Minutes for August 23, 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, August 23, 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. King

Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant 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. Fuerth, Legal Assistant
Mr. Harris, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on August 21, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Application of Home Banking Company (Item No. 1). There had been distributed under date of August 14, 1961, a memorandum from the Division of Examinations recommending, as had the Federal Reserve Bank of Cleveland, approval of the proposed consolidation of The Gibsonburg Banking Company with The Home Banking Company, both of Gibsonburg, Ohio. The Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice each had expressed the view that the proposed consolidation would not have any significantly adverse effect on competition.

On the basis of a suggestion by Governor Mills, Mr. Solomon stated that it was proposed to change the August 14 memorandum so that the basis for approval would read as follows:

> While the proposed consolidation of The Gibsonburg Banking Company with The Home Banking Company would eliminate one of Gibsonburg's two banks, in view of the smaller bank's relative unimportance as a competitor, a local lessening of competition would not be significant, nor should the enhanced competitive ability of the merged bank be adverse to the banks situated in the immediate trade area. The continuing bank would be able to compete more effectively with the larger banks in Fremont and its customers would have a larger source of credit at their disposal.
>
> The applicant has capable management and offers fairly broad banking services as contrasted to the more limited services of the consolidating bank, which also is handicapped by a current management succession problem.

There was agreement with the suggested revision, and the application of The Home Banking Company was then approved unanimously. A copy of the letter sent to the applicant bank pursuant to this action is attached as Item No. 1.

Mr. Harris then withdrew from the meeting.

Payment of interest on deposits (Item No. 2). A memorandum from the Legal Division dated August 21, 1961, had been distributed with reference to an inquiry from Osage Valley Bank, Warsaw, Missouri, transmitted through the Federal Reserve Bank of St. Louis. The member bank inquired, in effect, (1) whether a member bank must pay the same rate of interest on all savings and time deposits, (2) whether it could require savings depositors "to keep a certain amount on checking account in order to get the 3 per cent rate" (rather than

some lesser rate), and (3) whether it could pay a higher rate on savings deposits of less than $5,000 than the rate paid on greater amounts.

It seemed reasonably clear to the Legal Division that the first question should be answered in the negative and the third in the affirmative. There was some difference of opinion, however, on the second question.

As pointed out in the August 21 memorandum, the law and Regulation Q, Payment of Interest on Deposits, do not prevent a member bank from paying different rates of interest on time and savings deposits of different depositors, provided the rate does not exceed the maximum prescribed by the Board. Also, it might be considered reasonable for a bank to pay a higher rate on deposits of a "good customer" than that paid on deposits of other customers, a "good customer" being one who frequently utilizes the bank's services, such as borrowing facilities, trust department, safe deposit boxes, etc. On the other hand, if a higher rate should be paid on condition that the savings depositor maintain a "certain amount" in a checking account with the bank it would appear, in the opinion of a majority of the Legal Division, that such added interest was actually being paid as "compensation" for the use of funds constituting the demand deposit rather than the savings deposit, even though the added rate was computed on the basis of the amount maintained in the savings deposit. This was also the opinion of Counsel for the Federal Reserve Bank of St. Louis. Attached to the memorandum was a draft of letter to the Federal Reserve Bank of St. Louis that would reflect this view.

Mr. Hackley commented on the questions raised by Osage Valley Bank, as outlined in the August 21 memorandum, and supported the view that the payment of a higher rate of interest to a depositor solely on the basis of the maintenance of a prescribed demand deposit balance would constitute compensation for the use of funds payable on demand.

Mr. Hooff, who represented the minority position within the Legal Division, expressed the view that since a bank may pay higher rates of interest to "good customers" and since the interest would be computed on the basis of the amount in the savings deposit, the payment of the higher rate should not be considered an indirect payment of interest on the depositor's checking account. He commented that a number of different factors could enter into the determination of a "good customer" status, one of which might be the fact that a customer maintained a demand deposit in the bank, and that the position taken in the proposed reply could easily be circumvented.

Governor Mills commented that this appeared to be an isolated sort of question that probably would not recur. It was his feeling that the position expressed in the proposed reply was the correct one. He noted, by way of comparison, that the Board had ruled, in cases where minor inducements were offered on a one-time basis to attract savings deposits, that the practice did not constitute a payment of interest. In the instant case, however, the bank proposed to offer consideration in the way of a

higher rate of interest to persons maintaining a demand deposit of some prescribed amount, which would constitute a continuing requirement.

Governor Robertson expressed doubt that the position taken in the proposed letter could be enforced. There was no question, he pointed out, of violating the maximum interest rate limitation prescribed by the Board; instead, the bank apparently was anxious to compete with other banks for checking accounts. If it merely required depositors to maintain a checking account, he felt that little could be done about the matter. Many banks, he noted, require depositors to maintain minimum balances in demand accounts, and those banks also usually carry savings accounts. Therefore, various practices could be followed simply on the basis of understandings, and he doubted whether an attempt to prohibit such understandings could be enforced. In short, he felt that little ill effect could result from permitting a bank to require a depositor to maintain a certain demand balance in order to be eligible for a higher rate of interest on a savings deposit, whereas he felt that harm could come from the making of rulings that could not be enforced. If the ceiling rate of interest was not violated, he would not be inclined to object.

Mr. Hackley commented that the point was admittedly a technical one. He pointed out that Regulation Q defines interest as compensation for the use of funds constituting a deposit. As a legal matter, the conclusion seemed inescapable that interest would be paid for holding a certain amount of funds on demand. However, he agreed with Governor Robertson that enforcement of such a matter might be difficult.

Governor Mills indicated that he did not have the same concern as Governor Robertson with respect to the enforcement problem. He noted that banks tend to pay a rate of interest, within the ceiling, that is found acceptable. If two customers of a bank had the same amount in a savings deposit, he thought it would be rare for the bank to pay one depositor a higher rate of interest simply because he maintained a checking account. If such a procedure were followed, banks would be likely to get into trouble with their customers.

Governor King said that in general principle he was inclined to agree with the feeling of Governor Robertson against pursuing matters that could not be enforced. If this question seemed likely to recur or to lead to extensive debate, then he might be inclined to go along with Governor Robertson's view. In this case, however, he felt it was likely that the matter soon would be forgotten if the proposed letter was sent, and therefore he would follow that course.

There ensued a discussion as to possible alternative replies that could be made, during which Mr. Hackley commented that in line with the general practice of achieving as much uniformity of interpretation as possible this question had been discussed with the staff of the Federal Deposit Insurance Corporation. In this instance, he said, it was the view of the Corporation's staff that an indirect payment of interest on demand deposits would be involved.

Question was raised again with respect to the matter of enforcement, and in this respect Mr. Solomon said that quite possibly a position such as suggested by the majority of the Legal Division would be difficult to enforce. At the same time, he was somewhat concerned about the implications of a different ruling and where such a ruling might lead in terms of precedent. If the Board were to start saying that it would close its eyes to all the surrounding circumstances and look only at the question of the maximum rate of interest permissible under Regulation Q, that would almost invite member banks to maintain that they were paying a certain rate on savings accounts for reasons other than the use of demand balances, although it might be quite clear that the rate of interest represented compensation for the use of such funds.

Mr. Hackley expressed agreement with the view stated by Mr. Solomon. Counsel for the St. Louis Reserve Bank and attorneys for the Federal Deposit Insurance Corporation had both expressed the opinion, he noted, that a ruling which held that the payment of a higher rate of interest, in the circumstances described in the incoming letter, would not constitute an indirect payment of interest on demand deposits would be inconsistent, as a legal matter, with the definition of interest contained in Regulation Q. If the Board were to publish such a ruling, he felt that it might give rise to questions of interpretation in the future.

In this connection, Governor Mills suggested that if the question were answered in the manner suggested by Mr. Hackley, there would seem to

be no necessity for the publication of a ruling by the Board. If such a reply were made, he felt that in all probability the question would not be raised again.

Governor Balderston commented that Governor Mills might be right and that the sending of the proposed letter would settle the matter. However, if a savings depositor agreed to keep some of his money in a checking account, that would mean a reduction in the effective rate of interest paid on his funds rather than a violation of the maximum prescribed rate on savings accounts. If the situation were turned around, he could understand better the concern of the Legal Division. Perhaps, he suggested, the question was primarily whether the Board thought it desirable to try to stop an advertised plan or program offering a higher rate of interest on the basis of maintenance of a certain demand balance.

Following a discussion bearing upon whether there would be cause for the Board to attempt to prohibit the advertising of such a plan, during which mixed views were expressed, Governor Balderston stated his concurrence in the view, previously expressed, that the Board should not set up rules that it could not enforce. In this instance, he doubted that effective enforcement would be possible. Therefore, he was inclined to subscribe to the position advanced by Governor Robertson.

Chairman Martin raised the question whether there was not danger in the point of view that the Board should not rule against various practices simply because of doubt as to whether its rulings would be enforceable. He

then presented for further consideration the question whether it would be desirable, from the standpoint of banking practice in general, if the way were left open for banks to proceed along the lines suggested by the question in the incoming letter.

Governor Robertson reiterated that he could see nothing harmful about using savings accounts as a device for obtaining other kinds of business as long as the ceiling rate on savings deposits was not violated. Governor Balderston commented that the legislation underlying Regulation Q was aimed at preventing banks from lending and investing unsoundly. The question, as he saw it, was whether the attracting of demand deposits in the manner contemplated would lead to the evils that the law had sought to prevent; that is, whether banks would be paying out interest they could not afford in order to obtain demand deposits. Governor King suggested that the tying of a rate of interest on savings accounts to a requirement for the maintenance of a certain demand balance could react detrimentally to the banking profession from the public relations standpoint, in which connection Governor Robertson raised the question whether it was the responsibility of the Board to try to protect the banks from that kind of public reaction.

Mr. Hackley commented that it should be borne in mind that the law, whether one agreed with it or not, was still on the statute books and that it prohibited member banks from paying interest on demand deposits, directly or indirectly, by any device whatsoever. If the practice contemplated by the

inquiry were followed generally, he felt it would, as a legal matter, clearly be a practice by which banks would be paying interest indirectly on demand deposits in order to attract checking accounts.

Chairman Martin then commented that clearly the law and Regulation Q were designed to promote better banking. He was not sure whether they did or not; in fact, he was rather persuaded in his own mind that the repeal of the Regulation in entirety might be advisable. However, he could not help but feel that it would be undesirable if banks generally began advertising a rate on savings deposits in relation to demand balances. Accordingly, he came out on the side of the Legal Division represented by Mr. Hackley.

Thereupon, the views of Governors Robertson and Balderston having been noted, the proposed letter to the Federal Reserve Bank of St. Louis was approved. A copy of the letter, as transmitted, is attached as Item No. 2.

Mr. Conkling then withdrew from the meeting.

Petition by Northwest Bancorporation (Item No. 3). Mr. Hackley reported that there had been received at the Board's offices yesterday a petition filed by Northwest Bancorporation, Minneapolis, Minnesota, requesting that (1) the Board's order of August 8, 1961, denying Northwest's application for permission to acquire shares of the proposed Roseville Northwestern National Bank be reconsidered, (2) Northwest be given an opportunity for oral argument before the Board, and (3) the

Board's order be set aside pending reconsideration of the application. The order had stated in effect that, because of a tie vote within the Board, the application had not obtained the approval required by statute and therefore was denied. The petition for reconsideration argued that the order was not actually a decision and that it denied Northwest its legal right of appeal since no reasons for denial, other than the tie vote, were given and a reviewing court would be obliged to remand the matter to the Board for decision.

Mr. Hackley further stated that the Legal Division had been planning to submit a memorandum to the Board recommending that the petition for reconsideration be granted. He also said that if an opportunity for oral argument should be granted, it was the view of the Legal Division that certain parties who had testified at the hearing before the Hearing Officer in opposition to the granting of the application should be advised of the oral argument and given the privilege of appearing and presenting statements if they so desired.

There was general agreement on the part of the members of the Board that the request for oral argument should be granted. Question was raised from the standpoint of timing, and there was concurrence in the view that no more than a quorum of the Board need be present, it being pointed out that a transcript of the oral argument would be available to the other members of the Board for study. Accordingly, the Legal Division was requested to determine from Counsel for Northwest Bancorporation whether

some date during the week of August 28 would be satisfactory for the holding of oral argument, with the understanding that, if so, the appropriate steps would be taken. It was understood also that the parties who had appeared in opposition to the application would be notified and afforded an opportunity to present statements if they so desired.

Secretary's Note: It was subsequently ascertained by the Legal Division from Counsel for Northwest Bancorporation that oral argument could conveniently be presented before the Board on Friday, September 1, 1961. Accordingly, an order in the form attached as Item No. 3 was issued.

Application of Manufacturers Trust Company. Mr. Molony noted that reference had appeared in one publication to the fact that an oral presentation before the Board was scheduled to be held on September 6, 1961, in connection with the proposed merger of Manufacturers Trust Company and The Hanover Bank, both of New York City. He raised the question whether, since this article had appeared, there would be any objection to advising other members of the press of the fact that this private proceeding was to be held on the date indicated, and no objection was indicated.

The meeting then adjourned.

Secretary's Notes: Acting in the absence of Governor Shepardson, Governor Balderston approved on behalf of the Board on August 22, 1961, a letter to the Federal Reserve Bank of Richmond (attached Item No. 4) approving the appointment of Earl M. Harvey as assistant examiner.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston also approved on behalf of the Board on August 22, 1961, the following actions relating to the Board's staff:

Salary increase

Wendell E. Thorne, Assistant to the Director, Division of International Finance, from $13,770 to $14,030 per annum, effective September 3, 1961.

Acceptance of resignations

Donald P. Tucker, Research Assistant (Summer), Division of Research and Statistics, effective at the close of business September 8, 1961.

Carl W. Sims, Messenger, Division of Administrative Services, effective at the close of business September 8, 1961.

Kenneth A. Kenyon
Assistant Secretary

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

Item No. 1
8/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 23, 1961

Board of Directors,
The Home Banking Company,
Gibsonburg, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the factors set forth in section 18(c) of the Federal Deposit Insurance Act, hereby consents to the consolidation of The Gibsonburg Banking Company, Gibsonburg, Ohio, with The Home Banking Company, Gibsonburg, Ohio, as it finds the transaction to be in the public interest.

This approval is given provided (1) the proposed consolidation is effected within six months from the date of this letter and substantially in accordance with the Agreement of Consolidation adopted by the boards of directors of the two banks on May 25, 1961, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months of acquisition.

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
8/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 23, 1961

Mr. Geo. E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Kroner:

This refers to your letter of August 4, 1961, enclosing a copy of a letter dated July 27, 1961, from the Osage Valley Bank, Warsaw, Missouri, raising certain questions as to payment of interest on deposits.

Neither the law nor the Board's Regulation Q prevents a member bank from paying different rates of interest on savings and time deposits to different depositors, assuming that the rate paid does not exceed the maximum rate prescribed by the Board. A member bank may properly pay a reduced rate of interest, such as 2 per cent or 2-1/2 per cent on savings deposits of more than $5,000, while paying 3 per cent on deposits of less than that amount. However, if the payment of a higher rate of interest on a savings deposit is conditioned upon the maintenance of a demand deposit in a prescribed amount, it is the opinion of the Board that such added interest would constitute a payment as compensation for the maintenance of the demand deposit as thus prescribed and would therefore constitute an indirect payment of interest on a demand deposit in violation of the law.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 3
8/23/61

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

NORTHWEST BANCORPORATION

for prior approval of acquisition of voting shares of proposed Roseville Northwestern National Bank, Roseville, Minnesota.

ORDER GRANTING PETITION
FOR RECONSIDERATION

WHEREAS, the Board of Governors on August 8, 1961, entered an Order denying the application of Northwest Bancorporation ("Northwest") pursuant to the Bank Holding Company Act of 1956 for prior approval of the acquisition of stock of Roseville Northwestern National Bank, Roseville, Minnesota, a proposed new bank;

WHEREAS, on August 22, 1961, Northwest filed with the Board a Petition for Reconsideration in this matter;

WHEREAS, in connection with such Petition, Northwest has requested that the Board direct an oral hearing and, further, that the Board set aside the Board's Order of August 8, 1961, until final determination of the matter on reconsideration;

IT IS HEREBY ORDERED, (1) that the Petition for Reconsideration is granted; (2) that oral argument in this matter will be held before the Board of Governors at its Offices in Washington, D. C. on September 1, 1961, at 10 a.m., such proceeding to be open to the public; and (3) that, pursuant to Petitioner's request, the Board's Order of August 8, 1961, is set aside pending issuance of a further order of the Board finally determining this matter.

Dated at Washington, D. C. this 23rd day of August, 1961.

By order of the Board of Governors.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

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

Item No. 4
8/23/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 23, 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 August 15, 1961, the Board approves the appointment of Earl M. Harvey as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.