

Minutes for July 26, 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

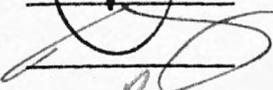
Gov. Mills

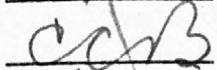
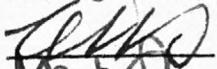
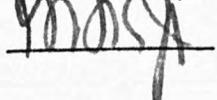
Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, July 26, 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. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary

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

	<u>Item No.</u>
Letter to Union Bank and Trust Company, Ottumwa, Iowa, approving an extension of time to establish a branch in Agency, Iowa.	1
Letter to the Federal Reserve Bank of Richmond approving revisions in the minimum of Grade 1 in the employees' salary structures at Richmond and Charlotte effective August 25, 1961, and at Baltimore effective August 21, 1961.	2
Letter to the Federal Reserve Bank of St. Louis authorizing it to waive the assessment of a penalty incurred by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, because of a deficiency in its required reserves.	3

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It was noted, with respect to Item No. 3, that the penalty incurred by Citizens Fidelity Bank and Trust Company was sizable. However, the deficiency involved was not large in percentage relationship to the bank's total required reserves. The deficiency resulted from an inadvertent error by the bank in calculating its estimated reserve needs for the computation period ending July 5, 1961, and the bank had not been assessed a penalty for deficient reserves in the past ten years.

Application by United California Bank (Item No. 4). There had been circulated under date of July 12, 1961, a file pertaining to an application by United California Bank, Los Angeles, California, for permission to establish an in-town branch in the proposed Century City Development on Santa Monica Boulevard. Included in the file was a draft of letter to United California Bank approving the application and providing a period of two years within which to establish the branch.

In reply to a question, it was pointed out that the Comptroller of the Currency had approved applications by four national banks for branches in various parts of the Century City Development that could not be established for as long as 18 to 24 months after the quarters for the applicant's proposed branch became available. Hence, it would seem difficult to advise the State member bank that its application was premature.

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Governor Robertson remarked that in the circumstances surrounding the application he would be willing to vote to approve the branch and provide a period of two years for its establishment. He noted, however, that the applicant bank would enjoy a competitive advantage, in terms of being able to begin branch operations at an earlier date than other banks, because the developer of the project was a customer of the bank. In this connection, he referred to the need to expedite the study of the branch banking situation in California now being undertaken by the staff, with a view to attempting then to formulate a procedure for handling applications that would be followed by all of the bank supervisory agencies concerned.

Mr. Solomon said it was hoped that the results of this survey would be available to the Board in the near future. He then summarized briefly the general nature of some of the findings revealed by the survey. With respect to the question of branch applications associated with the development of shopping centers and similar projects, he pointed out that the nature of such projects required long-range advance lease commitments. These were, of course, under the control of the developers, and as a result it was often difficult for other groups to get into the development. This tended in many cases to afford preferential treatment to a particular bank, but the solution was not apparent.

The letter to United California Bank was then approved unanimously.

A copy is attached as Item No. 4.

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Absorption of exchange charges (Items 5 and 6). Copies of a memorandum from Mr. Conkling dated July 17, 1961, had been distributed submitting a summary of additional views on the absorption of exchange charges that had been submitted by banks and bankers associations, as requested in the Board's letter to the Reserve Banks of April 5, 1961, which discussed the survey previously conducted. Attached to the memorandum were drafts of letters to the Comptroller of the Currency and to the Federal Deposit Insurance Corporation that would transmit the summary memorandum and suggest further discussion of the subject at a meeting similar to the joint meeting held at the Board's offices on November 1, 1960; also submitted was a draft of letter that would transmit the memorandum to the Federal Reserve Banks.

The summary of Mr. Conkling's memorandum was as follows:

1. The replies to the Board's letter of April 5, 1961, did not provide a solution to the problem.
2. The rules suggested by the responses from banks and bankers associations were as mixed as those suggested previously by the Reserve Banks.
3. At that time, seven Reserve Banks favored retention of the \$2 rule, either alone or in combination with another rule. The dollar-amount-of-the-check rule was second choice.
4. Survey statistics apparently had not changed the vote of any Reserve Bank; in most instances the association representatives and participating bankers agreed with the votes of their Reserve Banks; their votes for the \$2 rule and the face-amount rule were fairly close.

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5. The next step would seem to be to ascertain whether, through interpretation of the present law or Congressional action, united action on the part of the three Federal bank supervisory agencies on the handling of nonpar items could be adopted.

If the status quo among the Federal bank supervisory agencies on the nonpar problem continued, as seemed likely, the possibilities were:

- (1) Reimposition of the August 1960 ruling of the Board prohibiting the absorption of exchange charges by member banks.
- (2) Adoption of the FDIC position that the absorption of exchange charges does not represent the payment of interest.
- (3) Making permanent the \$2 rule alone.
- (4) Making the \$2 rule permanent; and, to reduce handling costs, combine with it the permissive absorption of exchange on items of \$25 (or even \$50) or less, or on items with exchange charges of less than 5 cents, whichever option might be selected by the individual bank.

In discussing the situation, Mr. Conkling stressed that much would appear to depend on the possibility of any change in the attitude of the Federal Deposit Insurance Corporation. If the status quo continued, he doubted whether any of the four possible courses of action mentioned in his memorandum would represent a satisfactory solution. If the August 1960 ruling were reimposed by the Board, the member banks were going to feel that they had been let down; also the ruling might be found unenforceable. If the Board were to adopt the position of the Federal Deposit Insurance Corporation, the member banks again would feel

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that they had been let down; they wanted a tent of protection. Thus, although reimposition of the August 1960 ruling or adoption of the FDIC position might be more logical and defensible than the other possible courses of action, either would be unpopular. As to the remaining possibilities, many banks apparently would be fairly well satisfied if the \$2 rule were made permanent, but the banks also would like something in addition. This, however, presented a question as to what cost figures could be used with any degree of justification. Also, while a combination of the \$2 rule and something else apparently would be a popular choice, any such rule would present a difficult problem of enforcement for bank examiners. In the circumstances, all that was being suggested at this time was to send the current summary memorandum to the Comptroller of the Currency and the Federal Deposit Insurance Corporation, with the suggestion that another joint meeting of the three bank supervisory agencies be held.

Governor Robertson expressed the view that the only really justifiable alternatives would be to revert to the August 1960 ruling or adopt the position of the Federal Deposit Insurance Corporation, with the choice depending on whether the Corporation was willing to change its position. If it was not, then he would be inclined to feel that the Board should reverse its own position and open the doors to the absorption of exchange charges. He would not want to continue to be in the position simply of providing protection to member banks by permitting

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them to do whatever they would like to do. Therefore, he would favor holding another meeting with the other two bank supervisory agencies and then coming to some conclusion.

At the request of Governor Balderston, Mr. Conkling commented at this point on the possibility mentioned in his memorandum that further consideration might be given to permitting the absorption of exchange only on items deposited by others than banks. Mr. Conkling pointed out that such a plan would appear to be workable only if the three Federal bank supervisory agencies adopted a united front. It was noted that the transmittal of the memorandum would bring this possibility to the attention of the Federal Deposit Insurance Corporation.

Governor Mills indicated that he would favor the idea of sending copies of the memorandum to the other Federal bank supervisory agencies and holding another interagency conference. It was his opinion, however, that the Board should be cautious about any thought of permitting the absorption of exchange charges by member banks. First, as the Board had arrived at the conclusion that the absorption of such charges was tantamount to the payment of interest, it would be abandoning a tangible moral principle. Further, the Board should look carefully at the position of the member banks and the exposure with which they would be confronted; the cost of absorbing exchange charges would represent a heavy expense to them. Another result could be losses in the number of par banks, and beyond that a broader principle was involved; namely,

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that the charging of exchange is an anomalous position for a bank to take. In his opinion, the question of education, instruction, or legislation to bring banks to a par basis should be pursued. Legislation of this kind, he noted, had already been enacted in a number of States. Leaving all such considerations aside, however, since the Commission on Money and Credit in its recent report had recommended compulsory membership in the Federal Reserve System, and since the Congress had indicated that it was going to examine that report, he suggested that the Board might be well advised to go slow for the time being and watch developments.

Governor Mills also suggested that in sending Mr. Conkling's memorandum to the Federal Reserve Banks it might be well to invite the Reserve Banks to make any further comments on the subject if they so desired, and there was agreement with this suggestion.

Governor Shepardson expressed the view that it was time to come to some conclusion on the broad subject of which the absorption of exchange charges was one aspect. If the Federal Deposit Insurance Corporation should be willing to change its position, that might serve the purpose so far as the problem of absorption of exchange charges was concerned. If the Corporation was not willing to change, however, then he would suggest that consideration be given to going to the Congress for remedial legislation on the whole problem of nonpar banking and indirect payments of interest on deposits. It might be, he added, that the question of timing presented by Governor Mills was a valid point

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and that, since the problem of nonpar banking had gone on so long, there was some reason for letting it drag a little longer. Basically, however, he felt that the Board must face up to the fact that nonpar banking was inexcusable and unjustifiable, and that remedial legislation was indicated. He would favor the idea of another meeting of the bank supervisory agencies in a last effort to bring about some reconciliation of views, but he was not too hopeful about the outcome and felt the Board should be making plans for the submission of appropriate legislation.

Governor King indicated that he agreed with the proposal to hold another interagency conference, and Governor Balderston likewise expressed agreement.

With reference to the comments of Governor Shepardson, Mr. Hackley referred to legislative proposals that had been drafted in 1956 in connection with the Board's recommendations preliminary to the introduction of the Financial Institutions Act and expressed doubt whether the staff could improve on those drafts.

There followed discussion of the sufficiency of such legislation to meet fully the points covered by Governor Shepardson and the likelihood, which was questioned, of obtaining legislation that would deal completely with the problem of nonpar banking. At the conclusion of the discussion, it was agreed unanimously to transmit copies of the memorandum prepared by Mr. Conkling to the Federal Reserve Banks, with an invitation to them to submit any further comments they might desire,

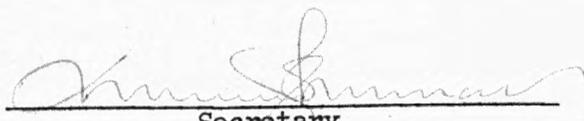
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and to the Comptroller of the Currency and the Federal Deposit Insurance Corporation, with the suggestion that another meeting of the three bank supervisory authorities be arranged after the material had been studied.

A copy of the letter sent to the Federal Reserve Banks is attached as Item No. 5, and a copy of the letter sent to the Federal Deposit Insurance Corporation is attached as Item No. 6. The letter sent to the Comptroller of the Currency was similar to that sent to the Corporation.

The meeting then adjourned.


Secretary

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

Item No. 1
7/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1961

Board of Directors,
Union Bank and Trust Company,
Ottumwa, Iowa.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System extends the time within which Union Bank and Trust Company may establish a branch in Agency, Iowa, to September 1, 1961, under the authorization contained in the Board's letter of October 24, 1960.

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
7/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1961

CONFIDENTIAL (FR)

Mr. Edward A. Wayne,
President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Wayne:

The Board of Governors approves the revision in the minimum of Grade 1 in the employees' salary structures at the three offices of the Richmond District, effective August 25 at Richmond and Charlotte and August 21 at Baltimore, in accordance with the action taken by the Board of Directors, as reported in your letter of July 17.

The Board's records are being amended to reflect this change in the Grade 1 ranges as follows:

<u>Richmond - Charlotte</u>		<u>Baltimore</u>	
<u>Minimum</u>	<u>Maximum</u>	<u>Minimum</u>	<u>Maximum</u>
\$2,392	\$2,880	\$2,392	\$3,198

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
7/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1961

Mr. Joseph C. Wotawa, Vice President,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis 66, Missouri.

Dear Mr. Wotawa:

This refers to your letter of July 13, and Mr. Johns' letter of July 14, 1961, regarding the penalty of \$1,444.01 incurred by the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, on a deficiency in its required reserves for the computation period ending July 5, 1961.

It is noted that the deficiency resulted from an error by the member bank in calculating its anticipated reserve position; that in compiling the figures used for estimating its reserve needs, the member bank inadvertently used the reserve balance of June 29, 1961, instead of that of July 3 which resulted in its deficiency in its reserve account; and that the subject bank has had no deficient reserve penalties in ten years.

In view of your recommendation and in recognition of the member bank's previous record in maintaining its reserves, the Board authorizes your Bank to waive the assessment of the penalty of \$1,444.01 for the period ended July 5, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
7/26/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1961

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of an in-town branch in the Century City Development on Santa Monica Boulevard between Heath and Fox Hills Drives, by United California Bank, provided the branch is established within two years from the date of this letter.

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. 5
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

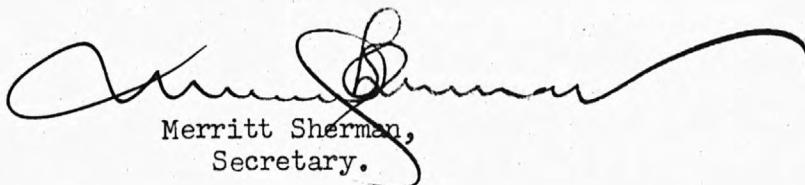
July 26, 1961.

Dear Sir:

Enclosed are copies of a memorandum dated July 18, 1961, summarizing the responses to the Board's letter of April 5, 1961 on the survey of nonpar items. The Board will be glad to have any further comments you may care to make regarding this subject.

The Board is submitting copies of this memorandum to the office of the Comptroller of the Currency and to the Federal Deposit Insurance Corporation, and suggesting further joint consideration of the nonpar problem. You will be kept advised of any developments in this connection.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
7/26/61

OFFICE OF THE CHAIRMAN

July 26, 1961.



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

Dear Mr. Cocke:

This refers to the Board's letter of April 5, 1961, and the accompanying memoranda summarizing the results of the nonpar survey made last November.

The attached memorandum, dated July 18, 1961, sets forth the views with respect to the nonpar problem and its solution which were received in response to letters to the Reserve Banks and the bankers' associations that cooperated in this survey.

After the memorandum has received consideration in your Corporation, the Board would like to arrange a joint meeting on the subject similar to the one held here on November 1, 1960, prior to the November survey.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure