Minutes for December 6, 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
Minutes of the Board of Governors of the Federal Reserve System on Wednesday, December 6, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
        Mr. Robertson
        Mr. Shepardson
        Mr. King

        Mr. Sherman, Secretary
        Miss Carmichael, Assistant Secretary
        Mr. Thomas, Adviser to the Board
        Mr. Molony, Assistant to the Board
        Mr. Farrell, Director, Division of Bank Operations
        Mr. Solomon, Director, Division of Examinations
        Mr. Johnson, Director, Division of Personnel Administration
        Mr. Hexter, Assistant General Counsel
        Mr. Hooff, Assistant General Counsel
        Mr. Goodman, Assistant Director, Division of Examinations
        Mr. Benner, Assistant Director, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of St. Louis on December 5, 1961, of the rates on discounts and advances in its existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

Item No.

Letter to Farmer, Woolsey, Flippo & Bailey, Tulsa, Oklahoma, regarding the question whether a director of City National Bank, Tulsa, may also serve as chairman of the board of directors of a newly-formed investment company which is designed to engage in the business of selling mutual funds and over-the-counter securities.

Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch in the vicinity of the intersection of Roscoe Boulevard and De Soto Avenue.

Telegram to the Presidents of all Federal Reserve Banks regarding a change in the wording of the item "Cash allowed as reserves (estimated)" in the Board's H.4.1 release (Factors Affecting Bank Reserves and Condition Statement of Federal Reserve Banks), effective December 7, 1961.

Letter to the Federal Reserve Bank of Boston approving the payment of salary to an officer at the rate fixed by the Board of Directors.

Letter to the Federal Reserve Bank of Chicago approving the payment of salary to an officer at the rate fixed by the Board of Directors.

Letter to the Federal Reserve Bank of Minneapolis approving the payment of salaries to certain officers at rates fixed by the Board of Directors.

Mr. Goodman then withdrew from the meeting.

Interest rates (Item No. 8). There had been distributed a draft of telegram to the Presidents of all Federal Reserve Banks that
would comment on certain questions that had been raised with respect to the Board's action on December 1, 1961, in increasing the maximum permissible rates of interest payable by member banks on savings deposits and on time deposits and certificates under Regulation Q, Payment of Interest on Deposits, effective January 1, 1962.

Mr. Hackley reported that numerous inquiries had been received since December 1 regarding the interpretation of the Board's action on that day, particularly with respect to computation of interest at maximum rates. Accordingly, he believed it desirable to send a telegram to the Reserve Banks designed to help answer such inquiries and to publish the interpretation in the Federal Reserve Bulletin and Federal Register, with copies available for distribution.

During a general discussion a number of changes in the proposed telegram were suggested by members of the Board and staff, after which the Board approved sending a telegram to the Reserve Bank Presidents in a form satisfactory to Governor Balderston. A copy of a telegram sent pursuant to that action is attached as Item No. 8. It was also understood that copies of the interpretation would be published in the Bulletin and Federal Register.

Messrs. Thomas, Molony, and Hexter then withdrew from the meeting.

Report on competitive factors (Circleville-Williamsport, Ohio).

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 The Farmers National Bank of Williamsport, Williamsport, Ohio, by The First National Bank of Circleville, Circleville, Ohio, had been distributed under date of December 1, 1961.

In discussion Governor Robertson suggested a revision in the wording in the conclusion of the report, following which it was approved unanimously for transmittal to the Comptroller. The conclusion in the report, as approved, read as follows:

The small amount of competition between the two banks involved would be eliminated by the proposed transaction, but ample competition between the continuing bank and other banks will remain to assure the public of adequate alternative sources of banking services.

Messrs. Hackley and Hooff then withdrew from the meeting.

Application to organize a national bank in Deming, New Mexico.

There had been circulated to the Board a memorandum from the Division of Examinations dated November 17, 1961, proposing a favorable recommendation to the Comptroller of the Currency on an application to organize a national bank in Deming, New Mexico. When the file was in circulation Governor Mills had indicated that he was disposed to concur with the adverse position of the Federal Reserve Bank of Dallas.

Governor Balderston suggested that, in view of the notation made on the file by Governor Mills, consideration of the report to the Comptroller be deferred until December 8, when Governor Mills was expected to be present.
Governor King observed that, since he would not be at the meeting on December 8, he wished to indicate that he would be disposed to recommend favorably on the application. He noted that the proponents of the proposal had applied in 1960 for a national bank charter but that in January 1961 the application had been denied by the Comptroller of the Currency. The same group had persisted in its desire to establish the bank, and since it appeared that the management factor, which previously had been considered marginal, had now been strengthened, Governor King said he would like to have the record of this meeting show that he was disposed to recommend favorable action by the Comptroller of the Currency.

Oral presentation by Morgan New York State Corporation. Reference was made to the fact that tomorrow at 10:00 a.m. there would be an oral presentation to the Board by Morgan New York State Corporation, Albany, New York, regarding its application to become a bank holding company through the acquisition of voting shares of seven New York banks.

Secretary's Note: A stenographic transcript of the oral presentation has been placed in the Board's files.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on the dates indicated the following actions relating to the Board's staff:
Salary increases, effective December 10, 1961

Daviette H. Stansbury, Research Assistant (Data Processing), Division of Research and Statistics, from $2,760 to $2,843 per annum (half-time position).

Harriet D. Berger, Secretary, Division of International Finance, from $4,675 to $4,840 per annum.

Acceptance of resignation

Bertha G. Brown, Secretary, Division of International Finance, effective at the close of business December 8, 1961.

December 6:

Revised wage rate schedule

Adoption of a revised wage rate schedule for manual labor, semi-skilled and skilled manual labor, trade, and craft positions in the Mechanical Force Section of the Division of Administrative Services (attached Item No. 9), effective December 10, 1961; and increases in the annual salaries of the following employees affected by the new schedule, also effective December 10, 1961:

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herbert W. Young, Building Superintendent</td>
<td>$8,299 - $8,486</td>
</tr>
<tr>
<td>C. D. Lindamood, Principal Operating Engineer</td>
<td>6,718 - 6,885</td>
</tr>
<tr>
<td>Arthur S. Myers, Electrician-Operating Engineer</td>
<td>6,718 - 6,885</td>
</tr>
<tr>
<td>John Blash, Carpenter-Operating Engineer</td>
<td>6,302 - 6,448</td>
</tr>
<tr>
<td>Paul L. Tedrow, Operating Engineer</td>
<td>4,805 - 4,930</td>
</tr>
<tr>
<td>Arad B. Shipp, General Mechanic-Operating Engineer</td>
<td>6,053 - 6,198</td>
</tr>
<tr>
<td>Karl J. Steger, Steamfitter-Operating Engineer</td>
<td>6,053 - 6,198</td>
</tr>
<tr>
<td>Glenn B. Hopkins, Painter</td>
<td>5,803 - 5,949</td>
</tr>
<tr>
<td>Bruce L. Rabbitt, Painter</td>
<td>5,803 - 5,949</td>
</tr>
<tr>
<td>Morris Mayhew, Gardener</td>
<td>5,075 - 5,200</td>
</tr>
<tr>
<td>Saul Clanton, Gardener</td>
<td>4,389 - 4,472</td>
</tr>
</tbody>
</table>

Salary increase

Gordon P. Johnson, Messenger, Board Members' Offices, from $4,235 to $4,445 per annum, effective December 10, 1961.
Transfer and salary increase

Virginia Johns, from the position of Secretary in the Division of Research and Statistics to the position of Secretary in the Legal Division, with an increase in basic annual salary from $5,335 to $5,655, effective December 18, 1961.

Acceptance of resignation

Jane B. Orlove, Secretary, Legal Division, effective at the close of business December 16, 1961.

Secretary's Note: The requirements contemplated by the Board's action on November 15, 1961, having been completed, letters were sent today to Continental International Banking Corporation, New York, New York, and Continental International Finance Corporation, Chicago, Illinois, transmitting final permits to commence business.
Bankers International Corporation,
16 Wall Street,

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of October 27, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for Bankers International Corporation to purchase and hold 150,000 shares, par value one Nigerian Pound each, of United Bank for Africa Limited, Lagos, Nigeria, at a cost of approximately US$420,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that Bankers International Corporation shall dispose of its holdings of stock in the Nigerian bank, as promptly as practicable, in the event that the Nigerian bank should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by Bankers International Corporation to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael, Assistant Secretary.
Mr. J.B. Bailey,
Farmer, Woolsey, Flippo & Bailey,
National Bank of Tulsa Building,
Tulsa 3, Oklahoma.

Dear Mr. Bailey:

This is in reference to your letter of November 15, 1961 asking whether Mr. E. J. Handley may continue to serve as a director of City National Bank, Tulsa and as Chairman of the Board of Directors of a newly formed investment company which is designed to engage in the business of selling mutual funds and over-the-counter securities.

When section 32 of the Banking Act of 1933 was first enacted, it provided for the issuance of individual permits by the Board of Governors of the Federal Reserve System. However, the statute was amended in 1935 so as to remove this authority and it now provides (12 U.S.C. sec 78) that the Board of Governors "may allow such service by general regulations . . . ."

In the circumstances, it appears that the relationship to which you refer is within the prohibitions of the statute. A copy of the Board's Regulation R is enclosed for your information.

In case you have not already done so, you may wish to read Board of Governors v. Agnew et al (329 U.S. 441), the only decision involving section 32. One paragraph in the opinion is relevant to your statement regarding Mr. Handley's intentions. It reads:

"Section 32 is not concerned, of course, with any showing that the director in question has in fact been derelict in his duties or has in any way breached his fiduciary obligation to the bank. It is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationships to the bank is therefore immaterial."
Mr. J.B. Bailey

In the event that you have any further inquiries regarding this matter, you may find it more convenient to address your letter to the Federal Reserve Bank of Kansas City which has been furnished with a copy of your letter and of this reply.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 15, 1962, the time within which United California Bank may establish a branch in the vicinity of the intersection of Roscoe Boulevard and De Soto Avenue, Los Angeles (Canoga Park), California, under the authorization contained in the Board's letter of June 16, 1961.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
December 6, 1961

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Effective with the Board's H.4.1 release Thursday, December 7, (page 1, showing Member bank reserves, etc.), the item "Cash allowed as reserves (estimated)" will be changed to read "Currency and coin (estimated)". Definition of code word CHAN, page S-5 of F. R. Telegraph Code also changes.

(Signed) Merritt Sherman
SHERMAN
CONFIDENTIAL (FR)

Mr. George H. Ellis, President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. Ellis:

The Board of Governors approves the payment of salary to Mr. Luther M. Hoyle, Jr. as an Assistant Vice President at the Federal Reserve Bank of Boston for the period January 1 through December 31, 1962, at the rate of $13,000 per annum. The appointment of Mr. Hoyle to official status at the rate indicated, which is the rate fixed by your Board of Directors, was included in the general salary proposals forwarded with your letter of November 13, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.
CONFIDENTIAL (FR)

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approves the payment of salary to Mr. E. O. Fults as an Assistant Vice President of the Federal Reserve Bank of Chicago for the period January 1 through December 31, 1962, at the rate of $15,000 per annum.

Advice of the promotion of Mr. Fults to the position of Assistant Vice President at the rate indicated was included in your letter of November 9, 1961, forwarding the officers' salary schedule for the year 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
CONFIDENTIAL (FR)

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Minneapolis for the period January 1 through December 31, 1962, at the salary rates indicated, fixed by your Board of Directors as advised in your letter of November 20, 1961:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>John J. Gillette</td>
<td>Assistant Vice President</td>
<td>$12,500</td>
</tr>
<tr>
<td>Howard L. Knous</td>
<td>Assistant Cashier</td>
<td>10,500</td>
</tr>
<tr>
<td>Earl O. Beeth</td>
<td>Assistant Cashier</td>
<td>10,500</td>
</tr>
<tr>
<td>John A. MacDonald</td>
<td>Assistant Cashier</td>
<td>11,500</td>
</tr>
</tbody>
</table>

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
TELEGRAM

Item No. 8
12/6/61

December 7, 1961.

(Addressed to the Presidents of all Federal Reserve Banks)

Following are comments intended to clarify questions that have been raised with respect to maximum permissible rates of interest payable on time and savings deposits under revised Supplement to Regulation Q effective January 1, 1962.

Although maximum rate on savings deposits will depend upon length of time that the deposit has remained with bank, maximum rate on time deposits (certificates and time open accounts) will continue as herebefore to be dependent upon stated maturity of certificate or prescribed period of notice of withdrawal and not upon length of time deposit has remained in bank. For example, maximum permissible rate on 6-months certificate of deposit would be 3-1/2 per cent even though, because of renewals, deposit remains in bank 12 months or more.

Time certificates issued prior to January 1, 1962 may be amended, if desired, to bear interest up to applicable increased maximum rates for period subsequent to that date. Thus, certificate dated July 1, 1961, maturing July 1, 1962, may be amended to bear interest up to 4 per cent for period subsequent to January 1, 1962.

Any savings deposit that has remained on deposit continuously for 12 months or more prior to January 1, 1962, may bear interest at any rate up to 4 per cent for period following that date but not for any period prior thereto. After any savings deposit, whether made before or after January 1, 1962, has remained continuously on deposit for 12 months, interest may be paid at any rate up to 4 per cent for period subsequent to January 1, 1962. Where interest is paid at rate of 3-1/2 per cent or less for period subsequent to January 1, 1962, when deposit has been in bank for less than 12 months, but where deposit continues in bank for 12 months, bank may then pay such additional interest for period subsequent to January 1, 1962 as will not cause rate for such period to exceed 4 per cent. For example, if $1000 is deposited March 1, 1962, and bank thereafter credits 3-1/2 per cent interest, and if that amount remains on deposit until March 1, 1963, bank may then credit additional 1/2 of 1 per cent on that amount from March 1, 1962, so that interest for 12 months would be at rate of 4 per cent.

In determining maximum permissible rate on savings deposits, portion of any such deposit that has "remained on deposit for not less than 12 months" is minimum balance in account at any time during such period.
It should be emphasized that above interpretations relate to maximum permissible rates of interest and do not preclude member banks from paying less than maximum interest by reason of lower rates or computation procedures.

Notwithstanding Board's action, it should be borne in mind that, under section 24 of Federal Reserve Act, national banks, as well as State member banks, may not pay interest on time or savings deposits at any rate in excess of that authorized by or pursuant to State law for State banks or trust companies.

(Signed) Merritt Sherman
### Board of Governors of the Federal Reserve System

**Metropolitan D. C. Prevailing Rate Wage Schedule**

**Basic Annual Pay Rates by Grade**

**Effective December 10, 1961**

**Note:** This schedule applies to manual labor, semi-skilled and skilled manual labor, trade and craft positions in the Mechanical Force section of the Division of Administrative Services.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Grade</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,808</td>
<td>$2,954</td>
<td>$3,099</td>
<td>9</td>
<td>$5,366</td>
<td>$5,658</td>
<td>$5,949</td>
</tr>
<tr>
<td>2</td>
<td>3,224</td>
<td>3,390</td>
<td>3,557</td>
<td>10</td>
<td>5,616</td>
<td>5,907</td>
<td>6,198</td>
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<tr>
<td>3</td>
<td>3,640</td>
<td>3,827</td>
<td>4,014</td>
<td>11</td>
<td>5,824</td>
<td>6,136</td>
<td>6,448</td>
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<td>4</td>
<td>4,056</td>
<td>4,264</td>
<td>4,472</td>
<td>12</td>
<td>6,219</td>
<td>6,552</td>
<td>6,885</td>
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<tr>
<td>5</td>
<td>4,472</td>
<td>4,701</td>
<td>4,930</td>
<td>13</td>
<td>6,635</td>
<td>6,989</td>
<td>7,342</td>
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<td>6</td>
<td>4,701</td>
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<td>17</td>
<td>8,590</td>
<td>9,048</td>
<td>9,506</td>
</tr>
</tbody>
</table>

Step 1 is the normal entrance level for all grades. Advancement to Step 2 occurs after 26 weeks of satisfactory service in Step 1. Advancement to Step 3 occurs after an additional 78 weeks of satisfactory service in Step 2.

This schedule supercedes the one effective December 25, 1960.