FR 609
Rev. 10/59

Minutes for April 10, 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

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

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary

Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 First National Bank in Larned, Larned, Kansas, approving its application for fiduciary powers.	1

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	Item No.
Letter to the Federal Deposit Insurance Corporation regarding the application of The Commonwealth Mutual Savings Bank, Milwaukee, Wisconsin, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	2
Letter to The Chase Manhattan Bank, New York, New York, authorizing the establishment of a branch in Monrovia, Liberia.	3
Letter to Stromsburg Bank, Stromsburg, Nebraska, interposing no objection to the payment of certain dividends declared during 1959 and 1960.	4
Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Haslett, Michigan.	5
Letter to the Federal Reserve Bank of New York interposing no objection to assumption by the Bank of the expense involved in increasing the principal indemnity amount of foreign travel insurance.	6

Report on competitive factors (New Haven, Connecticut). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in a proposed consolidation of The Second National Bank of New Haven, New Haven, Connecticut, and The Community Bank and Trust Company, also of New Haven.

In discussion, certain changes in the wording of the conclusion of the report were suggested, following which the report was approved

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unanimously for transmission to the Comptroller of the Currency. The conclusion in the report, as approved, read as follows:

> The proposed consolidation of The Second National Bank of New Haven and The Community Bank and Trust Company, now third and fifth largest New Haven banks on the basis of IPC deposits, will reduce sources of banking services in New Haven from seven to six. The resulting bank should be able to provide stronger competition to the two larger city banks without adverse effects on the smaller banks in the area.

Report on competitive factors (Pittsburgh-New Kensington, Pennsylvania). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in a proposed purchase of assets and assumption of liabilities of The First National Bank of New Kensington, New Kensington, Pennsylvania, by Pittsburgh National Bank, Pittsburgh, Pennsylvania.

Governor Shepardson pointed out that the covering memorandum from the Division of Examinations and the body of the proposed report indicated that locally-owned banks near New Kensington did not anticipate any adverse effects from the proposed transaction and, in fact, expected that it might bring them additional deposits from area residents who preferred to deal with locally-owned banks whose management was well known rather than with branches of larger out-of-town banks. Yet this aspect of the matter was not reflected in the conclusion of the report, nor was the fact that the proposed transaction would eliminate the only locally-owned bank in New Kensington.

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Governor Mills expressed the view that on some occasions too much stress may have been placed on the fact that smaller independent banks apparently had been able to compete successfully with larger banks in the same community and to grow at a satisfactory rate. This point, if expressed in a report, tended to give the impression of trying to find a reason for justifying a merger that would otherwise be objectionable. The fact that a bank had reached a point where it could compete on relatively equal terms with a larger entity was hardly a reason in itself why two larger banks should be permitted to merge and be correspondingly larger than they were before. In his opinion it was a matter of principle whether or not the Board should emphasize the growth of an independent bank as something offsetting the greater power that would be derived from a merger. He believed that such a case should be treated in much the same way as a request for the Board's recommendation to the Comptroller of the Currency on the proposed organization of a national bank. There were protests against some national bank organizations but none in others, indicating in the latter cases that the proposal was acceptable to the competing banks. Yet the Board's judgment did not stop at what the community believed was appropriate. Instead the Board reached an over-all judgment on all of the factors, which on occasion had been contrary to the sentiment of the community.

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Additional comments by Governor Shepardson brought out that his original question had been intended principally to call attention to an apparent conflict between the conclusion of the proposed report and certain statements in the preceding portions thereof. The point raised by Governor Mills was one that would appear to deserve further consideration in the analysis of bank merger applications, and he was not sure of the answer.

In further discussion, suggestions were made for changes in the language of the conclusion of the report that might take into account the points discussed by Governors Shepardson and Mills. The report was then approved unanimously for transmission to the Comptroller of the Currency in a form in which the conclusion read as follows:

> The proposed purchase of assets and assumption of liabilities of The First National Bank of New Kensington, New Kensington, Pennsylvania, by Pittsburgh National Bank, Pittsburgh, Pennsylvania, would eliminate little competition between the two institutions as little now exists. The New Kensington bank, as a branch of Pittsburgh National, should offer stronger competition to the branches of other Pittsburgh banks in the area, particularly to the New Kensington branch of Mellon National Bank. This proposal will eliminate the only independent bank in New Kensington and, while nearby independent banks state that they anticipate no adverse effects, it would enhance the competitive market power of the second largest of the Pittsburgh banks.

"Umbrella bond" for banks (Item No. 7). A memorandum dated April 7, 1961, from Mr. Solomon had been distributed relating to a form of proposed resolution prepared by the Federal Deposit Insurance Corporation, for

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possible use by State bankers associations, to encourage banks to acquire the protection offered by the $1 million excess dishonesty bond--the so-called "umbrella bond". The memorandum, which stated that it seemed desirable to give the proposal as much support as possible, submitted a draft of letter transmitting the form of resolution to the Federal Reserve Banks and suggesting that they endeavor to encourage its adoption by State bankers associations. The memorandum also suggested that the Board might find it desirable to recommend adoption of the resolution to visiting delegations of bankers from the various States, a practice that the Federal Deposit Insurance Corporation had been following.

In commenting on the memorandum, Mr. Solomon indicated that in contemplation of a possible joint statement on the subject of dishonesty coverage by the three Federal bank supervisory authorities, and possibly also by the National Association of Supervisors of State Banks, a draft of such a statement was sent to the Comptroller of the Currency and the Federal Deposit Insurance Corporation in accordance with the action of the Board on March 15, 1961. The Comptroller's Office had indicated informally that it was rather strongly in favor of the idea, but the Corporation was reluctant and offered the resolution instead. The Corporation had sent the resolution to its supervisory examiners with the request that during any conferences they might have with officers of State bankers associations, they suggest that the association consider

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adopting a resolution of this kind. The idea of encouraging adoption of the resolution by State associations seemed desirable to the Board's Division of Examinations, which had therefore prepared the draft of letter to the Reserve Bank Presidents now under consideration.

Governor Mills suggested that it might be desirable to add to the letter a reminder that purchase of the recommended dishonesty coverage did not relieve a bank of responsibility for proper management safeguards and audit control, and agreement with that suggestion was expressed. Inquiry was made as to whether the policy recommended was offered by a single insurance underwriter or from a variety of underwriters, to which the response was made that, although this type of policy originally had been available from only one insurance company, others were now also offering it. The question was also raised as to why the recommendation was for the purchase of a $1 million policy when larger banks should have much more than that. In reply, members of the staff brought out that the problem of large uncovered losses arose principally at small banks, most large banks already being covered by policies in adequate amounts. If a greater percentage of small banks could be induced to avail themselves of the protection of a $1 million policy, most uncovered losses such as the several that had recently occurred in small banks could be averted.

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After further discussion, the letter to the Federal Reserve Banks was approved unanimously, subject to the addition of language to cover the point mentioned by Governor Mills. A copy of the letter sent pursuant to this action is attached as Item No. 7.

Application of BancOhio Corporation (Items 8 and 9). At its meeting on March 17, 1961, the Board denied the application of BancOhio Corporation for approval of its proposed acquisition of shares of The Hilliard Bank, Hilliards, Ohio. At that meeting the Board requested the Legal Division to prepare for the Board's consideration drafts of an order and an accompanying statement reflecting the action taken. Such an order and statement had been distributed with a memorandum from the Legal Division dated April 4, 1961. 1/

After discussion the documents were approved by unanimous vote. Governor Szymczak, who was absent from today's meeting but participated in the decision on March 17, had informed the Secretary that he wished to have his vote recorded in the order.

Copies of the Order and Statement are attached as Items 8 and 9, respectively.

Messrs. Young, Adviser to the Board and Director, Division of International Finance, and Noyes, Director, Division of Research and Statistics, joined the meeting during the foregoing discussion, and at its conclusion Messrs. Hexter, O'Connell, and Leavitt withdrew.

1/ Certain proposed changes in the statement were distributed under date of April 7, 1961.

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Reply to Hardy Subcommittee question regarding float (Item No. 10).

A memorandum from Mr. Sherman dated April 7, 1961, had been distributed, accompanied by an alternative draft of reply to the following question presented in the letter of June 10, 1960, from Chairman Hardy of the Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations:

> Whether it would not be of economic advantage to the Treasury, without substantial detriment to the banking community, to reduce the "float" by raising the maximum deferment time for check credits so that it more nearly coincides with the time required to complete the mechanical steps involved.

A large part of the alternative draft was identical to the draft circulated to the Board under date of July 28, 1960, after study of comments from the Federal Reserve Banks on an earlier draft. However, the alternative reply would conclude with a statement that a weighing of the facts and arguments relating to "float" had caused the Board to conclude, at least for the present, that the objections to the present two-day maximum deferment schedule were not sufficient to warrant the amount of disturbance that probably would be caused in banking procedures by increasing the maximum to three days. The draft also would state that, notwithstanding this conclusion, the Board would continue to follow the whole question closely and would periodically reconsider whether a change in Federal Reserve time schedules should be made.

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Chairman Martin commented that it would be desirable to send an answer to the Subcommittee in the near future, and to that end the Board should decide whether or not it favored the position taken in the proposed reply. His own position was that the draft was satisfactory, subject to the deletion of one statement that he indicated. In his opinion, it would look like a step backward to increase the maximum deferment to three days, particularly in view of the improved collection procedures that were being made possible through the use of electronic and other devices.

Governor Mills stated that, with the deletion suggested by Chairman Martin, he regarded the draft reply as a document that did justice to all points of view in an objective manner and yet left the way open to reactivate the subject at any time.

Governor Robertson expressed the opinion that an increase in the maximum deferment was a correction that should be made at an appropriate time. In a period when restrictive monetary policies were called for, the increase in deferment should be used as a tightening measure. He believed that the reduction of the maximum deferment from three to two days had been proved by history to be a bad move, none of the contemplated advantages having come about, and he thought that the draft reply put too much weight on the other side. Accordingly, he would not favor the proposed reply, the effect of which would be, as he saw it, to put the matter on ice.

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Governor Shepardson expressed agreement with the conclusion stated in the proposed reply. It seemed to him that if the Board took the position that the decrease in maximum deferment from three to two days had been an error and should be corrected, that would almost have to rest on objection to the extension of free credit represented by float. However, increasing the deferment schedule would only diminish the amount of such free credit, and therefore the question of principle would not be resolved. The only way to eliminate the free credit would be to adopt a practice of extending credit only on actually collected funds, which would be out of keeping with present day conditions.

Governor King stated that the draft reply was satisfactory to him.

Governor Balderston expressed agreement with the conclusion of the reply, principally for the reason indicated by Governor Shepardson. However, between the historical presentation and the conclusion there was an extensive discussion of the reasons for and against changing the maximum deferment schedule. This discussion, he believed, might leave the reader confused as to whether the Board was arguing for or against a change. Therefore, he suggested that it might be desirable to go directly from the historical passages to the conclusion.

The Secretary reported that Governor Szymczak had advised that he would favor a reply substantially in the form of the alternative draft.

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In further discussion, Governors Mills and King expressed the opinion that the presentation of the arguments pro and con was advantageous, in that it indicated objective consideration of the question by the Board, with a conclusion reached only after weighing the arguments on both sides.

The Chairman then raised the question whether the members of the Board were in agreement with the proposed reply in substance, and except for Governor Robertson, who dissented for the reasons that he had stated previously, all of the members responded in the affirmative. Accordingly, it was understood that the staff would work with Governor Balderston in considering a possible rearrangement of the contents of the reply, or editorial changes not affecting the substance thereof, and that the reply would then be sent to Chairman Hardy.

Pursuant to this action the reply was transmitted to Chairman Hardy with a letter dated April 14, 1961. Copies of the letter and its enclosure are attached under Item No. 10.

Agreement on handling of merger applications. At the meeting of the Board on March 31, 1961, Mr. Hackley reported that the General Counsel of the Treasury Department had informed him that the Secretary of the Treasury, the Comptroller of the Currency, and the Attorney General had agreed to a procedure designed to avoid a "proliferation" of suits under the antitrust laws growing out of bank mergers. The agreement was that in any case in which Justice gave the Comptroller an adverse report on

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competitive factors and in which the Comptroller nevertheless believed that he should approve the merger, the Comptroller would so inform the Attorney General. If the latter, after conferring with the Comptroller, indicated that Justice would feel obliged to bring suit to enjoin the merger under the antitrust laws, the Comptroller would defer action on the merger until "a decision resolving the legal issues in question has been reached in one of the pending court cases". The General Counsel for the Treasury, who had given Mr. Hackley a copy of the agreement with the indication that it was not to be made public at that time, intimated that the Board and the Federal Deposit Insurance Corporation might wish to adopt similar procedures. Mr. Hackley had suggested, however, that deferment of action on merger applications might be vulnerable to attack under the Administrative Procedure Act, section 10(e) of which provides that, upon judicial review of agency action, the reviewing court shall "compel agency action unlawfully withheld or unreasonably delayed". On the other hand, the Treasury's General Counsel apparently felt that the presently pending court cases constituted a reasonable ground for deferment of action in any other cases in which the Attorney General would feel obliged to bring antitrust proceedings.

In a memorandum dated April 3, 1961, which had been distributed, Mr. Hackley commented further on the agreement by the Comptroller,

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stating that it was by no means certain that the legal issues would be resolved in the present court cases in the near future. If a bank supervisory agency should defer action for several months on some pending application under the merger statute merely because of the pendency of proceedings by Justice under other statutes, Mr. Hackley was inclined to think that the applicant banks might convincingly argue that the action was being unlawfully withheld or unreasonably delayed.

An even more serious objection to the procedure, Mr. Hackley's memorandum continued, had to do with the responsibility of the bank supervisory agencies under the merger statute. It was clearly the intent of Congress that each of the banking agencies should have full discretion to determine whether any bank merger coming before it would be in the public interest, after considering not only the effect of the merger on competition but also the other factors stated in the law, including the needs of the community concerned. If an affirmative judgment was reached on such a basis, delay in giving approval merely because of an adverse report by Justice on the competitive factor would seem to be contrary to the intent of Congress. For these reasons, Mr. Hackley recommended that the Board not adopt the procedure apparently contemplated under the agreement entered into by the Treasury, the Comptroller, and the Justice Department.

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At this meeting Chairman Martin referred to the fact that after the Attorney General reportedly confirmed, at a recent press conference, that the Comptroller had agreed to the abovementioned procedure, certain discussions of the agreement had appeared in the press. In the circumstances, Chairman Martin suggested that the Board consider what position it would be disposed to take in the event a similar question of procedure should come before it. In this connection, Chairman Martin noted that Comptroller of the Currency Gidney and Chairman Cocke of the Federal Deposit Insurance Corporation were expected to visit the Board's offices later this week and the subject might be brought up at that time.

After discussion, a unanimous opinion was expressed that the position set forth in Mr. Hackley's memorandum was appropriate.

Mr. Hackley stated that he was preparing for the Board's information a more detailed memorandum relating to various aspects of the matter, including provisions of the law and their legislative history, and the Board indicated that it would be helpful to have such a memorandum.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago regarding the retention of copies of the reports prepared by the Board's examiners in conjunction with the annual examinations of a Federal Reserve Bank. (With copies to all Federal Reserve Banks)

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Letter to the Federal Reserve Bank of Cleveland (attached Item No. 11) approving the appointment of James Edward Thomas as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Appointment

David Townsend as Economist in the Division of Research and Statistics, with basic annual salary at the rate of $12,470, effective the date of entrance upon duty. (To fill the position approved by the Board on April 3, 1961)

Advance of sick leave

Elsie T. Nelson, Economist in the Division of Research and Statistics, for the period April 12 to June 5, 1961.

Secretary

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

Item No. 1
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1961

Board of Directors,
First National Bank in Larned,
Larned, Kansas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants First National Bank in Larned authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kansas. 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.

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

Item No. 2
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1961

The Honorable Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of March 27, 1961, concerning the application of The Commonwealth Mutual Savings Bank, Milwaukee, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs that the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1961

The Chase Manhattan Bank,
New York 15, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to establish a branch in the City of Monrovia, Liberia, at the corner of Broad and Gurley Streets, Monrovia, and to operate and maintain such branch subject to the provisions of such Sections. The location of the branch may not be changed, after establishment, without the prior approval of the Board of Governors.

Unless the branch is actually established and opened for business on or before April 1, 1962, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 4
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1961

Board of Directors,
Stromsburg Bank,
Stromsburg, Nebraska.

Gentlemen:

This refers to letter of Mr. W. E. Johnson, Executive Vice President, dated March 7, 1961, requesting approval of the Board of Governors, pursuant to Section 9 of the Federal Reserve Act, and Section 5199(b) of the U. S. Revised Statutes, for certain dividends declared and paid by your bank in 1959 and 1960.

It is believed that these statutes required the Board's prior approval for the declaration of these dividends and, of course, such prior approval cannot be given since the dividends have already been paid. In view of the financial condition and capital position of the bank, the Board will raise no objection to the action taken in paying these dividends.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1961

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

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter received from your office dated July 19, 1960, enclosing copies of an application to organize a national bank at Haslett, Michigan, 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 Chicago indicates that the organizers have agreed to provide a minimum capital structure for the bank of $255,000 instead of $210,000 shown in the application. This capital structure appears to be adequate. The report discloses generally favorable findings with respect to the future earnings prospects of the bank, the proposed management, and the potential growth and need for more convenient banking facilities in the area. Accordingly, the Board of Governors recommends favorable consideration 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.

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

Item No. 6
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1961

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

Reference is made to your letter of February 28 advising of the Bank's decision to increase the principal indemnity amount of foreign travel insurance from $20,000 to $50,000.

The Board of Governors interposes no objection to assumption by your Bank of expense involved in providing this type of insurance protection.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 7
4/10/61

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

S-1788

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 11, 1961.

Dear Sir:

There is enclosed a copy of a proposed resolution which may be adopted by State Bankers Associations regarding the protection offered by the $1 million excess fidelity bond, the so-called "umbrella bond."

The Board believes that it would be helpful if, during any conferences or contacts which you or other officers of your Bank may have with officers of State Associations, a copy of the resolution could be made available to the officers of the Association, and those officers could be encouraged to have the resolution considered by the Association at its next meeting.

In the Board's meetings with State delegations of bankers that visit the Board's offices, the Board will similarly encourage adoption of this resolution.

It is understood that the Federal Deposit Insurance Corporation is also recommending adoption of the resolution through its meetings with visiting State delegations of bankers and through its Supervising Examiners.

Needless to say, in discussions with officers of State Bankers Associations it should be made clear that the protection of a surety bond can in no sense take the place of adequate audits and internal controls. As indicated in the Board's letter (S-1785) of March 15, 1961, it is essential not only that banks have adequate surety coverage but also that increased attention be given to suitable audits and internal controls.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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S-1788-a

PROPOSED RESOLUTION
(For State Bankers Associations)

WHEREAS, in the period from 1955 through 1959 banks without excess surety coverage suffered fidelity losses exceeding in the aggregate the amount of their blanket bonds by approximately $10,000,000, causing many of such banks to close, merge or reorganize, and

WHEREAS, in the past year several smaller banks have sustained extremely large losses due to the irregularities involving one or more employees, and the nation-wide publicity given to those cases has been detrimental to the banking industry as a whole, and

WHEREAS, there is available for commercial banks at moderate cost excess coverage of $1,000,000 for fidelity losses, and

WHEREAS, in fairness to themselves, to depositors and to stockholders, bank directors should give thorough consideration to the question of proper coverage for fidelity losses,

NOW, THEREFORE, BE IT RESOLVED, That this Association recommends that the Board of Directors of every member bank, which does not have the protection offered by the $1,000,000 excess fidelity bond, give immediate consideration to its acquisition in view of the advantages and moderate cost of this coverage in relation to the protection afforded, and

BE IT RESOLVED, FURTHER that a copy of this resolution be mailed to the Chairman of the Board of Directors of every member of this Association.

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Item No. 8
4/10/61

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of BANCOHIO CORPORATION for prior approval of acquisition of voting shares of The Hilliard Bank, Hilliards, Ohio	DOCKET NO. BHC-56

ORDER DENYING APPLICATION UNDER
BANK HOLDING COMPANY ACT

WHEREAS, there has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application by BancOhio Corporation, Columbus, Ohio, for the Board's prior approval of the acquisition by BancOhio of 80 per cent or more of the 1,000 outstanding voting shares of The Hilliard Bank, Hilliards, Ohio; a Notice of Tentative Decision referring to a Tentative Statement on said application has been published in the Federal Register (25 F.R. 1537; February 20, 1960), affording to interested persons an opportunity, before issuance of the Board's final order, to file objections or comments upon the facts stated and the reasons

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indicated in the Tentative Statement; the time for filing such objections and comments has expired and all objections and comments have been considered, including a request by BancOhio for a hearing on the application; and

WHEREAS, a public hearing on said application has been held pursuant to section 222.7(a) of Regulation Y (12 CFR 222.7(a)), following which the Hearing Examiner filed a Report and Recommended Decision in which he recommended that the application be denied; oral argument on the matter has been held before the Board; all such steps having been taken in accordance with the Board's Rules of Practice for Formal Hearings (12 CFR 263);

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is denied.

Dated at Washington, D. C., this 10th day of April, 1961.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Szymczak, Mills, Robertson, Shepardson, and King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

Item No. 9
4/10/61

APPLICATION BY BANCOHIO CORPORATION, COLUMBUS, OHIO, FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF THE HILLIARD BANK, HILLIARDS, OHIO

STATEMENT

BancOhio Corporation, Columbus, Ohio ("BancOhio"), a bank holding company as defined in section 2(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), has applied, pursuant to section 3(a)(2) of the Act, for approval by the Board of Governors of the acquisition by BancOhio of a minimum of 80 per cent of the 1,000 outstanding shares of The Hilliard Bank, Hilliards, Ohio.

Views and recommendations of Superintendent of Banks. - As required by section 3(b) of the Act, the Board forwarded notice of the application to the office of the Superintendent of Banks for the State of Ohio. The First Deputy Superintendent replied, interposing no objection and recommending approval.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors, in determining whether to approve acquisitions by bank holding companies: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of

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the communities and area concerned; and (5) whether or not the effect of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Hearing; Examiner's Report; Oral Argument. - On February 15, 1960, the Board published a Notice of its Tentative Decision to deny BancOhio's application.* Thereafter, at the request of BancOhio, a hearing was held in Columbus on May 31 and June 1, 1960, before a Hearing Examiner. On September 15, 1960, the Hearing Examiner filed with the Board his Report and Recommended Decision, in which he recommended that the application be denied. On December 6, 1960, counsel for BancOhio presented oral argument in Washington before all Members of the Board of Governors.

Statement filed by Department of Justice. - The Department of Justice, on behalf of the United States, filed with the Board a Statement, dated October 7, 1960, with respect to the competitive factors involved in this case. This Statement took the position that the effect of the proposed acquisition on competition would be contrary to the public interest and that this effect outweighed any benefits to be expected from the acquisition. The Statement

* This application was filed before section 222.4(e) of Federal Reserve Regulation Y was amended to provide for publication of notice of receipt of applications pursuant to section 3 of the Act in lieu of the previous practice of issuing Tentative Decisions.

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expressed the view that existing competition between The Hilliard Bank and subsidiaries of BancOhio would cease with the proposed acquisition, and that this elimination of competition and the resulting increase in the degree of concentration in commercial banking in Franklin County, Ohio, would be seriously inimical to the public interest.

Discussion. - In reaching its decision in the present case, the Board has given consideration to all relevant factual material in the record of the hearing; to pertinent arguments presented at the hearing or contained in briefs, memoranda, and statements made a part of the record of the proceeding; to the Report and Recommended Decision filed by the Hearing Examiner; and to statements presented at the oral argument.

BancOhio owns a majority of the stock of 22 banks, operating through 52 offices in 20 counties of Ohio, principally in the central and south central sections of the State. By far the largest bank in the BancOhio holding company system is the Ohio National Bank of Columbus (the State capital), which is located in Franklin County. At the end of 1959 Ohio National Bank held over two-thirds of the total deposits ($650,000,000) in all BancOhio banks.

The Hilliard Bank is located in the town of Hilliards, in the northwestern part of Franklin County, about twelve miles northwest of the business center, and on the outer edge of the metropolitan area, of Columbus. Hilliards has a population of

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about 5,600 and is chiefly residential. Most of its employed residents work in Columbus; a total of slightly over three hundred persons are employed in Hilliards. The Hilliard Bank is the only bank in the town. In the decade 1949-1959, while the population of the town of Hilliards increased 820 per cent, the total amount of deposits in The Hilliard Bank did not change materially. As of December 31, 1959, its deposits were $2.7 million.

Ohio National Bank, with 19 offices, and BancOhio's two smaller banks in Franklin County, each with 3 offices, hold some $302 million of deposits of individuals, partnerships, and corporations ("IPC deposits"), which is 52 per cent of the $583 million of such deposits held by all 16 banks located in Columbus and elsewhere in Franklin County. Acquisition of The Hilliard Bank would increase by less than one-half percentage point BancOhio banks' holdings of these deposits. BancOhio banks operate more offices in Franklin County, and in the important northwest quadrant of that county (which contains the banking offices in downtown Columbus, and in which Hilliards is located), than do all other banks combined.

The financial history and condition of both BancOhio and The Hilliard Bank are satisfactory. The prospects of BancOhio are favorable, and it may be anticipated that The Hilliard Bank also will continue to operate profitably. The character of BancOhio's management is satisfactory. The management of The Hilliard Bank is sound, but it has not been progressive and has procrastinated in effecting a solution to its management succession problem.

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Active management of The Hilliard Bank has rested for many years in the hands of its cashier, who is now over 70 years of age, although there does not appear to have been any diminution in his ability or willingness to continue the existing sound management of the Bank. However, it must be recognized that the business of the Bank presently calls for additional management and that it cannot be expected that the cashier can continue indefinitely to head the active management of the Bank. It is recognized, therefore, that a management succession problem exists, and that solution of that problem will require not only the recruitment of an additional officer but also an expansion of the present banking quarters.

If The Hilliard Bank were acquired by BancOhio, it seems likely that both the management succession problem and the banking quarters problem would be solved. However, it does not appear that these problems can be solved only in this way. The record does not indicate that, under present ownership and management, The Hilliard Bank may not expand its physical and personnel resources in a manner that will permit continuation of sound and serviceable operations.

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In large measure, BancOhio's contention that its acquisition of The Hilliard Bank would be in the public interest rests on the argument that the needs, convenience, and welfare of individuals and businesses in the Hilliards area would be better served as a result of the proposed acquisition. Testimony at the hearing disclosed that, under BancOhio's control, The Hilliard Bank would offer certain services not presently offered by the Bank and would seek to expand the scope of existing services. Although such an expansion of services and activities would serve, to some extent, the convenience of the banking public in the Hilliards area, there is no evidence in the record that the principal banking needs of the community are not being adequately served, and it further appears that additional services not presently offered by The Hilliard Bank are conveniently available at banks in nearby Columbus. Nevertheless, the Board concludes that the prospective expansion of services to be offered by The Hilliard Bank under BancOhio ownership is a circumstance that weighs in favor of the proposed acquisition.

There remains for consideration the so-called "fifth factor" enumerated in section 3(c) of the Bank Holding Company Act as one which we must take into consideration in determining whether to approve any acquisition under section 3:

> "(5) whether or not the effect of such acquisition or merger or consolidation would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking."

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Referring to this and the other factors listed in section 3(c), in its report in 1955 on the then pending bank holding company bill, the Senate Committee on Banking and Currency pointed out that

> "It will be noted that these factors extend beyond the nature of those primary in importance to bank supervisory authorities in the exercise of their supervisory powers.... The factors required to be taken into consideration by the Federal Reserve Board under this bill also require contemplation of the prevention of undue concentration of control in the banking field to the detriment of public interest and the encouragement of competition in banking." (Report No. 1095, 84th Cong. (July 25, 1955), p. 10)

A high degree of concentration of banking facilities and resources already exists in the areas relevant to consideration of the pending application. Banks controlled by BancOhio presently operate 52 per cent of the banking offices in Franklin County and a slightly higher percentage of the banking offices in the northwest quadrant of that County. As previously mentioned, BancOhio's banks hold almost 52 per cent of all IPC deposits in Franklin County, and those banks hold 47 per cent of the IPC deposits of banking offices in the northwest quadrant.

Franklin County, Ohio, including the city of Columbus, is served by 16 banks, only 3 of which can be regarded as large by present-day standards. At the beginning of 1960, BancOhio's Ohio National Bank, with total deposits of $414 million, was more than twice as large as the second largest bank (the Huntington National Bank, deposits $193 million) and more than three times as large as the third largest (City National Bank & Trust Company,

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deposits $133 million). The largest of the remaining 13 banks held less than $16 million of deposits, which was less than 4 per cent of the magnitude of Ohio National Bank; the deposits of the remaining banks range down to $1.3 million, which was less than four-tenths of one per cent of the deposits of Ohio National Bank.

Measured by IPC deposits, the relative position of BancOhio's banks in Franklin County is not significantly different. IPC deposits of Ohio National Bank at the beginning of 1960 ($278 million) were more than twice as large as the IPC deposits of the second largest bank ($123 million) and over two and one-half times those of the third largest bank ($109 million). Of the remaining 13 banks, only 2 had IPC deposits of more than $10 million, and both of these are controlled by BancOhio Corporation.

In the case of banks of the size and character of The Hilliard Bank, banking tends to be chiefly local in character. Unlike large banks in metropolitan centers, which draw substantial deposits from, and make substantial loans to, customers located hundreds or even thousands of miles away, most of the business of a small suburban bank ordinarily arises within a relatively few miles of its physical location.

This does not mean, however, that the service area of such a bank extends for a certain distance from its banking house, and that the service area of another bank takes over beyond that line. Although many residents and businesses in Hilliards and its

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vicinity utilize the services of the bank in Hilliards, some maintain deposit accounts in, and seek loans from, other banks in the general area, including banks in nearby Columbus. This occurs among bank customers for a variety of reasons, such as convenience of access from place of work or en route to that place, or preferences as to services or personalities.

This pattern is illustrated by the banking situation of the Hilliards area. As of April/May 1960, offices of banks controlled by BancOhio held over $600,000 of IPC deposits of persons and businesses located in the primary service area of The Hilliard Bank, which includes Hilliards and its vicinity within a radius of some four miles. In other words, BancOhio banks draw from the Hilliards area a volume of IPC deposits equal to more than one-fourth of the IPC deposits of The Hilliard Bank itself. Conversely, about 18 per cent of the deposits of The Hilliard Bank originate in areas served by BancOhio's banking offices.

In the light of these figures, as well as the relative locations of banking facilities in the northwest quadrant of Franklin County and other characteristics of the banking situation in the area brought out at the hearing, it is clear that, despite the unaggressive policies of The Hilliard Bank heretofore, a substantial amount of banking competition exists between that Bank and nearby offices of banks under the control of BancOhio. The physical and economic circumstances in the area make the existence of such

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competition inevitable, and its extent is empirically demonstrated by the data cited, and by additional relevant data in the record.

Acquisition of The Hilliard Bank by BancOhio would place under common control that Bank and banks already owned by BancOhio with which The Hilliard Bank is in substantial competition, as indicated in the preceding discussion. In the Board's judgment, the vesting of control of these competing banks in the same holding company system would unavoidably result in diminishing the intensity and the extent of banking competition in the area, even if it did not completely eliminate competition between The Hilliard Bank and offices of other banks controlled by BancOhio. BancOhio's acquisition of The Hilliard Bank also would deprive the area of the benefits of intensified banking competition that could develop from a more aggressive policy on the part of, or expansion by, The Hilliard Bank.

For the foregoing reasons, it appears to the Board that acquisition of The Hilliard Bank by BancOhio would expand the size and extent of the bank holding company system involved beyond limits consistent with the public interest and the preservation of competition in banking in the Hilliards area, within the meaning of section 3(c) of the Bank Holding Company Act. In the Board's judgment, the unfavorable results of the proposed acquisition, from the viewpoint of increased concentration of control in the banking field and diminution of banking competition, outweigh whatever benefits might result in the way of expanded facilities and conveniences.

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Viewing the relevant facts in the light of the general purposes of the Act and the factors enumerated in section 3(c), it is the judgment of the Board that the proposed acquisition would not be consistent with the statutory objectives and the public interest and that the application should be denied.

April 10, 1961

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
4/10/61

OFFICE OF THE CHAIRMAN

April 14, 1961

The Honorable Porter Hardy, Jr.,
Chairman,
Foreign Operations and Monetary Affairs Subcommittee
of the Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

The Board's responses to all but two of the questions presented in your letter of June 10, 1960 were transmitted on June 29 and a response on one of the other questions was sent to you on December 22, 1960.

There is now enclosed a reply to the remaining question that your Committee presented relating to the matter of "float" that arises under the procedures followed in the collection of checks by the Federal Reserve System.

Sincerely yours,

Wm. McC. Martin, Jr.

Enclosure

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1. Whether it would not be of economic advantage to the Treasury, without substantial detriment to the banking community, to reduce the "float" by raising the maximum deferment time for check credits so that it more nearly coincides with the time required to complete the mechanical steps involved.

Estimates indicate that an increase in the maximum deferment time for check credits from two days to three days would reduce float by around $500 million. Whether such a withdrawal of reserves from the banking system would result in an economic advantage to the Treasury and could be accomplished without substantial detriment to the banking community would depend largely upon economic conditions prevailing at the time the change was made and upon any related actions taken at the same time.

If it were concluded that the resulting shrinkage in reserves might cause banks generally to be more restrictive in extending credit--at a time when such a policy would be injurious to economic activity and public confidence--the monetary and credit needs of the country would require restoration in some fashion of the reserves withdrawn from the banking system. Whatever action the Federal Reserve System took to this end would, of course, be for the purpose of implementing monetary and credit policy rather than increasing Treasury revenue. If the reserves were restored by way of reductions in reserve requirements, there would be no increase in Treasury revenue. On the other hand, if the reserves were restored by Federal Reserve purchases of securities in the open market or loans to member banks, earnings of the Reserve Banks would be increased by the amount of the yield on such securities or loans--like any other monetary

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action which increases Federal Reserve loans and investments. This, in turn, would increase Treasury revenue, since all Federal Reserve earnings over and above expenses, dividends, and adjustments in surplus are paid to the Treasury. The gain in revenue would be offset in part, however, by a decrease in income tax payments by banks and investors, and to some extent by the fact that the Treasury, like the member banks, now benefits from the crediting of checks in accordance with the existing deferment schedule--principally at the time of quarterly tax payments.

Federal Reserve "float" may be said to be a result of the streamlined check collection procedures developed in this country, where 90 per cent of payments are made by check. Under these procedures checks deposited with the Reserve Banks are credited to member banks' reserve accounts (as well as to Government and other deposit accounts kept at Federal Reserve Banks) in accordance with a deferred availability time schedule which does not always, or exactly, coincide with the actual time required for the Reserve Banks to collect the checks. Time schedules are used rather than precise collection time because bulk handling and accounting greatly reduces the cost and speeds up the process of check clearing and collection. The cost of an alternative that would result in the complete elimination of float as a matter of principle--that is, the crediting of the proceeds of each check individually as it is collected--would be prohibitive to Reserve Banks, member banks, and the general public. About 4 billion checks were processed by the Reserve Banks in 1960. Personnel, space, and equipment requirements for individual handling of this

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volume of checks would be stupendous. Such a check collection procedure (were it feasible) would be completely out of harmony with the System's concern for over 40 years in affording maximum benefits to the public of an efficient check collection system, which is expressed in Regulation J of the Board of Governors in the following way:

> "In pursuance of the authority vested in it under these provisions of law, the Board of Governors of the Federal Reserve System, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve Bank exercise the functions of a clearing house and collect checks...."

The availability period (in Federal Reserve check collection time schedules) begins on the day checks are received at the collecting Federal Reserve Bank, or on the day of dispatch of checks by member banks in one district direct to Reserve Banks in other districts. The periods consist essentially of immediate credit for so-called "city items," 1-day deferred credit for certain other items (principally those drawn on banks located in "other" Federal Reserve cities), and deferred credit for a maximum of 2 days for all other items. The time schedules for the first two groups of items coincide in large measure with actual collection time, but many of the third group of items cannot be collected in less than three days. The measure of float is the dollar amount of those checks which the Federal Reserve Banks have credited to the reserve accounts of member banks and other deposit accounts, but which have not yet been collected, i.e., items for which payment in immediately available funds has not been received by the date such credits become available for reserve

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purposes. Federal Reserve float thus supplies reserves to the banking system without cost to member banks.

In recent years the volume of Federal Reserve Float has averaged around $1 billion, with considerable fluctuations daily, weekly, monthly, and seasonally. A substantial portion of the total arises from the fact that it takes an average of three days to collect most inter-Federal Reserve district "country" checks whereas, as above stated, the deferred availability schedule is set at a maximum of two days. The remaining portion of float arises from a variety of circumstances; a principal factor is the need from time to time for holding over checks for processing on the next business day. These holdovers come about when substantial delays occur in presentation of checks (due, for example, to irregularities in air transportation caused by bad weather), or when the volume of checks received on a given day--which fluctuates quite widely--is beyond the capacity of available personnel, space, and equipment.

During the first 25 years of Federal Reserve operations the deferred availability time schedules ran up to a maximum of eight days, and member banks were required to sort their checks according to the days of availability given in these schedules. In September 1939 the maximum deferred availability period was reduced to three days, thereby giving much earlier credit, consistent with improved collection experience, for some of the increasing volume of checks deposited for collection. The processing and collecting of checks was greatly simplified, and operating costs were reduced for the Reserve Banks, member banks, and large

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depositors that receive numerous checks in payment of obligations due them. It was anticipated also that the simplified procedures would encourage accessions of banks to Federal Reserve membership, as well as use of the System's check collection facilities by member banks that had been reluctant to make the previously required detailed sorting of checks. The simplified schedules were adopted in the spirit of the Board's Regulation J and were regarded widely as of immediate and potential benefit.

In 1940, the first year after the maximum 3-day deferment schedule had been adopted, Federal Reserve float amounted to about $57 million. During the war years float increased to an average of $468 million in 1945 as a result of a number of factors, principally a tremendous increase in the volume of checks deposited for collection, shortage of qualified personnel and equipment, and irregularities in transportation. In the postwar years float declined substantially; in 1949 the daily average was $369 million, a reduction of 21 per cent from 1945. This decrease in float, despite an ever-increasing inflow of checks, was made possible by speedier collections which in turn reflected greater use of air transportation, an improved personnel situation, and increased availability of needed equipment.

Because of such improved collection experience Federal Reserve System officials in 1949 began a new study of the deferment schedule. The principal step contemplated was a reduction in the schedule to a maximum of two days. It was estimated that if this were done Federal Reserve float would increase by $180 million. After extensive consideration by the Federal Reserve Banks and Board of Governors it was decided to put the 2-day maximum into effect in January 1951. One consideration favoring such action was the faster and simpler check collection practices that had been developed over the years. Another objective was the elimination of inequities as between member banks

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in different sections of the country, which had resulted from an extension by individual Reserve Banks of a previously limited practice of giving 2-day deferred credit (to conform to certain long-established check collection customs) even though collection generally required three days.

Expectations that float would not greatly increase following adoption of the 2-day maximum deferment were not borne out; in fact, daily average float in 1951 of $1 billion was about twice that of 1950. Moreover, neither the 2-day maximum established in 1951 nor the 3-day maximum adopted in 1939 appears to have encouraged increased use of Federal Reserve collection facilities by the smaller member banks. In addition, wide fluctuations in the volume of float at times presented operating problems to the Federal Open Market Committee in its endeavor to maintain member bank reserve positions at the currently agreed level.

For these reasons a special System committee was established late in 1956 to study all aspects of the float problem and to suggest remedial actions. The general program suggested by this committee included certain recommendations aimed at reducing the level of and fluctuations in float. Various steps have been taken to reduce Federal Reserve float pursuant thereto (apart from the time-schedule float resulting from the 2-day maximum deferment), and the staffs of the Federal Reserve Banks are continuing their efforts to improve check collection procedures and thereby to reduce float further. Inspection of the statistics over the past 12 months indicates that the average level of float is slightly higher than when the study was begun, owing mainly to a further increase in the volume of checks presented to the Federal Reserve Banks for collection.

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Besides the question of possible economic advantage to the Treasury, the Subcommittee of the Government Operations Committee asks whether the reduction in float could be effected "without substantial detriment to the banking community."

Some of the considerations regarding a possible change in the deferment schedule from the present 2-day basis to a 3-day basis as one means of reducing the volume of float are indicated by the following:

Pros	Cons
1. Would result in closer adherence to the principle that bank reserves should be represented by collected funds.	1. Would change a practice in effect for over 10 years with possible disturbances to existing competitive pattern.
2. Would tend to reduce fluctuations in float that create difficulties in making projections for the guidance of those implementing directives of the Open Market Committee.	2. Would be construed by some members of banking community and public as a backward step from a decision taken 10 years ago--one that would be untimely in view of current and prospective technological advances in check processing.
3. Would reduce by perhaps $500 million the amount of "free credit" toward meeting reserve requirements.	3. Would require an additional sort of checks with some additions to operating costs.
4. Would offset tendency for volume of float to increase with growing volume of checks.	4. Would fail to eliminate whatever objection in principle there may be to permitting a portion of reserve requirements to be met by credits against uncollected funds.
	5. Might induce more indirect routing of checks and consequent delays in collection of cash items.
	6. Might result in higher service charges against deposit accounts where such charges are related to balances based on available funds.

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Proponents of a change in the maximum deferment schedule from two to three days advance the view that such an increase would not directly affect the majority of member banks since most such banks use the check collection services of correspondent banks, rather than those of the Reserve Banks. They also suggest that such action would not be opposed by the general public since few depositors are aware of or take any special account of Federal Reserve time schedules.

Those who feel that the objections to restoring the former 3-day maximum deferment schedule outweigh possible advantages point out that over the past decade the present schedule has become an established element of commercial practice for banks that use the Federal Reserve check collection system and for those bank customers that have occasion, in the handling and investment of their funds, to take close account of Federal Reserve availability schedules. Consequently, even though there was a good deal of bank opposition in 1950 to adoption of the 2-day maximum deferment, there is a feeling that restoration of the former 3-day maximum would be regarded as an unnecessary disturbance to a smoothly working operation, not to be undertaken unless the resultant benefits to the general public were commensurate with the risks involved in a change.

CONCLUSION

A weighing of the facts and arguments relating to float has caused the Board to conclude, at least for the present, that the objections to the present 2-day maximum deferment schedule are not sufficient to warrant the amount of disturbance that probably would be caused in banking procedures

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by increasing the maximum to three days. In concluding that an extension of the deferment schedule would not be wise at this time, the Board is influenced partly by the belief that some further progress will be made during the next several years in reducing the number and total dollar value of items requiring more than two days for collection. It also is impressed by the fact that the existing 2-day maximum time schedule has been in operation for over 10 years, and a move at this time to return to a longer time schedule would be construed by parts of the banking and business community as a backward step--particularly in view of the intensive work now being done by the commercial banking system and by the Federal Reserve to improve methods of collecting checks in shorter time through use of electronic and other devices.

Notwithstanding its conclusion that the present is not an appropriate time for a change in the maximum deferment schedule, the Board will continue to follow this whole question closely, and periodically it will reconsider whether a change in Federal Reserve time schedules should be made.

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BOARD OF GOVERNORS
OF THE
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WASHINGTON 25, D. C.

Item No. 11
4/10/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

APR 11 1961

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of April 4, 1961, the Board approves the appointment of James Edward Thomas as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise us of the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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