

Minutes for January 18, 1961

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

WMS

Gov. Szymczak

WMS

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

TS

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, January 18, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel
 Administration
 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. Leavitt, Supervisory Review Examiner,
 Division of Examinations

Items circulated or distributed to the Board. The following
 items, which had been circulated or distributed to the members of 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 National Savings and Trust Company, Washington, D. C., approving an investment in bank premises.	1
Letter to Davenport Bank and Trust Company, Davenport, Iowa, approving an investment in bank premises.	2
Letter to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving an extension of time to establish a branch in the vicinity of Strawberry Lane and Southside Drive.	3

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Item No.

Letter to the Federal Reserve Bank of New York approving the payment of a dividend by The Bank of Saddle Brook & Lodi, Saddle Brook, New Jersey.

4

Letter to the Federal Reserve Bank of Chicago regarding the Debenture Issuer Satellite Corporation Plan proposed by Gary Trust and Savings Bank, Gary, Indiana.

5

Letters to Empire State Bank of Dallas, Dallas, Texas, and Southwest National Bank of El Paso, El Paso, Texas, granting permission to maintain reduced reserves.

6 and 7

With reference to Item No. 4, Governor Mills commented that apparently the principal reason for payment of a dividend at this time was to facilitate the sale of additional capital stock by The Bank of Saddle Brook & Lodi. The bank had not been well managed, he pointed out, and unless there should be improvement in its management and condition the public might be drawn into a poor investment by purchasing the stock.

Mr. Solomon replied in terms that the circumstances illustrated the wisdom of a statutory requirement that approval of the supervisory authorities be obtained prior to the declaration of a dividend in a case of this kind. The points raised by Governor Mills had been considered carefully by the Division of Examinations, he said. However, the Federal Reserve Bank of New York felt that the member bank seemed to be getting itself straightened out and that the bank had real possibilities if certain problems could be corrected. One of these problems was the need for additional capital. On balance, therefore, the Reserve Bank felt

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that the payment of the proposed dividend should be approved, and the Division of Examinations concurred in that view.

Approval of Item No. 5 was preceded by a reading of the last two paragraphs of the proposed letter to the Federal Reserve Bank of Chicago concerning the plan of Gary Trust and Savings Bank, question having been raised as to whether the language constituted a sufficient warning that in the Board's opinion the execution of the plan would be likely to involve violation of section 21 of the Banking Act of 1933 and section 5136 of the Revised Statutes of the United States. After discussion, it was concluded that the language of the letter was appropriate to the circumstances in which the question was raised by the Reserve Bank.

With reference to Items 6 and 7, Governor Robertson said that although he would have no objection to approval of these two applications for permission to maintain reduced reserves, this raised again the question whether the Board should not give further consideration at an early date to the establishment of standards for the classification of reserve cities and for the declassification of individual banks in those cities.

Messrs. Hexter, Hooff, Conkling, Nelson, and Leavitt then withdrew from the meeting.

Health benefits for retired employees. The provisions of the Retired Federal Employees Health Benefits Act were to become effective

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July 1, 1961, with eligibility for coverage limited to annuitants who retired on an immediate annuity with 12 years or more of service, or for disability, as well as survivor annuitants of eligible retirees or employees who died in active service. A memorandum from the Division of Personnel Administration dated January 4, 1961, which had been circulated to the Board, pointed out that since May 1959 the Board had been contributing toward the cost of hospitalization and surgical-medical protection for a group of retired employees, presently numbering 75, which raised the question whether the Board wished to continue its assistance after July 1, 1961, on behalf of those in the group who would not have had sufficient service before retirement to qualify for the benefits of the new Federal law. It appeared that nine such cases were involved. The recommendation of the Division was that effective July 1, 1961, the Board make monthly contributions for those retired employees at the same rates as provided by the new law for eligible retirees thereunder, that is, \$3 a month for individual coverage and \$6 a month for family coverage, as opposed to the present rates of contribution of \$3.19 and \$7.70 a month, respectively. The total cost of the recommended contributions would be approximately \$33 per month, and provision had been made in the Board's budget for 1961.

In response to questions, Mr. Johnson explained that the recommendation of the Division of Personnel Administration was based on the general principle that it is desirable, whenever arrangements

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can reasonably be made, not to withdraw privileges previously made available to employees. In the small number of cases in question, the retired employees would be ineligible for assistance under the terms of the new Federal legislation, and in the absence of Board action to continue contributions on their behalf they would be deprived of a status that they had been enjoying for some time. As to cases that might arise in the future, however, the Division was inclined to feel that the provisions of the new legislation should be controlling and that no special arrangements should be made for assistance on the part of the Board. It was recognized that this might prove to be something of a handicap in employing persons without previous creditable service who were of such age that they could not complete 12 years of service before reaching age 65. In fact, this would be somewhat more of a problem for the Board than for Civil Service agencies that permit employees to continue to age 70, or beyond that age if they have less than 15 years of service. As yet, however, no case had arisen that involved such a problem, and it was hoped that the circumstances of any given case would permit finding some reasonably satisfactory solution.

After further discussion, the recommendation of the Division of Personnel Administration was approved unanimously.

The meeting then adjourned.

Secretary's Note: 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:

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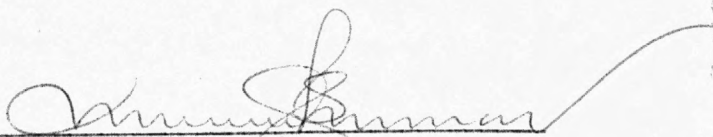
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Salary increase

Eva G. Kennedy, from \$4,250 to \$4,510 per annum, with a change in title from Statistical Clerk to Statistical Assistant, Division of Research and Statistics, effective January 22, 1961.

Acceptance of resignation

Nancy M. Lewalski, Stenographer, Legal Division, effective at the close of business February 4, 1961.


Secretary



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

Item No. 1
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Board of Directors,
National Savings and Trust Company,
Washington, D. C.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by National Savings and Trust Company, Washington, D. C., of \$50,000 for the purpose of conversion of bank elevators and other machinery to the use of alternating electric current.

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
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Board of Directors,
Davenport Bank and
Trust Company,
Davenport, Iowa.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises by Davenport Bank and Trust Company, through its wholly owned affiliate, Davenport Bank Building Corporation, of \$540,000, for the purchase of property for additional customer parking areas.

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
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Board of Directors,
Citizens Fidelity Bank and
Trust Company,
Louisville, Kentucky.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System extends to July 20, 1961, the time within which Citizens Fidelity Bank and Trust Company may, under the authority granted in the Board's letter of April 20, 1960, establish a branch in the vicinity of Strawberry Lane and Southside Drive in Louisville, Kentucky.

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
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

This acknowledges your letter of January 10, 1961, attached to which is the request of The Bank of Saddle Brook & Lodi, Saddle Brook, New Jersey, that it be permitted to declare a dividend of \$13,500 approximately at its annual meeting January 23, 1961. Unless the Board approves, the declaration of this dividend would be prohibited by Section 9 of the Federal Reserve Act and Section 5199(b), U.S.R.S. You have recommended that the Board approve the payment of this dividend.

After consideration of all the facts, the Board concurs in your recommendation and approves the declaration of a dividend of \$13,500 approximately in January 1961.

The Board would suggest the member bank be notified that no further dividends should be declared without consideration of the effect of Section 9 of the Federal Reserve Act and Section 5199(b), U.S.R.S., since the approximate accumulated deficit in net profits at present is \$91,000, including the years 1959 and 1960, and the prospective dividend in 1961. Other earnings figures for 1961 are, of course, unavailable.

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. 5
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Mr. Paul C. Hodge, Vice President,
General Counsel and Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

Reference is made to your letter of December 16, 1960, and enclosures, relating to the Debenture Issuer Satellite Corporation Plan proposed in the letter from Gary Trust and Savings Bank, Gary, Indiana.

The Plan envisages an investment company, which will be administered by the Trust Department of Gary Trust and Savings Bank, a member bank, which will charge an annual fee for its services. The company will invest its assets in "mortgages or securities directly or indirectly insured in part or in full by the United States Government or an agency thereof, including direct obligations of the United States Government." The company will obtain its funds by selling debentures, a few of which will be in certificate form in denominations of \$500 or \$1,000, but the bulk of which will be sold in passbook form, which may be in denominations as low as \$10.00 or multiples thereof. All debentures will be sold through the Trust Department of the member bank. "It is envisioned that the Trust Department teller will handle all such transactions over the counter." The investment company will purchase as many obligations, described above, "as debenture sales enable availability of funds." Advertising "will take advantage of the close association of the Investment Company with the Gary Trust and Savings Bank and use the bank's good will and public image. The advertising will in no way attempt deception, however, so as to mislead the public into believing the debentures are the direct obligations of Gary Trust and Savings Bank."

The Board shares your grave concern over the close association which would exist between the member bank and the investment company, including the fact that the advertising would take advantage of the close association.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Paul C. Hodge

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The Board also notes the fact that the debentures, which would seem undoubtedly to be "debentures . . . or other securities" within the meaning of section 21 of the Banking Act of 1933, would all be sold, or distributed by the member bank. Although section 21 is a criminal statute, and the Board, consequently, is not charged with its administration, it would seem that the member bank should give the most careful consideration to the possibility that the Plan might result in a violation of that section.

Since the securities of the Gary Trust Investment Company, Inc., are to be sold to the public by the bank on behalf of the issuing corporation, the arrangement would seem to be subject to the prohibition of section 5136 of the Revised Statutes (made applicable to member State banks by section 9 of the Federal Reserve Act) with respect to banks' underwriting and dealing in securities. In this connection, attention is directed to the definition of the terms "dealer" and "underwriter" in section 2 of the Securities Act of 1933 (15 U.S.C. 77b), which was enacted a few weeks prior to the enactment of the portion of section 5136 relating to underwriting and dealing in securities on the part of banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 6
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Board of Directors,
Empire State Bank of Dallas,
Dallas, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Empire State Bank of Dallas to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
1/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1961

Board of Directors,
Southwest National Bank of El Paso,
El Paso, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Southwest National Bank of El Paso to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.