

Minutes for December 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

WM

Gov. Mills

Gov. Robertson

RC

Gov. Balderston

CCB

Gov. Shepardson

SSS

Gov. King

King

Gov. Mitchell

MM

Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, December 20, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Mills
 Mr. Robertson
 Mr. King
 Mr. Mitchell

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 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. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel
 Administration
 Mr. Connell, Controller
 Mr. Chase, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Sammons, Adviser, Division of International
 Finance
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Sprecher, Assistant Director, Division of
 Personnel Administration
 Mr. Bass, Assistant Controller
 Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on December 18, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

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	<u>Item No.</u>
Letter to The Chase Manhattan Bank, New York, New York, authorizing the establishment of a branch in Port-of-Spain, Trinidad, The West Indies.	1
Telegram to the Federal Reserve Bank of New York approving a gold loan to Colombia.	2
Letter to the President of Liberty National Bank and Trust Company of Louisville, Louisville, Kentucky, replying to his letter of December 8, 1961, regarding payment of interest on savings deposits. (With copies to the Presidents of all Federal Reserve Banks.)	3

Messrs. Young and Sammons then withdrew from the meeting.

Report on competitive factors (McKeesport-Pittsburgh, Pennsylvania). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Western Pennsylvania National Bank, McKeesport, Pennsylvania, and West End Bank, Pittsburgh, Pennsylvania, had been distributed under date of December 15, 1961.

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

Our investigation discloses very little, if any, competition between Western Pennsylvania National Bank and West End Bank. While approval of the proposed consolidation might intensify competition for the remaining small bank in the area, it does not appear that that bank would be adversely affected thereby.

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Assessment on Federal Reserve Banks for first half of 1962.

Copies of a memorandum from Mr. Bass dated December 19, 1961, had been distributed recommending that an assessment of .00248 of the total paid-in capital and surplus of the Federal Reserve Banks as of December 31, 1961, be levied upon the Banks to help defray the expenses of the Board for the first half of 1962. Based on estimated capital and surplus of \$1,319,000,000, the rate indicated would produce \$3,271,120.

There being no objection, the proposed assessment was approved unanimously.

Messrs. Connell, Hooff, and Bass withdrew from the meeting at this point.

Use of facilities at Atlanta Bank. A letter dated December 6, 1961, had been received from Counsel, Washington Bureau, National Association for the Advancement of Colored People, enclosing a copy of an office memorandum sent to employees of the Federal Reserve Bank of Atlanta by President Bryan under date of November 9, 1961, regarding the use of the facilities in the Bank's new building. Copies had been distributed of a draft of reply over Chairman Martin's signature that would point out that under the provisions of section 4 of the Federal Reserve Act each of the twelve Federal Reserve Banks "shall be conducted under the supervision and control of a Board of Directors." The letter would also state that it was not known what consideration had been given by the directors of the Bank to the question of making available

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separate rest room and shower facilities for members of the staff according to race, that President Bryan's memorandum had not been seen previously by the Board, but that a copy of the incoming letter was being sent to President Bryan for his information, and with the request that the letter be brought to the attention of the directors of the Bank.

After discussion, it was agreed that Chairman Martin would discuss the matter with President Bryan to obtain additional information and that the proposed reply would then be considered further by the Board.

Messrs. Johnson and Sprecher then withdrew from the meeting.

Question under section 8 of Clayton Act (Item No. 4). There had been distributed under date of December 19, 1961, a memorandum from the Legal Division regarding whether service by Mr. Alvin M. Parker as a director of both the Riggs National Bank, Washington, D. C., and the Alexandria National Bank, Alexandria, Virginia, would be prohibited by section 8 of the Clayton Act. On December 18, 1961, Mr. Robert V. Fleming, Chairman of the Board of Riggs National Bank, and Representative Howard Smith of Virginia, Chairman of the Board of Alexandria National Bank, visited Chairman Martin, with Vice Chairman Balderston and Mr. Hackley also present, to request that the Board reconsider the ruling contained in its letter of June 15, 1961, to the office of the Comptroller of the Currency that Alexandria and Washington are "contiguous" within

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the meaning of section 8 of the Clayton Act and that, therefore, a director of Riggs could not also serve as a director of Alexandria National Bank. Messrs. Fleming and Smith advised that Mr. Parker had been serving as a director of both banks since 1958 and that he succeeded Mr. Thomas A. Butt, who had been serving both banks since 1947. It was indicated that both Messrs. Parker and Butt had been elected as directors of Riggs National Bank pursuant to the desire of a large depositor. Since Messrs. Parker and Butt had served for such a long period without objection, Mr. Fleming and Mr. Smith urged that Mr. Parker be allowed to continue to serve irrespective of the purely legal aspects of the matter.

With reference to previous cases of this type that had come before the Board, the memorandum noted that in every instance but two the Board had held that the statute prohibited the interlocking relationship concerned because the places were "contiguous". In the more recent of the two exceptions, the Board on January 28, 1959, stated that it would "interpose no objection" to the continued service of Mr. Elwood Kirkman as director of a bank in Ocean City, New Jersey, and a bank having a branch in Somers Point, New Jersey, even though the corporate limits of these two places coincided under navigable waters separating them. The reason for the Board's position in that case was that Mr. Kirkman had been told earlier by a representative of the Federal Reserve Bank of Philadelphia that the Clayton Act would not prohibit his serving

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as a director of the two banks. On the basis of this advice, the branch in Somers Point was established. As to whether Alexandria, Virginia, and Washington, D. C., were "adjacent" within the meaning of the statute, the Board had stated in its letter of June 15, 1961, referred to previously, that the fact the two communities in question were "contiguous" rendered moot the question whether they were "adjacent", although the two places would probably be considered "adjacent" as well.

It was the conclusion of the Legal Division, as expressed in its memorandum, that in view of the fact that the boundaries of Alexandria and Washington touched and coincided, the two places were "contiguous" within the meaning of the statute. It was noted, however, that the service of Mr. Parker and his predecessor had been allowed to continue for a long time without objection.

In commenting on the matter, Mr. Hackley pointed out that not until recently had the Office of the Comptroller of the Currency raised a question regarding the service of Mr. Butts, and later of Mr. Parker. Apparently a new national bank examiner had noted the interlocking relationship at the most recent examination, and the Comptroller's Office then wrote to the Board. The Board's reply of June 15, 1961, was to the effect indicated in the Legal Division's memorandum. Since the corporate boundaries of Washington and Alexandria coincide for a certain distance, the two places would appear to be "contiguous" within the meaning of section 8 of the Clayton Act. In such circumstances, it had

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been the Board's general position that regardless of other considerations, such as whether the banks concerned actually were in competition, the case would not fall within any of the exceptions to the Clayton Act and service as a director of both banks therefore would be prohibited by statute. However, in one recent case (the Kirkman case) the Board had felt that the equities of the matter were such as to warrant taking a position that it would interpose no objection to the continued service of the bank director involved. Accordingly, the question was whether the circumstances of the Parker case might be such as to warrant taking a similar position.

There ensued a lengthy discussion during which reference was made, among other things, to the provisions of the law, the history of the present case, and the arguments that might be cited for and against interposing no objection to the continued service of Mr. Parker as a director of both banks.

Governor Robertson took the position that the Board should reaffirm the ruling contained in its letter of June 15, 1961, to the Comptroller's Office. The fact of the matter, he brought out, was simply that the national bank examiners did not note the interlocking relationship until recently. When the situation was finally noted, the matter was presented to the Board, and the Board replied. It would, he thought, place the Board in a bad light if it now changed the position that it had stated in its letter.

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Governor Mitchell suggested advising the banks concerned that Mr. Parker's service as a director of one of the two institutions should be terminated as soon as it was convenient and practicable to replace him, without specifying any particular time within which that step must be accomplished.

The other members of the Board indicated that, in view of the circumstances of this particular case, including the continuity of relationships over a period of approximately 15 years, they would favor advising that although Washington and Alexandria would appear to be contiguous within the meaning of section 8 of the Clayton Act, the Board would interpose no objection to Mr. Parker's continuing as a director of both banks, with the understanding, however, that no succeeding interlocking director would be elected when Mr. Parker's service terminated.

Accordingly, it was agreed, with Governors Robertson and Mitchell dissenting, to send to the Chairman of the Riggs National Bank a letter in the form attached as Item No. 4, with a copy to the Comptroller of the Currency.

All of the members of the staff except Messrs. Sherman and Fauver then withdrew from the meeting.

Appointment of director. The Board authorized the usual steps to be taken to ascertain through Chairman Mitchell of the Federal Reserve Bank of Atlanta whether Mr. Kenneth R. Giddens, President of WKRG-TV, Inc.,

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Mobile, Alabama, would accept appointment as a director of the New Orleans Branch of that Bank for the three-year term beginning January 1, 1962, with the understanding that if he would accept such appointment if tendered, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Giddens would accept the appointment if tendered, a telegram advising him of the appointment was sent on December 26, 1961.

Loan of services of Mr. Wernick. Governor Robertson presented a memorandum from Mr. Noyes dated December 19, 1961, regarding a request from Dr. R. A. Gordon, Chairman of the President's Committee to Appraise Employment and Unemployment Statistics, that Murray Wernick, Senior Economist in the Division of Research and Statistics, be made available to serve as Staff Director for the Committee during the period from January 1 through June 30, 1962, such duties to take approximately half of Mr. Wernick's time and the remainder to be spent on his usual duties as a member of the Board's staff.

After discussion, unanimous approval was given to Mr. Wernick's serving in the capacity indicated, with the understanding that the Board would pay his full salary on a nonreimbursable basis during the period of his service with the Committee and that other expenses such as travel and per diem, related to the work of the Committee, would be paid from funds of the Committee.

The meeting then adjourned.

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Secretary's Notes: The work contemplated by the discussion at the Board meeting on September 28, 1961, having been accomplished, there was sent to Senator Douglas, Chairman of the Subcommittee on Production and Stabilization of the Senate Banking and Currency Committee, on December 19, 1961, a compilation of State laws relating to the extension of consumer credit. A copy of the letter transmitting this compilation is attached as Item No. 5.

It having been ascertained, pursuant to Board action on December 1, 1961, that Dr. Willis J. Winn, Vice Provost of the University of Pennsylvania, Philadelphia, Pennsylvania, would accept appointment, if tendered, as a Class C director of the Federal Reserve Bank of Philadelphia for the three-year term beginning January 1, 1962, a telegram advising of the appointment was sent to Dr. Winn today.

Governor Shepardson noted on behalf of the Board on December 19, 1961, a memorandum advising that the application for retirement filed by C. C. Hostrup, Assistant Director, Division of Examinations, had been approved, effective at the close of business December 31, 1961.

On December 19, 1961, Governor Shepardson approved on behalf of the Board the following items:

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

Salary increase with change in title

Edwin G. White, from \$7,260 to \$7,560 per annum, with a change in title from Analyst to Technical Assistant in the Division of Bank Operations, effective December 24, 1961.

Termination of employment

Eva G. Kennedy, Statistical Assistant, Division of Research and Statistics, effective at the close of business December 3, 1961.

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Letter to Mr. George L. Stevens confirming arrangements for him to conduct two 24-hour courses in Reading Improvement for members of the Board's staff as an activity of the Board's Employee Training and Development Program, with the understanding that the first course would begin on January 16, 1962, and the second course on March 27, 1962; that Mr. Stevens would provide all the equipment, materials, and references required for this program; and that the Board would pay him at the completion of each course \$40 for each participant in this program.

Memorandum dated December 19, 1961, from the Office of the Controller recommending approval of certain anticipated overexpenditures in the 1961 budgets of several divisions and offices of the Board.

Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the following items:

Appointments

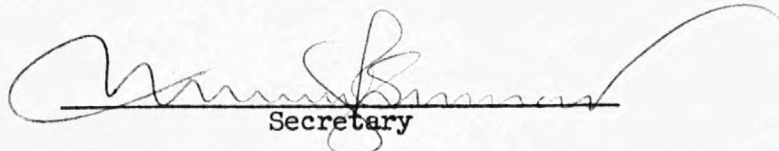
Robert R. Wyand, II, as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$6,435, effective January 2, 1962.

Barbara Lou Jones as Special Assistant Federal Reserve Examiner, Division of Examinations, with basic annual salary at the rate of \$4,040, effective the date of entrance upon duty.

Acceptance of resignation

Jerome W. Shay, Legislative Counsel, Board Members' Offices, effective at the close of business December 28, 1961.

Governor Robertson noted on behalf of the Board a memorandum advising that the application for retirement filed by Bricen Barnes, Bindery Helper and Operator, Mimeograph, Division of Administrative Services, had been approved, effective at the close of business December 31, 1961.


Secretary

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

Item No. 1
12/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 20, 1961

The Chase Manhattan Bank,
One Chase Manhattan Plaza,
New York 15, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to establish a branch in the City of Port-of-Spain, Trinidad, The West Indies, and to operate and maintain such branch subject to the provisions of such Sections.

Unless the branch is actually established and opened for business on or before December 1, 1962, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

12/20/61

T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

December 20, 1961

ROUSE - NEW YORK

Your wire December 14. Board approves granting of loan on gold up to a total of \$15 million by your Bank to the Banco de la Republica on the following terms and conditions:

- (a) To be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;
- (b) To mature in three months with option to repay at any time before maturity, both the loans and repayments to be in multiples of \$1 million;
- (c) To bear interest at the discount rate of your Bank in effect on the date on which such loan or loans are made; and
- (d) To be requested and made on or before December 27.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

(Telegram refers to Banco de la Republica (Colombia))



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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Item No. 3
12/20/61

OFFICE OF THE CHAIRMAN

December 21, 1961

Mr. Merle E. Robertson, President,
Liberty National Bank and Trust Company
of Louisville,
Louisville 1, Kentucky.

Dear Mr. Robertson:

I have read with much interest your letter of December 8, 1961, regarding payment of interest on savings deposits and, because I think it will also be of interest to them, I am bringing it to the attention of the other members of the Board.

As you say in your letter, savings deposits for all practical purposes are payable on demand; yet, unlike demand checking accounts, savings deposits are permitted to bear interest and, in addition, they are subject to lower reserve requirements than checking accounts. This somewhat privileged status has, of course, been accorded to savings deposits in order to encourage thrift by the public; and, with the same purpose in mind, the Board has always prescribed a maximum rate of interest on savings deposits equal to the highest maximum rate permitted with respect to any time deposits.

At the same time, we are aware of the possibility that savings deposits, because of their demand nature, may be improperly used for ordinary checking purposes. For this reason, the Board's regulations for many years required savings deposits to be represented by passbooks and permitted member banks to make payments from savings deposits only to the depositor himself or to a third person holding and presenting the passbook. Several years ago, in view of the development of the use of mechanical equipment by banks, the Board relaxed its regulations so as to permit non-passbook savings accounts, but with a limitation that such accounts may be paid only to the depositor himself. As another means of preventing abuses of savings deposits, the Board's regulations permit them to be maintained only by individuals or by certain types of nonprofit corporations.

Recently, certain situations have come to the Board's attention that appear to be inconsistent with the proper use of savings accounts and, in order to prevent abuses, the Board has amended Regulation Q in certain respects to become effective January 15. In the event that you have not yet seen these amendments, I am enclosing a copy for your information.

Mr. Merle E. Robertson

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The spread of the practice of computing interest on savings deposits on a daily basis, that is, from the date of deposit to the date of withdrawal, has been a source of some concern to the Board in recent months. As you know, the Board's regulations permit a member bank to compute interest on any basis desired by the member bank provided the amount of interest paid does not exceed the amount that would be paid at the relevant maximum rate of interest prescribed by the Board when compounded quarterly. Consequently, subject to this limitation, there is nothing to prevent member banks from computing interest on a daily basis. In one respect, this practice may be regarded as desirable since it makes it unnecessary for a bona fide savings depositor to sacrifice interest if he is obliged to make a withdrawal between regular interest dates. However, the Board has recognized that the practice might lead to abuses if it should encourage individuals or eligible organizations to make savings deposits in large amounts for only a few days merely in order to obtain interest on temporarily idle funds. Obviously, this would not be consistent with the basic purposes of a savings deposit.

For the reasons just indicated, the Board has asked the Federal Reserve Banks to watch carefully the development of the daily-interest practice and to report to the Board any instances in which the practice may be leading to abuses. You may be sure that we will expect to give this matter our continuous attention.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

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

Item No. 4
12/20/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1961

Mr. Robert V. Fleming,
Chairman of the Board,
The Riggs National Bank,
Washington 13, D. C.

Dear Mr. Fleming:

This is in reference to your letter of December 19, 1961 to Chairman Martin regarding the service of Mr. Alvin M. Parker as a director of The Riggs National Bank and as a director of the Alexandria National Bank, Alexandria, Virginia. It appears that Mr. Parker was elected to succeed Mr. Thomas A. Butt who was elected a director of The Riggs National Bank in January 1947 and served as a director of both banks until his death in 1958. There has therefore been a continuity of service of approximately 15 years.

It appears that the corporate boundaries of Alexandria and Washington, D. C. coincide for a certain distance and that therefore the two places are "contiguous" within the meaning of section 8 of the Clayton Act. However, in view of the fact that the relationship, as stated above, has had a continuity of approximately 15 years, the Board interposes no objection based on the provisions of the Clayton Act to Mr. Parker's continuing as a director to both banks with the understanding that when his service terminates no succeeding interlocking director will be elected.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

cc: Federal Reserve Bank of Richmond
Comptroller of the Currency



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
12/20/61

OFFICE OF THE CHAIRMAN

December 19, 1961

The Honorable Paul H. Douglas, Chairman,
Subcommittee on Production and Stabilization,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

As requested in your letter of September 25, 1961, there is enclosed herewith a compilation of the State statutes which relate to the provisions of section 4 of S. 1740, a bill "To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit."

This compilation has been prepared by the Legal Division of the Board of Governors of the Federal Reserve System on the basis of compilations of State statutes prepared by counsel for the Federal Reserve Banks by means of an examination of the laws of the various States. In order to avoid making the compilation even more voluminous than it is, it has been edited so as to include only those items which bear directly on the subject and so as to omit a large volume of provisions which are related only indirectly to it.

We hope the compilation will be helpful in your further study of S. 1740.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr.".

Wm. McC. Martin, Jr.

Enclosure