FR 609
Rev. 10/59

Minutes for February 24, 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 Friday, February 24, 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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Petersen, Special Assistant, Office of the Secretary
Mr. Yager, Economist, Division of Research and Statistics

Report on money market developments. Mr. Yager reported on activity in the Government securities market, with special reference to the initial implementation of the recent decision on the part of the Federal Open Market Committee to authorize operations in longer-term United States Government securities. Mr. Thomas then presented an analysis of the bank credit situation, and Mr. Furth reported on developments affecting the United States balance of payments.

Messrs. Furth and Yager then withdrew from the meeting.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Kansas City, and Dallas on February 23, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to The Union Commerce Bank, Cleveland, Ohio, approving (1) the establishment of a branch in the Southgate Shopping Center, Maple Heights, and a drive-in branch in the rear of and apart from the principal branch in the Center, and (2) an investment in bank premises.	1
Letter to The Savings Deposit Bank and Trust Company, Elyria, Ohio, approving an extension of time to establish a branch at Lake Avenue and Griswold Road in Elyria Township.	2
Letter to The Union Savings & Trust Co., Warren, Ohio, approving the establishment of a branch at 132 Niles-Cortland Road, Howland Township.	3
Letter to Central Bank of Montana, Great Falls, Montana, granting an extension of time to accomplish membership in the Federal Reserve System.	4
Letter to First National Bank of Chadron, Chadron, Nebraska, approving its application for fiduciary powers.	5

	Item No.
Letter to the Office of the Statistical Standards, Bureau of the Budget, regarding a revised report of condition (Form F.R. 105) to be used by State member banks.	6
Statement for publication in the Federal Reserve Bulletin and the Federal Register with respect to savings deposits not evidenced by a pass book.	7

Messrs. Hackley, General Counsel; Farrell, Director, Conkling and Daniels, Assistant Directors, and Collier, Chief, Current Series Section, Division of Bank Operations; Solomon, Director, Division of Examinations; and Chase, Assistant General Counsel, entered the room at this point.

Acceleration of procurement and construction (Item No. 8). A draft of letter to the Bureau of the Budget regarding possible acceleration of procurement and construction projects, as referred to in the President's memorandum of Feburary 2, 1961, to the heads of executive departments and agencies, had been distributed to the Board.

At the instance of Governor King, there was a discussion concerning the necessity of specifying in two separate places in the letter that the Board and the Reserve Banks do not operate on appropriated funds, following which it was understood that the letter would be revised to remove one of the references to that point.

It was agreed unanimously that the letter would be sent after the proposed changes had been made. A copy of the letter, as sent, is attached as Item No. 8.

Mr. Daniels then withdrew from the meeting and Mr. Johnson, Director, Division of Personnel Administration, entered the room.

Classification of reserve cities (Item No. 9). A memorandum dated February 20, 1961, from Governor Balderston presenting an amended plan for the classification of reserve cities had been distributed, as had a memorandum from Mr. Hackley dated February 23, 1961, submitting proposed changes in Regulation D, Reserves of Member Banks, that would be necessary to implement Governor Balderston's proposal. The latter submission was in the form of a notice of proposed rule making which would be published in the Federal Register. The notice would indicate the dollar figures represented by the percentages in the standards and would name the cities that would be continued, dropped, and added as reserve cities if the amendments were adopted.

The principal features of the proposed amendments were as follows:

1. Reserve cities would include all cities in which:

   a. All member banks had an average daily total of demand deposits equal to 2/5 of one per cent of the United States total during 1960 ($487 million); or

   b. One member bank had an average daily total of demand deposits equal to 1/4 of one per cent of the United States total during 1960 ($304 million); or

   c. All member banks had an average daily total of interbank demand deposits equal to 2/5 of one per cent of the United States total during 1960 ($53 million).

   (These standards were the same as those suggested in Governor Balderston's memorandum of February 20, 1961).

2. The foregoing standards would be based upon deposits of member banks that had their head offices in particular cities as of January 1, 1961.

3. The proposed amendments would not exclude member banks with offices in Federal Reserve Bank or branch cities. This meant that Winston-Salem, North Carolina, and Savannah, Georgia, would be reserve cities, even though all member banks with head offices in those cities and no offices in a reserve city would probably be eligible for declassification.

4. Every third year the Board would redesignate reserve cities in accordance with the foregoing standards, except that designations would be based upon deposits of member banks for the calendar year preceding each triennial review.

5. New reserve cities designated this year and in each third year thereafter would be allowed one year before the designation would become effective.

6. The proposed amendments would provide for the automatic approval of applications for reduced reserves by member banks with total demand deposits of $50 million or less and for consideration of applications by banks with larger deposits on an ad hoc basis, but with an indication of the factors that would be considered by the Board.

7. The proposed amendments would be published in the Federal Register with an invitation for the submission of comments by April 1, 1961, and would be finally adopted on or before May 1, 1961. Subsequent to May 15, the Board would designate reserve cities effective June 1, 1961, except that as to new reserve cities the effective date would be deferred until June 1, 1962.

Governor Balderston stated that there were three parts to the problem confronting the Board at the present time. First, there was the adoption of new standards for the classification of reserve cities.

Second, there was the implementation of these new standards by amending Regulation D. Third, there was the adoption, for the first time, of standards for declassifying those banks in reserve cities whose size and character of business warranted country bank reserve status. After the February 13 meeting, he had distributed a memorandum under that date outlining a proposed set of standards for reclassifying reserve cities which, in view of the Board's discussion, he felt that the Board members might be willing to adopt. Like any compromise, the plan might not be entirely agreeable to everyone, but it might be acceptable enough to obtain agreement. The proposal's salient features were simplicity and the inclusion of a minimum number of new reserve cities, limited to sizable financial centers like Hartford and Newark. However, because the use of absolute dollar amounts of deposits would set up standards that would not be self-adjusting as the economy and banking volume grew, he then circulated the substitute proposal dated February 20. The standards suggested in this proposal would add four reserve cities, and the further modification contained in Mr. Hackley's proposed revision of Regulation D, dated February 23, would add two more cities, Savannah and Winston-Salem. The addition of these two southern cities would not assign higher reserve requirements to any additional banks; the larger banks with offices in these cities are already carrying 16-1/2 per cent reserves and the smaller banks would be candidates for declassification. However, this modification did simplify the amendments to Regulation D.

Governor Balderston pointed out that if the proposed new standards were adopted, Mineola, New York, a city he had expressed interest in reclassifying as a reserve city at the February 13 meeting, would not now be classified as a reserve city. However, it could easily grow into the reserve city classification if its deposits were to expand percentagewise at a faster rate than the national aggregate. In the case of Jackson, Mississippi, the interbank figure was only slightly under the standard. Thus, both Mineola and Jackson would come under the reserve city classification if they grew faster than the country. Other cities that might be considered borderline had interbank figures ranging from $69 million to $100 million, well above the dividing line.

Governor Balderston remarked that the final difficulty considered by the staff was whether a bank could escape classification as a reserve city bank by moving its head office to another city. This would be possible, he pointed out, only if the bank had daily average demand deposits of less than $304 million during 1960. In Albany, New York, the largest bank had average demand deposits of $279 million. This seemed to be the only situation that could create a problem for the Board by removal of a head office, and the possibility seemed unlikely.

Governor Balderston noted that a proposed time schedule for the implementation of these standards had been set forth in Mr. Hackley's memorandum of February 23. The envisaged procedure would include announcement of the proposed new standards in the Federal Register and the Federal Reserve Bulletin, with a considerable delay before the new standards would become effective and an additional year's delay before banks in the added cities would have to carry the higher reserves.

Governor Balderston pointed out that the declassification of reserve city banks meriting country bank status was covered in the draft amendments to Regulation D. He indicated that he would favor spelling out some of the meaning of the character of business, on which declassification would be based. However, it had also been suggested that no provision for automatic declassification of banks with deposits of less than a specified figure should be included. Such inclusion, it was suggested, would invite applications for declassification from at least a dozen banks whose deposits were below $50 million but whose interbank activity was considerable. After considering the matter, he would be inclined, on balance, to omit the provision for automatic declassification.

In conclusion, Governor Balderston commented that the Board had been struggling with the problem of the classification of reserve cities for a number of years and particularly during the past several months. Such discussion could continue indefinitely, but he felt that public relations called for the Board to "fish or cut bait." A number of small banks had applications pending with the Board for reclassification.

In the circumstances, he favored doing something now that would stir up the least commotion, but would at the same time accomplish a change in the classification standards that would achieve enough consistency to be fair. As in grading examination papers, a line must be drawn somewhere between those who passed and those who did not. The ideal procedure would be to fix a dividing line where no bank would be close to the boundary, but that involved difficulties. In the plan he had submitted, he felt there was a sufficiently clear separation to avoid stirring up too much emotion.

Mr. Hackley commented that the suggested procedural implementation of the proposal was in line with past and present practices of the Board. After referring to the steps that were taken prior to putting the 1947 rule into effect, he reviewed the steps envisaged for implementation of the current proposal and expressed the view that advance notice in the Federal Register, in order to provide an opportunity for the submission of comments, would be desirable. If comments had to be received by the first of April, he pointed out, no substantial delay would be involved in putting the plan into effect. He added that a one-year delay in the effective date of the designation of new reserve cities would be in line with the practice followed under the current rule.

Chairman Martin inquired what advantages were seen in the proposed plan as compared with doing nothing, that is, retaining the 1947 classification rule.

Governor Balderston replied that in view of the distinction in the law it was necessary to divide the total number of member banks in some manner into reserve city and country bank categories. Should the present rule be retained, that would leave in nonreserve city status a city such as Newark, New Jersey, which is larger than several of the present reserve cities in terms of bank deposits. This was an element of unfairness that perhaps the Board should not countenance; fairness would seem to dictate the inclusion of cities like Newark and Hartford, Connecticut, and probably Phoenix, Arizona, and Albany, New York, as well. He recognized that the more cities added to the list at this time the more representations would be made that the Board was making it difficult for the banks to "make a dollar". Nevertheless, even though in a sense it would be easier for the Board to maintain the status quo, he saw merit in adding the most likely and most plausible of the nonreserve cities to the reserve city list. He would be concerned if Hartford and Newark were not added. At the same time, he would be equally concerned if any revised formula had the result of adding a great many new cities to the list.

With regard to including in the amendments to Regulation D a provision that would result in automatic declassification of certain banks in reserve cities to country bank reserve status, Mr. Hackley commented that he saw merit in the argument for omitting such a provision. On the other hand, inclusion thereof, if agreement could be reached, would relieve the Board of the necessity of considering a number of routine cases. Further, it might help to temper the shock of the addition of new reserve cities if the smaller banks therein were informed immediately that they could obtain declassification merely upon application to the Board.

Governor Balderston said he had had in mind that in the cases of Winston-Salem, North Carolina, and Savannah, Georgia, it might be advisable to ask the Presidents of the respective Federal Reserve Banks to call the smaller banks in those cities in advance of the publication of the Board's announcement in the Federal Register and explain the situation, since all of the banks in those two cities not currently classified as reserve city banks would be obvious candidates for declassification to country bank reserve status.

In reply to a question by the Chairman, Mr. Thomas indicated that he felt the new proposal was about as near to the ideal scheme as one could get. It embodied principles and standards that were defensible, and from a practical standpoint it would bring into the reserve city bank classification only those large banks that merited such classification on any equitable basis. If those banks were not brought in, then the Board should declassify a number of other banks. The plan would leave out of the reserve city classification those cases that clearly should be left out; on the borderline would be cases that could be argued one way or the other. In those borderline cases, classification in the future would depend on the degree of deposit expansion in relation to that of the banking system as a whole. From a public relations standpoint, the proposal seemed quite good, and the plan could be defended in principle.

In reply to the same question from the Chairman, Mr. Dembitz commented that if the Board wanted to adopt a new standard the proposal outlined by Governor Balderston seemed well-suited and appropriate. Nine banks would be raised to the status of reserve city banks, and if the Board wanted to bring in about nine banks, these would be about the right nine. However, it should be borne in mind that reserve city bank status was going to cost those banks a lot of money, and they might protest vigorously. Therefore, if the Board should decide to adopt this new rule, it should have in mind the likelihood of such a protest, and some idea of what it would do if protests were received. Mr. Dembitz then presented a rough estimate of the magnitude of the per annum cost to the group of banks that would be elevated to reserve city status.

Question was raised at this point regarding the relationship of the proposal to monetary policy, and Mr. Thomas replied that there would be no significant effect one way or the other as far as monetary policy was concerned. Rather, it was a matter of equity. If the nine banks referred to by Mr. Dembitz were not brought in, many banks now classified as reserve city banks would be entitled to come in and complain on the ground of inequity.

Governor King pointed out that if the Board retained the present rule and reinstated the triennial review called for by that rule, certain cities apparently would be newly designated as reserve cities. In such event, certain banks therein would lose earnings just like the nine banks Mr. Dembitz had mentioned. Hence, those banks might be expected to protest just as vigorously.

After additional discussion during which Chairman Martin indicated that he was more and more convinced that the ultimate solution was in the direction of uniform reserve requirements, the Chairman called for the views of the members of the Board.

Governor Mills said he recognized that there were serious defects in the 1947 rule. However, he would prefer to stay with that rule rather than to adopt what seemed to him to be a kind of gerrymandering slide-rule formula that could not be tied to complete logic. Until a formula could be devised that was free from most complaints of illogicality, he would maintain the status quo.

Governor Robertson said he would approve the current proposal, which he regarded as much better than the existing rule. The new plan was not perfect, but it was a significant step forward.

Governor Shepardson recalled that the last time this matter had come up for discussion, he was inclined toward the position that Governor Mills had taken today. However, as pointed out at that time, there were some serious deficiencies in the present rule. The proposed rule seemed to be a move in the direction of greater equity, if there could in fact be real equity in a matter of this kind. Therefore, he would favor the proposal.

Governor King indicated that he also would favor the plan. He felt that an improvement might be made by eliminating the portion of the formula which related to interbank deposits, and possibly by classifying as reserve cities only those cities whose member banks had more than 1/2 of one per cent (rather than 2/5 of one per cent) of total member bank deposits. With reference to the inclusion of interbank deposits in the formula, he selected Des Moines, Iowa, as an illustration and said he was not convinced that the rather large volume of interbank deposits of the city's member banks was a sufficient basis, when looked at together with other circumstances, to require them to carry the same reserve requirements as applicable to large money market institutions. He felt there was no perfect way to draw the line between reserve city banks and other banks, and that probably uniform reserve requirements presented the eventual solution. However, the current proposal appeared to be a step in that direction. Also, the 1959 legislation which terminated the central reserve city classification in mid-1962 was a step toward uniform reserve requirements. He believed that a formula such as he had mentioned earlier would move in that direction a little faster, but he would be willing to go along with the current proposal.

Governor Szymczak said he agreed with Governor Mills and Mr. Dembitz, and that he would prefer to concentrate on working for uniform reserve requirements. However, he did not feel so strongly about the matter that he would be unwilling to accept the current proposal.

After Chairman Martin noted that on the basis of the views expressed it appeared that the majority of the Board would support the proposal, the discussion reverted to the question whether the proposed amendment of Regulation D should retain or drop the provision in the draft providing for automatic declassification to country bank reserve status of banks in reserve cities having demand deposits below a certain level.

Governor Balderston said he tended to favor dropping that provision. He had originally thought in terms that some figure like $50 million of demand deposits would provide a fairly satisfactory dividing line, above which banks seeking declassification would be considered on an ad hoc basis. However, members of the staff pointed out to him that most of the banks with deposits below that figure had already made application to maintain reduced reserves, and therefore the automatic feature would not have much practical usefulness. Further, any specific level of deposits that might be chosen probably would be inappropriate after a period of time. The staff had also pointed out that there were about 12 banks with demand deposits under $50 million that probably would apply immediately for declassification. However, the nature of their business was such that the Board might have some question. If the automatic provision was omitted from the proposal, he had a feeling that most or all of those banks would be content with their present reserve status and would not apply for declassification.

Governor Mills expressed the view that the Board needed something that was more than just plausible and that there was a lack of plausibility in the whole scheme.

Governor Robertson indicated that his earlier thinking had been on the side that the use of a fixed figure of deposits below which banks would be automatically declassified would eliminate many complaints. However, he did not feel that that point weighed too heavily, and if the Board made the statement that an application from any bank would be considered on an ad hoc basis, that in itself would turn away some of the criticisms. The one major factor that had influenced his thinking earlier was that the lack of an automatic declassification procedure would mean more work for the Board, because otherwise all applications must be considered on the basis of the several factors that would be indicated in Regulation D. He was willing to undertake that work, and therefore he would be willing to accept the proposal minus the automatic declassification provision.

The other members of the Board indicated concurrence in the view that the automatic declassification feature should be omitted.

In further discussion, question was raised regarding the possibility of advising banks in new reserve cities that they might be eligible to maintain reduced reserves upon application. Governor Balderston commented that his earlier suggestion had been intended to go only to the banks in Winston-Salem and Savannah that would appear eligible to maintain lower reserves, because of the unusual situation with respect to those cities. It was agreed that the announcement in the Federal Register would constitute sufficient notice in other cases, and it was understood that the language of the introductory statement would be supplemented in this regard for purpose of emphasis.

Certain further suggestions then were made with respect to the introductory presentation in the Federal Register, following which Mr. Farrell commented that it might be desirable, prior to publication, to ask the Federal Reserve Banks to review the 1960 averages of daily figures of gross demand deposits and interbank demand deposits, as computed from reports of deposits for reserve purposes, for banks in cities in their respective districts that apparently would have their status changed through adoption of the new formula, as well as banks in borderline cities, in order to verify the predicted results of adoption of the new standards. There was agreement that such a procedure would be desirable.

Accordingly, with Governor Mills dissenting for the reasons he had stated, the Board approved for publication in the Federal Register the proposed amendments to Regulation D set forth in Item No. 9 attached to these minutes. This was with the understanding that publication would not be made until after the respective Reserve Banks had supplied the verification suggested by Mr. Farrell and that a press release would be issued when the notice of proposed rule making was sent to the Federal Register.

> Secretary's Note: Verifications having been received from the respective Reserve Banks, the notice was sent to the Federal Register on March 1, 1961, and a press statement was issued on that date. The notice sent to the Federal Register is attached as Item No. 9.

Messrs. Thomas, Farrell, Chase, Dembitz, Conkling, and Collier then withdrew.

Salary of officer at Cleveland Bank (Item No. 10). There had circulated to the Board a draft of letter to the Federal Reserve Bank of Cleveland advising of approval of the payment of salary to Fred O. Kiel, as Vice President assigned to the Cincinnati Branch, for the period March 1, 1961, through December 31, 1961, at the annual rate fixed by the Board of Directors, as reported in a letter from the Bank dated February 9, 1961.

After a brief discussion the letter, a copy of which is attached as Item No. 10, was approved unanimously.

Mr. Johnson then withdrew from the meeting.

Directors' day program. There had been distributed to the Board copies of a memorandum from Mr. Fauver dated February 21, 1961, submitting an outline of a suggested program March 15-16, 1961, for new directors of the Federal Reserve Banks and branches.

After comments by Governor Shepardson and Mr. Fauver, and discussion based thereon, general agreement was expressed with the proposed program. It was understood that preparations would go forward on that basis, subject to certain suggestions that had been made during the discussion.

All of the members of the staff then withdrew and the Board went into executive session.

Changes in Board's staff. The Secretary was informed later by Governor Shepardson that during the executive session the Board took the following actions relating to its official staff:

(1) Accepted the resignation of Arthur W. Marget, Director, Division of International Finance, effective at the close of business March 26, 1961;

(2) Noted that application for retirement, effective at the close of business February 28, 1961, had been made by Fred A. Nelson, Assistant Director, Division of Examinations;

(3) Appointed Brenton C. Leavitt, Supervisory Review Examiner, Division of Examinations, as Assistant Director of that Division, effective March 1, 1961, with annual salary at the rate of $14,500.

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:

Reappointment of consultant

Mrs. Gertrude Weiss as Consultant in the Division of Research and Statistics, effective as of January 1, 1961, and until December 31, 1961, for continuance of her work in connection with consumer surveys, on a temporary contractual basis with compensation at the rate of $50 per day for each day worked for the Board either in Washington or outside the city, and, in accordance with the Board's travel regulations, a per diem in lieu of subsistence in the amount of $12 for time spent in a travel status in connection with her assignments, and transportation.

Salary increases, effective March 5, 1961

Name and title	Division	Basic annual salary From	To
	International Finance		
Robert F. Emery, Economist		$ 8,080	$ 8,955
Katherine P. Hichborn, Secretary		5,655	5,820
Nyart S. Sharigan, Secretary		5,655	5,820
Wendell E. Thorne, Assistant to the Director		13,510	13,770
	Bank Operations		
Seymour Golodner, Analyst		6,765	6,930

Salary increases, effective March 5, 1961 (continued)

Name and title	Division	Basic annual salary From	To
	Examinations		
Robert F. Achor, Review Examiner		$ 9,995	$10,255
R. N. Westmoreland, Jr., Assistant Review Examiner		6,180	6,345
Walker White, Jr., Review Examiner		11,155	11,415
	Office of the Controller		
Jean S. Glascock, Secretary		6,015	6,180
Susie T. Oros, Senior Accounting Technician		6,710	6,875
	Administrative Services		
Lloyd G. Luna, Guard		3,500	3,605

Reemployment following maternity leave

Susan Rowzie, Stenographer, Division of Examinations, effective February 27, 1961.

Outside teaching activity

Stanley J. Sigel, Chief, Flow of Funds and Savings Section, Division of Research and Statistics, to deliver a series of lectures for the Vanderbilt University Graduate Program in Economic Development, with the understanding that he would receive an honorarium plus travel expenses and that his absence would be on annual leave.

Secretary

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

Item No. 1
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1961

Board of Directors,
The Union Commerce Bank,
Cleveland, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment of a branch in Southgate Shopping Center, at the intersection of Warrensville Center and Libby Roads, Maple Heights, Cuyahoga County, Ohio, and a drive-in branch in the rear of and apart from the principal branch in Southgate Shopping Center by The Union Commerce Bank, provided the branches are established within six months from the date of this letter.

The Board of Governors also approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $165,000 in leasehold improvements incident to establishment of the two branches.

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
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1961

Board of Directors,
The Savings Deposit Bank
and Trust Company,
Elyria, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System has approved an extension of time until October 1, 1961, in which The Savings Deposit Bank and Trust Company may establish a branch at Lake Avenue and Griswold Road in Elyria Township, Ohio. The establishment of this branch was authorized in a letter dated February 25, 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. 3
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1961

Board of Directors,
The Union Savings & Trust Co.,
Warren, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 132 Niles-Cortland Road, Howland Township, Ohio, by The Union Savings & Trust Co., Warren, Ohio. This approval is given 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. 4
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1961

Board of Directors,
Central Bank of Montana,
Great Falls, Montana.

Gentlemen:

In accordance with a request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors of the Federal Reserve System extends to September 6, 1961, the time within which Central Bank of Montana, Great Falls, Montana, may accomplish membership in the Federal Reserve System, as outlined in the Board's letter of September 6, 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. 5
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

February 24, 1961

Board of Directors,
First National Bank of Chadron,
Chadron, Nebraska.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants First National Bank of Chadron authority to act, when not in contravention of State or local law, as executor and administrator. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1961

Mr. David Cohn, Clearance Officer,
Office of the Statistical Standards,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Cohn:

Enclosed are two copies of Budget Bureau Form 83 submitting a revised report of condition (Form F.R. 105), and the related publisher's copies (Forms F.R. 105e and 105e-1), to be used by all State member banks of the Federal Reserve System in response to official calls for such reports. Also enclosed are two copies of the revised form as well as copies of the present form for convenient reference. It is understood that the revised form will also be used by the Comptroller of the Currency and the Federal Deposit Insurance Corporation at the forthcoming spring call date. Changes in the form are outlined in detail in an attachment.

The proposed changes are partly a result of the recent change in the Federal Deposit Insurance Corporation Act which requires use of reports of condition for computation of deposit insurance assessments, and partly a result of the need for new data on deposits of foreign governments and official institutions, on deposits of mutual savings banks, on the maturity distribution of U. S. Government securities, on bank holdings of securities of Federal agencies and corporations not guaranteed by the U. S., and on savings and other time deposits of individuals, partnerships and corporations.

These proposed revisions are the result of extensive negotiations with representatives of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, The Committee on Uniform Reports of the National Association of Supervisors of State Banks, and the Committee on Banking of the Advisory Council on Federal Reports.

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The changes, reflected in the form and in the attachment, are similar to those transmitted informally to Mr. Crowder with a memorandum dated December 2, 1960, which was considered at a meeting of the Committee on Banking of the Advisory Council on Federal Reports held at the Bureau of the Budget on January 12, 1961. As a result of these discussions a proposal to add a new item for deposits of other foreign holders (other than banks, governments, and official institutions), was dropped. The bankers felt the inclusion of this item in the report of condition would impose an undue reporting burden on the banks, but agreed that a one-time survey to determine the amount of such deposits held by insured commercial banks would not be unreasonable. It was also understood that, if this survey indicated the volume of deposits in this category was larger than anticipated, the addition of the item to the official call report would be considered at a later date.

If this revised official report of condition is approved, corresponding changes will be proposed later for the report of condition used by weekly reporting member banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

· SAVINGS DEPOSITS NOT EVIDENCED BY A PASS BOOK

Regulation Q, Payment of Interest on Deposits, permits a member bank to classify as "savings deposits" funds of individuals and certain types of corporations that are held by the bank, evidenced only by a written receipt or agreement, provided "withdrawals are permitted only through payment to the depositor himself but not to any other person whether or not acting for the depositor". The purpose of this prohibition is to eliminate the so-called "agency privilege". The reason for this is that withdrawal by an agent of the depositor merely by presenting a "written receipt or agreement" for a specific amount deposited with the bank could result in the use of such deposits, in effect, as checking accounts.

For example, in lieu of taking one "receipt" for his deposit of, say, $100, the depositor could request 20 receipts for $5 each. Then, when he wished to pay a bill, he could hand his creditor sufficient receipts and the latter, as his "agent", could present them for payment. This procedure is possible with a savings deposit evidenced by a pass book, but the cumbersome procedure of turning the pass book over to a third party is a deterrent to the use of such savings accounts for checking purposes. At least not more than one so-called check could be outstanding against the savings account at any time, because the depositor would have to regain the pass book before turning it over to another person for a second withdrawal of funds.

With respect to the use of deposits not evidenced by a pass book as collateral to a loan either by the bank or by a third person, the above quoted provision renders ineffective such use, since only the depositor himself may receive payment. This likewise prevents the use of such deposits, in effect, for checking purposes.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
2/24/61

OFFICE OF THE CHAIRMAN

February 24, 1961

The Honorable David E. Bell,
Director,
Bureau of the Budget,
Executive Office of the President,
Washington 25, D. C.

Dear Mr. Bell:

The President's memorandum of February 2, 1961, addressed to "Heads of Executive Departments and Agencies," requested that procurement, and maintenance, repair, and construction projects, be accelerated and directed that a report on construction or other projects which could be initiated quickly, but for which additional funds might be required, be submitted no later than February 25.

Although the expenditures of the Board of Governors and the Federal Reserve Banks do not come from appropriated funds of the Government, the Board has suggested to the Reserve Banks that they accelerate procurement plans and maintenance and repair work for the year 1961 insofar as practicable. Also, information was obtained from the Reserve Banks regarding expenditures for projects that could be moved forward from 1962 and subsequent years.

Since we do not have monthly figures, we cannot give the figures requested by months. However, the Federal Reserve Banks have budgeted for the year 1961 $3,100,000 for furniture and equipment purchases; $7,200,000 for printing, stationery, and supplies; and $1,200,000 for repairs and maintenance. As indicated above, the Banks will endeavor to accelerate these procurement expenditures.

Estimated expenditures for construction projects planned for 1962 or later that can be moved forward to 1961 total $533,000. Other construction projects already planned for the calendar year 1961 involve estimated expenditures of $8,121,000, most of which applies to work already underway which is progressing as rapidly as possible.

There is a limitation in the law on the amount that may be spent for the erection of Federal Reserve Bank branch buildings, and the existing authorization has practically all been used. Construction programs that could be undertaken promptly, if the law permitted, total $9,643,000. The Board has submitted to the Banking and Currency Committees of the Congress proposed legislation to permit this construction.

The foregoing information relates to expenditures by the Federal Reserve Banks.

As far as the Board's activities in the Washington area are concerned, its procurement expenditures for 1961 are estimated to be slightly over $400,000. These consist mainly of expenses for printing, routine office supplies, and the replacement and maintenance of furniture and equipment. In keeping with the spirit of the President's letter, the Board has instructed its procurement people to accelerate its purchases wherever possible.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 9
2/24/61

FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

[Reg. D]

RESERVES OF MEMBER BANKS

Notice of Proposed Rule Making

The Board of Governors of the Federal Reserve System is considering amending Part 204 [Regulation D] for the following purposes: (1) to provide a new basis for classifying reserve cities that would supersede the basis adopted by the Board in 1947, and (2) at the same time to set forth the factors that will be considered by the Board in passing upon applications by individual member banks in reserve or central reserve cities for permission to maintain reserves prescribed for banks not located in reserve or central reserve cities. The proposed amendments are designed to implement the purposes of section 19 of the Federal Reserve Act as amended by the Act of July 28, 1959 (73 Stat. 263).

If the proposed amendments are adopted, the effect would be to classify as reserve cities, in addition to cities in which there are Federal Reserve Banks or branches of Federal Reserve Banks, every city in which, during 1960, (1) all member banks had aggregate average demand deposits equal to 2/5 of one per cent ($487 million) or more of the United States total of demand deposits of all member banks of the Federal Reserve System, or

(2) one member bank had average demand deposits equal to 1/4 of one per cent ($304 million) or more of the United States total, or (3) all member banks had aggregate average inter-bank demand deposits equal to 2/5 of one per cent ($53 million) or more of the United States total of such deposits. As a result, (1) the following existing reserve cities, in addition to Federal Reserve Bank and Reserve Bank branch cities (except New York and Chicago until July 28, 1962) would be continued as reserve cities: Columbus, Ohio; Des Moines, Iowa; Ft. Worth, Texas; Indianapolis, Indiana; Miami, Florida; Milwaukee, Wisconsin; National City (National Stock Yards), Illinois; St. Paul, Minnesota; Tulsa, Oklahoma; and Washington, D. C.; (2) the following existing reserve cities would be discontinued as reserve cities effective June 1, 1961, unless requests for their continuance as such are granted by the Board as provided in the proposed amendments: Kansas City, Kansas; Pueblo, Colorado; Toledo, Ohio; Topeka, Kansas; and Wichita, Kansas; and (3) the following cities would be designated as additional reserve cities effective June 1, 1962: Albany, New York; Hartford, Connecticut; Newark, New Jersey; Phoenix, Arizona; Savannah, Georgia; and Winston-Salem, North Carolina. Individual member banks in newly designated reserve cities, as well as banks in existing reserve or central reserve cities not heretofore granted such permission, would be entitled to apply to the Board for permission to carry

country-bank reserves, in which event such applications would be considered in the light of the factors stated in the proposed amendments.

The proposed amendments would read as follows:

1. Subparagraph (2) of paragraph (a) of section 204.2 is amended to read as follows:

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, a member bank located in a central reserve city or in a reserve city may hold and maintain the reserve balances which are in effect for member banks not located in reserve or central reserve cities if, upon application to the Board of Governors, the Board grants permission for the holding and maintaining of such lower reserve balances after consideration of all factors relating to the character of such bank's business, including, but not limited to, the amount of such member bank's total assets, the amount of its total deposits, the amount of its total demand deposits, the amount of its demand deposits owing to banks, the nature of its depositors and borrowers, the rate of activity of its demand deposits, the amount and frequency of its borrowings from its Federal Reserve Bank or other lenders, its geographical location within the city, and its competitive position with relation to other banks in the city. Any such permission shall be subject to

revocation by the Board at any time in the light of changed circumstances, and all such grants of permission may be subject to annual review by the Board.

2. Part 204 is amended by inserting after section 204.3 thereof a new section to read as follows:

SECTION 204.4. CLASSIFICATION OF CITIES FOR RESERVE PURPOSES

(a) Effective June 1, 1961, except as otherwise provided in paragraph (c) hereof, the following cities shall be classified as reserve cities:

(1) Every city (except New York and Chicago until July 28, 1962) in which there is situated a Federal Reserve Bank or a branch of a Federal Reserve Bank.

(2) Every city in which the aggregate average daily amount of the total demand deposits (including such deposits held at both in-town and out-of-town offices) of all member banks of the Federal Reserve System which had their head offices in such city on January 1, 1961, was equal, during the calendar year 1960, to 2/5 of one per cent or more of the aggregate average daily amount of demand deposits held by all member banks of the Federal Reserve System.

(3) Every city in which there was situated on January 1, 1961, the head office of a member bank which, during the calendar year 1960, had an aggregate average daily amount of total demand deposits

(including such deposits held at both in-town and out-of-town offices) equal to 1/4 of one per cent or more of the aggregate average daily amount of demand deposits held by all member banks of the Federal Reserve System.

(4) Every city in which the aggregate average daily amount of the demand deposits owing to banks (including such deposits held at both in-town and out-of-town offices) of all member banks of the Federal Reserve System which had their head offices in such city on January 1, 1961, was equal, during the calendar year 1960, to 2/5 of one per cent or more of the aggregate average daily amount of demand deposits owing to banks held by all member banks of the Federal Reserve System.

(5) Any city classified as a reserve city on January 1, 1961, but not falling within the scope of subparagraphs (2), (3), or (4) above, if a written request for the continuance of such city as a reserve city (together with a certified copy of a resolution of the board of directors of such member bank duly authorizing such request) is received on or before May 15, 1961, by the Federal Reserve Bank of the district in which the city is located from at least one member bank which has its head office in such city, and if such request is granted by the Board of Governors.

(b) Effective as of June 1, 1964, and as of June 1 of each third year after June 1, 1964, the Board of Governors will continue previously made reserve city classifications, designate additional cities as reserve cities, and terminate reserve city classifications of cities previously designated as such, in accordance with the standards set forth in paragraph (a) above; except that (1) such action will be based upon deposits of member banks which had their head offices in such cities on January 1, 1964, or on January 1 of each third year after 1964, (2) average daily deposit amounts will be computed for the calendar year preceding such action, and (3) requests for continuance of reserve city designations as provided in subparagraph (5) of paragraph (a) will be considered if received by the Federal Reserve Bank of the appropriate district not later than one month prior to the effective date of such action.

(c) Notwithstanding other provisions of this section, the classification of any city as an additional reserve city pursuant to either paragraph (a) or paragraph (b) shall not become effective until one year after the date as of which its classification would otherwise be effective under such paragraphs or until after such longer period as the Board may prescribe.

(3) Effective June 1, 1961, subparagraph (b) of section 204.51 of Part 204, relating to classification of reserve cities, and sections 204.52 and 204.53 are revoked.

4. Effective July 28, 1962, subparagraph (a) of section 204.51, relating to classification of central reserve cities, is revoked.

This notice is published pursuant to section 4 of the Administrative Procedure Act and section 2 of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2). Authority to amend this Part is contained in sections 11(e), 11(i), and 19 of the Federal Reserve Act as amended (12 U.S.C. 248(e), (i), 461, 462, 462b).

To aid in the consideration of the foregoing matter, the Board will consider any relevant data, views, or arguments that may be received in writing not later than April 1, 1961. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the appropriate district for transmittal to the Board.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
2/24/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 24, 1961

CONFIDENTIAL (FR)

Mr. W. D. Fulton,
President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Fulton:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Cleveland, for the period March 1 through December 31, 1961, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of February 9, 1961:

Name	Title	Annual Salary
Fred O. Kiel	Vice President	$17,000

It is noted that Mr. Kiel will be assigned to the Cincinnati Branch. It will be appreciated if you will advise the Board the date the transfer is made.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.