

Minutes for February 13, 1961

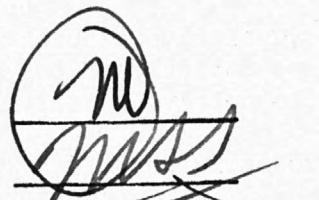
To: Members of the Board  
From: Office of the Secretary

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.

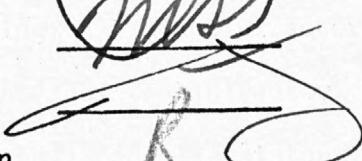
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

Chm. Martin

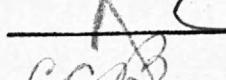


Gov. Szymczak

Gov. Mills



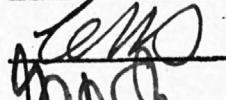
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Monday, February 13, 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. King 1/

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research and Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Chase, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Koch, Adviser, Division of Research and Statistics  
Mr. Dembitz, Associate Adviser, Division of Research and Statistics  
Mr. Furth, Adviser, Division of International Finance  
Mr. Conkling, Assistant Director, Division of Bank Operations  
Mr. Nelson, Assistant Director, Division of Examinations  
Mr. Petersen, Special Assistant, Office of the Secretary  
Mr. Collier, Chief, Current Series Section, Division of Bank Operations  
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations

1/ Entered meeting at point indicated in minutes.

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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 The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at Harbison Avenue and Tulip Street. 1
Letter to The Beloit State Bank, Beloit, Wisconsin, approving an investment in bank premises. 2
Letter to Webster Groves Trust Company, Webster Groves, Missouri, approving an investment in bank premises. 3
Letter to Bankers Trust Company, Des Moines, Iowa, approving an investment in bank premises. 4
Letter to Deuel County State Bank, Chappell, Nebraska, granting its request for permission to exercise certain fiduciary powers. 5

With respect to Item No. 1, Governor Robertson indicated that while he would not oppose the establishment of a branch at Harbison Avenue and Tulip Street in Philadelphia by the applicant bank, he felt that it represented a case of over-banking in the area concerned. He was of the opinion that the matter should be brought to the attention of the Pennsylvania State banking authorities in order that the problem might be borne in mind in evaluating future situations of this type. In the discussion that followed, Governor Mills suggested that in evaluating

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applications for the establishment of new branches, a distinction should be made between situations involving competition between offices of large banks and those involving establishment of a branch by a large bank in competition with an office of a small bank. Where competition between larger institutions was involved, one might sometimes question the judgment of the applicant bank. However, if its financial position was strong enough to cover the risk, he doubted whether the Board should interpose objection. Governor Robertson agreed that such a distinction might be made and reiterated that he would not oppose this particular application. However, he felt that this case should be used as an example in talking with the Pennsylvania State banking authorities to let them know of the Board's concern about the problems that could be involved in the establishment of new branches in well-banked areas. Accordingly, the establishment of the branch was approved with the understanding that the Federal Reserve Bank of Philadelphia would be asked to bring the general problem to the attention of the State banking authorities.

Governor King entered the room at this point.

Application by Bank of Waynesboro for membership in the Federal Reserve System. A draft of letter to the Federal Reserve Bank of Atlanta suggesting that the Bank of Waynesboro, Waynesboro, Georgia, withdraw its application for membership in the Federal Reserve System had been distributed.

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Mr. Solomon commented that the papers that had been circulated with the proposed letter brought out that the Federal Deposit Insurance Corporation had raised objections to the current management of this particular bank, with special reference to the President, Mr. Tucker. While the Atlanta Bank had recommended approval and felt that the bank was in satisfactory condition, the Corporation had previously imposed several requirements on the bank to meet its criticism of the management. The bank had fulfilled two of the requirements but the third requirement, namely, that the President, Mr. Tucker, be replaced by the Executive Vice President and elevated to the post of inactive Chairman of the Board, had not yet been satisfied. Mr. Tucker was unwilling to make this change and wanted to remain as President, resuming his role as loan officer, which was objectionable to the Federal Deposit Insurance Corporation.

Mr. Solomon indicated that the question was whether the Federal Reserve should take over the responsibility of resolving the question of Mr. Tucker's status, since the Federal Deposit Insurance Corporation had raised serious questions about his ability and the agreed-upon arrangements between the bank and the Corporation had not been fulfilled. He then said that apparently the simplest procedure would be to have the application withdrawn. He also mentioned that Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, had indicated that he would like to present his views to the Board if the Board was disposed not to approve the membership application. Mr. Tucker, President of the Bank of Waynesboro, also would

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like to present his views. However, such an arrangement might in effect put the Board in the role of reviewing a decision by the Federal Deposit Insurance Corporation, and this could put the Board in an awkward position.

Governor Mills stated that, as brought out in the file on the matter, membership in the Federal Reserve System was apparently being requested principally in order to circumvent requirements imposed by the Federal Deposit Insurance Corporation. He would be loath to take any action that would impugn the motives of the Corporation. Therefore, he would recommend adopting the procedure outlined by Mr. Solomon, that is, to suggest that the application be withdrawn. As a matter of courtesy, Mr. Denmark probably should be given an opportunity to present his position on this matter to the Board if he so wished. Fundamentally, however, it would be a mistake to admit the bank to membership in the present circumstances.

Governor Robertson stated that when this matter first came to his attention he suggested calling the Federal Deposit Insurance Corporation to see what they thought. Since they had gotten most of what they asked from the bank, they might feel that this application could be approved. However, conversation with the Corporation did not indicate that it was disposed to take such a position. He would not want to permit a bank to escape requirements imposed by another agency by joining the Federal Reserve System. Consequently, he would concur in Mr. Solomon's recommendation.

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Chairman Martin then raised the question of the procedure that should be followed, and Governor Robertson suggested that the Board take the position that it was willing to consider an application for membership only when the applicant had satisfied its present supervisory authority of its compliance with whatever corrective program had been worked out. In this case, a program had been worked out, but it had not been fully consummated. A position such as he suggested would mean, then, that until such time as the program had been consummated, the Board would not wish to consider the membership application. His suggestion would, if carried through, put the matter in the posture that in terms of policy the Board was not going to allow banks to escape supervision by being admitted to System membership. If this were conveyed to Mr. Denmark, he would know the Board's attitude. Then, if he still wanted to meet with the Board, an opportunity could be provided. As to Mr. Tucker, Governor Robertson said he would not invite him to meet with the Board. However, if Mr. Tucker should insist, he felt that the Board would have to let Mr. Tucker appear.

Governor Mills said he thought the Board should consider further the question of granting a hearing on a membership application. The Chairman inquired as to precedent, and Mr. Solomon replied that he did not recall any hearings having been held on such applications. Governor Robertson suggested that the Board did not have to cross that bridge unless a request should be received, in which case it could make a

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decision. The Chairman then commented that, generally speaking, if there was an application for membership that the Board was inclined to deny and the applicant sought to meet with the Board, it would be his feeling that the Board probably ought to agree to listen, if for no other reason than maintenance of good public relations. However, as Governor Robertson had pointed out, in this case the Board could cross the bridge if it became necessary.

Accordingly, it was understood that Mr. Solomon would inform Mr. Denmark of the Board's views along the lines that had been suggested by Governor Robertson.

Secretary's Note: Mr. Solomon subsequently transmitted the Board's views to Mr. Denmark, who indicated that he would like to have the matter held in abeyance for a few days to permit him to talk with Mr. Tucker. It was Mr. Denmark's initial thinking, subject to further consideration, that probably it would be desirable for the bank to withdraw its application.

Effects of automation on bank supervision. Governor Robertson stated that on Friday (February 10, 1961), at his suggestion a meeting was held between Mr. Gidney, Comptroller of the Currency, Messrs. Cocke and Wolcott of the Federal Deposit Insurance Corporation, and representatives of the Board to take up the matter of the effect of automation on bank supervision. He was not sure how serious these problems would be, but it seemed advisable to get on top of the problems before they become serious. It was agreed at this meeting that representatives of the Board

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and four Vice Presidents in charge of examinations at Federal Reserve Banks (to be selected) would meet with representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency in Philadelphia so that they could see a completely automated installation. After seeing the installation, the afternoon would be spent in discussing the problems that might arise out of automation. On the basis of this type of evaluation, it was hoped that there could be added to the program of the Inter-Agency Bank Examination School a course covering the problems that examiners might run into. Governor Robertson requested, therefore, that the Board authorize him to select four Federal Reserve Bank Vice Presidents in charge of examinations for the proposed meeting, which probably would be held within about a week.

Chairman Martin indicated he felt this was an excellent program, and other members of the Board concurred. Accordingly, the proposal was approved. Governor Robertson indicated that he would submit a memorandum for the Board's information covering the particulars of this program.

Report on competitive factors (New Albany-Georgetown, Indiana).

Copies of a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of the Georgetown State Bank, Georgetown, Indiana, with and into The Union National Bank of New Albany, New Albany, Indiana, under the charter and title of the latter, had been distributed prior to the meeting.

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Following a brief discussion, the report was approved unanimously for transmittal to the Comptroller of the Currency. The conclusion contained in the report was as follows:

The proposed merger will eliminate only a negligible amount of competition as little now exists between these two banks. While the merger would increase further the charter bank's competitive advantage in New Albany and Floyd County, it does not appear that banking competition in the area would be significantly lessened.

Appointments at Federal Reserve Bank of New York (Item No. 6).

There had been circulated to the Board a proposed letter to the Federal Reserve Bank of New York approving the appointment of Alfred Hayes as President and William F. Treiber as First Vice President of the Bank, each for a term of five years beginning March 1, 1961, in accordance with the action taken by the Board of Directors, as reported in Deputy Chairman Wise's letter of February 2, 1961. The proposed letter would also approve the payment of salaries to Messrs. Hayes and Treiber at the rates of \$60,000 and \$35,000 per annum, respectively, for the period March 1, 1961, through December 31, 1961.

There being no objection, the letter was approved unanimously. A copy is attached as Item No. 6.

Application to establish a national bank in Fort Worth, Texas (Item No. 7). A proposed letter to the Comptroller of the Currency on an application for a national bank charter at Fort Worth, Texas, had been discussed at the meeting on February 9, 1961, at which time three Board

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members were inclined to recommend disapproval of the application and three favored a letter recommending approval. Governor King was absent. Subsequently, as reported in a memorandum from Mr. Solomon, a check was made with the Federal Reserve Bank of Dallas, which reaffirmed its view that an unfavorable recommendation could be supported.

Governor King indicated he favored recommending disapproval of the application. Accordingly, the letter to the Comptroller of the Currency recommending disapproval was approved, Chairman Martin and Governors Szymczak, Mills, and King voting for this letter and Governors Balderston, Robertson, and Shepardson dissenting for the reasons they had expressed at the meeting on February 9. A copy of the letter is attached as Item No. 7.

At this point Messrs. Johnson, Leavitt, and Nelson withdrew from the meeting.

Classification of reserve cities. Following discussion of the subject at the Board meeting on December 9, 1960, there had been distributed copies of a memorandum from the Division of Bank Operations dated December 23, 1960, describing and comparing four alternative plans for the classification of reserve cities.

Under Plan A, any city would be designated as a reserve city if the total of the demand deposits or the total of the interbank demand deposits of all member banks having their principal offices in that city amounted to one-third of one per cent or more of the System totals of such

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deposits. This plan would require that the Board reserve the right to designate the "principal office" of a member bank in order to avoid the possibility of a bank escaping reserve city bank designation by moving its head office.

Plan B would use as criteria the same city totals as stated in Plan A, and in addition would designate as a reserve city any city in which there was a head office of a member bank having total demand deposits of \$200 million or more. The objective of the additional provision was to have the reserve city designation follow to any point where a bank might move its head office to escape such a classification.

Plan C would classify as a reserve city any city in which there was a head office of a member bank having total demand deposits or total interbank demand deposits amounting to one-fifth of one per cent or more of the System totals of such deposits.

Plan D was the same as Plan C except that the percentages were raised to one-fourth of one per cent.

There had also been distributed copies of a memorandum from Mr. Hackley dated February 10, 1961, submitting alternative drafts of amendments to Regulation D, Reserves of Member Banks, which would effectuate the four plans discussed in the memorandum from the Division of Bank Operations. The draft amendments also included provisions relating to the criteria to be used in granting permission to carry reduced reserves. Such permission would automatically be granted where a member bank had

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total deposits, total demand deposits, and interbank deposits less than a specified percentage of the corresponding amounts held by all member banks of the Federal Reserve System. As to other member banks, applications would be considered on a case-by-case basis in the light of certain specified factors.

Mr. Hackley's memorandum pointed out that a possible fifth alternative plan for classifying reserve cities (Plan C-1) would involve the designation of any city as a reserve city if it had a single member bank with gross demand deposits equal to more than a specified percentage (say one-fifth of one per cent) of the total demand deposits of all member banks.

A final alternative, the memorandum noted, would be to retain without change the classification rule adopted in 1947.

At the beginning of today's meeting, Mr. Farrell distributed copies of a memorandum dated February 10, 1961, comparing Plan C and Plan C-1.

Following introductory comments by Mr. Farrell on the material that had been submitted to the Board, Mr. Thomas made a statement in which he noted that the two latest proposals, as mentioned in Mr. Hackley's memorandum, went to opposite extremes. One of them was to retain the present plan, which was based entirely on interbank deposits, while the other (Plan C-1) omitted interbank deposits completely. In his opinion both were indefensible. While he felt that a classification plan ought to take interbank deposits into account, on the other hand he felt that

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other factors also should be considered. After stating reasons underlying his views, he expressed a preference for some formula along the lines of Plan B, with the figure for total demand deposits of a single bank raised from \$200 million to \$300 million.

Chairman Martin inquired as to the arguments against retaining the present rule, and Mr. Thomas commented that there were a number of banks that in his judgment ought to be reserve city banks but which did not have any large volume of interbank deposits. He would not favor designating Jackson, Mississippi, and Chattanooga, Tennessee, as reserve cities simply because their member banks had large interbank deposits, while omitting cities like Newark, New Jersey, and Hartford, Connecticut.

Mr. Dembitz indicated that his present thinking would favor retaining the existing plan in spite of its many unsatisfactory aspects. He did not disagree with the comments of Mr. Thomas about its shortcomings, nor did he disagree with him about the possibility for improvement. Nevertheless, he felt that any new principles calling for the designation of new reserve cities would create problems. The new cities presumably would not want to be designated, and the Board would have to assume the burden of proof in trying to demonstrate that the new principles were better than the existing plan. In his opinion, the advantages of the plans that had been submitted, as compared with the existing system, were not sufficiently great or sufficiently clear to warrant taking on that burden. On the other hand, if the Board retained the existing rule,

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even with its shortcomings, it would not be setting forth new principles that would have to be defended.

The Chairman then turned to the members of the Board, beginning with Governor Mills, who commented that there was a degree of artificiality in the existing rule and also in the formulas that had been suggested. Personally, however, he felt there was more artificiality in the present rule than the proposals. He believed that the 1959 legislation with regard to reserve requirements in a sense demanded recognition on the part of the Board through revision of the classification basis. His own thinking continued to be that the Board's responsibility should focus on the mass of deposits that could be employed by the member banks of the country, and that the larger banks should be subjected to higher reserve requirements than the smaller banks. Although the thought appeared to have been abandoned, he continued to believe that total deposits, including both demand and time, should be the criterion for a classification formula, because within the member banks there is no distinction between demand and savings deposits from the standpoint of their availability to depositors. Therefore, he would feel that adequate weight should be given to liquidity in the classification formula, which would automatically tie into the use of both demand and time deposits.

Looking to the future, Governor Mills said that if time deposits were excluded, he felt that in a sense the Board would be declaring to the public that time deposits, as held by the member banks, are of a

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different character from share accounts at savings and loan associations and deposits at mutual savings banks. Since there had been much discussion about legislation or regulations that in one way or another would impose liquidity requirements on these other financial intermediaries, he would feel that the position that seemed to be in process of adoption by the Board would in a sense weaken the Board's position at some future time in supporting an appropriate scheme of legislation to impose liquidity requirements on those types of financial institutions. However, as matters stood, his own choice would be essentially what Mr. Thomas had suggested, that is, an adaptation of Plan B.

Governor Robertson said he saw a great deal of merit in the point raised by Governor Mills with regard to time deposits. However, his inclination at this time was to proceed along the lines of Plan B, and he would be willing to accept that plan just as it stood. He thought it desirable to recognize interbank deposits in order to tie back into the plan now in existence. Instead of moving the dividing line in Plan B from \$200 million to \$300 million, as suggested by Mr. Thomas, he would leave it at \$200 million because he felt that that would bring in banks of the size and type that ought to be classified as reserve city banks.

Governor Shepardson said he could not see any advantage in Plan B, which was devised in order to cope with a problem found in Plan A. It seemed to him that Plan C covered everything that Plan B would cover, and it was much simpler. He saw some logic in continuing to recognize

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interbank deposits. As he had argued before, it seemed to him that essentially the thing being classified was a bank and its resources. The fact that there might be a half dozen banks making up a pool of resources in a city was to him less significant. Failing agreement on any of the proposals, it seemed to him that, since none of them were too far from the present rule, the best thing to do might be to let the present rule stand. It had worked for several years and probably would continue to work without anyone getting too excited.

Governor King indicated that he did not see in any of the proposals enough improvement over the present rule to warrant launching into a sea of frustration. One proposition, although it might be regarded as more defensible than another, did not seem to be sufficiently more defensible to go into it. Considering the present condition of the economy and the prevailing uncertainties, he felt that it would be unfortunate to stir things up unnecessarily at the present time. As he had said on previous occasions, he could not conceive that relatively small cities and banks should wind up in the same reserve category as large money market banks in cities like New York, Chicago, and San Francisco. Such a procedure, he thought, would be indefensible. Therefore, his present preference would be to let the existing rule stand. If it became necessary to make some other decision, he would be prepared to vote on the basis of whatever specific proposal was before the Board, but his inclination would be to do nothing.

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Governor Szymczak commented that the more one tried to use reserve requirements as a monetary instrument within the context of this country's system of banking, the more involved he became. He now doubted the advisability of trying to develop a technique, although initially he had thought that it would be desirable and that the system should be based on both demand and time deposits. If it was so difficult for the Board to arrive at a decision, it would be just as difficult for the banking community to understand why the Board had adopted any particular approach. Also, it would apparently be necessary to change the formula from time to time as new information was developed on the basis of experience. Therefore, he had finally come to the view, although reluctantly, that it would be better to make no change and to concentrate on the exemption of individual banks from the reserve city bank category. At some point, however, he felt that it would be desirable for the Board to go to the Congress with a proposal for uniform reserve requirements.

Governor Balderston said he had a good deal of sympathy for the position that the Board should stay where it was, however much that did violence to the logic of the situation. Nevertheless, it should be remembered that this would leave out of the reserve city category cities like Newark and Hartford, and this gave him some pause. He had the feeling that those cities and one or two more ought to be in the reserve city category and that Jackson and Chattanooga should not. Therefore, he was torn between the easier choice, at least administratively speaking, of

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preserving the status quo and directing attention to the declassification of certain banks or, on the other hand, using some plan like Plan C-1, modified to include cities that he felt should be included and vice versa. On balance, since he did not see clearly how the Board could set up standards that the banking industry would regard as better than the present standard, he would vote very reluctantly to maintain the status quo.

Chairman Martin indicated that he also had come out at that point.

Governor Balderston then referred to the question of granting country bank reserve status to a group of banks in Chicago that had made requests to such effect. This matter, which had been deferred by the Board at the meeting on November 28, 1960, could, he felt, perhaps now be acted upon according to a plan which he outlined.

Chairman Martin inquired whether all of the members of the Board had sufficient information to act on these applications. When some of the members indicated that they would like to review the file, the Chairman suggested that the file be recirculated before action was taken and it was agreed that this would be done.

In this connection, Governor Robertson suggested that it would be desirable for the Board to reach agreement on the standards it would use generally in considering requests of this kind before acting on additional individual applications.

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After a brief discussion of this point, the Chairman commented that the general standards could be considered further when the requests of the Chicago banks again came before the Board.

Mr. Hackley then raised the question whether, since it appeared from the discussion at this meeting that the Board might retain the 1947 rule for the classification of reserve cities, the staff should prepare for the Board's consideration a statement for publication in the Federal Register indicating that the triennial review of reserve city designations called for by that rule would be reinstated.

There ensued a discussion of procedure during which it was suggested that certain modifications of the present rule might be considered, including the use of daily average deposit figures in place of call report data. It was noted, however, that such changes would require republication of the rule and that it might develop from further study that changes of the kind suggested would make no practical difference as far as the designation of reserve cities was concerned.

Governor Balderston said at this point that he was concerned that he may have misled the Board as to his position when he referred earlier in the meeting to maintaining the status quo and keeping the present list of reserve cities. That comment had not been intended to mean that he favored keeping the 1947 rule. Instead, it reflected his philosophy that changes should be made in the present list of reserve cities only if some substantial advantage was seen. He would like to add Newark and

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Hartford especially, and in addition Phoenix, Arizona, and Mineola, New York, but he would not want to add a large number of cities.

There followed additional discussion as to the effect of the various proposed plans on the classification of particular cities and the effect of retaining the present rule.

Chairman Martin then indicated that if Governor Balderston wanted to present a new plan the Board could take another look at the matter. However, it would be understood that today's discussion had not resulted in a decision to take any specific action.

Messrs. Chase and Collier then withdrew from the room and Mr. Robinson, Adviser, Division of Research and Statistics, entered.

Maximum rates on time deposits. At the meeting of the Board on January 19, 1961, there was discussion of a memorandum from Governor Robertson dated January 17, 1961, recommending that Regulation Q, Payment of Interest on Deposits, be amended to increase the maximum rates of interest payable by member banks on savings and time deposits. Under date of February 2, 1961, Governor Robertson submitted a supplemental memorandum, copies of which had been distributed. In this memorandum, he stated that he wished to alter his earlier recommendation in one respect, namely, that the rate of interest which member banks may pay on "any time deposits (except postal savings deposits which constitute time deposits) having a maturity date less than ninety days after the

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date of deposit or payable on written notice of less than ninety days" remain at the present figure of one per cent.

Governor Robertson recalled that during the discussion on February 19, Mr. Thomas had made the point that an increase in the maximum rate on short-term time deposits might cause a flow of demand money into time deposits, which carry much lower reserve requirements. He thought this point was well taken and therefore had amended his original proposal to the extent indicated in the supplemental memorandum.

Governor Robertson went on to say that he thought his proposal, with this amendment, constituted a sound approach. It would preserve the statute for use at a later time if needed, but in the meantime it would permit member banks to set their own rates of interest depending on economic conditions and the competitive position in which they found themselves. The banks could make their own decisions as to the rates they wished to pay on foreign as well as domestic time deposits, and the Federal Reserve would not be in the position of making that decision for them. In his opinion this was appropriate, and it would eliminate a problem for the Administration because no legislation with specific applicability to the rates payable on foreign time deposits would be needed. In general, the proposal would serve the wholesome purpose of acting, pursuant to the statute, in the manner in which he felt that the Board was obliged to act under conditions prevailing at the present time.

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Chairman Martin said that he would be willing to support repeal of the statute requiring the Board to fix maximum rates payable on time and savings deposits, as suggested in the report made to the President recently by the committee headed by Mr. Allan Sproul. However, he felt that the current proposal would be interpreted as dabbling around with the matter, and that was another question. He was not sure that it would be a wise move to repeal the statute, but at least it would be a clean approach.

Governor Mills said that he had prepared a statement for presentation at the January 19 meeting and that he had had no occasion to change his position since that time. The President had proposed that American banks be permitted to pay a higher rate of interest on time deposits of foreign central banks and foreign governments, but that matter would be debated by the Congress and he did not feel that it entered into the problem of rates of interest payable on domestic time deposits. He then read the statement he had prepared, as follows:

Although there are impressive arguments for amending Regulation Q to permit payment by member banks of increased rates of interest on time and savings deposits, the weight of evidence argues strongly against any such action at the present time.

1. The legislation requiring the Board of Governors to regulate the maximum permissible rates of interest payable on time and savings deposits was designed to encompass the kind of financial situation now existing. If, therefore, the Board of Governors were to raise the present maximum rate to an illogical level, it would in effect be flouting the spirit of the statute which it is required to administer and would properly be subject to Congressional criticism.

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2. In the event that an increase in the permissible rate payable on time and savings deposits compelled member banks to take on high-yielding low-quality assets in order to finance the cost of paying a higher rate of interest on time and savings deposits imposed by competitive conditions, the general quality of the banks' assets involved would be lower. This is exactly the kind of condition that it is the purpose of the statute to prevent. A case in evidence is that of a small bank which had difficulty in meeting its dividend requirements when exposed to the competition of the Michigan National Bank in paying a higher rate of interest on time and savings deposits.

3. To the extent that an increased rate of interest payable by member banks on time and savings deposits forced competing savings and loan associations to raise their rates on share accounts, an already questionable situation would be aggravated. This would be the case if savings and loan associations were driven into making lower quality real estate mortgage loans in order to meet the competition of commercial banks. If at the same time increased rates paid by member banks were to attract funds out of savings and loan associations in volume, the liquidity status of such associations is so thin that heavy withdrawals could prove to be an embarrassment.

4. Considering the very substantial increase in member bank time and savings deposits during the past year, there are ample grounds to have confidence in their ability to compete for this kind of deposit under the maximum rates of interest now permissible under the provisions of Regulation Q. Consequently, there is no occasion for raising the rate to enhance the competitive positions of member banks. Along that line, the outlet offered metropolitan banks to attract interest-paying deposits through the channel of Euro-dollars has restored whatever lack in ability to attract foreign funds that previously existed.

5. An examination of the operating figures of member banks shows clearly that their payment of higher rates of interest on time and savings deposits would adversely affect their earnings positions in inverse proportion to the size of the bank. Considering the fact that the Board of Governors operates under various statutory mandates to exert its efforts to preserve banking competition and to protect smaller banks

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against the dominance of larger competitors, it would be inconsistent with the spirit of these mandates for the Board of Governors administratively to promulgate action with respect to member bank time and savings deposits that would be injurious to their competitive positions. Whereas the member banks are the wards of the Federal Reserve System, it is essential that the Board of Governors do all within its power to insure their viability, in which connection protection of the smaller banks against ruthless competition is more important than any considerations having to do with an endeavor to encourage public savings by offering higher interest returns. It is, of course, a well known fact that a large majority of banks that have been polled are adverse to any present change in the provisions of Regulation Q, in that they are fearful that any competitive compulsion to increase the rates of interest on time and savings deposits would be inimical to their responsibility to operate sound and solvent banking institutions.

Governor Shepardson expressed doubt that an approach such as Governor Robertson had suggested would be entirely in accord with the spirit of the statute. He felt that it would be better to specify maximum rates that the Board regarded as effective ceiling rates or to take the position that the statute requiring the Board to fix such rates should be repealed.

Governor King indicated that he agreed with the position taken by Governor Mills. He noted that Governor Robertson had always been a champion of providing and preserving competition, and had endeavored to see that smaller banks were placed in a position where they would be able to compete with larger institutions. He raised the question whether the current proposal was not contrary to the philosophy of protecting the competitive position of the smaller banks.

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Governor Szymczak expressed the view that the principle enunciated by Governor Robertson was good. He indicated, however, that he doubted whether such a plan would be consistent with the spirit of the law. Therefore, he would prefer to maintain the status quo. As soon as feasible, however, he felt that the Board should recommend to the Congress the elimination of the legislation requiring the Board to fix maximum rates of interest on time and savings deposits.

Governor Balderston said he felt that unless and until the statute was changed the Board would not be justified in increasing the ceiling rates in the manner suggested by Governor Robertson. In his opinion the Board should take the initiative in proposing such new legislation as it believed to be right, and the point made by Governor Szymczak should be given further study. He felt that sooner or later some savings and loan associations might find themselves in difficulty due to paying high dividend rates on share accounts. If so, it might be unfortunate if the Board had urged the elimination of all regulation over the rates paid on time deposits. Accordingly, he felt that the matter needed further study.

Governor Robertson then indicated that in the light of this discussion there were certain points that he would like to have clear on the record. First, he felt that his proposal was not in violation of the spirit of the statute, that discretion was vested in the Board to take steps of this kind, and that the language of the statute was such as to warrant the proposed action. If there was a question in this regard, he

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would suggest obtaining a legal opinion. With regard to the suggestion that an increase in the maximum rates such as he had proposed might cause banks to go into speculative loans to obtain earnings that would enable them to pay higher rates of interest, Governor Robertson said that this was certainly a factor that the Congress had in mind when the statute was enacted. His answer was that bank supervision had improved over the years and today was adequate to deal with the problem. If it developed that such was not the case and that lower maximum rates were needed to insure the soundness of the banking system, that could be done. Thus, there would be an advantage in having the statute available. With respect to the competitive position of smaller banks, Governor Robertson commented that he was certainly in favor of maintaining the competitive position of such banks to the fullest possible extent. His current proposal would, he felt, enable them to compete more effectively. By and large, they compete for deposits not so much with the large banks as with other kinds of financial institutions, and he felt they should be placed in a position where, if they saw fit, they could meet that competition by offering comparable rates. The other financial institutions probably would be affected if his proposal were adopted. If the banks increased their rates, some savings and loan associations also would increase their rates, but there were limits beyond which they could not go. As to the banks, here again there would be an advantage in having the statute available if needed. Essentially, adoption of his proposal would place the banks in

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a position to fix their own rates. The matter would not be in the posture that a Federal agency was determining what the banks could afford to pay and what they could not afford to pay.

Mr. Hackley commented that, as Governor Robertson had pointed out, the law gives discretion to the Board. If it appeared that the Board had fixed an unreasonably high maximum rate, the Board might be charged with violating the spirit of the law. However, he was not able to say that in his judgment an increase in the maximum rate from 3 per cent to 5 per cent would leave the Board vulnerable to attack on that ground.

Mr. Hackley also commented that the Treasury apparently was working on an amendment to the statute that would permit the Board to fix a higher maximum rate for certain foreign time deposits than for domestic deposits. This higher maximum rate would relate to deposits of foreign central banks and foreign governments. He had received a telephone call from the Treasury staff in regard to the drafting of such a proposal, but he had indicated clearly that he could not speak for the Board and that he did not know whether the Board would favor or oppose such legislation.

Mr. Noyes said that the research staff was in the process of drafting a memorandum for the Board's information in which the question would be raised whether the Board might wish to make some legislative proposal on its own behalf in the event that the Administration introduced a legislative proposal such as Mr. Hackley had mentioned. The memorandum

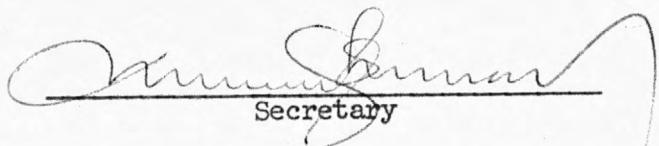
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would not suggest that the Board take the initiative but rather would raise the question whether the Board wished to offer any alternative if a very limited amendment to section 19 of the Federal Reserve Act should be proposed by the Administration.

After a brief discussion it was understood that the staff memorandum would be made available to the members of the Board, following which the matter would be discussed further.

The meeting then adjourned.

  
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Secretary



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

Item No. 1  
2/13/ 61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1961

Board of Directors,  
The First Pennsylvania Banking  
and Trust Company,  
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at the southeast corner of Harbison Avenue and Tulip Street, Philadelphia, Pennsylvania, by The First Pennsylvania Banking and Trust Company. This approval is given provided the branch is established within one year 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  
2/13/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1961

Board of Directors,  
The Beloit State Bank,  
Beloit, Wisconsin.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$269,375.50 in bank premises by The Beloit State Bank, through its wholly owned affiliate, the 500 East Grand Corporation, for purchasing and conditioning additional property for parking areas and future expansion.

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  
2/13/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1961

Board of Directors,  
Webster Groves Trust Company,  
Webster Groves, Missouri.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$5,000 in bank premises by Webster Groves Trust Company, Webster Groves, Missouri, for purposes of modernization of bank premises.

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  
2/13/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1961

Board of Directors,  
Bankers Trust Company,  
Des Moines, 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 Bankers Trust Company, through its wholly owned affiliate, Bankers Building Corporation, of \$518,000, for the purpose of completing the expansion of its main office building.

This amount is in addition to \$1,582,000 approved by the Board on October 7, 1959, and under a revised plan, the bank's investment, direct and indirect, in bank premises will be as follows:

Stock in wholly owned affiliate	
Bankers Building Corporation	\$ 950,000
Loans by Bankers Trust Company	
to Bankers Building Corporation	521,000
Liability of affiliate on mortgage	
to Bankers Life Company	<u>1,250,000</u>
	<u>\$2,721,000</u>

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM      Item No. 5  
WASHINGTON 25, D. C.      2/13/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1961

Board of Directors,  
Deuel County State Bank,  
Chappell, Nebraska.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in certain fiduciary capacities.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Deuel County State Bank to act as executor and administrator of the estates of deceased persons, as prescribed by the laws of the State of Nebraska, with the understanding that your bank will not accept fiduciary appointments of other kinds without first obtaining the permission of the Board.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 6  
2/13/61

OFFICE OF THE CHAIRMAN

February 13, 1961

CONFIDENTIAL (FR)

Mr. James D. Wise,  
Deputy Chairman,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Wise:

The Board of Governors has approved the appointment of Mr. Alfred Hayes as President and Mr. William F. Treiber as First Vice President of the Federal Reserve Bank of New York, each for a term of five years beginning March 1, 1961, in accordance with the action taken by the Board of Directors as reported in your letter of February 2, 1961.

The Board of Governors has also approved the payment of salaries to Messrs. Hayes and Treiber at the rates of \$60,000 and \$35,000 per annum, respectively, for the period March 1, 1961, through December 31, 1961.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



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

Item No. 7  
2/13/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 15, 1961

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

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

Dear Mr. Garwood:

Reference is made to a letter received from your office dated August 16, 1960, enclosing copies of an application to organize a national bank at Fort Worth, Texas, and requesting a recommendation as to whether or not the application should be approved.

The report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the organizers have agreed to provide a minimum capital structure for the bank of \$800,000 instead of \$600,000 shown in the application. This capital structure appears to be adequate. Future earnings prospects of the bank and the proposed management appear favorable; however, based upon the information available with respect to the present development of the area to be served it does not appear that there is sufficient need for additional bank facilities at this time. Accordingly, the Board of Governors does not feel justified in recommending approval 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) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.