, members of the staff commented on the fact that the proposed elimination of the asset item, Federal Reserve notes of other Banks, and a corresponding reduction in the liability item, Federal Reserve notes, would cause an increase in the System ratio of gold certificate reserves to total deposit and Federal Reserve note liabilities, as set forth on the second page of the weekly statement, since the liability figure would be reduced without a change in total gold certificate reserves. Reserve ratios of the individual Reserve Banks would of course be unaffected.

It was indicated that the staff had given considerable thought to this factor. However, the increase in the System reserve ratio would not be too significant, and an explanation would be made available in the statement proposed to be issued if the changes in the statement should be approved and put into effect. If thought necessary, some explanatory comment also could be carried in the statement thereafter.

With reference to the step in the consolidation procedure which would eliminate the asset item, Federal Reserve notes of other Banks, Governor Mills suggested that this might be construed by persons outside the System as indicating a move toward a single Federal Reserve note issue and that this possibility should be kept in mind in reaching a final decision on the proposed changes in the weekly statement.

After further discussion, unanimous approval was given to the proposed letter to the Federal Reserve Banks, a copy of which is attached as Item No. 4, with the understanding that a memorandum covering the additional points that had been referred to by Mr. Thomas would be submitted for the Board's consideration.

During the foregoing discussion Mr. Shay, Legislative Counsel, entered the room. At its conclusion Messrs. Smith and Eckert withdrew and Messrs. Molony, Assistant to the Board, and Robinson, Adviser, Division of Research and Statistics, joined the meeting.

Absorption of exchange charges. In a letter dated September 1, 1960, the Bank Management Commission of the American Bankers Association requested modification of the Board's ruling of August 4, 1960, relative to the absorption of exchange charges as payment of interest on demand deposits so as to provide that member banks be permitted to absorb exchange of less than five cents on any one nonpar item or to absorb exchange charges on nonpar items drawn in amounts of less than $50. The Commission also requested restoration of the ruling that permitted a member bank to absorb exchange up to $2 per month for any one account. In a letter dated October 13, 1960, the Association of Reserve City Bankers proposed that member banks be permitted to absorb exchange of less than five cents on any one nonpar item and that the $2 rule be restored.

During informal discussion by the Board, it had been suggested that a meeting be arranged with the Comptroller of the Currency and the directors of the Federal Deposit Insurance Corporation with a view to determining whether there was a position on which all of the three Federal bank supervisory agencies could agree, and the discussion today was for the purpose of determining what views might be expressed by the Board at such a meeting.

Governor Mills suggested the possibility of a compromise under which the so-called $2 rule would be restored, but the amount per month that a member bank would be permitted to absorb for any one customer would be increased to perhaps $4 or $5. In making this suggestion he pointed out that the $2 rule was originally adopted in 1945 and that a large increase had occurred since that time in the volume of checks handled, including presumably a sizable increase in the volume of nonpar items.

After a discussion of trends since 1945 in the number, size, and location of nonpar banks, Governor Mills made the further comment that adoption of the suggestion of the Bank Management Commission which would permit absorption of exchange up to five cents on any one nonpar item would appear to permit absorption of a substantial proportion of all exchange charges. Accordingly, he would have reservations about accepting such a proposal. On the other hand, restoration of the $2 rule, or some modification thereof, would tend to meet the public relations problem involved in making charges in trivial amounts to a customer's account. Member banks, clearing house associations, and others who had written to the Board also had complained of the recordkeeping problem involved in adhering to the Board's recent interpretation, and restoration of the $2 rule would not appear to meet the recordkeeping problem, but in the view of Governor Mills this argument was not as compelling as the one pertaining to the public relations problem.

There ensued discussion of the effect of restoring the $2 rule, following which Governor Robertson indicated that his position was quite similar to that of Governor Mills. Consequently, he would be inclined to explore with the Bank Management Commission and the Association of Reserve City Bankers their reaction to restoration of the $2 rule, or some modification thereof. If, however, agreement could not be reached on that basis, he would be inclined to favor reversing compeletely the Board's position on absorption of exchange charges as payment of interest on demand deposits, thereby adopting a position similar to that of the Federal Deposit Insurance Corporation. If, as had been indicated to him by one banker, the adoption of a proposal such as suggested by the Bank Management Commission and the Association of Reserve City Bankers would permit the absorption of as much as 60 or 70 per cent of all exchange charges, it was his feeling that a complete reversal of the Board's position might be preferable to acceptance of such a proposal.

Governor Mills withdrew from the meeting at this point.

Governor Szymczak indicated that he would be inclined to go along with restoration of the $2 rule or some modification thereof, but that he doubted whether this would be satisfactory to the Bank Management Commission and the Association of Reserve City Bankers.

Governor Shepardson expressed the view that consideration should be given to seeking legislation that would clarify the current situation, eliminate confusion, and provide a statute that would be enforceable. In this connection he drew a distinction between provisions of the law relating to absorption of exchange charges as payment of interest on demand deposits and provisions of the law requiring the establishment of maximum rates on time and savings deposits, pointing out that although the latter provisions gave rise to difficult administrative problems, they did not pose the same problems of definition.

Governor Shepardson's comments led to discussion of the unavailability of appropriate penalties for violation of provisions of the law such as those relating to payment of interest on demand deposits, during which it was suggested that a penalty in terms of a stated dollar amount per day as long as a violation continued might provide a reasonably effective enforcement procedure and yet not involve a penalty more severe than warranted by the nature of the violation. Further discussion along these lines brought out, among other things, that hearings might be necessary to determine whether a violation of the law had occurred before the penalty could be assessed.

There ensued additional discussion during which Governors Szymczak and Robertson reiterated that their tentative position would be to go as far as reinstatement of the $2 rule, or something similar, but that if general agreement could not be reached on such an interpretation they would go no further and instead would feel that the Board's position should be reversed or that a request for new legislation should be considered. Governor Shepardson agreed with the view that an interpretation along the lines of the $2 rule was not likely to gain the support of the banking fraternity, particularly since it would not appear to meet the record-keeping problem. However, he was inclined to feel that he might prefer a complete reversal of the Board's position to acceptance of a proposal that would go as far as the proposal of the Bank Management Commission.

Reference was made to a plan that had been followed over a period of years by member banks of the St. Louis Clearing House Association which involved in essence absorption of exchange on all items under $25, collection of charges on items from $25 to $500 according to a prescribed schedule, and collection of actual charges on items over $500. A request that the local clearing house banks be permitted to continue on such a basis was contained in a letter from the St. Louis Clearing House Association dated September 14, 1960.

The suggestion then was made that the problem of absorption of exchange charges be discussed with the Presidents of the Federal Reserve Banks, particularly in the light of the proposals by the Bank Management Commission and the Association of Reserve City Bankers, and it was agreed that arrangements should be made for such a meeting on Tuesday, October 25, following the meeting of the Federal Open Market Committee.

In stating that he would favor such a meeting, Governor Balderston indicated that he was almost at the point of feeling that it might be advisable for the Board to reverse its position on absorption of exchange charges as payment of interest on demand deposits, although he recognized that such a reversal would be opposed by the banking profession generally. In the circumstances, he considered it particularly desirable to obtain the views of the Reserve Bank Presidents at this stage.

During the foregoing discussion Mr. Shay withdrew and Mr. Noyes, Director, Division of Research and Statistics, entered the room.

Application of Deposit Guaranty Bank & Trust Company. Mr. Solomon reported that representatives of Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, were meeting today with members of the Board's staff for the purpose of presenting additional information pertinent to the bank's application to merge with the Bank of Hazlehurst, Hazlehurst, Mississippi, which application had been denied by the Board. The question raised by Mr. Solomon was whether it would be preferable that the presentation be made direct to the Board.

After consideration of this question, it was the view of the Board that the presentation of the representatives of Deposit Guaranty should be made to the staff, that the staff should thereafter analyze the additional information and submit a memorandum for the Board's consideration, and that the Board should then decide what procedure would be followed.

Activity in London gold market. Mr. Molony referred to developments in the London gold market, where speculation had resulted in a rise in the price of gold substantially higher than $35 an ounce, and reported that he had been in receipt of inquiries from the press regarding the situation.

After discussion, during which Governor Balderston summarized a telephone call this morning from the Federal Reserve Bank of New York, it was understood that the response to inquiries from the press or others should be in terms that the Board had no comment regarding the developments in the London market.

The meeting then adjourned.

Secretary

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

Item No. 1
10/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1960

Board of Directors,
Union Bank & Trust Company,
Montgomery, Alabama.

Gentlemen:

In its letter of September 19, 1960, the Board of Governors approved the establishment of a branch at the intersection of Coliseum Boulevard and Pelzer Avenue, Montgomery, Alabama, by Union Bank & Trust Company, provided the branch was established within twelve months, and with the understanding that the capital structure of the bank would be increased in the amount of not less than $700,000 through the sale of additional common stock, and the investment in premises for the branch would not exceed $125,000, under the requirement of the State Banking Department.

The foregoing approval is hereby amended to conform with an authorization of the State Banking Department to increase the total investment in bank premises for the branch from $125,000 to $170,000.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
10/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1960

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Irons:

The Board has considered the information submitted with Mr. Pondrom's letter of August 9, 1960, concerning the status of Texas Bank and Trust Company ("Texas Bank") as a bank holding company and a holding company affiliate.

It appears clear to the Board that the Texas Bank became a bank holding company on May 2, 1960, the date on which more than 25 per cent of the stock of each of four banks was set up in the assets of the Texas Bank.

Upon the basis of information before the Board, it further appears that the Texas Bank is a bank holding company at the present time because 25 per cent or more of the stock of each of at least two banks - West National Bank and First National Bank of Richland - is held in trust for the Texas Bank. It is also possible that it controls more than 25 per cent of the stock of each of three other banks.

The Texas Bank should, therefore, register as a bank holding company. The Board hereby extends the time within which the Texas Bank must register to December 30, 1960. The information in the Registration Statement, in accordance with the instructions, would relate to the time when the Texas Bank became a bank holding company.

However, at the time of filing its Registration Statement, Texas Bank should also furnish complete information as of that time bearing upon its current status as a bank holding company, including, among other such information, (1) a statement with respect to the disposition, if any, made of its interest in stock of West National Bank and First National Bank of Richland since the date on which it became a bank holding company; (2) facts concerning the sale to Mr. J. P. Stegall, Jr., of stock of the Powell State Bank and First State Bank of Eustace, including the consideration, if any, paid therefor, the manner in which such stock is registered, and the extent of any interest, direct or indirect, now held by Texas Bank in such stock; (3) the extent, if any, to which the Texas Bank has a direct or indirect interest in stock of First National Bank in Richland, successor to First National Bank of Richland, by virtue of any verbal or written agreements or understandings or otherwise; and (4) the status of liquidation proceedings with respect to First National Bank of Richland, including the anticipated time of completion of such proceedings.

It further appears to the Board that Texas Bank is a holding company affiliate in that a trustee holds in trust for Texas Bank more than 50 per cent of the number of shares voted for the election of directors of the West National Bank at the preceding election. The trustee could not, therefore, vote the shares unless Texas Bank secures a voting permit.

It will be appreciated if you will advise Texas Bank of the Board's views as herein expressed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
10/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1960

Mr. Theodore Herz,
Price Waterhouse & Co.,
1710 H Street, N. W.,
Washington 6, D. C.

Dear Mr. Herz:

Following the meeting of your associates with staff members of the Board and the Subcommittee on Accounting for the Federal Reserve Banks on February 9, 1960, further consideration has been given to the subject of fixed asset accounting by the Federal Reserve Banks.

Enclosed is a copy of a memorandum of August 19, 1960, containing recommendations submitted by the Committee on Collections and Accounting of the Conference of Presidents of the Federal Reserve Banks, which were approved by the Conference on September 12. The Board would appreciate your reviewing and commenting on the proposals approved by the Presidents.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

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

Item No. 4
10/20/60

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

October 20, 1960.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Dear Sir:

The Board has under consideration a proposal to present the figures on the second page of the weekly Statement of Condition of Federal Reserve Banks (H.4.1), which shows total figures for all 12 Banks, on a consolidated rather than a combined basis, and to show all figures in the statement in millions of dollars.

The purpose of changing the figures on page 2 to a consolidated basis is to eliminate the overstatement of assets and liabilities resulting from the way the items "F. R. notes of other Banks," "Cash items in process of collection," and "Deferred availability cash items" are now handled. In the consolidation process here at the Board the asset item "F. R. notes of other Banks" would be eliminated with a corresponding reduction in the liability item "Federal Reserve notes"; both components of float would be reduced by the amount of the deferred availability cash items due to other Federal Reserve Banks; and the deposit liability item "Due to other F. R. Banks--collected funds" would be eliminated when it occurs with a corresponding reduction in the asset item "Cash items in process of collection." These eliminations would involve no change in reporting or publishing the balance sheets of individual Banks except at those Banks with branches where existing practice for convenient accounting is to treat another office in the same district in the same way as another Reserve Bank.

The objectives of showing all figures in millions of dollars are that millions are easier to use, the appearance of the statement would be improved, and there would be uniformity within the press statement.

Both of these proposals are set forth in more detail in the enclosed memorandum. Before taking further action with regard to this matter, the Board would like to have the views of the various Reserve Banks. Where the attached memorandum suggests alternatives, comments with regard to the relative desirability thereof would be appreciated.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures