

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, July 25, 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 ^{1/}
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Masters, Associate Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Koch, Adviser, Division of Research and
Statistics
Mr. Dembitz, Associate Adviser, Division of
Research and Statistics
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division of
Personnel Administration
Mr. Eckert, Chief, Banking Section, Division of
Research and Statistics
Mr. Collier, Chief, Current Series Section,
Division of Bank Operations
Mr. Fuerth, Legal Assistant, Legal Division
Mr. Spencer, General Assistant, Office of the
Secretary

Discount rates. The establishment without change by the Federal
Reserve Banks of Boston and Atlanta on July 24, 1961, of the rates on

^{1/} Withdrew from meeting at point indicated in minutes.

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discounts and advances in their existing schedules was approved unani-
mously, with the understanding that appropriate advice would be sent to
those Banks.

Items circulated or distributed to the Board. The following
items, which had been circulated or distributed 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 First National City Bank of New York, New York, New York, approving a temporary relocation of its branch in Ponce, Puerto Rico.	1
Letter to The Michigan Bank, Detroit, Michigan, granting the application for fiduciary powers filed on behalf of Michigan Bank, National Association.	2
Letter to the Presidents of all Federal Reserve Banks requesting that the collection of data on Federal funds transactions from selected commercial banks be continued until August 31, 1962.	3
Letter to the Federal Reserve Bank of St. Louis approving revisions in the minimums of grade 1 in the employees' salary structures at St. Louis and Louisville and of the first three grades in the Little Rock and Memphis structures, effective September 1, 1961.	4
Letter to the Federal Reserve Bank of Atlanta authorizing the preparation of final plans and specifications for the proposed New Orleans Branch building.	5

In connection with Item No. 2, it was noted that in 1959 the
Board rescinded a condition of membership imposed upon The Michigan Bank

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which had provided that none of its stock should be held or owned, directly or indirectly, by the employees' "profit sharing retirement trust". At the time the condition was rescinded, the Board understood from the bank that none of the preferred stock and not more than 10 per cent of the common would be acquired by the bank's profit-sharing trust and that no stock of either class would be acquired by the bank's retirement trust. The recently completed examination of the bank by the Office of the Comptroller of the Currency, made in connection with the application for conversion to national bank status, showed that the profit-sharing trust held 5.4 per cent and 10 per cent, respectively, of the bank's outstanding common and preferred stock. Question was raised whether the Board's understanding at the time the condition of membership was rescinded should not be brought to the attention of the Comptroller's Office by the Board's staff as a matter of information, and it was agreed that this would be done.

Messrs. Dembitz, Goodman, Benner, and Sprecher then withdrew from the meeting.

Revision of Form FR 416a (Item No. 6). There had been distributed to the members of the Board a joint memorandum from the Divisions of Bank Operations and Research and Statistics dated July 20, 1961, regarding the review that had been made by a System technical group of the weekly reporting series covering changes in commercial and industrial loans by industry (Form FR 416a). The group had recommended continuation of the

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series but suggested a number of revisions to increase the usefulness of the data. These recommendations had been discussed at joint meetings of the System Research Advisory Committee and the Presidents' Conference Subcommittee on Research and Statistics, and the consensus of those committees was set forth in a memorandum proposed to be sent to the Presidents of all Federal Reserve Banks with an appropriate transmittal letter. It was anticipated that the new form, if approved by the Board and cleared by the Budget Bureau, would be used by the reporting banks beginning with the last Wednesday of September 1961.

Following comments by Mr. Koch on the value of data of this kind, the nature of the proposed changes, and the improved usefulness of the data resulting therefrom, Governor Mills recalled the objections raised by reporting banks when the series was initiated in connection with the Voluntary Credit Restraint Program and inquired whether the additional reporting burden that would be created by the proposed changes might not result in further objections. The comments made in response by members of the staff were to the effect that the proposed revision admittedly would mean more work for the reporting banks. It was noted, however, that the 200 reporting banks were large institutions and that those with automated accounting systems, particularly, should be able to supply the requested information with less difficulty than other banks. The changes were believed to be needed if the series was to be continued, and it was expected that the reporting banks would themselves find the data helpful.

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Question was raised regarding the extent, if any, to which the reporting banks had been contacted, and it was indicated that members of the System technical group may have communicated with some of the reporting banks in their respective areas. It was also stated that the proposed revision had been transmitted informally to the Bureau of the Budget and that the Bureau's banking advisory committee on reports no doubt would be consulted if, in fact, it had not already been notified.

After further discussion, the recommendations of the System Research Advisory Committee and the Presidents' Conference Subcommittee on Research and Statistics were approved, together with the letter to the Presidents of all Federal Reserve Banks of which a copy is attached as Item No. 6. It was understood that the necessary steps would be taken to have the revised form approved by the Budget Bureau.

Messrs. Conkling, Daniels, and Collier then withdrew from the meeting.

Proposed amendments to Regulation Q regarding savings deposits.

There had been distributed to the Board copies of a memorandum from the Legal Division dated July 21, 1961, discussing proposed amendments to Regulation Q, Payment of Interest on Deposits. The memorandum pointed out that on June 14, 1961, there had been sent to the Federal Reserve Banks, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency a draft of proposed amendments to the Regulation designed to prevent the misuse of savings deposits and, at the same time, to

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liberalize the Regulation to permit loans on nonpassbook savings accounts. As indicated in a summary of Reserve Bank comments attached to the July 21 memorandum, the Banks were generally favorable to the proposed amendments. The staff of the Federal Deposit Insurance Corporation likewise was favorable, and the staff of the Comptroller's Office indicated no objection. Also, the Reserve Banks agreed that no amendment was necessary at this time to meet problems arising from computation of interest on savings deposits on a daily basis. The Corporation's staff had been unable to devise an amendment to the Corporation's regulations that would meet such problems without imposing operating hardships on the large majority of banks.

The Legal Division's memorandum discussed various suggestions that had been received from the Reserve Banks, some of which had been incorporated in the proposed revision of section 217.1(e) of Regulation Q now submitted for the Board's consideration. It was pointed out in the memorandum that the most difficult problem involved was that of drafting a provision that would effectively prohibit the so-called "Chicago practice" without precluding the long-accepted practice under which occasional overdrafts may be covered by transfers from a savings deposit to a checking account. The proposed subsection 217.1(e)(3) was set forth as follows:

No withdrawal shall be permitted by a member bank to be made from a savings deposit received after (effective date) through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same

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depositor if such payment or transfer is made pursuant to any agreement, written or oral, (i) which authorizes such payments or transfers of credit to be made as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank, or (ii) which provides that such payments or transfers of credit shall be made at daily, monthly, or other such periodic intervals, except where made to enable the bank, on the depositor's behalf and pursuant to his written instructions, to effect the payment of taxes, insurance premiums, or installments of principal, interest, or other charges due on an indebtedness of the depositor.

Such a provision, it was felt, might well present interpretative problems in many cases and might be construed differently by different bank examiners and different Federal Reserve Banks. An alternative would be a provision that would prohibit more than 10 withdrawals from a savings account in a calendar year, except for withdrawals by the depositor himself, withdrawals on presentation of a passbook, transfers to enable member banks to pay taxes, insurance premiums, or installments due on a mortgage, and emergency or "hardship case" withdrawals. However, the Federal Deposit Insurance Corporation and all but one of the Reserve Banks had opposed the alternative provision, principally on the ground that it would be "arbitrary".

If the Board should approve the suggested amendments, it was proposed that they be published in the Federal Register for comment, simultaneously with similar proposed amendments to the regulations of the Federal Deposit Insurance Corporation. A corresponding amendment to Regulation D, Reserves of Member Banks, relating to the definition of the term "savings deposit" also would be in order.

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At the Board's request, Mr. Hackley reviewed the objectives of the proposed amendments, the suggestions received from the Federal Reserve Banks, the changes made in the draft amendments in the light of some of those suggestions, and the nature of the problem presented by the so-called "Chicago practice", along with the arguments for and against the proposed and the alternate possibilities for dealing with that type of practice.

The members of the Board then commented, beginning with Governor Mills, who expressed the view that the proposed amendments appeared to have been carefully and ably devised and that they should be published in the Federal Register. He would not favor the alternative proposal for dealing with the so-called "Chicago practice". Governor Mills then raised certain questions with respect to the liberalizing provisions that would permit a bank to make withdrawals, on the depositor's behalf and pursuant to his written instructions, to effect the payment not only of principal and interest on mortgages (permitted by a Board ruling in 1936) but also items such as insurance premiums. He suggested that the proposed liberalization might not be well received by the banks and that it might be desirable to consult with the appropriate division of the American Bankers Association.

In this connection, Mr. Hackley pointed out that the publication of the proposed amendments in the Federal Register for comment would cause them to receive consideration by the Association.

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Governor Robertson stated that he would agree with all parts of the proposed amendments, except that he would prefer the alternative approach to dealing with the "Chicago practice". Without it, he could see no way of dealing effectively with the problem, and the practice, if not precluded, might spread and create difficulty in distinguishing between savings and demand deposits. He did not think that the alternative approach was arbitrary or that it would impose unreasonable limitations on withdrawals from a savings account.

Governor Shepardson, after directing several questions to the staff for the purpose of clarification of certain parts of the proposed amendments, indicated that he felt steps must be taken to deal with the problems that had resulted in the present proposal and that he would have some sympathy with the alternative approach to the "Chicago practice". However, in view of the adverse reaction of the Federal Deposit Insurance Corporation and all but one of the Reserve Banks, he would not be inclined to insist on the use of the alternative.

Governor King indicated that he would favor publication of the proposed amendments, as drafted, and that he would not favor the alternative provision.

Governor Balderston said he would not favor the use of the alternative at this time, although he felt that the Board might get around to something like it eventually. He then introduced a general discussion of possible rewording of the proposed subsection 217.1(e)(3)(i)

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in the light of the problems in connection therewith that were described in the Legal Division's memorandum. As the result of this discussion, it was decided to change the subsection in such manner as to state that no withdrawal "shall be permitted by a member bank to be made from a savings deposit....through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral....".

Chairman Martin indicated that he would be agreeable to proceeding in the manner recommended by the Legal Division.

Accordingly, it having been noted that Governor Robertson would have preferred the alternative approach to the "Chicago practice", it was agreed to transmit the proposed amendments, as amended in the light of the discussion at this meeting, to the Federal Deposit Insurance Corporation with a view to arranging to publish them in the Federal Register for comment simultaneously with proposed amendments to the similar regulations of the Corporation.

Governor Robertson withdrew from the meeting at this point, as did Messrs. Thomas, Masters, Hexter, Hooff, Koch, Fuerth, and Eckert.

Continental Bank and Trust Company (Item No. 7). There had been distributed a memorandum from Mr. Hackley dated July 24, 1961, regarding a motion by Board Counsel, dated July 20, 1961, for an extension of time in which to reply to the Respondent's motion, received

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July 11, 1961, for a stay of proceedings in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah. Distributed with the memorandum was a draft of letter to Counsel for Continental stating that any comment or brief with respect to the motion of Board Counsel might be filed not later than July 31, 1961.

After discussion, the proposed letter was approved unanimously.

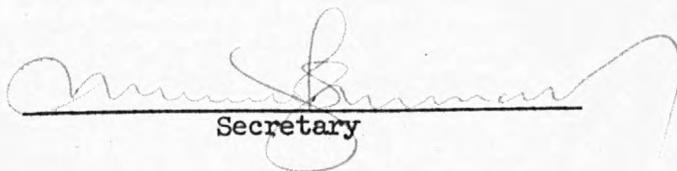
A copy is attached as Item No. 7.

The meeting then adjourned.

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

Memorandum from the Division of Research and Statistics recommending acceptance of the resignation of Kathryn K. Whistler, Research Assistant in that Division, effective at the close of business August 4, 1961.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 8) approving the designation of Jefferson A. Walker as special assistant examiner.


Secretary

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

Item No. 1
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961

The First National City Bank
of New York,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In accordance with the request contained in your letter of June 16, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors approves the relocation of your branch in Ponce, Puerto Rico, from Plaza Munoz Rivera to temporary quarters on Avenida Marti, Ponce, during reconstruction of the premises at the present site.

Please advise the Board of Governors, in writing, through the Federal Reserve Bank of New York, when the branch is opened for business in temporary quarters and when it is removed to permanent quarters, furnishing information as to the street address of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961

Board of Directors,
The Michigan Bank,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made by The Michigan Bank on behalf of Michigan Bank, National Association, Detroit, Michigan, 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 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 Michigan. 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 Michigan Bank, National Association 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 Chicago 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) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961.

Dear Sir:

Data on Federal funds transactions are now being collected by the Reserve Banks from selected commercial banks, in accordance with a letter from the Board dated July 24, 1959. That letter authorized and requested the collecting of such data for a period of two years, expiring August 31, 1961.

The Board, after obtaining comments from members of the Presidents' Conference Committee on Research and Statistics and from the Research Departments of all the Reserve Banks, has now concluded that this two-year period should be extended for another year, to August 31, 1962. Your Bank is therefore requested to continue the collecting and supplying of these data on the present basis until that date.

A main use of this material will be as a basis for study of the structure and general characteristics of the Federal funds market, which seems important to our knowledge of the working of this country's financial system. Study of the data that have been collected is under way. While the two years of reports have included periods of restraint, falling money rates, and monetary ease, no period of rising rates has been covered; and continuation of the series for a third year, which may include such a period, should add to its value. The Board hopes to receive, in time for ample discussion before August 1962, recommendations as to whether reports on Federal funds transactions should be continued after that time and, if continued, on what basis.

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. 4
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961

CONFIDENTIAL (FR)

Mr. Delos C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

The Board of Governors approves the revisions in the minimums of Grade 1 in the employees' structures at St. Louis and Louisville and of the first three grades in the Little Rock and Memphis structures, effective September 1, 1961, in accordance with the action taken by the Board of Directors, as reported in your letter of July 13.

The Board's records are being amended to reflect these changes in the grade ranges as follows:

	<u>Grade</u>	<u>Minimum</u>	<u>Maximum</u>
St. Louis	1	\$2,400	\$3,060
Louisville	1	2,400	2,880
Little Rock and Memphis	1	2,400	2,820
	2	2,460	2,940
	3	2,520	3,180

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961



Mr. Harold T. Patterson,
First Vice President and
General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Patterson:

This refers to your letter of February 9, 1961, in which authorization is requested to proceed with the preparation of final plans and specifications for the proposed new building at New Orleans.

The Board authorizes your Bank to proceed with the preparation of final plans and specifications for the New Orleans Branch building in accordance with the preliminary plans and specifications submitted with your letter, together with the additional material subsequently submitted.

It is understood that bids will not be called for until legislation is obtained which would permit the expenditure of the amounts estimated for the cost of the building "exclusive of the vaults, permanent equipment, furnishings, and fixtures."

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961.

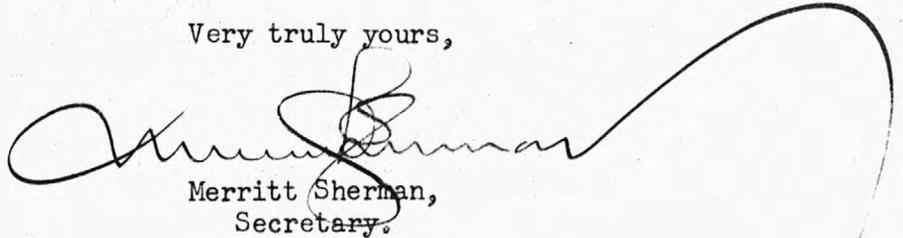
Dear Sir:

The Board has approved the recommendations of the System Research Advisory Committee and the Subcommittee of the Presidents' Conference Committee on Research and Statistics for the revision of Form FR 416a, Changes in Commercial and Industrial Loans by Industry. Copies of the revised form are attached. The Budget Bureau Number of the revised form will be telegraphed when received.

Enclosed is a memorandum setting forth the changes in the Form and the reasons for the revisions.

All reporting banks in the present 416a series should be asked to report on both the old and new bases for the week ending Wednesday, September 27, 1961, and on the new basis thereafter.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 7
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961

Barron K. Grier, Esq.,
Miller & Chevalier,
1001 Connecticut Avenue, N. W.,
Washington 6, D. C.

Dear Mr. Grier:

In the matter pending before the Board of Governors involving The Continental Bank and Trust Company, Salt Lake City, Utah, the Board received on July 20, 1961, a motion by Counsel for the Board for an extension of time in which to reply to Respondent's motion for a stay of proceedings. It is understood that a copy of the motion for extension of time filed by Board Counsel was mailed to you on July 20, 1961.

Any comment or brief which you may wish to submit to the Board with respect to the motion filed by Board Counsel will be considered by the Board if received not later than July 31, 1961, after which both Respondent's motion for a stay of proceedings and Board Counsel's motion for an extension of time in which to respond to Respondent's motion will be given consideration by the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Messrs. Powell, O'Connell, Chase

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

Item No. 8
7/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1961

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of July 21, 1961, the Board approves the designation of Jefferson A. Walker as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks only.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

