

Minutes for May 4, 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



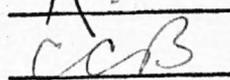
Gov. Szymczak

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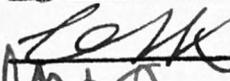
Gov. Mills



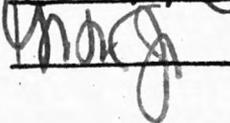
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. King

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, May 4, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research and  
Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Young, Assistant Counsel

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

	<u>Item No.</u>
Letter to Chairman Robertson of the Senate Banking and Currency Committee with regard to S. 1486, a bill "to authorize the Comptroller of the Currency to establish reasonable maximum service charges which may be levied on dormant accounts by national banks."	1
Letter to Merchants and Planters Bank, Warren, Arkansas, granting the application for fiduciary powers made on behalf of First National Bank of Warren, the national bank into which the applicant bank was to be converted.	2

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Application to organize a national bank in Orange County, California (Item No. 3). There had been circulated to the Board a file relating to an application to organize a national bank in the Anaheim area of Orange County, California. The Federal Reserve Bank of San Francisco had found favorably on most of the factors usually considered in connection with such applications, but suggested an unfavorable recommendation to the Comptroller of the Currency because of appearances that the proponents might be interested in obtaining the charter for speculative purposes. Members of the relatively small group that would have effective control of the proposed institution were understood to have engaged in the past in the organization and sale of savings and loan associations in Southern California. However, the Division of Examinations suggested a favorable recommendation on the basis of the favorable factors developed through the field investigation. It was felt that the supposition with respect to the motives of the organizers left enough room for doubt to warrant such a recommendation.

In discussion, Governor Mills said it had been his reaction upon reviewing the file that the area where the proposed bank would be located was already well populated with branch banking facilities. Also, it appeared that other large branch banking organizations were desirous of entering the area if supervisory approval could be obtained. If there seemed to be a reasonable possibility that a new independent bank could establish itself successfully and prosper in the face of strong

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competition, that would be one thing. However, with the area already so thoroughly covered by branch banks, he questioned whether the proposed bank could establish itself and whether it was needed in the community.

Governor Mills then turned to Mr. Leavitt for comment on this point, and the latter brought out that the San Francisco Reserve Bank considered the capital structure adequate and the prospects of the bank quite favorable. In the judgment of the Reserve Bank, there was reasonable need for additional banking facilities. However, the Bank considered it a strong possibility that the charter was being sought as a speculation and that the new institution would be sold at the first favorable opportunity. Within a radius of two miles of the site there were four banking offices, Mr. Leavitt said, but none of them was within the primary trade area of the proposed bank. The Division of Examinations felt that it was not possible to be certain about the motives of the organizers and that in any event a speculative intent, if it actually existed, might change after the bank began operations, with the result that the proponents would decide to retain control.

Governor Mills then indicated that he doubted whether the enterprise, under management of possibly dubious character, could prosper in the face of the competition to which it would be exposed.

Governor Robertson commented that one of the responsibilities of a supervisory agency is to look at those who are sponsoring a new bank. In this case the application had been filed by a group that in

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the past had organized savings and loan associations and then sold them. He would be inclined to rely on the judgment of the Reserve Bank that this was a speculative venture and that the charter was not being sought by a group of people who desired to engage in the banking business and improve local banking facilities. Thus, while he thought there was evidence of enough need for the bank in the community to support a favorable recommendation, he would follow the judgment of the Reserve Bank as to the intent of the organizers and recommend adversely.

After further discussion, unanimous approval was given to a letter to the Comptroller of the Currency recommending unfavorably on the application. A copy of the letter sent pursuant to this action is attached as Item No. 3.

Application of Marine Midland Trust Company of Southern New York.

On March 27, 1961, the Board denied the application of Marine Midland Trust Company of Southern New York, Elmira, New York, for permission to merge with the First National Bank and Trust Company of Ithaca, Ithaca, New York. In a letter dated April 17, 1961, signed jointly by the Board Chairmen of the respective banks, reconsideration of the denial of the application was requested, along with an opportunity for oral presentation. With the letter there was transmitted a brief presenting data additional to that set forth in the original application, along with copies of letters from the Mayor of Ithaca and the Dean of the School of Business and Public Administration of Cornell University. The April 17

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letter indicated that the two banks were seeking an opportunity to appear before the Board in order to discuss further the banking and competitive factors involved in the application and to offer maps and other graphic materials, too bulky to be submitted with the letter, to illustrate some of the facts stated in the enclosed brief.

Copies of the letter and its enclosures had been distributed to the Board, along with a memorandum from the Division of Examinations dated April 28, 1961, analyzing the supplemental data. In summary, it was stated that the supplemental report contained basically the same data as originally presented to the Board by the Division of Examinations, as supplemented by the memorandum later furnished by the Federal Reserve Bank of New York. With respect to the request for oral presentation, it was recommended that the participants in the proposed merger be granted one hour in which to make such a presentation. There were submitted with the memorandum drafts of possible letters to the two banks.

The memorandum also noted that the New York State Superintendent of Banks had indicated to the New York Reserve Bank that he would like to have an opportunity to present to the Board his views on the proposed merger and on the over-all banking situation in the State of New York. It was the belief of the Reserve Bank that Superintendent Clark was more anxious to inform the Board of his attitude and views on the State-wide picture than of his views concerning this particular merger. The

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Superintendent had indicated that he would like to meet with the Board at some time other than in connection with any oral presentation that might be made by the participating banks.

In discussion, Mr. Solomon commented that it had been the practice of the Board in several merger cases to provide an opportunity for oral presentation on an application denied by the Board. Therefore, it had seemed to the Division of Examinations that the same procedure might be appropriate in this case. The second question, perhaps somewhat more complicated, involved the request of the State Superintendent of Banks to appear separately before the Board to present such views as he might desire with regard to this case and also with regard to the total banking picture in the State.

Mr. Hackley expressed the view that, with several previous requests for oral presentation having been granted, it would seem difficult to refuse this particular request. However, as indicated by the Division of Examinations, the material submitted with the recent letter from the participating banks contained nothing substantially different from what was before the Board when it made its decision to deny the application. He assumed, therefore, that the request for reconsideration would not be granted at this time. On the other hand, the opportunity for oral presentation apparently was being requested for the purpose of submitting additional information and views that might or might not provide grounds for reconsideration.

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The members of the Board then presented their views beginning with Governor Mills, who commented that the first issue before the Board would seem to be whether in the interest of public relations, at best a rather vague term, the request for oral presentation should be granted. On the assumption and in the belief that the original presentation by the applicant and the data supplied by the Board's staff were adequate, and since the material subsequently submitted in writing did not alter the general status of the application, it would be his view that the Board should rest on its present position and indicate that the information already at its disposal was believed to be adequate for the Board to reach a determination. It would be his own recommendation that that determination be to reaffirm the denial of the application. If the Board continued to grant requests for oral presentation, a practice would be established from which it would be difficult to depart, and he thought there were no particularly good reasons for following such a practice. Under the law, Governor Mills pointed out, recourse to judicial review was available if desired, and to him that seemed the appropriate approach.

Governor Mills went on to express the view that in this case the supplemental data that had been submitted only strengthened the original judgment of the Board. The Marine Midland group's apparent purpose was to compartmentalize the expansion it had sought, and was seeking, by relating each transaction to a particular banking district

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of New York State, rather than relating each transaction to its effect on the nine banking districts of the State as a whole. Such a philosophy would suggest that piecemeal expansion of Marine Midland's banking interests within a banking district should be approved, if such expansion did not bring the total holdings or control of resources of the group in that particular district up to the level of dominance found in some of the districts. However, he could not reconcile that philosophy with the Board's responsibility under the bank merger legislation, pursuant to which the Board must look at the total picture rather than any fragment of it.

Governor Mills also said that after the Board had disposed of this particular case, he would favor inviting the New York Superintendent of Banks to discuss with the Board his responsibilities and the Board's supervisory responsibilities with respect to banking problems in the State of New York.

Governor Robertson said that the only basis on which he saw any merit for granting the request for oral presentation was found in the portion of the April 17 letter which indicated that the participating banks would like at such time to offer certain maps and other graphic materials to illustrate some of the data that had already been submitted. However, the information submitted had been analyzed by the Division of Examinations, which had found nothing new in it that would appear to warrant reversal of the Board's decision. Consequently, he would favor

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denying the request for oral presentation. He would, however, advise the participating banks that the Board would be willing to reconsider the matter if, in fact, they had additional information to submit.

Governor Robertson expressed the view that at some point the Board must come to a position where it would not automatically, and for public relations reasons, grant oral hearings to parties whose applications had been denied. There would be an undue burden on the Board's time if such a practice were followed regularly, and he would grant such requests only when there was new information to be submitted. For example, he would grant such a request where a close case was involved and where information had been developed that substantially altered the facts previously submitted. Otherwise, the Board would get into the position of acting twice on each case, with no real purpose served except to promote public relations.

As to the request of the State Superintendent, Governor Robertson expressed the view that it was always appropriate for the Board to confer with anyone in such a position. However, he felt that the Board should not be in a position of inviting Mr. Clark. He regarded the approach to the New York Reserve Bank as a request by Mr. Clark to meet with the Board for discussion of certain problems, and on that basis he would be glad to hear Mr. Clark at any mutually convenient time. His suggestion would be to write a letter to Mr. Clark saying that the Board understood he had indicated a desire to meet with the Board to discuss banking

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problems in New York State and that the Board would be glad to accede to his request.

Governor Shepardson said he appreciated the problem involved in reviewing and hearing oral argument on cases decided adversely. However, in a case where the Board had acted contrary to the action of the State authorities, the recommendation of the Federal Reserve Bank, and the recommendation of the Division of Examinations, he thought there was justification for providing an opportunity for an oral presentation. In this case, therefore, he would favor granting the request. As to the request of the State Superintendent, he felt much the same as Governor Robertson and would favor sending a letter to Mr. Clark along the lines suggested.

Governor Balderston stated that he also agreed with Governor Robertson's suggestion regarding the handling of the request of Superintendent Clark.

In further discussion, Mr. Hackley commented that there was before the Board not only a request for reconsideration but also a request for opportunity to make an oral presentation. Thus, he felt that the Board might grant the request for oral presentation without in any sense suggesting that it was granting the request for reconsideration. However, it was possible that additional material might be submitted orally that would constitute a basis for granting the request for reconsideration. Although he did not think that denial of the

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request for oral presentation would prejudice the Board's position in the event of judicial review of its denial of the application, it might be asserted that the Board had granted similar requests made by other parties.

Governor Balderston then inquired whether, shortly after the Board's denial of the application, Chairman Martin had not mentioned to the Board an inquiry that he had received regarding the action that the Board might take in the event of a request for reconsideration of this application.

There being no firm recollection of the details of the report to which Governor Balderston referred, it was understood that the Secretary would review his records in an effort to provide more information on that point. Pending the results of such review, it was agreed to defer action on the request for reconsideration and the request for oral presentation. In the meantime the Secretary was requested to draft for the Board's consideration a letter to the Superintendent of Banks of New York along the lines suggested by Governor Robertson, it being understood, however, that such letter would not be sent until after the Board had given further consideration to the requests relating to the Marine Midland case.

Use of savings deposits (Items 4 through 8). The following items had been distributed to the Board:

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- a. Drafts of letters to the President of The South Carolina National Bank, Greenville, South Carolina, and to the Federal Reserve Bank of Chicago with respect to the offering of so-called "United Security Accounts" by the Citizens Bank & Trust Company, Park Ridge (Chicago), Illinois. These letters were to the effect that the Board was making a further investigation of the matter, including the question whether the plan amounted to circumvention of the law and the Board's Regulation Q, Payment of Interest on Deposits.
- b. Memorandum from Mr. Hackley dated May 3, 1961, discussing the Chicago case and similar matters that had come to the Board's attention. The memorandum suggested that it might be difficult to support an interpretation of Regulation Q that would preclude such arrangements, and stated that in the circumstances the Legal Division had given preliminary consideration to whether the problem might be met by an amendment to Regulation Q which would prevent arrangements of this kind and yet not preclude bona fide individual transfers from savings to checking accounts. Certain illustrative amendments were set forth, along with a discussion of the difficulties involved in drafting an effective amendment. Question was raised whether the Board would want to have the staff explore further the possibility of such an amendment, including discussion with the staffs of the Federal Deposit Insurance Corporation and the Comptroller of the Currency. In such event, it was assumed that at an appropriate time the Board would wish also to obtain the views of the Federal Reserve Banks.
- c. Drafts of letters to the Federal Reserve Bank of San Francisco and to The United States National Bank, Portland, Oregon, regarding whether a deposit by the Bureau of Indian Affairs in trust for Indians might be classified as a savings deposit, where the deposit agreement would provide for daily or frequent transfers from the savings account to a checking account upon the depositor's order. The letter to the member bank stated that the Board looked with disfavor upon any agreement under which such transfers might be made daily or frequently, since the agreement could be used in some cases as a device to evade the statutory prohibition against payment of interest on demand deposits and the regulatory definition of a savings deposit, which was designed to prevent the use of such deposits as checking accounts.

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Mr. Hackley said that the Legal Division had become increasingly concerned about the apparent growth of arrangements under which member banks in effect offered their customers the advantage of an interest-bearing savings account and also the privilege of drawing checks in a manner that on its face seemed inconsistent with the spirit of the law and Regulation Q. It had long been common practice for depositors with both savings and checking accounts to replenish their checking accounts occasionally by transferring funds, and both the so-called Chicago case and the so-called Indian case involved situations in which it might be difficult to determine that there would be any clear violation of the provisions of the law or Regulation. Yet it appeared that such arrangements would tend to break down the distinctions customarily observed between savings and demand accounts. For that reason, the Legal Division raised the question whether the Board would want the staff to pursue further the possibility of some amendment to Regulation Q that would tend to prevent practices of this kind. The staff of the Federal Deposit Insurance Corporation was understood likewise to be disturbed, and it appeared that the Corporation might be willing to go along with any amendment that seemed effective. The fundamental premise on which Regulation Q was based, Mr. Hackley commented, was that a savings deposit, which carried lower reserve requirements and provided payment of interest to depositors, should be safeguarded from use as a checking account. It was for that reason that in 1933, when Regulation Q was

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first issued, the Board provided that savings accounts must be represented by pass books and could not be withdrawn without presentation of the pass book. In further comments, Mr. Hackley outlined one possible type of amendment to Regulation Q. He concluded his comments by saying that this was a troublesome matter requiring careful consideration. It would not be desirable to make a decision too hastily, but the problem appeared to be increasing.

Governor Mills agreed that this was a difficult and troublesome problem. His feeling was that it should be approached through an amendment to Regulation Q, but at the same time he realized that the phrasing of such an amendment would be difficult. He would be somewhat skeptical of an amendment that would provide a specific formula to limit the number of withdrawals from a savings account. If it could be made effective, he would lean toward an amendment that was more general in nature. Presumably, such an amendment would require the Federal Reserve Banks, in the process of examinations, to watch for any abuses.

In further discussion, Mr. Hackley referred to the possible amendment to Regulation Q, discussed at the Board meeting on Wednesday, April 26, that would have facilitated the making of loans by member banks on savings deposits not represented by pass books. He stated that if agreeable to the Board this proposal would be held in abeyance; if it were eventually agreed to adopt some amendment to Regulation Q to deal with the problem under consideration today, the two amendments might be issued at the same time.

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There was general agreement with the procedural suggestion made by Mr. Hackley.

Governors Robertson and Shepardson commented to the effect that they would favor exploration by the staff of a possible amendment to Regulation Q that would attempt to deal effectively with the problem discussed in Mr. Hackley's memorandum. They also expressed the view that the study should be expedited.

After additional discussion of procedures, it was agreed that the staff study should proceed. It was also agreed that a letter outlining the problem and requesting views, comments, or suggestions would be sent today to the Federal Reserve Banks, with an indication that a prompt reply would be appreciated. A copy of the letter sent to the Federal Reserve Banks later in the day is attached as Item No. 4.

The remaining discussion related to the so-called Indian case, particularly the extent to which the form of agreement referred to in the letter from The United States National Bank of Portland might have come into general use. At the conclusion of the discussion, unanimous approval was given to the proposed letters to The South Carolina National Bank, the Federal Reserve Bank of Chicago, The United States National Bank of Portland, and the Federal Reserve Bank of San Francisco. Copies thereof are attached as Items 5 through 8, inclusive.

Messrs. Leavitt and Hooff then withdrew from the meeting, and Mr. Altmann, Economist, Division of Research and Statistics, entered the room.

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Study of price statistics (Item No. 9). In a letter dated April 17, 1961, Chairman Proxmire of the Economic Statistics Subcommittee of the Joint Economic Committee requested the views of the Board with regard to a report on the price statistics of the Federal Government concerning which the Subcommittee was holding hearings. This report had been prepared for the Bureau of the Budget by a special committee from the National Bureau of Economic Research. An interim acknowledgment had been made to Senator Proxmire, and a draft of further reply had now been distributed to the Board.

Subject to the incorporation of a suggested editorial change, the proposed letter was approved unanimously. A copy of the letter in the form in which it was sent pursuant to this action is attached as Item No. 9.

Mr. Altmann then withdrew from the meeting.

Report on H.R. 3330 (Item No. 10). Pursuant to the understanding at the meeting on Tuesday, May 2, there had been distributed to the Board a revised draft of letter to Chairman Spence of the House Banking and Currency Committee regarding H.R. 3330, a bill "to provide that no member of the Board of Directors of the Federal Deposit Insurance Corporation shall hold any other public office or position...".

Agreement having been expressed with a suggested editorial change, unanimous approval was given to a letter to Chairman Spence in the form attached as Item No. 10.

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Messrs. Farrell, Hexter, and Young then withdrew.

System Research Advisory Committee. There had been circulated to the Board a memorandum from Messrs. Thomas and Noyes dated May 1, 1961, proposing that Mr. Noyes be designated Chairman of the System Research Advisory Committee, vice Mr. Thomas, and that Mr. Brill, Associate Adviser, Division of Research and Statistics, be designated Secretary, vice Mr. Noyes. It was also suggested that the Director of the Board's Division of International Finance continue to be designated as a member of the Committee and that the Committee membership be expanded to include all Federal Reserve Banks, in lieu of the present system of rotating membership, thus recognizing a situation that had existed de facto for about 10 years. The latter suggestion contemplated that if the Board approved the expansion of membership, this change would be cleared with the Presidents' Conference before being announced.

The discussion of this matter included questions and comments regarding the purposes and functions of the System Research Advisory Committee, its methods of operation, and the steps that had been taken over the past three or four years to make sure that all proposed research projects and assignments of any significance involving the use of Reserve Bank personnel were cleared through the Presidents of the respective Banks. These steps were believed to have resolved certain problems regarding the coordination of System research projects that had been discussed by the Presidents' Conference and made known by the Conference

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to the Board. It was further stated that the meetings of the Committee, held in conjunction with meetings of the Presidents' Conference Subcommittee on Research and Statistics, were believed to serve a useful coordinating purpose, and that the Committee carefully avoided dictating any of the phases of research to be carried on at the Federal Reserve Banks.

The designations of Mr. Noyes as Chairman and Mr. Brill as Secretary of the Committee, respectively, were then approved unanimously, along with the recommended expansion of Committee membership, the latter action being subject to informal clearance with an appropriate representative of the Presidents' Conference before being announced. It was understood that the Director of the Division of International Finance would continue to be included as a member of the Committee.

Messrs. Thomas, Noyes, and Solomon then withdrew.

Grievance procedure policy. There had been distributed to the Board copies of a memorandum from Mr. Johnson dated April 28, 1961, recommending that a grievance procedure submitted therewith be approved as a policy of the Board. The memorandum expressed the view that it was a desirable personnel practice for an organization to have a well-recognized grievance procedure policy and pointed out that Federal agencies subject to the Civil Service Act were required to establish grievance procedures. While a recognized informal grievance procedure had been in effect at the Board for many years, no procedure had been

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spelled out in written form as a policy of the Board. The proposed statement of procedure had been discussed with the Employees' Committee and circulated to division heads; in its present form, it reflected clarifying suggestions that had been received. If approved by the Board, it was intended that the statement of procedure would be distributed to all present employees and included in the material furnished to new employees.

In commenting on the matter, Mr. Johnson suggested the inclusion of an additional sentence indicating that the procedure was not intended in any way to deter an employee from going direct to the Division of Personnel Administration with personal problems. He also referred to the functions of the Employees' Committee and proposed recognition thereof by inclusion in the statement of a notation that the Committee was recognized as representing the employees of the Board in discussing employee problems, usually those of a general nature, as well as practices and procedures affecting employees.

In further discussion, Governor Mills raised certain questions with regard to the need for establishing a formalized written procedure, including the question whether that might impair flexibility of approach in individual cases. The response by Mr. Johnson was in terms that a general procedure had been in effect informally for a number of years, and that the availability of the procedure in written form would serve to make all employees aware of the opportunities that were available

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to them for the handling of complaints or problems constituting causes for dissatisfaction.

Agreement was expressed with a suggestion by Governor Robertson that the statement be amended to make clear that the procedure set forth therein was only an indication of the preferable procedure for handling grievances and did not represent an inflexible policy.

At the conclusion of the discussion, it was understood that the proposed statement of grievance procedure would be amended to reflect the suggestions made at this meeting prior to distribution to the members of the Board's staff.

Mr. Johnson then withdrew from the meeting.

Review of discount eligibility requirements. At the joint meeting of the Board and the Presidents on March 7, 1961, the Board was advised that the Presidents' Conference had approved a proposal that a System staff committee undertake a basic review of the eligibility of commercial bank paper for discount or as collateral for advances to member banks, and recommend possible changes in the relevant statute, regulation, and Reserve Bank administration that would contribute to maximum usefulness of the discount window in the light of changes that had occurred in the country's banking practices and financial structure since the enactment of the Federal Reserve Act. On April 5, the Board sent a letter to the Chairman of the Presidents' Conference concurring in the proposed study and indicating that the Board would consult with the Conference Chairman regarding Board representation on the committee.

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Governor Shepardson noted receipt by the Board of a letter from Chairman Bryan dated April 21, 1961, in which Mr. Bryan advised that he proposed to name the following persons to the committee from the Federal Reserve Banks: Messrs. Scanlon and Shuford, First Vice Presidents of the Federal Reserve Banks of Chicago and Dallas, respectively, and Messrs. Bilby and Einzig, Vice Presidents of the Federal Reserve Banks of New York and San Francisco, respectively. Mr. Bryan suggested Mr. Scanlon as chairman of the committee, and asked for any views of the Board regarding his proposals.

At the instance of Governor Shepardson, there followed a discussion of the number of Board representatives that would be appropriate in proportion to Reserve Bank representatives, members of the staff who might be selected for this purpose, whether the chairman of the committee should come from the Board or a Reserve Bank, and whether the composition of a System staff committee should be announced by the Board or the Presidents' Conference. This led to questions regarding the background and scope of the proposed study, and it was agreed to defer further consideration of the matter until after there had been made available to the Board for review copies of Mr. Bryan's letter and material defining the nature of the proposal originally made by the Presidents' Conference.

The meeting then adjourned.

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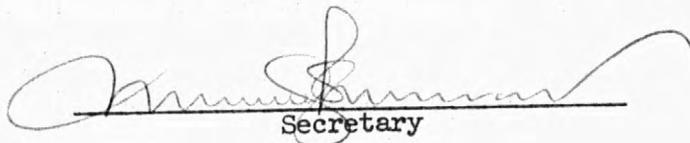
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Secretary's Note: Governor Shepardson approved on behalf of the Board on May 3 and May 4, 1961, respectively, the following items:

Letter to the President's Committee on Equal Employment Opportunity advising of the continued designation of Merritt Sherman, Secretary of the Board, as the Board's Employment Policy Officer to perform such functions as may be necessary to carry out the policies emphasized in Executive Order 10925, and of the designation of Elizabeth L. Carmichael, Assistant Secretary, as Deputy Employment Policy Officer. The letter also advised that no complaints of discrimination regarding Federal employment were pending in the Board's organization.

Memoranda from the Division of Research and Statistics recommending the appointment of the following persons as Research Assistants in that Division from about June 1 to about September 15, 1961, with basic annual salary in each case at the rate of \$5,355, effective the dates of entrance upon duty:

Donald P. Tucker  
George J. Viksnins

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
5/4/61

OFFICE OF THE VICE CHAIRMAN

May 4, 1961

The Honorable A. Willis Robertson,  
Chairman,  
Committee on Banking and Currency,  
United States Senate,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of March 31, 1961, requesting a report on S. 1486, a bill "To authorize the Comptroller of the Currency to establish reasonable maximum service charges which may be levied on dormant accounts by national banks."

You are advised that the Board has no objection to favorable consideration of this bill.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,  
Vice Chairman.

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

Item No. 2  
5/4/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 4, 1961



Board of Directors,  
Merchants and Planters Bank,  
Warren, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made by Merchants and Planters Bank on behalf of First National Bank of Warren, Warren, Arkansas, the national bank into which it is to be converted, and grants such national bank authority, effective if and when the proposed conversion is consummated, to act, when not in contravention of State or local law, as executor, administrator, guardian of estates and trustee under bond indentures. 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.

After the conversion becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of First National Bank of Warren adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of St. Louis for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate indicating the fiduciary powers that the national bank is authorized to exercise will be forwarded.

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  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 5, 1961.

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

Attention: Mr. C. C. Fleming,  
Deputy Comptroller of the Currency,

Dear Mr. Comptroller:

Reference is made to a letter from your office dated October 6, 1960, enclosing copies of an application to organize a national bank in the Anaheim area of Orange County, California, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of San Francisco indicates that capital would be adequate and that future earnings prospects are reasonably favorable. While the proposed bank might add to the convenience of the public, there does not appear to be any strong need for the bank, and it is noted that a chief executive officer has not yet been selected. Also, on the basis of the investigation made by the Reserve Bank, it appears that there may be some question whether the primary purpose of the organizers is to engage in and pursue banking, or whether a speculative factor is involved. On balance, the Board of Governors recommends that this application to organize a national bank in the Anaheim area of Orange County, California, not be granted.

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,

*Elizabeth L. Carmichael*

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 4  
5/4/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 4, 1961.



Dear Sir:

The Board has recently had occasion to consider an instance in which a member bank is soliciting customers in certain distant parts of the country by means of the advertisement of a proposed arrangement under which the customer would open a savings account and be permitted to draw "checks" on the member bank. Under the arrangement, the bank would open a "credit account" (in effect, a line of credit) in an amount \$1 less than the savings deposit. In the event any check paid by the bank should not be covered within 7 days by a remittance made by the depositor, the bank, holding the customer's passbook, would reimburse itself from the savings deposit for the amount of the check plus a charge of 20 cents.

As a result of the member bank's advertisement of this arrangement, including statements in the advertising to the effect that the plan offers the depositor the advantages of both a savings deposit and a checking account and that it has been approved by the Federal Reserve Board, a number of inquiries have been received by the Board and also by the Federal Deposit Insurance Corporation.

In another recent instance, the Board has considered a proposed savings deposit agreement which, among other things, would provide for daily transfers from the savings deposit to a checking account in accordance with written orders for such transfers that would be furnished by the depositor to the bank.

In both of these instances, it would appear difficult to conclude that the proposed arrangements literally violate any provision of Regulation Q. It seems apparent, however, that the growth of such arrangements could tend to undermine traditional distinctions between savings deposits and demand deposits and could lead to evasions of the statutory prohibition against payment of interest on demand deposits, as well as the regulatory definition of a savings deposit in terms designed to prevent the drawing of checks on such deposits.

For these reasons, the Board has asked its staff to explore the possibility of an appropriate amendment to Regulation Q that would

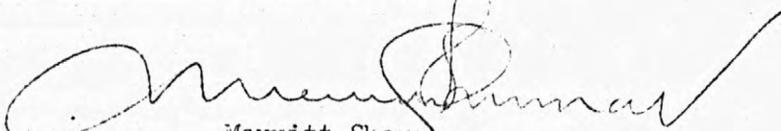
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effectively prevent practices of the kind above described, but without precluding bona fide occasional transfers from a savings account in order to replenish the customer's checking account.

As an illustrative possibility, the Regulation might be amended to prohibit a deposit from being classified as a savings deposit if it is subject to any arrangement or agreement whereby amounts may be transferred to a checking account or applied by the bank to the payment of credits extended to the depositor, if this is done as a regular course of business instead of pursuant to occasional written instructions of the depositor. Another possibility would be an amendment to the Regulation that would in effect arbitrarily prohibit withdrawals from a savings account more than a certain number of times in a calendar month or in a calendar year, except where withdrawals are physically made by the depositor, or upon presentation of a passbook by a person other than the bank, or in emergency situations. These alternative possible amendments, however, have been given only preliminary consideration and it is recognized that they may be subject to objection.

The Board would appreciate receiving as promptly as possible any views or comments that your Bank might wish to make regarding this problem, including any suggestions with respect to a possible amendment to Regulation Q.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 5  
5/4/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 4, 1961

Mr. W. W. McEachern, President,  
South Carolina National Bank,  
Greenville, South Carolina.

Dear Mr. McEachern:

This refers to your letter of April 7, 1961, to Chairman Martin, enclosing a thermofax copy of some material that is being forwarded to many of your customers in South Carolina by the Citizens Bank & Trust Company, Park Ridge (Chicago), Illinois, with respect to the establishment of so-called "United Security Accounts", and to your letter of May 1, transmitting additional information and material relating to such accounts. The Board appreciates your comments and your thoughtfulness in sending the material, all of which is being considered along with several other inquiries on the same general subject.

Some months ago, a proposal to inaugurate a new type of account by this bank was brought to the Board's attention. After investigation, it developed that the bank actually did not propose to permit checks to be drawn against a savings account or to pay interest on a demand deposit. The plan was to consist of the opening of two accounts. The first would be a savings account and the second would be a loan or credit account equal to \$1.00 less than the savings account balance. In effect, the bank would be establishing a line of credit for the depositor equal to his savings account minus \$1.00, and the savings account would serve as security if this line of credit is availed of by the depositor writing a check on the credit account. For each check the depositor would pay about 20 cents. The amount of a check when paid by the bank would be regarded by the bank as a loan secured by the savings account. If such "loan" were not paid within seven days, the bank would withdraw from the savings account the amount of the check plus the 20 cent service charge. Both the savings account and the credit account would be reduced by this amount.

Mr. W. W. McEachern

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Because of inquiries that have come to the Board regarding the advertising to which your letter refers, the Board, as indicated above, is making a further investigation of this matter. This will include consideration of whether a loan actually is being made and whether the plan amounts to a circumvention of section 19 of the Federal Reserve Act and the Board's Regulation Q.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 6  
5/4/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 4, 1961

Mr. Carl E. Allen, President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Allen:

There is enclosed copy of a letter dated April 7, 1961, from the president of a bank in South Carolina, forwarding a copy of some literature that is being circulated in that area by the Citizens Bank & Trust Company, Park Ridge (Chicago), Illinois. There is also enclosed a copy of the Board's reply, which indicates that the subject is being reinvestigated.

In furtherance of the reinvestigation, the Board would appreciate consideration by your bank of the fundamental aspects of this type of transaction such as its possible effect upon the separation of savings and checking accounts. If form alone is considered, the plan may appear to be unobjectionable under the Board's Regulation Q, but, for all practical purposes, may amount to a circumvention of the law and the Board's Regulation. In addition, please consider the question of misleading advertising and improper presentation to the public. The Board would like to be advised as to the bank's success in securing accounts of this nature. In obtaining this information, you will no doubt wish to inform the bank that the Board is giving further consideration to the plan and whether, in effect, the law and Regulation are being violated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures

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

Item No. 7  
5/4/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 4, 1961



Mr. M. W. Farrell, Cashier,  
The United States National Bank,  
Portland, Oregon.

Dear Mr. Farrell:

This refers to your letter of April 17, 1961, addressed to Governor Mills, requesting advice as to whether your bank may enter into an agreement, copy of which was enclosed with your letter, for the acceptance of a savings account consisting of funds of Indians held by the Bureau of Indian Affairs.

As indicated in the Board's Regulation Q, a deposit may be classified as a savings deposit if the funds are held in trust for one or more individuals or an organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes. Accordingly, if the funds are held in trust for individual Indians, as distinguished from an Indian tribe, they may be classified as a savings deposit.

Deposits of the nature contemplated by the agreement would not, however, be eligible for classification as savings deposits unless, as required by Regulation Q, the agreement is amended to include a provision stating that the depositor may at any time be required to give notice in writing of an intended withdrawal of not less than 30 days before such withdrawal is made.

Section 1.3 of the agreement appears to contemplate daily transfers from the savings account to a checking account also to be maintained by the depositor. While occasional transfers from a depositor's savings account to his checking account, specifically ordered in each instance by the depositor, would not be objectionable, the Board looks with disfavor upon any agreement under which

Mr. M. W. Farrell

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such transfers are made daily or frequently, since it could be used in some cases as a device to evade the statutory prohibition against payment of interest on demand deposits or to evade the regulatory definition of savings deposits designed to prevent the use of such deposits as checking accounts.

It is suggested that you may wish to discuss this matter further with officers of the Federal Reserve Bank of San Francisco in the light of the Board's views as expressed above.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 8  
5/4/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 4, 1961

Mr. Eliot J. Swan, President,  
Federal Reserve Bank of San Francisco,  
San Francisco 20, California.

Dear Mr. Swan:

There is enclosed a copy of a letter dated April 17, 1961, from the Cashier of The United States National Bank, Portland, Oregon, with respect to the deposit in a savings account of funds of Indians held by the Bureau of Indian Affairs. This letter forwarded an agreement, copy also enclosed, providing for this savings account and a checking account to be replenished daily by withdrawals from the savings account upon the depositor's order. There is also enclosed a copy of the Board's reply which contains the suggestion that the bank may wish to discuss this matter with officers of your Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 9  
5/4/61

OFFICE OF THE VICE CHAIRMAN

May 5, 1961

The Honorable William Proxmire, Chairman,  
Subcommittee on Economic Statistics,  
Joint Economic Committee,  
United States Senate,  
Washington 25, D. C.

Dear Mr. Chairman:

With further reference to your letter of April 17, 1961, the Board of Governors and its staff since the very early years of the Federal Reserve System have participated in programs to develop and improve economic statistics. Policy formulation in the areas of the Board's responsibility obviously requires as complete and detailed analysis of economic developments as possible. The quantity and quality of economic statistics have increased substantially over the years, permitting analyses of greater insight and more timeliness. At the same time, standards of economic understanding performance have been raised, creating continuous demands for still more and still better information. In this area, perhaps, demands are never excessive. We endorse worthwhile efforts to improve economic statistics generally, and particularly price statistics.

With regard to the report on The Price Statistics of the Federal Government, we agree with the emphasis given to the collection of good basic data on a broad scale in both wholesale and retail markets as well as to the improvement of the broad indexes. The basic data have many uses in the calculation and interpretation of other statistics, including those for production, productivity, and sales in terms of constant dollars. Good basic data are of great importance in the interpretation of price trends, moreover, for no single index can be relied upon for this purpose. Also with these considerations in mind, serious consideration should be given to the recommendation in the report for research on prices of tangible assets and on prices in other market areas where little or no price information is presently available.

Sincerely yours,

*CC Balderston*

C. Canby Balderston,  
Vice Chairman.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 10  
5/4/61

OFFICE OF THE VICE CHAIRMAN

May 5, 1961



The Honorable Brent Spence,  
Chairman,  
Committee on Banking and Currency,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of April 15, 1961, for a report on the bill, H.R. 3330, "To provide that no member of the Board of Directors of the Federal Deposit Insurance Corporation shall hold any other public office or position and for other purposes."

The Board would have no objection to that provision of the bill that would in effect forbid a member of the Board of Directors of the Federal Deposit Insurance Corporation from being a member of the Board of Governors of the Federal Reserve System or from holding any office or position in the Federal Reserve System. The question whether it would be desirable, as provided by the bill, to discontinue the service of the Comptroller of the Currency as a member of the Corporation's Board of Directors is one with respect to which the Corporation and the Comptroller have intimate knowledge based upon their day-to-day working experience. However, because this Board of Governors does not possess such knowledge, it prefers not to comment on this provision of the bill.

Sincerely yours,

(Signed) C. Canby Balderston

C. Canby Balderston,  
Vice Chairman.