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Minutes for June 14, 1961

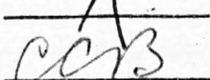
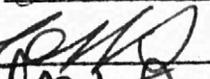
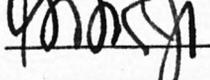
To: Members of the Board

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. Mills	
Gov. Robertson	
Gov. Balderston	
Gov. Shepardson	
Gov. King	

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, June 14, 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. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Masters, Associate Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Fuerth, Legal Assistant

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 The Newark Trust Company, Newark, Ohio, approving the establishment of a branch at 1009 Mt. Vernon Road.	1
Letter to Citizens State Bank, Tupelo, Mississippi, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	2
Letter to Chairman Robertson of the Senate Committee on Banking and Currency reporting on S. 2005, 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 and for other purposes."	3

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Item No.

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Letter to Chairman Robertson of the Senate Committee on Banking and Currency reporting on S. 2006, a bill "To amend section 9 of the Federal Reserve Act, as amended, section 18(d) of the Federal Deposit Insurance Act, and section 5155 of the Revised Statutes, as amended, and for other purposes."

Messrs. Thomas, Adviser to the Board, and Molony, Assistant to the Board, entered the room at this point.

Use of savings deposits (Item No. 5). As discussed at previous Board meetings, certain problems had arisen in recent months with respect to the use of savings deposits, as defined under Regulation Q, Payment of Interest on Deposits. The first involved a plan advertised by a State member bank near Chicago, Illinois, pursuant to which a savings depositor could, under a line of credit, draw "checks" which, if not covered by remittances within seven days, would be covered by transfers from the savings deposit to the member bank. The second problem related to a proposal for the deposit of Indian funds in a savings account with provision for daily transfers to a checking account. The third related to a recent ruling of the Board to the effect that Regulation Q would not permit payment from a savings deposit to a member bank in a case where the member bank made a loan on the security of a non-passbook savings account. The fourth problem related to the spread of the practice of paying interest on savings deposits computed on a daily basis.

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As noted in a memorandum from the Legal Division dated June 12, 1961, which had been distributed to the Board, these problems had been discussed by the staff at several meetings with representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Also, pursuant to the understanding at the meeting on May 4, 1961, the views of the Federal Reserve Banks on certain possible alternative amendments to Regulation Q to deal with the first two problems had been requested, and copies of the Reserve Bank's replies had been distributed to the Board. As the result of its study of these matters, the Legal Division recommended revising section 217.1(e) of Regulation Q so as expressly to prohibit a member bank (1) from permitting withdrawals through payment to the bank itself in order to cover checks or drafts drawn on the bank by the savings depositor except in the case of occasional overdrafts on a checking account, and (2) from permitting daily, monthly, or other such regular periodic transfers from a savings account either to the bank itself or to another account of the depositor, except where the transfers were made for the purpose of paying taxes, insurance premiums, or principal, interest, or other charges due on a mortgage. It was suggested that such a proposed amendment be published in the Federal Register to obtain comments and that comments also be requested from the Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

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As to the problem of loans on non-passbook savings accounts, the Legal Division renewed its recommendation, on which action previously had been deferred by the Board, that Regulation Q be amended in such manner as to make it possible for a member bank to extend a loan that would be effectively secured by a non-passbook savings account.

As to the crediting of interest on savings deposits on a daily basis, the Legal Division expressed the view that evidences of abuse were not yet sufficient to warrant an amendment to Regulation Q, particularly since it appeared that any such amendment would involve substantial administrative problems for all member banks, irrespective of whether they followed this procedure. It was suggested, however, that the letter to the Federal Reserve Banks requesting their comments on the aforementioned proposed revision of section 217.1(e) of Regulation Q indicate that the Board would appreciate being advised of the extent to which the practice of paying interest on savings deposits on a daily basis existed in the respective districts and whether there was evidence of any use of this practice as a means of attracting deposits of large sums of money for only a few days, merely to enable depositors to obtain interest on temporarily idle funds. The Legal Division suggested that if it developed hereafter that any substantial problem existed in this regard, the Board could then consider the desirability of an amendment to Regulation Q.

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At the request of the Board, Mr. Hackley made a statement, based essentially on the memorandum that had been distributed, in which he reviewed the special status of savings deposits under Regulation Q, the nature of the practices observed in recent months that suggested a misuse of such deposits, the views expressed by the Reserve Banks concerning the need for amendment of Regulation Q, the type of amendment that might be most appropriate, and the considerations that had led to the current recommendation. In this connection, Mr. Hackley referred to the substantial problem involved in devising an amendment that would prevent objectionable practices without prohibiting legitimate practices. He also reviewed the reasons why the Legal Division was renewing its recommendation for an amendment to Regulation Q to facilitate loans on the security of non-passbook savings accounts, following which he described the possibilities for abuse inherent in the payment of interest on a daily basis and stated reasons underlying the reluctance of the Legal Division to recommend an amendment that would prevent the practice in the absence of more evidence of abuse than was now apparent.

The members of the Board then expressed their views, beginning with Governor Mills, who said he felt that the proposed amendments would represent a workable solution to the problems which had arisen, and that it would be in order to publish them for comment. Governor Mills then raised certain questions with regard to whether it appeared that the proposed amendment to facilitate loans against non-passbook

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savings accounts would solve problems that had been referred to by member banks in the Sixth District, as set forth in material transmitted to the Board by the Federal Reserve Bank of Atlanta. The comments on this point by members of the Legal Division reflected a view that the problems referred to in this correspondence would appear to be met as far as seemed practicable in a Board regulation. However, if member banks felt that any substantial obstacle would remain, it might be expected that comments would be received upon publication of the proposed amendment.

Governor Robertson expressed agreement with the recommendations of the Legal Division, including deferral of consideration of a possible amendment to Regulation Q relating to the payment of interest on a daily basis. He went on to suggest that the adoption of amendments such as proposed by the Legal Division might afford an appropriate opportunity to consider also an increase in the maximum rates of interest permissible under Regulation Q. In the latter regard, it was stated by the staff that a memorandum was in preparation for the Board's consideration.

Governor Shepardson said that to him the suggested amendments to Regulation Q appeared adequate. However, he raised for further consideration the question whether the payment of interest on a daily basis might not preferably be dealt with at this time, as a safeguard against possible abuses, rather than to wait until after there was evidence of such abuses. In response, members of the staff described

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the study that had been given to the matter in an effort to suggest a possible amendment to Regulation Q for the Board's consideration. As brought out in the memorandum, however, it was difficult to devise an amendment that would be effective in dealing with possible abuses and yet not impose a substantial administrative burden upon all member banks. During the discussion of this point, reference was made to the fact that it would not appear profitable for member banks to solicit interest-bearing deposits on a short-term basis. It was also brought out that savings deposits may be maintained only by individuals and limited classes of non-profit organizations.

Governor Balderston indicated that he was favorably inclined toward the proposed amendments. He then raised the question whether it would not be desirable to submit them for review to the Federal Reserve Banks, and to the staffs of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, prior to publication in the Federal Register in order to be as certain as possible that no defects had been overlooked.

After consideration, agreement was expressed with the procedure suggested by Governor Balderston, with the understanding that a limited time would be provided for receiving the comments of the Reserve Banks and that the Reserve Banks, as well as the staffs of the Comptroller's Office and the Federal Deposit Insurance Corporation, would be furnished copies of the memorandum from the Legal Division dated June 12, 1961, in

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order to aid in their consideration of the matter. A copy of the letter sent to the Federal Reserve Banks pursuant to this understanding is attached as Item No. 5.

At this point Mr. Johnson, Director, Division of Personnel Administration, entered the room.

Salary of officer at Philadelphia Bank (Item No. 6). As recommended in a memorandum from the Division of Personnel Administration which had been circulated to the Board, unanimous approval was given to a letter to the Federal Reserve Bank of Philadelphia approving the payment of salary to Norman G. Dash as Vice President at the annual rate of \$16,000 for the period July 1 through December 31, 1961. A copy of the letter is attached as Item No. 6.

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 Dallas (attached Item No. 7) approving the appointment of T. W. Weatherred as examiner.

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

Appointment

William J. Thompson as Analyst in the Division of Bank Operations, with basic annual salary at the rate of \$5,685, effective the date of entrance upon duty.

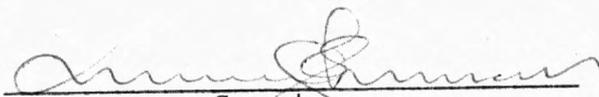
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Salary increases

Roberta M. O'Rourke, from \$4,250 to \$4,510 per annum, with a change in title from Clerk-Stenographer to Secretary in the Division of Research and Statistics, effective June 25, 1961.

Mary M. Maroney, Economist in the Division of International Finance, from \$7,590 to \$7,755 per annum, effective June 25, 1961.

  
Secretary

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

Item No. 1  
6/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 14, 1961



Board of Directors,  
The Newark Trust Company,  
Newark, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment of a branch at 1009 Mt. Vernon Road, Newark, Ohio, by The Newark Trust Company, Newark, Ohio. This approval is given provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
6/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 14, 1961

Board of Directors,  
Citizens State Bank,  
Tupelo, Mississippi

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your letter dated May 12, 1961, together with the accompanying resolution dated April 26, 1961, signifying your intention to withdraw from membership in the Federal Reserve System and requesting that such withdrawal be permitted at the earliest practicable date to coincide with approval of the Federal Deposit Insurance Corporation for continuation of the bank in an insured status.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
6/14/61

OFFICE OF THE CHAIRMAN

June 14, 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 request of June 5, 1961, for a report on the bill, S. 2005, "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) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
6/14/61

OFFICE OF THE CHAIRMAN

June 14, 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 request of June 5, 1961, for a report on S. 2006, "To amend section 9 of the Federal Reserve Act, as amended, section 18(d) of the Federal Deposit Insurance Act, and section 5155 of the Revised Statutes, as amended, and for other purposes."

The effect of this legislation would be to require State member banks to secure the approval of the Federal Deposit Insurance Corporation rather than the Board of Governors, as under existing law, for the establishment of branches, and to require national banks not only to secure the approval of the Comptroller of the Currency but that of the FDIC as well for the establishment of domestic branches. As to foreign branches of national banks, the bill might be regarded as requiring the approval of the FDIC in addition to the approval of the Board.

In the absence of any sound reason for this legislation, the Board does not recommend its favorable consideration. In the Board's view the legislation is unnecessary, and consideration of branch applications should be the function of the Federal agency which has responsibility for examination and supervision of applicants. Interchange of reports of examination and related data among supervisory agencies, while useful, cannot be an adequate substitute for information derived from continuing bank examination and supervisory contacts with the banks concerned.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 5  
6/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 14, 1961.

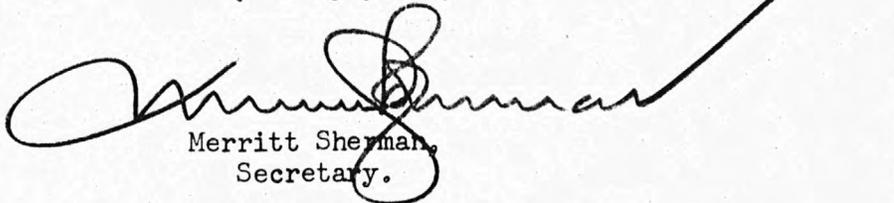


Dear Sir:

Enclosed is a copy of (1) a memorandum dated June 12, 1961, prepared by the Board's Legal Division, with respect to proposals for amendments to provisions of Regulation Q regarding savings deposits, and (2) a draft of a proposed revision of section 217.1(e) of Regulation Q. (The other attachments referred to in the memorandum are not enclosed.)

The Board is considering the recommendations contained in this memorandum. However, before publishing the proposed amendments in the Federal Register for public comment, the Board will appreciate any further comments that your Bank may wish to offer. Since it is felt that there is need for early action to deal with the problems involved, the Board would like to receive comments not later than June 26, 1961.

Very truly yours,



Merritt Sherman,  
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 6  
6/14/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 14, 1961

CONFIDENTIAL (FR)

Mr. Karl R. Bopp, President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pennsylvania.

Dear Mr. Bopp:

The Board of Governors approves the payment of salary to Mr. Norman G. Dash as Vice President of the Federal Reserve Bank of Philadelphia at the rate of \$16,000 per annum, for the period July 1 through December 31, 1961, which is the rate fixed by your Board of Directors and reported in Mr. Wilgus' letter of June 1, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM Item No. 7  
WASHINGTON 25, D. C. 6/14/61



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 14, 1961

Mr. L. G. Pondrom, Vice President,  
Federal Reserve Bank of Dallas,  
Station K,  
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of June 7, 1961, the Board approves the appointment of T. W. Weatherred, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Dallas, effective July 1, 1961.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.