

Minutes for November 8, 1960

To: Members of the Board
From: Office of the Secretary

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

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

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

| | |
|-----------------|--------------------|
| Chm. Martin | <u>ms</u> |
| Gov. Szymczak | <u>ms</u> |
| Gov. Mills | <u>[Signature]</u> |
| Gov. Robertson | <u>R</u> |
| Gov. Balderston | <u>ccrb</u> |
| Gov. Shepardson | <u>[Signature]</u> |
| Gov. King | <u>[Signature]</u> |

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

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Solomon, Director, Division of
 Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division
 of Bank Operations
 Mr. Nelson, Assistant Director, Division of
 Examinations
 Mr. Benner, Assistant Director, Division of
 Examinations
 Mr. Landry, Assistant to the Secretary
 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:

| | <u>Item No.</u> |
|---|-----------------|
| Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch in Charlotte. | 1 |
| Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch in Raleigh. | 2 |
| Letter to Commercial State Savings Bank, Greenville, Michigan, approving the establish- ment of a branch at 128 W. Second Street, instead of 112 W. Second Street, in Trufant. | 3 |

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| | <u>Item No.</u> |
|---|-----------------|
| Letter to the Comptroller of the Currency requesting the printing of certain Federal Reserve notes of the Federal Reserve Bank of Richmond. | 4 |
| Letter to the Federal Deposit Insurance Corporation stating that no corrective programs have been urged upon or agreed to by the Liberty Bank and Trust Company, Allentown, Pennsylvania, which the Board believes should be incorporated as conditions incident to its proposed merger with Union Bank and Trust Company of Bethlehem, Bethlehem, Pennsylvania. | 5 |
| <p><u>Report on competitive factors (Lorain, Ohio).</u> There had been circulated to the Board a file containing a proposed report to the Comptroller of the Currency on the competitive factors involved in the planned consolidation of The National Bank of Lorain, Lorain, Ohio, and The Lorain Banking Company, Lorain, Ohio. The conclusion of the report stated:</p> <p style="padding-left: 40px;">It seems probable the proposed consolidation would tend to stimulate competition between the larger banks in the county because of the increased resources of the continuing bank. While it would eliminate one competitor in the downtown business district of Lorain, there would remain adequate alternative banking facilities in the primary competitive area, and the over-all effect would not seem to be adverse to the maintenance of sound competition.</p> <p>The report was <u>approved</u> unanimously.</p> <p><u>Application of York Trust Company (Item No. 6).</u> A file containing material relating to an application by York Trust Company, York, Pennsylvania, for permission to consolidate with The York National Bank and Trust Company had been circulated to the Board. Application also was made for The York</p> | |

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Bank and Trust Company, the resulting institution, to become a member of the Federal Reserve System and to establish 11 branches. Distribution had been made of a memorandum dated October 14, 1960, from the Division of Examinations recommending approval of the applications and attaching a draft of letter to York Trust Company to this effect. Both the Comptroller of the Currency and the Federal Deposit Insurance Corporation had expressed the view that the effect of the proposed consolidation on competition would not be adverse, but the Department of Justice had expressed a different point of view.

Governor Robertson referred to an excerpt from the report received from the Department of Justice which read that "The proposed consolidation will introduce into York, Pennsylvania, a commercial bank significantly larger than the four remaining banks in the City of York and would thus tend to create an environment wherein these banks may have greater difficulty competing." He inquired whether he was correct in his understanding that the head office of the National Bank of York County, which as of June 15, 1960, had total deposits of over \$61 million, was located in the City of York. If this was so, it appeared that the statement in the report from Justice was inaccurate.

Mr. Nelson replied that Governor Robertson's understanding was correct. The head office of the National Bank of York County was located in York, and the combined deposits of York Trust Company and The York National Bank and Trust Company as of June 15, 1960, totaled less than

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\$69 million. Consequently, the York Bank and Trust Company, the institution resulting from the proposed consolidation, would not be "significantly larger" than the second-largest bank.

After further discussion, the application of York Trust Company for consent to consolidate with The York National Bank and Trust Company was approved unanimously, along with the application for admission to membership of the resulting State-chartered bank and the establishment by it of 11 branches. A copy of the letter of approval is attached to these minutes as Item No. 6.

Messrs. Young, Adviser to the Board, and Fauver, Assistant to the Board, joined the meeting at this point.

Absorption of exchange charges (Items 7 through 9). In an interpretation on August 4, 1960, of Regulation Q, Payment of Interest on Deposits, published at page 858 of the August 1960 Federal Reserve Bulletin, the Board expressed the opinion that any absorption of exchange charges by a member bank would constitute the payment of interest on demand deposits, including an arrangement whereby a member bank maintained a balance with another bank in return for which such other bank directly or indirectly absorbed for it exchange charges made by drawee banks.

Subsequently, the Board was asked to reconsider the application of the new interpretation in certain situations involving the absorption of relatively small amounts of exchange charges. In consequence of a discussion of this subject held on November 1, 1960, between the Board, the Comptroller

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of the Currency, and the Federal Deposit Insurance Corporation, it was decided to undertake a study to obtain additional information on various aspects of the relationship between exchange charges and the payment of interest on deposits. Pursuant to the aforementioned discussion, distribution had been made under date of November 7, 1960, of a memorandum from Governor Robertson submitting for consideration drafts of the following items:

1. An interpretation of Regulation Q permitting absorption of not more than \$2.00 per month per depositor, to be applicable only during the pendency of the aforementioned study and the reaching of a final determination.
2. A letter to the Presidents of the Federal Reserve Banks requesting them to initiate a survey in cooperation with local representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.
3. A form to be used in gathering the survey information.
4. A form of letter to be sent to the American Bankers Association, the Association of Reserve City Bankers, and NABAC, The Association for Bank Audit Control and Operation, informing them of the interpretation and requesting their assistance in conducting the survey.

As stated in the memorandum, the form that was proposed to be used in gathering additional information on various aspects of the relationship between exchange charges and the payment of interest on deposits through a spot-check survey in each of the Federal Reserve districts had been prepared by the staff largely on the basis of a form used by the New York Clearing House in conducting a survey on this subject.

Governor Robertson noted that there were certain editorial changes that should be made in the draft interpretation attached to his memorandum.

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He then said that neither the Comptroller of the Currency nor the Federal Deposit Insurance Corporation had made any suggestions following their inspection of the proposed interpretation. Both agencies had expressed willingness to cooperate in the proposed survey and, should the Board approve the approach suggested in the memorandum, were willing to write immediately to their District Chief National Bank Examiners and District Supervising Examiners, respectively, instructing them to cooperate. Also, the Comptroller was willing to instruct national bank examiners to enforce the proposed interpretation during the period prior to the reaching of a final determination.

In answer to a question from Governor Mills, Governor Robertson said that he had not included in his recommendations a press release announcing the interpretation for the reason that the change was technical in nature and presumably would be of little general interest to the press. The Federal Reserve Banks of course would inform member banks of the action taken by the Board, and the interpretation would be published in the Federal Register and the Federal Reserve Bulletin. A further point was that the Bank Management Commission of the American Bankers Association had endeavored to keep out of the newspapers any reference to the proposals relating to absorption of exchange contained in its letter to the Board of September 1, 1960.

In the discussion that ensued, Governor Mills indicated that he had been thinking principally of the possibility of informing the American

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Banker or other trade publications for public relations reasons, and Governor Robertson indicated that he had no strong views on this aspect of the matter.

In this connection, Governor Shepardson suggested insertion of the word "promptly" in the letter to all Reserve Banks with reference to their distribution of copies of the interpretation to member banks in their districts.

Following this discussion, unanimous approval was given to (1) the adoption of an interpretation permitting absorption of exchange charges of not more than \$2 per month for each depositor pending the completion of a study on the subject of absorption of exchange, (2) a letter to the Reserve Banks requesting them to initiate a survey in cooperation with local representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, (3) a form to be used in gathering the survey information, and (4) letters to the American Bankers Association, the Association of Reserve City Bankers, and NABAC. Copies of the interpretation, the letter to the Reserve Banks, and the form of letter sent to the American Bankers Association, the Association of Reserve City Bankers, and NABAC are attached as Items 7 through 9, respectively. It was understood that Messrs. Molony and Fauver would consider what procedures would be most appropriate in regard to releasing the new interpretation to trade papers or others.

The meeting then adjourned.

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Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items relating to the Board's staff:

Salary increases, effective November 13, 1960

James E. Love, Laborer, Division of Administrative Services, from \$3,920 to \$4,025 per annum.

William R. McDonald, Clerk, Division of Administrative Services, from \$4,670 to \$4,775 per annum.

Outside teaching activity

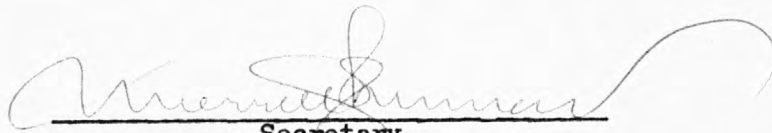
Permission for J. Herbert Furth, Associate Adviser, Division of International Finance, to teach part time at American University, Washington, D. C., with rank of Adjunct Professor.

Maternity leave

Permission for Patricia R. Baker, Secretary, Division of Examinations, to work an additional period, through January 6, 1961, before beginning maternity leave.

Governor Shepardson noted today on behalf of the Board that application for retirement had been filed by Franc S. Valentine, Secretary, Division of International Finance, effective at the close of business November 15, 1960.

Governor Shepardson today approved on behalf of the Board a memorandum dated November 3, 1960, from the Division of Personnel Administration recommending an increase from \$100 to \$125 in the group fee for the annual physical examination of all employees in the Board's cafeteria.


Secretary

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

Item No. 1
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1960

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch at 316-20 South Tryon Street in Charlotte, North Carolina, provided the branch is established within six months from the date of this letter.

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
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1960

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch in the North Hills Shopping Center, Raleigh, North Carolina, provided the branch is established within six months from the date of this letter.

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. 3
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1960

Board of Directors,
Commercial State Savings Bank,
Greenville, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by Commercial State Savings Bank at 128 W. Second Street, instead of 112 W. Second Street, Trufant, Michigan, as authorized in the Board's letter of July 13, 1960.

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. 4
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1960

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

Sir:

It is respectfully requested that you place an order with the Bureau of Engraving and Printing, supplementing the order requested in the letter of June 24, 1960, for the printing of Federal Reserve notes of the Federal Reserve Bank of Richmond, in the amount and denomination stated below:

| <u>Denomination</u> | <u>Number of notes</u> | <u>Dollar amount</u> |
|---------------------|------------------------|----------------------|
| \$100 | 288,000 | \$28,800,000 |

Respectfully,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 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 October 26, 1960, concerning an application of Union Bank and Trust Company of Bethlehem, Bethlehem, Pennsylvania, for the Corporation's consent to merge the Liberty Bank and Trust Company, Allentown, Pennsylvania.

No corrective programs have been urged upon the Liberty Bank and Trust Company, Allentown, Pennsylvania, or agreed to by it which the Board of Governors believes should be incorporated as conditions incident to the proposal.

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. 6
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1960

Board of Directors,
York Trust Company,
York, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System after consideration of all factors set forth in section 18(c) of the Federal Deposit Insurance Act, as amended, by the Act of May 13, 1960, and finding the transaction to be in the public interest hereby consents to the consolidation of York Trust Company, York, Pennsylvania, with The York National Bank and Trust Company, York, Pennsylvania, under the charter and name of The York Bank and Trust Company, York, Pennsylvania.

This approval is given provided: (1) the proposed consolidation is effected within six months from the date of this letter and substantially in accordance with the Joint Plan of Consolidation dated July 27, 1960, (2) shares of stock acquired from dissenting stockholders are disposed of within six months from the date of acquisition.

The Board of Governors also approves the application made on behalf of The York Bank and Trust Company, York, Pennsylvania, for stock in the Federal Reserve Bank of Philadelphia effective if and when the bank opens for business after effecting the proposed consolidation and subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

Board of Directors, York Trust Company -2-

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

The Board of Governors also approves the establishment of branches by The York Bank and Trust Company at the following locations:

21 E. Market Street, York, Pa.
 780 W. Market Street, York, Pa.
 1123 N. George Street, Borough of North York, P.O. York, Pa.
 1605 E. Market Street, Spring Garden Township, P.O. York, Pa.
 Shrewsbury, Pa.
 960 S. George Street, Spring Garden Township, P.O. York, Pa.
 800 E. Market Street, York, Pa.
 Dover, Pa.
 Fawn Grove, Pa.
 Mount Wolf, Pa.
 Wrightsville, Pa.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the charter has been issued. A certified copy of such resolution should be filed with the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to six months from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Board of Directors, York Trust Company -3-

the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will continue to find membership in the System beneficial and your relations with the Reserve Bank pleasant. As in the past, the officers of the Federal Reserve Bank will be glad at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

S-1769-a

PAYMENT OF INTEREST ON DEPOSITS -- ABSORPTION OF EXCHANGE CHARGES

In an interpretation of August 4, 1960, published at p. 858 of the August 1960 Federal Reserve Bulletin, the Board expressed the opinion that any absorption by member banks of exchange charges would constitute the payment of interest on demand deposits, including an arrangement whereby a member bank maintained a balance with another bank in return for which such other bank directly or indirectly absorbed for it exchange charges made by drawee banks.

The Board has been asked to reconsider the application of the interpretation in certain situations said to involve relatively small amounts of exchange charges and those where the cost of collection is said to exceed the amount of the charges. The Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have decided to undertake a study to obtain additional information. In connection therewith, a survey will be made of a number of institutions in each Federal Reserve District on a spot-check basis.

Further consideration will be given the subject in the light of the findings of the survey. In the meantime, and as a tentative authorization, to be applicable only during the pendency of the study and the reaching of a final determination, member banks are authorized to absorb exchange charges in amounts aggregating not more than \$2 for any one depositor in any calendar month or any regularly established period of 30 days.

Member banks, both State and national, will be expected to conform to the August 4, 1960 interpretation as herein modified.

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

S-1769

Item No. 8
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 8, 1960.

Dear Sir:

There is attached an interpretation which, as you will note, permits member banks to disregard and absorb, as trivial, exchange charges in amounts aggregating not more than \$2 for any one depositor in any calendar month or any regularly established period of thirty days. The interpretation will be published in the Federal Reserve Bulletin and Federal Register. It will be appreciated if you will promptly distribute copies to all member banks in your District.

You will note that the interpretation also states that a survey is being undertaken jointly by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, to obtain additional information on various aspects of the relation between exchange charges and the payment of interest on deposits.

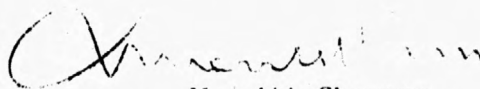
For the purpose of this survey, it will be appreciated if, in cooperation with the District Chief National Bank Examiner and the FDIC District Supervising Examiner, you will select not less than 5 nor more than 10 representative banks in your District and obtain the information indicated on the enclosed form for a thirty-day period beginning not later than November 17, 1960. The Comptroller of the Currency and the FDIC have advised that they are instructing their District representatives to work with you in this matter, and in cases of different boundaries of Federal Reserve and FDIC districts, the FDIC will designate the Examiner or Examiners to work with you.

It will be appreciated if you will let the Board have copies of the information collected, as well as the views of yourself and the representatives of the Comptroller of the Currency and FDIC, as expeditiously as practicable.

The Board is advising the American Bankers Association and the Association of Reserve City Bankers, both of which recommended modification of the August 4, 1960 interpretation, and is suggesting that they

designate a person in each Federal Reserve District to assist in the survey. In view of the operating problems involved, the Board is also advising NABAC, The Association for Bank Audit Control and Operation, and suggesting that it similarly designate a person in each Federal Reserve District.

Very truly yours,



Merritt Sherman,
Secretary.

Mr. C. E. ...
Chairman,
Bank ...
The ...
12 ...
New York, N. Y.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 9
11/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1960.



Mr. G. Edward Cooper,
Chairman,
Bank Management Commission,
The American Bankers Association,
12-East 36th Street,
New York 16, N. Y.

Dear Mr. Cooper:

With further reference to your letter of September 1, 1960, and the subject of absorption of exchange charges as payment of interest on demand deposits, there is enclosed a copy of a further statement on the subject.

You will note that the statement refers, among other things, to a survey to be conducted by the 12 Federal Reserve Banks and the local representatives of the Comptroller of the Currency and Federal Deposit Insurance Corporation. It is hoped that the survey can cover a 30-day period beginning not later than November 17, 1960.

It would be helpful to have the assistance of your organization in the survey, and it would be appreciated if you could designate a representative of your Association for each Federal Reserve District for that purpose.

A similar letter is being addressed to the Association of Reserve City Bankers, and in view of operating problems involved, also to NABAC.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure