

Minutes for December 1, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 2 Amendment of Supplement to
 Regulation Q, Payment of
 Interest on Deposits

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

The image shows handwritten initials and signatures for each board member listed on the left. The initials are written on a horizontal line. From top to bottom: a circled 'M' for Martin; a large, stylized signature for Mills; a signature for Robertson; the initials 'CMB' for Balderston; a signature for Shepardson; a signature for King; and a signature for Mitchell.

Minutes of the Board of Governors of the Federal Reserve System on Friday, December 1, 1961. The Board met in the office of the Chairman at 9:20 a.m.

PRESENT: Mr. Martin, Chairman 1/
Mr. Balderston, Vice Chairman 2/
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King 3/
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board

Director appointment. It was agreed unanimously to request the Chairman of the Federal Reserve Bank of Philadelphia to ascertain whether Dr. Willis J. Winn, Vice Provost of the University of Pennsylvania and Dean of the Wharton School, would accept appointment, if tendered, as Class C director of the Reserve Bank for the three-year term ending December 31, 1964, with the understanding that in such event the appointment would be made.

The meeting then recessed and the members of the Board, including Governor King, met with the Conference of Chairmen of the Federal Reserve Banks. The meeting of the Board reconvened in the Board Room at 2:00 p.m., at which time all of the members of the Board were present along with the following members of the Board's staff:

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board

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- 1/ Withdrew from afternoon session and returned to meeting at points indicated in minutes.
2/ Withdrew from afternoon session at point indicated in minutes.
3/ Attended afternoon session only.

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Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Dembitz, Associate Adviser, Division of
Research and Statistics

Maximum rates on time and savings deposits (Items 1 and 2).

Chairman Martin introduced a discussion of the maximum rates permitted to be paid on time and savings deposits pursuant to Regulation Q, Payment of Interest on Deposits, by saying that pursuant to the understanding at a previous meeting of the Board, he and Governor Robertson had had a conversation with Chairman Cocke and Director Wolcott of the Federal Deposit Insurance Corporation, alerting them to the prospect that the Board might take some action to increase the maximum permissible rates applicable to member banks. While he could not say that Messrs. Cocke and Wolcott were enthusiastic in their support of an increase in the maximum rates, nevertheless the problem had been discussed with them.

With regard to the timing of a possible increase, Chairman Martin noted that the maximum rates were permissive and not mandatory. If any action was to be taken to increase the maximum rates, the Board ought to allow the member banks as much time as possible to evaluate the matter and make decisions before the new rates became effective. If the Board should agree today on some new schedule of maximum rates,

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that would give the banks the balance of the month to make such an evaluation and determine whether they wanted to make any change in the rates paid to their depositors beginning the first of the year.

As a suggestion, should the Board wish to increase the maximum rates at this time, the Chairman said it had been in his mind that he would favor increasing from 3 per cent to 3-1/2 per cent the maximum rate payable on time deposits having a maturity of not less than six months but less than one year. Likewise, the maximum rate payable on any savings deposit that had remained on deposit for less than 12 months would be increased to 3-1/2 per cent. For that portion of any savings deposit that had remained on deposit for not less than 12 months, and for any time deposit having a maturity date of 12 months or more after the date of deposit, he would suggest a maximum rate of 4 per cent.

The Chairman went on to say that if the Board should decide to take any action, he felt it should do something that would provide enough leeway to take care of the matter for the foreseeable future. In his opinion, the schedule he had suggested would dispose of the problem for quite a long time to come.

At this point Governor Robertson commented that if the Board was going to take action today and was going to announce such action, he felt that it would be advisable to inform the Federal Deposit Insurance Corporation so that the Corporation could announce similar

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action with respect to the maximum rates payable by insured nonmember banks if it wished to do so. He thought that this would be particularly advisable in light of the fact that the subject had been discussed with Chairman Cocke and Director Wolcott, with some indication that they would be kept informed of developments.

Chairman Martin then commented that he could try to reach Mr. Cocke by telephone this afternoon. It might be that it would appear desirable to hold up any Board announcement until next Monday, but the Board could take action today, if the members so desired, and withhold the announcement.

There followed, at the instance of Governor Balderston, some discussion of objections that the Superintendent of Banks of Delaware was recalled to have lodged with the Philadelphia Reserve Bank when the Board acted in December 1956 to increase the ceiling rate from 2-1/2 to 3 per cent, effective January 1, 1957. The specific nature of those objections was not within the recollection of those present at today's meeting, however. In any event, it was noted that prompt advice of the Board's action had been given to the National Association of Supervisors of State Banks, and that a similar procedure would be followed if the Board announced action today on the maximum rates.

Chairman Martin then called upon the members of the Board, beginning with Governor Mills, who said he agreed thoroughly that the existing maximum rate of 3 per cent should be increased. However, he

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believed equally strongly that the increase should be to a maximum rate of 3-1/2 per cent, with graduation downward, as at present, for time deposits having a maturity of less than one year. His first reason was that any action on the part of the Board was going to antagonize a large number of banks and that the Board would needlessly increase the extent of that antagonism if a 4 per cent ceiling rate was established for longer-term time and savings deposits, because it was that type of money that banks would be most likely to lose to their competitors. In this connection, Governor Mills recalled the argument of a Michigan banker that the offering of a certain rate of interest must assume the ability of the bank to cover the interest cost with investments that would yield a margin of profit. There was a question in his mind whether some banks, particularly smaller banks, could cover a 4 per cent rate. Another reason cited by Governor Mills was that on those occasions when the Board had stepped away from orthodox procedure and had deviated from what the Federal Reserve would normally be expected to do, it had brought trouble onto itself. As an example, he referred to some of the changes in the margin regulations: when flaws began to appear, despite the advance publication of those amendments for comment, the Federal Reserve was subjected to serious criticism. The Board also had stepped into this same kind of situation by proposing an unusual formula for the designation of reserve cities. Whenever the Board departed from orthodox procedure and moved into an irregular procedure, he felt that it invited trouble and that it would have trouble.

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Chairman Martin replied that he thought the other side of the question was that the Board would run into some trouble if it decided to increase the maximum rate, no matter what change was made. Therefore, if the Board was going to do anything, he thought it would be desirable to get this problem taken care of for as long a period as could be foreseen. From that standpoint, he was inclined to feel that a 4 per cent maximum rate for time and savings deposits in the over one-year category would be a useful move to make. In his view, those parties who would be upset by such a move would be just as upset if the Board should move to 3-1/2 per cent.

Governor Mills said that he saw this distinction: a maximum rate of 3-1/2 per cent would preserve what had come to be considered a normal differential between the rates paid by commercial banks and by mutual savings banks. Many banks, he noted, had already begun, or were considering, the practice of computing interest on the basis of daily balances. In his opinion the generosity of that treatment, as applied to a 3-1/2 per cent rate of interest, would make the banks choosing to follow such a practice amply competitive with other savings institutions.

The Chairman commented in response that, as he had mentioned earlier, the maximum rate was a permissive and not a mandatory rate. He felt that the Board ought to give the member banks as much leeway as seemed feasible within which to work.

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Chairman Martin then turned to Governor Robertson, who expressed the view that it would be better to go higher than a 3-1/2 - 4 per cent maximum rate formula, because it would then be clear that the maximum was above the rate that any bank was going to pay, at least as far as could now be foreseen. Maximum rates such as he had in mind would really amount to eliminating the ceiling but saving the right to drop down again if necessary. While the suggested 3-1/2 - 4 per cent formula would be better than the present maximum rate of 3 per cent, it would not give as much room for freedom of competition.

Governor Robertson went on to say that he would oppose the adoption of a flat maximum rate of 3-1/2 per cent, because he did not believe that such a move would solve anything. It would not enable the banks to compete against other financial institutions. It would merely be taken to indicate that the Board thought that all banks could pay 3-1/2 per cent, and therefore it would constitute an incentive for all banks to push their rates up to the maximum. On the other hand, although he did not think that the 3-1/2 - 4 per cent formula would be as good as a 4 - 5 per cent formula, he would be willing to vote for it if the question was one of adopting that formula or continuing the present maximum. As he understood it, what the Chairman's suggestion contemplated was a maximum permissible rate of 4 per cent on time deposits having a maturity of one year or more, and on that portion of savings deposits held on deposit for one year or more. As to time deposits, he understood

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that those having a maturity between six months and a year would have a maximum permissible rate of 3-1/2 per cent; that those having a maturity from 90 days to six months would have a maximum rate of 3 per cent; and that those having a maturity up to 90 days would have a maximum of 1 per cent.

Chairman Martin replied that he had not contemplated any change in the current maximum rates applicable to time deposits having a maturity of less than six months. He had had in mind continuing the present maximum rate of 2-1/2 per cent for time deposits having a maturity of less than six months and not less than 90 days, with a maximum rate of 1 per cent for time deposits having a maturity date of less than 90 days. His thinking was that there would be little advantage in changing the maximum rates on time deposits having a maturity of less than six months.

Governor Robertson then repeated that he thought it would be preferable to go high enough so that the Board could say that it was permitting the greatest possible freedom of competition. He thought that would be achieved with a 4 - 5 per cent formula, while he did not believe it would be fully achieved with the 3-1/2 - 4 per cent formula.

Governor Shepardson said he felt somewhat as Governor Robertson did, but with one difference. If the Board was going to make only infrequent, perhaps sometimes long-delayed, reappraisals of the problem,

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there might be merit in going as high as Governor Robertson suggested. On the other hand, if the Board approached the problem with the thought that the maximum rates were a control that should be somewhat related to the needs of the situation as it existed at any particular time, then the Board must expect to review the matter from time to time. While he would hope that the Board might take action that would enable it to sit back for a while, nevertheless the Board could review the problem if the underlying situation changed. Accordingly, he would feel that there was merit in the suggestion advanced by Chairman Martin. As to the maximum rates payable on time deposits having a maturity of less than six months, he recalled having raised the question several times with bankers, and he gathered that those rates were not considered to present any significant problem. Therefore, he would feel that those maximum rates could well be left unchanged.

Summarizing, Governor Shepardson said he would favor the 3-1/2 - 4 per cent formula that the Chairman had suggested, with the understanding that the Board was trying to establish maximum rates somewhat related to operating realities and that it would be prepared to look at the problem again if the situation changed. He would prefer this procedure to fixing maximum rates that would leave the Board completely out of the picture for an indefinite period. As long as there was a statute that required the Board to regulate in this area, he felt that the Board should give attention to the realities of the situation.

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Governor King said that he had tried to comprehend the problem, but that he was afraid he did not understand it. He would be pleased if somebody would explain in a concise way why it was considered necessary to take action at this time to increase the maximum rate. He had an instinctive feeling that this might not be the right thing to do. Having that feeling, he had tried earnestly to find the reason for taking action, but he could not find it.

Chairman Martin commented that he thought the reason, most simply stated, involved the problem of competition. There was a matter of judgment involved, but the Board would not have been discussing the problem for the past year and more if there had been no competitive problem.

Governor King then said that, as he understood it, a relatively few banks were complaining that their time deposits were not growing in proportion to those of their competitors. All over the country, however, there were firms losing business, and he just could not work up a great amount of sympathy for a bank that complained that its time and savings deposits were not growing in proportion to those of a competing savings bank. If the competitive problem was centered in a relatively few banks here and there, perhaps concentrated in areas where there were mutual savings banks, he could not conclude that the problem was overwhelming.

Pursuing the question of competition further, Governor King inquired whether it was felt to relate to a substantial degree to

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foreign-owned time deposits, with the larger banks trying to retain the foreign funds rather than to have them go into other forms of investment. In this connection, he asked whether the foreign deposits were regarded as "hot" money, to which Chairman Martin replied that a rather loose definition was involved but that he thought they might be regarded as "hot" money. Governor Mitchell suggested the term "rate" money.

At this point Governor Mills referred to what he considered another serious aspect of the maximum rate question, namely, the effect on the Government securities market. If the Board should increase the maximum rate to 4 per cent, he was concerned that the action would be regarded as an official judgment concerning the trend of interest rates. If the banks were to go out and invite 4 per cent money, a time certificate of deposit would provide substantially better income than a one-year Treasury bill, and corporate funds would tend to flow out of bills to the disadvantage of the bill market. Also, the banks engaging in that type of competition might have to stretch out their portfolios to obtain the necessary earnings.

Reverting to Governor King's inquiry as to why the banks should be permitted to pay more than 3 per cent, Mr. Thomas suggested that the question might be turned around. It might be asked why the Board should prevent the banks from paying higher rates if the banks wanted to pay them.

Governor King said he understood the majority of the banks did not want to pay higher rates, to which Mr. Young replied that the large banks had

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written numerous letters to the Board through the Federal Reserve Bank of New York. He felt it could be said, on the basis of the record, that the large banks would like to be able to pay higher rates, as necessary, to compete for and retain foreign funds.

Mr. Thomas commented that the banks would like to feel that they were in a position to be able to compete if the situation should change. It might be that only a few of the banks would change their rates right now, but the banks would like to feel that they were in a position to raise their rates if that was necessary to retain deposits.

Mr. Noyes commented that in the past year the commercial banks had accumulated in the neighborhood of an additional \$10 billion of time deposits. The banks, or at least a lot of them, felt that the parties who owned the money would take it away if alternative opportunities appeared to place the funds elsewhere at an interest rate higher than 3 per cent. The banks felt as though they were sitting on top of a keg of dynamite. It was not that they wanted to pay more than 3 per cent, but they needed elbow room to protect themselves.

Governor Robertson commented that over a period of 20 years the ceiling rate under Regulation Q was one that was not paid by any bank. Each banker was free to make his own decisions. That was what they were seeking today. Being responsible people, they should be able to make decisions with a free rein in competing for funds.

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Chairman Martin then turned to Governor Mitchell, who expressed the view that from a competitive standpoint the 3-1/2 - 4 per cent maximum rate formula was not an ideal proposal. His preference would be to set the maximum rate at 4 per cent and leave it to each individual bank to decide for itself what rate it would pay. He felt that the banker should be allowed to run his own business; if a bank wanted to buy funds at the going rate, he did not see why the Board should interfere with that judgment. However, if a vote was to be taken on the 3-1/2 - 4 per cent formula, he would vote for adoption of the formula rather than to dissent on the basis of his personal preference.

Governor Mitchell went on to say that he did not think this was a particularly good time to increase the maximum rate, unless the action could be taken in such a way that no one would interpret it as evidence that the Federal Reserve was trying to push rates higher and believed that interest rates were rising right now. He was apprehensive that an announcement by the Board would be so construed. If it were, the announcement would provide additional impetus in a direction that he would not like at this moment.

Chairman Martin said that he did not know how to get around the problem referred to by Governor Mitchell. As he had said, however, the Board should give member banks as much time as possible before the new maximum rates went into effect. From that standpoint, this seemed to him a good time to act, particularly since the New York State Banking

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Board had acted to increase the maximum rates permitted to be paid by mutual savings banks. In short, he would think that this was as good a time as the Board was likely to get. As to those who might interpret an announcement along the lines Governor Mitchell had suggested, a lot would depend on whether the Federal Reserve took actions that validated their interpretation.

Governor Mitchell suggested that the psychological reaction might be lessened if the Board's action was clearly directed to the competitive situation, as it would be, he thought, if a maximum rate of 4 per cent across the board should be established. Such action would indicate that the Board was trying to correct the competitive disadvantage of the commercial banks and give them freedom in which to operate. He could not avoid the feeling that the 3-1/2 - 4 per cent formula would create a psychological reaction that he would rather not create.

Chairman Martin replied that he had considered this point seriously. Personally, he wished that the Board did not have to establish maximum permissible rates on time and savings deposits, but the statute required it to do so. To establish a maximum rate such as 5 per cent would in effect represent an elimination of the ceiling. To establish a 4 per cent maximum rate, without the 3-1/2 per cent maximum rate for shorter-term funds, would in his opinion have much more impact, psychologically speaking, in terms of tightening money than meeting the competitive problem. At least, that was his judgment; the point was one on which judgments could differ.

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Governor Balderston suggested that the more the Board could treat this problem as a supervisory matter rather than a monetary policy matter, the better off it would be. As to the timing of action, he commented that he had been puzzled for many months. However, he had now reached the conclusion, he thought, that it would be better to act on the problem, as a supervisory matter, while monetary policy remained unchanged than it would to wait until some later date. In other words, it seemed to him that it would be better to take the supervisory action promptly, knowing that at some time in the future the System would have to take monetary policy action.

Continuing, Governor Balderston said he would like to see the necessity for maintaining control over the rates paid on time and savings deposits eliminated entirely. However, he thought the legislative history required the Board to remember that the Congress had said that no interest could be paid on demand deposits and that it was giving the Federal Reserve the authority to control rates paid by member banks on time and savings deposits in order to avoid the use of an escape route.

All of this, Governor Balderston said, led him to feel that this was the time to move and that the maximum rates suggested by the Chairman were appropriate. At a time when the banks were threatened with the loss of funds represented by time certificates of deposit, he was concerned that the loss not be accelerated by a ruling of the Board.

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Governor King recalled that he had written a memorandum several weeks ago in which he made the point that the maximum rates should be increased at a time when the rate of savings was not adequate for economic growth. He went on to say that he had tried to think the matter through to a point where he would not have to be a dissenter against action to increase the maximum rates. However, he could not reach the conclusion that an increase should be made at this time, and therefore he would have to dissent.

Chairman Martin then summarized what he understood to be the positions of the members of the Board. Governor Mills would want to go to 3-1/2 per cent but not to 4 per cent. Governor Robertson would prefer a 4 - 5 per cent maximum rate formula, but he would vote reluctantly for a 3-1/2 - 4 per cent formula. Governor Shepardson would vote for a 3-1/2 - 4 per cent formula. Governor King would dissent from an increase in the maximum permissible rates at this time. Governor Mitchell would prefer a maximum rate of 4 per cent across the board, but he would vote for a 3-1/2 - 4 per cent formula. Governor Balderston would vote for a 3-1/2 - 4 per cent formula.

The Chairman inquired whether this was a fair summarization of the positions of the respective Board members, and Governor Mills stated that he would accept the 3-1/2 - 4 per cent formula, although with reluctance and forebodings because of the trouble that he felt the Board would have, since

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he felt that it was more important to make some change in the existing maximum rate than to dissent.

Accordingly, it was understood that all of the members of the Board except Governor King would vote for the so-called 3-1/2 - 4 per cent maximum rate formula, although some, as they had indicated, would personally prefer a different action.

Chairman Martin then referred to the question of additional consultation with the Federal Deposit Insurance Corporation and raised the question whether it would be desirable for him to try to get in touch with Chairman Cocke this afternoon.

Governor Robertson replied in the affirmative, adding that the Corporation might agree to take action today. If it was not so prepared, however, then he would suggest saying to Mr. Cocke that the Board nevertheless was planning to go ahead and make an announcement.

With respect to the content of the announcement of Board action, Governor Robertson said he would like to repeat what he had suggested to the Board on previous occasions. He would explain that the purpose of the action was to encourage freedom of competition and to enable each member bank to determine the rates of interest it would pay in the light of economic conditions prevailing in its area, the type of competition it must meet, and its ability to pay. An announcement along such lines would, he felt, be just as appropriate now as it was at the time he first made the suggestion several months ago.

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Governor Balderston suggested that the announcement stress the permissive nature of the maximum rates, and Governor Mitchell said he felt that some statement of the kind outlined by Governors Robertson and Balderston should be included in the announcement of the Board's action.

Governor Balderston then raised the question whether it might be desirable to defer any announcement until next Monday in order to allow ample time for careful drafting of the Board's statement, following which Mr. Molony said that some drafting had already been done and that sufficient time probably remained to prepare an announcement for release this afternoon. He suggested that Chairman Martin might want to indicate to Chairman Cocke that the Board was thinking in terms of an announcement this afternoon, but that Chairman Martin might agree to a postponement of the announcement until Monday if that should seem advisable in the light of the conversation with Chairman Cocke.

The Chairman turned at this point to Mr. Hackley, who said that he believed that the legal questions had been resolved. He added that the Legal Division had drafted a proposed revision of the Supplement to Regulation Q.

Copies of the draft of revised Supplement were then distributed to the members of the Board.

Mr. Hackley supplemented his previous comments by saying that some questions might arise as the result of the provisions regarding the maximum rates payable on savings deposits. However, he felt that the Board could take care of any such questions by interpretation.

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Chairman Martin then withdrew from the room to talk by telephone with Chairman Cocke of the Federal Deposit Insurance Corporation.

Messrs. Solomon, Director, and Leavitt, Assistant Director, Division of Examinations, entered the room at this point, along with Mr. Spencer, General Assistant, Office of the Secretary.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Minneapolis, and San Francisco on November 30, 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.

Report on competitive factors (Pittsfield-North Adams-Adams, Massachusetts). There had been distributed, with a memorandum from the Division of Examinations dated November 22, 1961, a draft of report to the Federal Deposit Insurance Corporation regarding the competitive factors involved in the proposed merger of North Adams Trust Company, North Adams, Massachusetts, and Greylock National Bank, Adams, Massachusetts, with and into Berkshire Housatonic Trust Company, Pittsfield, Massachusetts.

After a discussion during which certain changes in the language of the conclusion were agreed upon, the report was approved unanimously for transmittal to the Corporation in a form in which the conclusion read as follows:

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Competition between the three participant banks is relatively minor. While the merger would create the largest bank in Berkshire County, it would hold less than 10 per cent of the combined deposits of individuals, partnerships, and corporations and of the loans of commercial and savings banks in the county. Consummation of the proposal will not have a strongly adverse effect on competition in the area.

Report on competitive factors (Liberty-Livingston Manor, New York).

A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Sullivan County National Bank of Liberty, Liberty, New York, and The Livingston Manor National Bank of Livingston Manor, Livingston Manor, New York, had been distributed with a memorandum from the Division of Examinations dated November 24, 1961.

After discussion of the facts of the case and an exchange of suggestions regarding the conclusion that might most appropriately be expressed in the light of those facts, unanimous approval was given to the transmittal of the report to the Comptroller in a form containing the following conclusion:

While the proposed consolidation would eliminate some competition between the two participating banks, consummation of this consolidation would have no material effect on the over-all competitive situation in Sullivan County.

Report on competitive factors (Erie-North East, Pennsylvania).

Copies of a memorandum dated November 22, 1961, had been distributed submitting a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and

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assumption of liabilities of The First National Bank of North East, North East, Pennsylvania, by The First National Bank of Erie, Erie, Pennsylvania.

In commenting on the report, Mr. Leavitt read a revised wording of the conclusion that had been suggested by Governor Mills. Further discussion resulted in a suggestion by Governor Robertson for the elimination of certain sentences in the body of the report, with which suggestion there was agreement, and a number of comments on the conclusion that should most appropriately be developed from the facts of this case. At the conclusion of the discussion, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

The proposed purchase of assets and assumption of liabilities of The First National Bank of North East, North East, Pennsylvania, by The First National Bank of Erie, Erie, Pennsylvania, would eliminate the competition existing between the two institutions, but would increase competition significantly in North East, with possible adverse effects on the remaining small bank in North East.

At this point Chairman Martin returned to the meeting.

Maximum rates on time and savings deposits (Items 1 and 2).

Chairman Martin stated that he had talked with Chairman Cocke of the Federal Deposit Insurance Corporation and had explained the nature of the action that the Board was planning to announce this afternoon with regard to the maximum rates permitted to be paid on time and savings deposits pursuant to Regulation Q. He went on to say that Mr. Cocke had indicated that he would call back by four o'clock. In the light of the telephone

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conversation, Chairman Martin suggested that a press statement be prepared and that Mr. Molony, with the assistance of such other staff members as he might desire, be requested to proceed with the drafting. It would be understood that the statement would incorporate the suggestions made by Governor Robertson, along with such other points as would seem appropriate in the light of today's discussion. The Chairman said that he thought it would be desirable if the press statement could be issued this afternoon, and there was no indication of views to the contrary.

Mr. Hackley stated that there were two matters that he thought it might be desirable to raise at this time. First, if the Board so intended, it should be made clear, in the press statement or in answer to inquiries, that a member bank could pay or credit interest at a rate not in excess of 3-1/2 per cent on any savings deposit regardless of the time it had remained with the bank; but that, after the deposit or any portion of it had remained on deposit for a year, the bank might pay or credit an additional 1/2 of one per cent for the full time such amount had remained on deposit, and thereafter the bank could credit interest at a rate of not more than 4 per cent on such amount.

There was no indication of any different interpretation.

Mr. Hackley also noted that in the present Supplement to Regulation Q, member banks were authorized to pay a maximum rate of 3 per cent on any Postal Savings deposit that constituted a time deposit. He inquired whether it was the Board's intent that under the revised Supplement the maximum

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rates for Postal Savings deposits constituting time deposits would be the same as for savings deposits, that is, a maximum of 3-1/2 per cent on a Postal Savings deposit, constituting a time deposit, that had remained on deposit for less than 12 months and a maximum rate of 4 per cent on that portion of any such deposit that had remained on deposit for not less than 12 months.

There was no indication to the contrary.

Governor Mitchell inquired as to the effect, if any, of the establishment of the new maximum rates on the compounding of interest by some banks at other than quarterly intervals.

The answer given was that the action would have no effect in that regard. Regulation Q had provided that "no member bank shall pay interest accruing at a rate in excess of" a specified per cent per annum "compounded quarterly, regardless of the basis upon which such interest may be computed". However, the Regulation also specified that this limitation was not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded did not exceed the aggregate amount of interest at the maximum rate prescribed in the Regulation when compounded quarterly. These provisions would remain unchanged.

Accordingly, with Governor King dissenting, the Supplement to Regulation Q, Payment of Interest on Deposits, was amended effective January 1, 1962, to provide for maximum permissible rates of interest

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on time and savings deposits as set forth in the copy of the amended Supplement, as published in the Federal Register, that is attached hereto as Item No. 1. It was also agreed that, subject to final clearance with the Federal Deposit Insurance Corporation, a press statement announcing the Board's action would be released later this afternoon, the text of such statement to be generally along the lines that had been suggested during the discussion at this meeting. This action contemplated that appropriate notification would be given by telegram to the Federal Reserve Banks and branches, that a notice would be published in the Federal Register, and that advice of the action would be given to the National Association of Supervisors of State Banks.

Secretary's Note: Advice was subsequently received that the Federal Deposit Insurance Corporation had amended its regulation specifying maximum rates of interest permitted to be paid on time and savings deposits by nonmember insured banks in the same manner that the Board had amended Regulation Q. Accordingly, the action taken by the Board was announced in a press statement released at approximately 5:00 p.m. today. A copy of the statement is attached as Item No. 2.

Governor Balderston withdrew from the meeting at this point. All of the members of the staff who had been present except Messrs. Kenyon and Young also withdrew at this point and Messrs. Holland and Koch, Advisers, Eckert, Chief, Banking Section, and Yager, Economist, Division of Research and Statistics, entered the room.

Money market review. Mr. Yager reported on recent developments in the Government securities market, following which Mr. Eckert presented

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a paper on recent monetary and credit developments, including an analysis of the money supply, time deposits, and consumer-type savings. At Chairman Martin's suggestion, it was understood that copies of Mr. Eckert's paper would be distributed to the members of the Board.

All of the members of the staff then withdrew and the Board went into executive session.

Actions taken in executive session. The Secretary was informed later by Governor Shepardson that during the executive session the Board approved the recommendation contained in a memorandum from the Director of the Division of Research and Statistics dated November 29, 1961, that the services of M. H. Schwartz, Chief, Statistical Operations Planning in that Division, be made available to the Organization for Economic Cooperation and Development for a period of approximately two weeks, probably in January 1962, to provide advice to that agency on computer problems, with the understanding that Mr. Schwartz's travel expenses and per diem would be paid by the Organization for Economic Cooperation and Development.

Governor Shepardson also informed the Secretary that the Board had authorized Mr. Young, Adviser to the Board and Director, Division of International Finance, and Mr. Hersey, Adviser in the Division of International Finance, to travel to Paris, France, during the period December 10-14, 1961, to attend a meeting of Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

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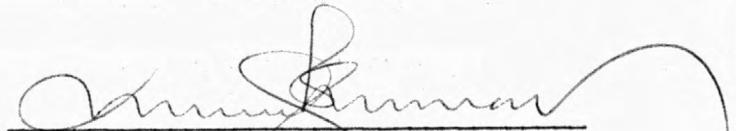
The Board also authorized Mr. Hersey to continue from Paris to Frankfurt for a visit of about two days at the Deutsche Bundesbank.

The meeting then adjourned.

Secretary's Note: On November 30, 1961,
Governor Shepardson approved on behalf of
the Board the following items:

Memorandum from the General Counsel recommending acceptance of the resignation of Gary P. Smith, Attorney in the Legal Division, effective at the close of business December 2, 1961.

Letters to the Federal Reserve Bank of Chicago (attached Items 3, 4, and 5) approving the appointment of Richard M. Lang, as assistant examiner and of Maurice M. McAninch and Jack N. Young as examiners.



Secretary

TITLE 12 - BANKS AND BANKING
CHAPTER II - FEDERAL RESERVE SYSTEM

Item No. 1
12/1/61

[Reg. Q]

PART 217 - PAYMENT OF INTEREST ON DEPOSITS
MAXIMUM RATES OF INTEREST

1. Effective January 1, 1962, § 217.6 (Supplement to Regulation Q) is amended to read as follows:
§ 217.6 Maximum rates of interest payable on time and savings deposits by member banks.

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates^{1/} of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(a) Maximum rate of 4 per cent. - No member bank shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly,^{2/} regardless of the basis upon which such interest may be computed:

(1) On that portion of any savings deposit that has remained on deposit for not less than 12 months,

^{1/} The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

^{2/} This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

(2) On any time deposit having a maturity date 12 months or more after the date of deposit or payable upon written notice of 12 months or more,

(3) On that portion of any Postal Savings deposit which constitutes a time deposit that has remained on deposit for not less than 12 months.

(b) Maximum rate of 3-1/2 per cent. - No member bank shall pay interest accruing at a rate in excess of 3-1/2 per cent per annum, compounded quarterly,^{2/} regardless of the basis upon which such interest may be computed:

(1) On any savings deposit, except as otherwise provided in (a)(1) above,

(2) On any time deposit having a maturity date less than 12 months and not less than 6 months after the date of deposit or payable upon written notice of less than 12 months and not less than 6 months,

(3) On any Postal Savings deposit which constitutes a time deposit, except as otherwise provided in (a)(3) above.

(c) Maximum rate of 2-1/2 per cent. - No member bank shall pay interest accruing at a rate in excess of 2-1/2 per cent per annum, compounded quarterly,^{2/} regardless of the basis upon which such interest may be computed:

^{2/} This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

(1) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 6 months and not less than 90 days after the date of deposit or payable upon written notice of less than 6 months and not less than 90 days.

(d) Maximum rate of 1 per cent. - No member bank shall pay interest accruing at a rate in excess of 1 per cent per annum, compounded quarterly, ^{2/} regardless of the basis upon which such interest may be computed:

(1) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days.

2a. The purpose of the amendment is to increase the maximum permissible rates of interest which member banks of the Federal Reserve System may pay on savings deposits and on certain time deposits, either certificates or open accounts.

b. The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such act, are not followed in

^{2/} This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

connection with this amendment for the reasons and good cause found, as stated in section 2(e) of the Board's rules of procedure (12 CFR 262.2(e)), and especially because in connection with this liberalizing amendment such procedures would prevent the action from becoming effective as promptly as is desirable for the convenience of the banks.

(Sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interprets or applies secs. 19, 24, 38 Stat. 270, 273, as amended, sec. 8, 48 Stat. 168, as amended; 12 U.S.C. 264(c) (7), 371, 371a, 371b, 461)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.



FEDERAL RESERVE 4058

press release

Item No. 2
12/1/61

For immediate release

December 1, 1961.

The Board of Governors of the Federal Reserve System today authorized an increase in the maximum permissible rates of interest payable by member banks on savings deposits and on time deposits and certificates, effective January 1, 1962.

After that date, member banks will be permitted to pay up to 3-1/2 per cent on all savings deposits and on time deposits and certificates of at least six months' term, and up to 4 per cent on like deposits left in the banks for one year or more. The present maximum rate is 3 per cent.

The 6,100 member banks of the Federal Reserve System have approximately 50 million savings and time deposit accounts, amounting at present to some \$67 billion. More than three-fourths of the total amount is in savings accounts owned by individuals. The time deposits and certificates are owned by business concerns and other private or public institutions as well as by individuals.

For some time, a number of commercial banks have contended that the 3 per cent maximum rate has restricted them in their efforts to compete for savings and time deposits. One effect of the action will be to increase freedom of competition and to enable each member bank to determine the rates of interest which it will pay in the light of the economic conditions prevailing in its area, the type of competition it must meet, and its ability to pay.

Another effect of immediate significance will be to enable member banks so desiring to compete more vigorously to retain foreign deposits that might otherwise move abroad in search of higher returns and thereby intensify an outflow of capital or gold to other countries. Thus, today's action is in line with previous steps taken to moderate pressures on this country's international balance of payments.

A further, longer-range effect should be to give member banks all the scope that may be needed for a considerable period ahead to provide an added incentive for the savings that will be required in financing the future economic growth that will be essential to expanding job opportunities for a growing population.

How many banks may increase their rates after next January 1, or when and to what levels they may do so, is conjectural. Experience suggests that any moves toward higher rates are likely to be gradual. Almost five years have passed since the maximum permissible rate was increased from 2 1/2 per cent to the present 3 per cent. Many banks, however, still pay less than 3 per cent.

Responsibility for setting maximum permissible rates on member bank payments of interest on savings and time deposits was vested in the Board of Governors by Congress in 1933. The maximum permissible rate was set originally in that year at 3 per cent, reduced in 1935 to 2 1/2 per cent, and kept at that level until restored to 3 per cent on January 1, 1957.

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The changes announced today were effected by a revision of the supplement to the Board's Regulation O. A copy of the revised supplement is attached. The action was taken a month in advance of the effective date because many banks, by tradition, use January 1 as the date from which interest on savings deposits is computed.

The Board action today did not change the maximum permissible rates for time deposits and certificates of less than six months duration. For these, the maximum will continue to be 2 1/2 per cent for time deposits and certificates of 90 days to six months, and 1 per cent for time deposits and certificates of less than 90 days.

The Federal Reserve action was taken after consultation with the Federal Deposit Insurance Corporation, which regulates the rate of interest paid by insured banks which are not members of the Federal Reserve System.

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

Item No. 3
12/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1961

Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in your letter of November 17, 1961, the Board approves the appointment of Richard M. Lang as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise if the appointment is not made effective January 29, 1962, as planned.

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. 4
12/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1961



Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in your letter of November 20, 1961, the Board approves the appointment of Maurice M. McAninch, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago, effective January 1, 1962.

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. 5
12/1/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1961

Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in your letter of November 20, 1961, the Board approves the appointment of Jack N. Young, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago, effective January 1, 1962.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

