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Minutes for October 20, 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

Gov. Mitchell

Handwritten initials and signatures on lines next to the names of the board members. The initials 'RM' are written in a circle above the line for Chm. Martin. The initials 'J.M.' are written above the line for Gov. Mills. The initials 'C.C.B.' are written above the line for Gov. Balderston. The initials 'S.S.' are written above the line for Gov. Shepardson. The initials 'G.K.' are written above the line for Gov. King. The initials 'M.M.' are written above the line for Gov. Mitchell.

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, October 20, 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. Mitchell

Mr. Sherman, Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, Director, Division of Research  
and Statistics  
Mr. Holland, Adviser, Division of Research  
and Statistics  
Mr. Koch, Adviser, Division of Research and  
Statistics  
Mr. Landry, Assistant to the Secretary  
Mr. Eckert, Chief, Banking Section, Division  
of Research and Statistics  
Mr. Yager, Economist, Division of Research  
and Statistics

Money market review. Mr. Yager reported on recent developments in the money market, referring in the course of his remarks to certain charts distributed beforehand. Mr. Eckert then commented on the situation with respect to bank reserves, liquidity, credit, and related matters.

At the conclusion of these reports Messrs. Young, Holland, Eckert, and Yager withdrew and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Masters, Associate Director, Division  
of Examinations  
Mr. Hostrup, Assistant Director, Division  
of Examinations

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Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Thompson, Supervisory Review Examiner, Division of Examinations  
Mr. Smith, Assistant Review Examiner, Division of Examinations  
Mr. Young, Assistant Counsel  
Mr. Smith, Legal Assistant

Report on competitive factors (Spokane and Walla Walla, Washington). There had been distributed with a memorandum from the Division of Examinations dated October 13, 1961, copies of a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Walla Walla National Bank, Walla Walla, Washington, by The Old National Bank of Spokane, Spokane, Washington.

After discussion the report was approved unanimously for transmission to the Comptroller of the Currency. The conclusion of the report read as follows:

There is very little competition between The Old National Bank of Spokane, Spokane, Washington, and Walla Walla National Bank, Walla Walla, Washington. Consummation of the proposed purchase of assets and assumption of liabilities would result in virtually no competitive changes in Spokane. Replacing the smallest bank in Walla Walla with a branch of a stronger and more aggressive banking institution should intensify competition without significantly adverse effects on the smallest remaining Walla Walla bank which is well established.

Consumer buying intentions surveys in 1962. It had been anticipated that the Board would be relieved of financial responsibility for consumer buying intentions surveys in 1962 as a result of discontinuing in 1959

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support of the annual survey conducted by the University of Michigan Survey Research Center and the appropriation of funds to the Bureau of the Census to finance the Quarterly Survey of Consumer Buying Intentions supported by the Board since that time. An appropriation to finance the quarterly survey was requested in the President's budget for fiscal 1962 and approved initially by both the House and Senate, but in conference words were inserted in the Census appropriation that "the additional \$160,000 requested for the consumer buying anticipation survey has been deferred without prejudice." Upon inquiry it was revealed that the foregoing action by the conference committee was the result of an objection filed by Sindlinger & Company, Inc., of Norwood, Pennsylvania, and that it was intended to provide both Census and the Sindlinger Company an opportunity to discuss at a future date the issues raised by the latter before the subcommittee. As a result of the action by the conference committee referred to, appropriated funds could not be made available to support the Quarterly Survey of Consumer Buying Intentions until Congressional action on the fiscal 1963 Federal budget. Consequently, the Board had been approached by the Bureau of the Budget and the Council of Economic Advisers with the suggestion that interim support be given to the quarterly survey on its present basis for the first two quarters of calendar 1962.

Under date of October 13, 1961, there had been distributed copies of a memorandum from Mr. Noyes regarding the foregoing suggestion along

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with copies of a letter from the Council of Economic Advisers to the Bureau of the Budget urging continuation of the quarterly survey. The memorandum noted that the staff had been approached by Mr. Sindlinger with the suggestion that the Board might obtain from his organization information comparable to that previously supplied through the quarterly survey but on a more frequent basis and with coverage of more items. He had been informed that it was unlikely the Board would wish to re-enter the survey field on a continuing basis on anything like the scale represented by its previous contracts with either the University of Michigan or the Census Bureau. Mr. Sindlinger had then proposed, as an alternative, that he add questions on durable goods other than automobiles to certain work in the automobile area which he is doing under contract with the General Motors Corporation and the Ford Motor Company, and that he provide weekly and monthly tabulations of consumer buying intentions on a subscription basis. As noted in the memorandum, for the coverage in this area, which would be of interest in the Board's analysis of current economic developments, the subscription price would be \$5,000 per year, contingent upon the Sindlinger Company's ability to find enough clients for all or part of the data collected to finance its extensive work in the field.

After comparing the technical merits of the Census and Sindlinger surveys, the memorandum went on to state that comparative analysis of the

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data from the quarterly survey and the Sindlinger survey would provide the best opportunity afforded to date for evaluating the contribution that consumer intentions surveys might have to offer to economic intelligence. Therefore, it was the recommendation of the Division of Research and Statistics that the Board give interim financial support to the Census Quarterly Survey of Consumer Buying Intentions for the first two quarters of calendar 1962 in the amount of \$65,000 and carry a one-year subscription to the Sindlinger service for a fee of \$5,000. Although this would involve a total appropriation of \$70,000 for calendar 1962, which was more than had been anticipated, the amount referred to was considerably less than had been spent by the Board in preceding years on consumer buying intentions surveys. The memorandum noted that if the Board was favorably disposed toward the recommendation made, it was further recommended that Mr. Shay be asked to communicate with Senator Holland and Congressman Andrews, the Managers for the Senate and House of the conference committee that acted on the Census appropriation, to insure that this action by the Board would not be regarded by them as contrary to the spirit of the conference committee's action, it being indicated in the memorandum that a previous inquiry by Mr. Shay had elicited the information that there was not likely to be any objection.

At the request of Governor Balderston, Mr. Noyes commented on his memorandum, noting that although the staff had arrived at its recommendation on this matter with some hesitancy and had been tempted at first to recommend

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that the Board withdraw completely from the consumer buying intentions survey field, after careful consideration the conclusion had been reached that there was a good deal to be said for continued support by the Board of this program at least during the first half of 1962 until there was a determination of the nature of the Government program that would be forthcoming.

Following a discussion during which the view was expressed that there appeared to be no good alternative to adopting the course recommended in Mr. Noyes' memorandum, unanimous approval was given to provision by the Board of interim financial support to the Census Quarterly Survey of Consumer Buying Intentions for the first two quarters of calendar 1962 in the amount of \$65,000 and purchase of a one-year subscription to the Sindlinger service for a fee of \$5,000, involving a total appropriation of \$70,000 for calendar 1962.

Messrs. Thomas, Noyes, and Koch then withdrew from the meeting.

Request by United California Bank (Items 1 and 2). After consideration of all information, including additional facts submitted in a joint memorandum in response to a letter from the Board dated July 28, 1961, the Board on September 26, 1961, denied the application by United California Bank, Los Angeles, California, to merge with The Southwest Bank, Inglewood, California, and to operate branches incident to the merger. Under date of October 16, 1961, there had been distributed

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a memorandum from the Division of Examinations regarding a request for reconsideration of the Board's decision received from United California Bank in a petition dated October 5, 1961, a copy of which was attached to the memorandum. In addition to the foregoing request, United California Bank asked that the Board afford it an opportunity to present orally the following grounds for approval of the proposal:

1. Additional circumstances relating to the difficulties facing THE SOUTHWEST BANK in its management problems;
2. The limited impact of the proposed merger on existing and potential competition between the banks;
3. The effect of the denial of the application on the already dominant competitive position of the two larger banks in the area.

There was also attached to the memorandum a copy of a letter dated October 5, 1961, from The Southwest Bank stating that denial of the application could not help but have an adverse effect on that bank's prospects in view of its worsening management problem and the intense competition from branches of the large banks in the area served by Southwest Bank. It was the opinion of the Division of Examinations, as expressed in its memorandum, that the above-listed three factors had been covered at length in previously submitted information. Although the Division had originally recommended that the Board approve the merger, (Mr. Achor recommending oppositely), it believed that all facts had been considered and that the requested oral presentation would serve no useful purpose, particularly since no apparent new facts were to be presented.

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Attached to the memorandum was a proposed letter to this effect to United California Bank.

In a discussion of the request for reconsideration it was noted that although applicant had been given an opportunity in the Board's letter of July 28 to make oral presentation before the Board, it had not availed itself of this opportunity, and it was agreed that no significant new facts had been presented by applicant.

After further discussion during which certain modifications were suggested and agreed upon in the draft letter to United California Bank, the letter was approved in the form of attached Item No. 1, Governor Mitchell abstaining. In taking this action it was understood that a similar letter would be sent to The Southwest Bank in reply to its letter of October 5, 1961. A copy of the letter to The Southwest Bank is attached as Item No. 2.

Holding company application by First Colorado Bankshares, Inc.

Copies of memoranda from the Division of Examinations and the Legal Division dated August 30 and October 6, 1961, respectively, had been distributed regarding an application by First Colorado Bankshares, Inc., Englewood, Colorado, for permission to become a bank holding company by acquiring stock of The First National Bank of Englewood, Englewood, Colorado; University Hills Bank, Denver, Colorado; and Lakeside National Bank, Lakeside Center, Colorado. The recommendations of both the Division

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of Examinations and the Federal Reserve Bank of Kansas City were favorable, and the Comptroller of the Currency had recommended approval of the application. The favorable recommendation of the Division of Examinations was based on its estimate that each of the statutory factors required to be considered was either neutral or favorable. The Legal Division memorandum stated that a consideration of the first three statutory factors revealed little that would favor either approval or denial of the application, but that under the fourth factor relating to benefit to the communities continuation of the harmonious working relationships that had resulted from common ownership of the three banks might be regarded as a somewhat favorable consideration. With respect to the fifth or competitive factor, it appeared to the Legal Division that the affiliation of the banks concerned through the proposed holding company arrangement would have little effect upon their competitive positions with relation to other banks. It was the opinion of the Legal Division, as stated in its memorandum, that in the event of judicial review either approval or denial of the application would be viewed as a reasonable exercise of the Board's discretion.

Reference was made in the memoranda from the Division of Examinations and the Legal Division to a request from the Federal Reserve Bank of Kansas City for a ruling as to whether Mr. Aksel Nielsen would be prohibited by section 8 of the Clayton Act or any other statute from serving simultaneously as director of the proposed holding company and

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of The First National Bank of Denver. The memorandum of the Legal Division stated its opinion that since the proposed bank holding company would not be a bank, banking association, savings bank, or trust company organized under the National Bank Act or under the laws of any State or of the District of Columbia, Mr. Nielsen's proposed service as director thereof, while a director of a member bank, would not violate section 8 of the Clayton Act.

Governor Mills said that he would vote to approve the application, since the organization of the holding company would be in conformance with legal requirements, and he believed that the conclusions reached in the memoranda of the Division of Examinations and the Legal Division with respect to the application were correct. Governor Mills then referred to the fact that no cash dividends had been paid by First National for over ten years and none by either University or Lakeside since organization, and to reference in the memorandum of the Division of Examinations to the statement by applicant that no cash dividends were contemplated by any of the three banks and that it was highly unlikely that any could be anticipated for the foreseeable future because of their continued growth and the need for retaining earnings to augment capital. In view of this situation with respect to nonpayment of cash dividends, Governor Mills inquired as to the basis for suspicion that the organizers of the holding company were deliberately holding back dividends which, considering the

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good net earning records of the banks involved, might bring holders of stock in the holding company considerable capital gains at the expense of present individual stockholders of the independent banks who had been deprived of income on their shares. Reply was made to the effect that acquisition of stock in the presently independent banks by the holding company would not substantially alter stock holdings already in existence, since all stockholders of the banks who were bona fide Colorado residents were to be given an opportunity to acquire interest in applicant in proportion to their ownership in the individual banks, and only minor amounts of shares of First, University, and Lakeside were held by stockholders not residents of Colorado.

Governor Robertson and Governor Shepardson indicated that they also would vote to approve the application.

Governor King referred to discussion at yesterday's meeting of the application by Whitney Holding Corporation, New Orleans, Louisiana, for permission to become a bank holding company and to the question of cumulative voting for directors of national banks raised on that occasion. In view of yesterday's discussion of this matter, Governor King said, he wondered whether the Comptroller of the Currency had given indication of consideration of this aspect of the application by First Colorado Bankshares since there were two national banks concerned. In reply, it was noted that since there was no bank consolidation involved in the present application,

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unlike the situation in the Whitney application, the question of cumulative voting would not arise. It was also observed that even if the cumulative voting feature was present, it was doubtful whether the Office of the Comptroller of the Currency would attach importance to it.

Governor King then stated that he would vote to approve the present application since he considered it to be a constructive type of holding company that would provide more competition for large banks in Colorado.

Governor Mitchell inquired as to whether there was reason to believe that any outside "large bank" interest was involved in the present application and reply was given in the negative. Governor Mitchell then said that he also would vote to approve the application, and Governor Balderston concurred.

Thereupon, the application by First Colorado Bankshares, Inc., Englewood, Colorado, for permission to become a bank holding company by acquiring stock of three banks was approved unanimously, it being understood that the staff would prepare a draft of order and statement reflecting this action for subsequent consideration by the Board. It was further understood that the proposed service by Mr. Nielsen as a director of First Colorado Bankshares, Inc., while a director of a member bank, would not be regarded as a violation of section 8 of the Clayton Act or of Section 212.1(a) of Regulation L, Interlocking Bank Directorates under the Clayton Act.

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Messrs. Hostrup, Thompson, Gary Smith (Legal), and James Smith (Examinations) withdrew from the meeting at this point.

Regulation O--executive officer status of non-officer bank personnel with lending authority. There had been distributed under date of October 16, 1961, a memorandum from the Legal Division pertaining to the executive officer status under Regulation O, Loans to Executive Officers of Member Banks, of non-officer personnel possessing lending authority. The Crocker-Anglo National Bank, San Francisco, California, through the Federal Reserve Bank of San Francisco, had requested determination of whether the Board's April 1960 interpretation classifying non-officer employees of a bank having lending authority as executive officers within the meaning of Regulation O applied to certain non-officer personnel of Crocker-Anglo. If so, the bank requested reconsideration of the interpretation. The memorandum noted that about 100 of the bank's employees were involved and would be prohibited from borrowing individually more than \$2,500 from the bank if it were ruled that the regulation applied. The Board's April 1960 ruling concerned certain persons employed by Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, who had no officer titles but were authorized to make loans in limited amounts. These employees were branch managers and assistant branch managers who had authority to make unsecured commercial loans up to a limit of \$5,000, and secured commercial loans up to a limit of \$10,000; and supervisors or assistant

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supervisors in the bank's consumer credit department who were authorized to make personal loans on an unsecured or secured basis up to the same limits. Information available to the Board at the time of consideration of that question was that the Girard Trust employees exercised almost unlimited discretion in the making of these loans. In April 1960, the Board advised the Federal Reserve Bank of Philadelphia that the employees under consideration were participating in the "operating management" of Girard Trust and that, accordingly, they should be considered "executive officers" for purposes of the regulation. That interpretation was sent to all Federal Reserve Banks on April 22, 1960, (S-1736, F.R.L.S. 6584.1), for their information, but it was not issued as a published ruling.

Crocker-Anglo's inquiry concerned (1) automotive finance department managers with authority to make loans secured by automotive and other equipment up to a maximum amount of \$7,500 on an automotive contract and up to \$3,000 on a non-automotive contract, and (2) consumer loan department managers with authority to make consumer loans in a maximum amount of \$5,000, but which in most cases were below \$2,500. The position of Crocker-Anglo was that the department managers in question did not exercise judgment or discretion in performing their functions as did commercial and real estate officers,

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but that the functions were essentially clerical and routine, and that the situation with respect to them "is comparable to that of a clerk in the commercial loan department in determining whether a note signed and collateral tendered by a borrower conforms to the terms specified by the approving loan officer." Discussion of this matter with the General Counsel of the Federal Reserve Bank of San Francisco had disclosed no information which would indicate that the managers concerned had any other duties of a managerial nature.

It was the opinion of the Legal Division that the facts sharply distinguished the Crocker-Anglo situation from that obtaining in the Girard Trust case and that, in view of the underlying purposes of the law and its legislative history, the definition of the term "executive officer" was not intended to include bank employees with such duties and responsibilities as the Crocker-Anglo department managers. In the event the Board should be disposed to take this view of the matter, a draft of letter to the Federal Reserve Bank of San Francisco to this effect had been prepared for the Board's consideration.

At the request of Governor Balderston, Mr. Hackley commented on the memorandum, noting that the purpose of section 22(g), which was added to the Federal Reserve Act in 1933, was to prevent self-dealing by officers of banks at the risk of loss to depositors and stockholders and that

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Congress was cognizant of the fact that many banks that had failed during the early 1930's had made questionable loans to their officers, which more or less contributed to the banks' later difficulties. Mr. Hackley went on to say that a liberalization of the law so as to permit loans of greater amounts to executive officers as recommended in the proposed Financial Institutions Act of 1957 would not resolve the present problem, which was essentially one of determining just what was meant by the phrase "to participate in the operating management of the bank" which was nowhere defined or explained either specifically or in general terms in Regulation O. Should the Board approve the draft letter, Mr. Hackley thought the Board might wish to send copies to the Reserve Banks and publish the ruling in the Federal Register. If Girard Trust should subsequently feel that this ruling covered their case, that bank might wish to request reconsideration of the April 1960 ruling by the Board.

Noting that he was in favor of reviving the recommendation that the law be liberalized so as to permit loans of more than \$2,500 to executive officers of banks, Governor Mills said that he was disinclined to accept the recommendation of the Legal Division with respect to the Crocker-Anglo inquiry. In his view the bank personnel concerned exercised executive responsibility on a level comparable to that of junior officers elected by boards of directors and were, therefore, obliged to conform to the statute. Should the Board relax its

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interpretation of the regulation in the manner suggested by the Legal Division, Governor Mills feared that such action might give rise to conflicts difficult to resolve and productive of ill feelings within banks. On the other hand, to adhere to the ruling made in the Girard Trust case as applicable to the Crocker-Anglo situation would not in his estimation create difficulty for the bank personnel in question, since they would not be foreclosed from access to credit from sources other than their place of employment.

Governor Robertson expressed general agreement with the views stated by Governor Mills as to the reply to be sent to Crocker-Anglo, and he also said that he was in favor of changing the statute in the manner suggested in the Financial Institutions Act.

In the discussion that followed the point was made that, while there was a difference between the facts of this case and the Girard case, the Legal Division also felt that a ruling that would make the regulation applicable to the Crocker-Anglo situation would go beyond the intent of Congress at the time section 22(g) was added to the Federal Reserve Act in 1933, and of the Board at the time it adopted Regulation O, effective January 1, 1936. It was necessary to draw a line somewhere as to what constituted an executive officer for purposes of the regulation, but the farther down the line was drawn the greater would be the Board's exposure to the criticism of being overly strict.

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Governor Robertson remarked in the course of the discussion that he would be inclined to modify the position he had expressed earlier on the request by Crocker-Anglo. However, he would not wish to approve the draft reply so long as the Board's April 1960 ruling with respect to certain employees of Girard was outstanding. He then suggested a thorough review of the whole question looking toward possible revision of that ruling.

Governor Shepardson said that as he had read the Legal Division's memorandum he thought a significant difference had been drawn between the Girard and Crocker-Anglo cases that justified the conclusions arrived at in the proposed letter to the San Francisco Bank. However, he favored the approach suggested by Governor Robertson of restudying the entire question.

Governor King commented that he assumed the Board had made the definition of "executive officer" as clear as was feasible at the time Regulation O was adopted. Personally, he doubted that further study would arrive at a more generally satisfactory definition than now existed. Therefore, since he felt no great hardship would be involved for the bank personnel concerned, he could accept a narrow interpretation that would say that authority to lend money in any amount however small constituted participation in operating management and that the provisions of the regulation were applicable to all personnel vested with such authority.

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Governor Mitchell expressed himself as favoring the proposed reply, but he indicated that he would not object to restudying the April 1960 ruling in the Girard case, and to deferring a reply to Crocker until that had been done.

Governor Balderston stated that, since a majority of the Board members present favored a restudy of the question of what constituted "operating management" and "executive officers" for the purposes of Regulation O, the staff would be requested to make such a study, after which further consideration would be given to the inquiry from Crocker-Anglo National Bank.

Messrs. Hexter, O'Connell, and Young then withdrew from the meeting.

Sponsorship of savings bond drive luncheons. Mr. Sherman reported a telephone call from President Ellis of the Federal Reserve Bank of Boston regarding an inquiry received by the Bank from a representative of the United States savings bond program as to whether the Bank would pay for a lunch in each of the six States of the First District in connection with the opening of a savings bond drive on December 7. Mr. Sherman stated that he had received an informal telephone call from the Treasury Department several days earlier indicating that the Treasury was asking its regional directors of the savings bond program to seek private sponsors for such luncheons with the thought that the Treasury would review the

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results of these efforts next week and then, depending upon the results, come to the Board to inquire whether it might approach the Federal Reserve Banks for assistance in cities where it had not been possible to obtain private sponsors. Thus, it appeared that the approach to the Boston Bank had been premature. Mr. Sherman also reviewed the discussion by the Board of a similar request from the Treasury Department in the fall of 1959 as a result of which the Board advised the Reserve Bank Presidents on December 8, 1959, that it would not object to their paying for such luncheons in 26 cities. Subsequently, the Board's Annual Report for 1960 contained a statement showing expenditures of \$29,220 by the Federal Reserve Banks for this purpose.

In a discussion that ensued, there was concurrence in a suggestion that the Boston Bank be advised that the Board had not received a request from the Treasury for assistance in the savings bond program this year but that it anticipated that the question would be raised within the next few days. In the meantime, it would seem advisable for that Bank to avoid any definite commitment to the local savings bond personnel pending receipt of more specific information as to what assistance the Federal Reserve might be requested to give to the Treasury's program, and as to the Board's response to such a request. It was understood that Mr. Ellis would be advised along the foregoing lines.

Inquiry regarding Regulation Q (Item No. 3). There had been distributed a draft of letter to Citizens Bank & Trust Company, Park

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Ridge, Illinois, referring to its letter of September 29, 1961, addressed to the Federal Reserve Bank of Chicago, requesting advice as to whether the proposed amendment to Regulation Q making certain changes in the definition of savings deposits, which was published at page 8602 in the Federal Register of September 14, 1961, would affect Citizens' "United Security Account Plan." Subparagraph (3) of the proposed amendment provides, in part, that "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 depositor if such payment or transfer is made pursuant to any advertised plan or 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 ... ." The draft reply would state that the Board understood that the United Security Account Plan is an "advertised plan" under which a savings account depositor authorizes 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 if the depositor does not, within seven days, put the bank in funds. The letter would conclude, therefore, that it appeared to the Board that even an occasional withdrawal from a savings account would be prohibited by the proposed amendment if made under a plan or agreement which authorized such

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withdrawals as a normal practice and, accordingly, that the plan could not be operated by the bank after the effective date of the proposed amendment.

It was brought out in a discussion of the draft reply to Citizens Bank & Trust Company that its letter of September 29 expressed the opinion that the proposed amendment would not affect its plan in the sense that the depositor's check under the plan would not be covered out of a savings account but rather by extension of credit by the bank to the depositor. Reference was made to the fact that the reason for the proposed amendment was to close the loophole in Regulation Q revealed by the bank's plan when first announced. Mention was also made of the fact that although comments on the proposed amendment had not been received from all Reserve Banks, those received so far were favorable.

The suggestion was made and concurred in that the letter with appropriate changes be addressed to the Federal Reserve Bank of Chicago, which had received the inquiry. The letter was then approved unanimously for transmission to the Reserve Bank in the form of attached Item No. 3.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Richmond (attached Item No. 4) approving the designation of John M. Brandt as special assistant examiner.

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

Extension of temporary appointment

Extension of the appointment of Nancy S. Martino on a half-time basis in the Division of International Finance for a period not later than December 31, 1961. (Mrs. Martino's original appointment, which was approved by the Board on July 7, 1961, expired September 30, 1961.)

Acceptance of resignation

Dorothy Szpilowski, Economist, Division of Research and Statistics, effective at the close of business October 20, 1961.

Governor Shepardson noted on behalf of the Board the retirement of John E. Osborne, Steamfitter-Operating Engineer, Division of Administrative Services, effective at the close of business October 31, 1961.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM Item No. 1  
WASHINGTON 25, D. C. 10/20/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 20, 1961.

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

Gentlemen:

In a letter dated July 28, 1961, the Board of Governors of the Federal Reserve System invited your bank to submit further information or comments, in connection with the proposed merger of the two institutions, as to: (1) the alleged need for strengthening management at The Southwest Bank; (2) how this proposed merger would serve the convenience and needs of the community, particularly since the area now has many banking offices; (3) competition between the two banks, especially since The Southwest Bank recently established a branch at 8732 South Western Avenue, Los Angeles; and (4) cumulative effects of this and other mergers of United California Bank upon other banks and the general competitive situation. The Board indicated that such information could be presented either in writing or by oral presentation before the Board.

By supplement dated August 9, 1961, additional information on the above listed 4 points was submitted. On September 26, 1961, after consideration of all available information, the Board denied the request to merge The Southwest Bank into United California Bank.

The Board has received your Petition for Reconsideration and request for oral presentation dated October 5, 1961. No significant new facts and no arguments not previously submitted and considered by the Board have been presented. Accordingly, the Board has concluded that it would not be warranted in reconsidering the application or in arranging for an oral presentation.

A copy of a letter being sent by the Board today to The Southwest Bank is enclosed for your information.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure

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

Item No. 2  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 20, 1961.

Board of Directors,  
The Southwest Bank,  
Inglewood 1, California.

Gentlemen:

Your letter of October 5, 1961, requesting that the application of United California Bank to merge with The Southwest Bank be reconsidered and that an opportunity for oral presentation be afforded your bank was received at about the same time as a petition from United California Bank making a similar request.

After careful review of your letter and the petition from United California Bank, the Board has concluded that, since no significant new facts and no arguments not previously submitted and considered by the Board have been presented, it would not be warranted in reconsidering the application or in arranging for an oral presentation.

A copy of a letter being sent by the Board today to United California Bank is enclosed for your information.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure



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

Item No. 3  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 20, 1961.

Mr. Paul C. Hodge, Vice President,  
General Counsel & Secretary,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Hodge:

This refers to the letter dated September 29, 1961, from Mr. Roderick MacArthur, requesting advice as to whether the proposed amendment to Regulation Q making certain changes in the definition of savings deposits, which was published at page 8602 in the Federal Register of September 14, 1961, would affect the United Security Account Plan of Citizens Bank & Trust Company, Park Ridge, Illinois.

Subparagraph "(3)" of the proposed amendment provides, in part, that "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 depositor if such payment or transfer is made pursuant to any advertised plan or 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 \* \* \*."

The Board understands that the United Security Account Plan is an "advertised plan" under which a savings account depositor authorizes 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 if the depositor does not, within seven days, put the bank in funds. It thus appears to the Board that even an occasional withdrawal from a savings account would be prohibited by the proposed amendment if made under a plan or agreement which authorizes such withdrawals as a normal practice and, accordingly, that the United Security Account Plan could not be operated after the effective date of the proposed amendment.

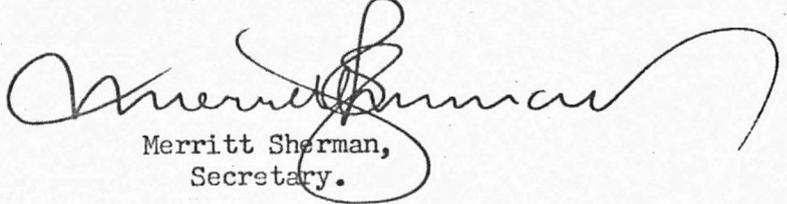


Mr. Paul C. Hodge

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There is enclosed a copy of this letter which you may forward to Mr. MacArthur for his information.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman". The signature is written in dark ink and is positioned above the printed name and title.

Merritt Sherman,  
Secretary.

Enclosure



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

Item No. 4  
10/20/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

October 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 October 16, 1961, the Board approves the designation of John M. Brandt 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) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.