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Minutes for January 31, 1962

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.

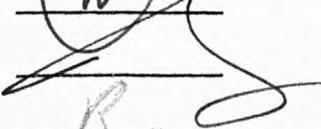
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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



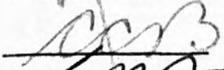
Gov. Mills



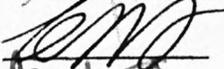
Gov. Robertson



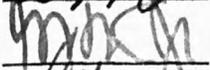
Gov. Balderston



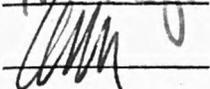
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on
Wednesday, January 31, 1962. 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. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
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. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Young, Senior Attorney
Mr. Guth, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on January 29, 1962, 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 circulated or distributed to the Board. The following items, which had been circulated or 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 First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, granting permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange.	1
Letter to City National Bank of Fairmont, Fairmont, West Virginia, approving its application for fiduciary powers.	2
Letter to Birmingham-Bloomfield Bank, Birmingham, Michigan, granting its request for permission to exercise a specific fiduciary power.	3

Whitney Holding Corporation (Item No. 4). There had been distributed a draft of letter to Mr. Saxon, Comptroller of the Currency, outlining the history of the application by Whitney Holding Corporation, New Orleans, Louisiana, for the Board's approval of the formation of a bank holding company. The draft requested comments on views that had been expressed in regard to the Whitney National Bank of New Orleans during the oral presentation held on January 17, 1962, on the Whitney Holding Corporation's proposal.

Governor Mills asked if the basic purpose of the letter was to elicit an opinion as to the standing and integrity of the national bank's management, as a matter that the Board should take into account in its consideration of the holding company application. Response was made that such an expression was what was sought, or, more precisely, a statement that might help the Board in evaluating the management of the national bank as an element in the holding company proposal.

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The letter was then approved unanimously. A copy is attached as Item No. 4.

Messrs. Goodman and Guth left the meeting at this point.

Interest payable on savings deposits in New York State (Item No. 5).

At its meeting on January 10, 1962, the Board approved a letter replying to an inquiry made by the Federal Reserve Bank of New York as to the rate of interest that national banks in the State might pay on time and savings deposits in the light of recent changes in the Board's Regulation Q, Payment of Interest on Deposits, and in regulations of the New York State Banking Department. The question involved was whether, for the first 12 months of a savings deposit, the maximum rate prescribed by the State regulation for State commercial banks or that prescribed for mutual savings banks should govern national banks operating in the State. The Board's reply was to the effect that national banks were allowed to pay as high a rate of interest as any State bank or trust company, including mutual savings banks, rather than the lower maximum rate State commercial banks were allowed to pay under the State regulation. The Board's position was subsequently conveyed informally to the Superintendent of Banks by the Reserve Bank.

The State Superintendent in a letter dated January 17, 1962, urged the Board to take whatever action it might legally take in order to limit national banks to the maximum rate fixed for State commercial banks. Mr. Root also had visited the Board's offices on January 30 to discuss the problem with members of the Board of Governors.

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In a memorandum dated January 29, 1962, which had been distributed, Mr. Hackley reviewed the problem, which included both legal and policy questions.

The memorandum noted that prior to January 1, 1962, both national and State member banks in New York were limited by Regulation Q to a maximum rate of 3 per cent on savings deposits. Mutual savings banks were permitted by State regulations to pay dividends up to 3-1/2 per cent. On November 8, 1961, the State authorities amended the State regulation to permit mutual savings banks to pay dividends at a rate of up to 3-3/4 per cent, effective January 1, 1962.

The Board's action of December 1, 1961, increased the maximum for member banks to 4 per cent, effective January 1, 1962, with respect to savings deposits that remained on deposit for at least one year; and the Board's explanatory statement of December 7, 1961, indicated that while only 3-1/2 per cent might be paid currently during the first year, a member bank at the end of the year could credit an additional 1/2 per cent so that the effective rate for the year would be 4 per cent.

Following the Board's action the New York Banking Board at first issued a regulation fixing identical maximum rates for State commercial banks, but subsequently the regulation was amended so as to allow State commercial banks to pay 4 per cent only for the period beginning after the end of the first year of a savings deposit and to limit them to a maximum of 3-1/2 per cent for the first year. However, the amended

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regulation continued to permit State mutual savings banks to pay dividends at a maximum rate of 3-3/4 per cent for the first year, thus preserving a differential in their favor.

Section 24 of the Federal Reserve Act prohibits a national bank from paying a rate of interest on time and savings deposits higher than that permitted for "State banks or trust companies" under the law of the State in which the national bank is located. For more than 20 years the Board had construed this provision to mean that national banks may not pay more than the maximum rate fixed for any class of State banks, including mutual savings banks. This position was taken by the Board in 1938 with respect to a similar situation in New York State when the rate fixed by the State authorities for savings banks was greater than that fixed for State commercial banks.

The Board's January 10, 1962, letter to the New York Reserve Bank followed the Board's long-standing construction of the phrase "State banks or trust companies." Therefore, in view of the New York Banking Board's regulation, a national bank in New York might pay interest on savings deposits at a rate not in excess of that permitted by the State regulation for mutual savings banks, that is, 3-3/4 per cent, during the first year of a savings deposit; although, in accordance with the Board's explanatory statement of December 7, the national bank could pay only up to 3-1/2 per cent currently, it could credit an additional 1/4 per cent for the year after the funds had remained on deposit for

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a year. This meant in effect that State mutual savings banks and national banks could both pay up to the same maximum rate-- $3\frac{3}{4}$ per cent--for the first year of a savings deposit. After the first year, national banks were limited to the 4 per cent maximum prescribed by the Board, while mutual savings banks were subject to no limitation under the State regulation. Thus, savings banks had no immediately operative competitive advantage over national banks in soliciting new savings deposits. At the same time, the situation placed State member commercial banks at a competitive disadvantage in relation to national banks, since the former were limited by the State regulation to a maximum of $3\frac{1}{2}$ per cent for the first year of a savings deposit.

The memorandum then reviewed several possible approaches that had been considered, as follows:

(1) The Board had taken the position that, while not more than $3\frac{1}{2}$ per cent could be paid during the first year of a savings deposit, a member bank could, at the end of the year, credit additional interest for the year so as to bring the effective rate up to the maximum of 4 per cent. If the Board should now reverse this so-called "retroactive" interpretation, national banks in New York would be limited to an effective maximum rate of $3\frac{1}{2}$ per cent for the first year of a savings deposit, the same as that fixed for State commercial banks (including State member banks) by the State regulation.

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The Legal Division believed that such an action by the Board would be legally sound. However, it would in effect constitute a change in the maximum rates prescribed by the Board. It would mean, for example, that the 4 per cent maximum would not be applicable to a savings deposit until after a date beginning one year from the date of deposit, although it would remain applicable with respect to the first year of a time certificate. Moreover, such a change in the Board's interpretation would apply throughout the country and would undoubtedly give rise to misunderstanding and irritation on the part of member banks that had announced the 4 per cent rate in reliance upon the Board's explanatory statement of December 7, 1961.

(2) An approach that had been considered, but later discarded as unwarranted by both the Board's Legal Division and the legal staff of the New York Reserve Bank, was that the Board might, by regulation, reverse its "retroactive" interpretation only with respect to New York State, on the ground that the law authorizes the Board to fix different maximum rates according to geographical location.

(3) In conformity with the provision of section 24 of the Federal Reserve Act previously mentioned, the Board's Regulation Q provides in effect that a member bank shall not pay interest at a rate in excess of (a) that prescribed by the Board, or (b) that prescribed for "State banks or trust companies" under State law, whichever is less. It had been suggested that, under the authority given the Board by

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section 19 of the Federal Reserve Act, the Board might fix maximum rates that would be more restrictive than the requirement of section 24, in other words, that the Board might amend Regulation Q so as to fix the maximum rate for savings deposits as (a) the maximum prescribed by the Board, or (b) the maximum prescribed under State law for State commercial banks, whichever is less.

It might be argued that such an action would be legally warranted under the provisions of section 19 and that it would be justified by the fact that the Federal Deposit Insurance Corporation had not included mutual savings banks within the scope of its interest rate regulations. On the other hand, such action might be vulnerable to legal attack on the grounds that (a) it would constitute an improper delegation of the Board's statutory responsibility to State authorities, and (b) it would be inconsistent with the apparent intent of Congress in section 24 of the Act to place national banks on an equal competitive basis with State banks (including savings banks) with respect to interest rates on deposits. However, in answer to the contention that such action would be an unwarranted delegation of the Board's responsibility, it might be argued that, if the Board should prescribe a specified maximum rate, such as 4 per cent, or such lesser maximum as might be fixed under State law for State commercial banks, this would constitute a proper exercise of the Board's statutory authority in order to avoid different ceiling rates for State member and national banks.

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(4) It had been suggested that the Board might take the position that the phrase "State banks or trust companies" in section 24 does not embrace State mutual savings banks. In support of that argument, it might be noted that section 24 refers to rates of "interest," whereas mutual savings banks pay "dividends." The Board had recognized this distinction in the few cases in which mutual savings banks had been admitted to System membership; in such cases the Board had apparently assumed that Regulation Q was not literally applicable and had considered it necessary to impose a condition of membership limiting the maximum rate of regular dividends payable by such mutual savings banks to the maximum rate of interest prescribed in the Regulation. Also, whereas section 24 and also section 19 of the Federal Reserve Act refer only to rates of "interest," the Federal Deposit Insurance Act refers to limitations on both rates of interest and rates of dividends. An interpretation of this kind would not require any amendment to Regulation Q.

In opposition to the suggested interpretation of section 24, it might be argued that regular dividends paid by mutual savings banks are regarded as equivalent to "interest" on deposits. The Internal Revenue Code in effect considers "so-called dividends" of mutual savings banks as constituting interest for income tax purposes, although, of course, that would not be conclusive in making an interpretation of the Federal Reserve Act. It might also be argued against the suggested interpretation

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that it would be inconsistent with the intent of section 24 to place national banks on the same competitive level as State banks, including savings banks, with which national banks are in competition. It would also, of course, involve a reversal of the position taken by the Board in 1938, when mutual savings banks in New York were considered to be embraced within the phrase "State banks or trust companies."

It was the Legal Division's view that of the four possible approaches, only the first (a change in the Board's "retroactive" interpretation) would be clearly warranted as a legal matter. However, that approach would amount to a change in the maximum rates fixed by the Board and might be subject to policy objections. Adoption of any of the other three approaches probably would not be legally challenged, but it seemed there might be some question whether they would be consistent with the law or with the proper exercise of the Board's statutory responsibilities.

Since the legality of the various approaches discussed was admittedly a matter of opinion, Mr. Hackley's memorandum suggested that the Board might wish to consider certain policy considerations. Arguments in favor of action that would accord with the wishes of the New York State Bank Superintendent included the following:

1. Mutual savings banks, because of the nature of their business, are entitled to some rate advantage over commercial banks. They have had such an advantage in the past in New York State, and this advantage should be continued.

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2. The Federal Deposit Insurance Corporation's interest rate regulations do not apply to nonmember insured mutual savings banks.

3. The present situation places State commercial member banks at a competitive disadvantage in relation to national banks in New York. All member banks should be allowed to pay the same maximum rate of interest.

Arguments in opposition to any action that would change the Board's present position included the following:

1. Commercial banks are clearly in competition with mutual savings banks for savings deposits. That had been specifically recognized by the Board in statements relating to decisions under the Bank Holding Company Act.

2. The fact that the Federal Deposit Insurance Corporation's interest rate regulations are not applicable to mutual savings banks has no bearing upon the exercise of the Board's responsibilities under the Federal Reserve Act.

3. Action of the kind suggested would theoretically enable the State banking authorities in some States where mutual savings banks are prevalent to place national banks at a competitive disadvantage in relation to a large class of State banks with which they are in active competition for savings deposits.

Mr. Hackley, in commenting on the memorandum, said he understood the preference of Vice President Crosse of the New York Reserve Bank

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would be to limit national banks to the maximum rate of interest prescribed by State law for commercial banks, omitting mutual savings banks. As the memorandum had pointed out, this could be accomplished in either of two different ways. If the Board should be disposed to reverse its long-standing interpretation of the phrase "State banks or trust companies" in section 24 of the Federal Reserve Act, it might wish to confer with the Comptroller of the Currency before doing so, since section 24 applies solely to national banks. The other possible approach would be to amend Regulation Q to specify that a national bank may not pay more than the maximum rate prescribed by the Board or the maximum rate prescribed under State law for commercial banks. Some of the arguments for and against such an action had been set forth in the distributed memorandum.

During further discussion, Mr. Hackley responded to questions by Board members in regard to the possible courses of action and their effect. He noted that State Bank Superintendent Root, during his visit yesterday, had indicated that if the Board adhered to its position he might be forced to permit State banks to pay the same rate of interest that national banks were allowed to pay. This problem, however, did not appear to be of as much concern to Mr. Root as the position of national banks vis-a-vis mutual savings banks.

Governor Mills stated that as he read the memorandum, the problem seemed to turn on whether the Board wished to make an interpretation that apparently would fall within the Board's statutory discretion

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and that would recognize an approach followed for years by the Federal Deposit Insurance Corporation. Such an approach would distinguish between commercial banks and mutual savings banks, in line with the view of the New York State Superintendent of Banks that historically there had properly been a margin between the maximum rates payable by commercial banks and those payable by mutual savings banks. As justification for that traditional margin, it might be pointed out that mutual savings banks are confined to mortgage lending, that they do not have the power to create deposits, and that withdrawals from their accounts are restricted. Therefore, they should be allowed to pay a somewhat higher maximum rate and should not be forced into direct market competition with commercial banks, which have broader privileges.

Governor Mills said that he subscribed to this view and thought the Board would be wise to conform to it. He could not see that any principles would be violated by conforming within reason to the State regulations in New York and in any other States where there were differences between the State and Federal regulations, nor was he worried about the legal aspects of the problem or about changing a position taken in 1938.

Governor Balderston asked Mr. Hackley what his preference would be, as between a revised interpretation of section 24 or an amendment to Regulation Q, and Mr. Hackley responded that that was a difficult question for him to answer. He would not favor either alternative. In his opinion, however, an amendment to Regulation Q would probably be more supportable than an interpretation of section 24 by the Board.

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Mr. Hexter agreed with the view that since section 24 was applicable solely to national banks, it would seem that any interpretation should be made by the Comptroller; should the Board make the suggested interpretation, the Comptroller might feel that the Board was going beyond its authority.

Governor Robertson said that he thought the Office of the Comptroller would object; in a number of fields the position had been taken that national banks should be on a parity with State banks. In his opinion, the Board should adhere, on the question before it, to the position taken in 1938 and leave national banks free to compete on a parity with any State bank. It would then be up to the New York State authorities to raise the ceiling interest rate for mutual savings banks if they chose to do so. It seemed to him that the Board should not risk creating a national problem by taking action for the benefit of one State when that State could resolve its problem by its own actions. The argument might be made that the State banks, including mutuals, could not afford to pay a higher rate of interest and that they would turn to risky loans, but that was true in every State. It was a factor that had been given consideration when the Board increased the maximum rates payable under Regulation Q; however, the Board had felt that the problem could be dealt with through bank supervision. Therefore, Governor Robertson believed that the Board should reaffirm its position and leave the New York problem to the State authorities.

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Chairman Martin expressed agreement with the theoretical soundness of Governor Robertson's line of reasoning. He would question it only on the ground that the New York problem, in itself a rather small matter, could involve some shifting of funds among institutions. From that standpoint it might be of some concern. The State banking authorities could, of course, raise the maximum rate for mutual savings banks, but there might be some question as to whether or not that would be desirable.

Governor Balderston then presented substantially the following statement:

One solution proposed to the problem posed by the New York mutual savings banks through Mr. Root is to amend the Board's Regulation Q to fix the maximum rate for savings deposits as:

- (a) the maximum prescribed by the Board or
- (b) the maximum prescribed under State law for State commercial banks, whichever is less.

The latter provision would be a substitution for "State banks or trust companies under State law, whichever is less." The theoretical effect of such a change would be to permit a State, if it chose, to give mutual savings banks an advantage over national banks in those States where maximum rates are prescribed by State law or regulation.

The argument is advanced that such a change would be inconsistent with the apparent intent of Congress to place national banks on an equal competitive basis as to permissible rates with all State banks, including savings banks. But the rule followed since 1938, combined with the present regulation of the New York State Banking Board, discriminates against State commercial banks in favor of national banks; whereas the proposed change would not.

What does the problem amount to in size and importance, taking into account that insured nonmember State mutual savings banks are exempted by the Federal Deposit Insurance Corporation from its interest rate regulations?

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A relevant question, therefore, is how many of the 18 States having mutual savings banks control maximum rates of interest that may be paid. I do not know with complete confidence the answer for all 18, but as of May 1961 the Legal Division believed that only 4 (Indiana, Minnesota, New York, and Pennsylvania) prescribed maximum rates of interest on time deposits of commercial banks.

I would suggest that the Board discuss with the Comptroller this solution to the problem presented by the mutual savings banks of New York, which is also a potential problem in Pennsylvania, Indiana, and Minnesota.

Continuing, Governor Balderston commented that he had thought of what the problem might be if this rather small matter was allowed to grow into something big, with a lot of publicity. For that reason, he had decided to explore the extent of the problem, and it did not seem to be a matter of national concern at all. Even in the four States he had mentioned, the problem was not of equal importance. Indiana had only four small mutuals, and Minnesota had only one mutual savings bank. As to the question whether New York would so order its affairs as to enable mutual savings banks to compete in an unfair manner with national banks, Mr. Root yesterday had indicated a reluctance to raise the maximum permissible rate for mutuals. Governor Balderston's conclusion, therefore, was that the problem could be resolved satisfactorily in the manner that he had mentioned, which also happened to be the solution that the New York Reserve Bank preferred. He added, however, that he did not think the Board should change a position of over 24 years' standing without discussing the matter with the Comptroller of the Currency.

Mr. Hackley then commented on another possible alternative, which would be to reverse the so-called "retroactive" interpretation

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of the Board, under which member banks were permitted to credit additional interest, up to a maximum of 4 per cent, after a savings deposit had been maintained for one year.

After a discussion of this possibility, during which Messrs. Hackley and Hexter amplified some of the points mentioned in Mr. Hackley's memorandum, Governor King said he considered the New York situation the sort of problem that might have been expected to arise when the Board took action to change the maximum rates. There would no doubt be various problems throughout the banking system, although only a few might reach the Board level, and he did not believe that it was the Board's responsibility to try to iron out all of the consequences of its action. Mr. Root's worry that most savings banks could not afford to pay a higher rate of interest did not particularly impress him. Such banks were supposed to be specialists in the savings field, and it seemed doubtful that they should be sheltered from competitive pressures. Further, Mr. Root's apprehension seemed to stem mostly from consideration of things that might happen, but had not yet actually occurred. Therefore, Governor King's view was that the Board should stand on the position it had taken, at least unless an actual problem of consequence was presented to it.

Governor Mills commented that another element in the problem was presented by the announcement that the House Ways and Means Committee was recommending an equalization of the tax base of savings and loan

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associations and mutual savings banks with that of commercial banks. If such legislation should be enacted by Congress, the earning capacity of mutuals would be reduced immediately, and thereby their ability to pay a higher rate of interest than commercial banks.

Governor Shepardson said he appreciated the point that had been made that a reaffirmation of the Board's position would, unless the New York authorities took some further action, seem to upset a traditional relationship between the rates payable by commercial banks and by mutual savings banks. As far as the competition situation was concerned, however, the assumption had been that, because of the nature of their business, mutual savings banks and savings and loan associations were able to pay higher rates than commercial banks, and he would assume that this was still true. When the Board increased the maximum permissible rates of interest, it did not say that it thought all commercial banks would be able to pay the maximum rate; it had simply opened a competitive opportunity. He did not see any reason for the Board to change its position, even though there might be some shifting of funds. A part of that shifting, to such extent as it occurred, might reflect the elimination of an undue advantage that institutions other than commercial banks had enjoyed.

Governor Mitchell's views, as reflected by his comments and questions during the course of the discussion, were generally similar to those expressed by Governors Robertson, Shepardson, and King. He

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felt that a variety of problems were bound to arise throughout the country, including perhaps some shifting of funds among institutions along the lines that had been mentioned, as a result of the Board's action increasing the maximum permissible rates of interest. Accordingly, it seemed to him that it would be best to adhere to the Board's previously expressed position in the present circumstances. Toward the conclusion of the discussion, Chairman Martin also expressed the view that on balance the best procedure probably would be to follow what he referred to as the "straight line approach" suggested by Governor Robertson.

Thus, a majority of the Board concluded that the Board should stand on its present position, as expressed in its letter to the Federal Reserve Bank of New York of January 10, 1962. Question then was raised as to the type of letter that might be sent to Mr. Root in reply to his letter of January 17. After some discussion of this point, it was agreed by the majority of the Board that the reply should be along the lines that the Board had carefully considered the request set forth in Mr. Root's letter but, after reviewing both legal and policy considerations, had concluded that it would not be warranted in making any change in its position. It was further agreed not to transmit a copy of Mr. Hackley's memorandum with the reply, on the ground that this would not seem necessary.

Accordingly, it was agreed, Governors Balderston and Mills dissenting, to reaffirm the position stated in the Board's letter of

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January 10, 1962, and to make a reply to Mr. Root along the lines that had been indicated. A copy of the letter sent to Mr. Root pursuant to this decision is attached as Item No. 5. A copy was sent to the New York Reserve Bank.

In further discussion it was noted that the Board's January 10 letter had suggested that the New York Reserve Bank wait a reasonable time, during which the matter could be considered further by the State authorities, before circularizing member banks in a manner that would in effect inform them of the Board's decision. Question was raised whether, in the light of the Board's decision today, there was reason to suggest to the Reserve Bank that it refrain from sending a routine circular to member banks. There was general agreement that it would be inadvisable to take any step that would give the matter more publicity than necessary, and at least one member of the Board suggested that it would seem unnecessary for the Reserve Bank to go further at this time than to answer any questions that might be raised by member banks.

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

Study of dormant accounts. A letter dated January 29, 1962, had been received from Congressman Patman in which he expressed concern "with the growing problem of dormant accounts in the banking system which are being absorbed by banks in excessive service charges or simply transferred to undivided profits without even the formality of service

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charges." Therefore, he asked that the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation undertake a joint project to secure from all insured banks the following information:

1. the actual service charges being levied on dormant accounts;
2. the actual volume of dormant accounts in insured banks;
3. the number of dormant accounts and dollar amounts which insured banks have transferred to undivided profits:
 - a. through service charges, and
 - b. without the formality of service charges.

Mr. Patman stated that he had already asked the Comptroller of the Currency to undertake such a study in regard to national banks but that the Comptroller had expressed reluctance to do so, certainly unless the Board and the Federal Deposit Insurance Corporation conducted the same survey with respect to State banks. Mr. Patman assumed that the Comptroller of the Currency would be willing to conduct a survey if the other two agencies did so.

Chairman Martin commented that the Senate had passed a bill on dormant accounts, which was now to be brought up in the House. Mr. Patman reportedly was of the view that the bill was not sufficiently strong, and he was engaged in an effort to strengthen the bill.

In the ensuing discussion, Governor Robertson told of a conversation with Chairman Cocke of the Federal Deposit Insurance Corporation, who advised that a like request from Mr. Patman had been received by the Corporation. Governor Robertson went on to say that he saw no alternative except to provide the requested information, and that the only reasonable

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procedure would be for the three supervisory agencies to make a joint survey. It was not a simple kind of survey to make; one of the difficult problems would be to arrive at a definition of a dormant account.

After further discussion, Governor Robertson was requested to undertake preliminary discussions with the other two bank supervisory agencies looking toward ways in which information such as Mr. Patman had requested might best be obtained.

Mr. Conkling withdrew from the meeting at this point.

Definition of executive officer. At its meeting on January 29, 1962, the Board considered a question in regard to the status of the Vice Chairman of the Austin National Bank, Austin, Texas, as an executive officer within the terms of the Board's Regulation O, Loans to Executive Officers of Member Banks. At the conclusion of the discussion, Governor Robertson had asked that a decision be deferred until the report of the bank's most recent examination could be obtained by him and reviewed.

At this meeting Governor Robertson stated that the examination report showed that the Vice Chairman of the Austin National Bank was indebted to the bank, on an unsecured basis, in an amount which would involve a violation of Regulation O if it were determined that the Vice Chairman was an executive officer of the bank. Governor Robertson then referred to the resolution that reportedly had been adopted by the Board of Directors of the Austin bank to the effect that the Chairman of the Board was not authorized to participate in the operating management of

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the bank and did not actually participate therein otherwise than in his capacity as a director. (The Austin bank was of the view that the resolution would be applicable also to the Vice Chairman, since his only function, other than serving on the Executive Committee, was to act in the Chairman's stead in the latter's absence or inability to function.) Governor Robertson stated that to him the important thing was whether or not the Board of Directors of the bank was justified in adopting a resolution saying that the directors would have no voice in the approval of loans. He suggested, in this connection, that a copy of the resolution that the Austin bank had adopted in regard to the Chairman of its Board be obtained in order to determine whether its wording appeared to be in violation of public policy.

There being no objection, it was understood that this would be done.

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

Nomination for award. Attention was called to a letter dated December 19, 1961, from the Chairman of the Distinguished Civilian Service Awards Board inviting the submission of nominations for the President's Award for Distinguished Federal Civilian Service, established by Executive Order 10717. It was understood that five such awards could be granted annually by the President for exceptional achievement of outstanding importance and with current impact on improving Government operations, and that recipients need not be Civil Service employees.

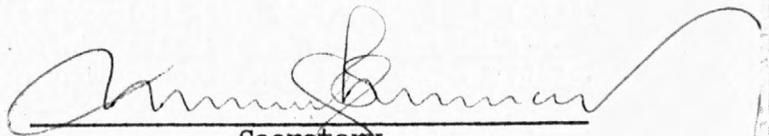
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After comments on the nature of the award by Governor Shepardson and Mr. Johnson, it was agreed unanimously to nominate Woodlief Thomas, Adviser to the Board, and it was understood that the necessary papers would be transmitted.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board an increase in the basic annual salary of Louis Zeller, Research Assistant (Data Processing) in that Division, from \$4,345 to \$5,355, effective February 4, 1962.


Secretary

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

Item No. 1
1/31/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 31, 1962



The First Pennsylvania Banking and Trust Company,
Philadelphia 1, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your Bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto. Section 13 of the Federal Reserve Act provides that no member bank shall accept such drafts or bills in an amount exceeding at any one time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

The right is reserved to terminate this authorization upon 90 days' notice to your Bank as provided in the Regulation.

Enclosed is a list of the countries with respect to which the Board of Governors has found that the usages of trade require the furnishing of dollar exchange. The Board of Governors may at any time, after 90 days' published notice, remove from such list the name of any country, dependency, or insular possession contained therein.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

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

Item No. 2
1/31/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 31, 1962

Board of Directors,
City National Bank of Fairmont,
Fairmont, West Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants City National Bank of Fairmont authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of West Virginia. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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. 3
1/31/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 31, 1962

Board of Directors,
Birmingham-Bloomfield Bank,
Birmingham, Michigan.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to act in a specific fiduciary capacity.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to Birmingham-Bloomfield Bank to act as paying agent on bond issues, with the understanding that your bank will not accept fiduciary appointments of other kinds without first obtaining the permission of the Board.

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
1/31/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 31, 1962

The Honorable James J. Saxon,
The Comptroller of the Currency,
Washington 25, D. C.

Dear Mr. Saxon:

Reference is made to the application by Whitney Holding Corporation, New Orleans, Louisiana, for the Board's approval of the formation of a bank holding company pursuant to section 3(a)(1) of the Bank Holding Company Act. The Corporation seeks approval of its acquisition of the stock of (1) Crescent City National Bank, New Orleans, Louisiana (a proposed new bank), into which would be consolidated the existing Whitney National Bank of New Orleans, under the latter title, and (2) the Whitney National Bank in Jefferson Parish, Louisiana (a proposed new bank). Pursuant to section 3(b) of the Act, a copy of the application was transmitted to your predecessor, Mr. Gidney, with a request for his views and recommendations. In a letter dated October 11, 1961, Mr. Gidney advised the Board, in part, that "In view of the favorable conditions disclosed by this study [of the application] it is recommended that you give your approval to this application."

On January 17, 1962, there was conducted before the Board a public oral presentation of views on Whitney Holding Corporation's proposal. A copy of the stenographic transcript of this proceeding was given to Mr. Mortimer of your staff on January 22. As reflected in this transcript, statements in opposition to the application were presented by Mr. Louis J. Roussel, a stockholder in the Whitney National Bank, by Mr. Clem H. Sehrt, an attorney who represented minority shareholders of the Whitney National Bank, and by Mr. Victor J. Passera, President, The National Bank of Commerce in Jefferson Parish. Mr. Roussel and Mr. Sehrt described certain actions allegedly taken by Whitney National Bank's management, which they charged were in violation or circumvention of existing law and contrary to the rights of the Bank's shareholders (Tr. 25-50). In reply, Mr. Malcolm L. Monroe, counsel for Applicant, stated that, with the exception of

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Honorable James J. Saxon

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matters relating to the charter of the proposed bank holding company, all the matters raised by Mr. Roussel ". . . have been fully taken up or disclosed or subject to examination by the Comptroller. The Comptroller's files have full reports. * * * And the Comptroller's examiners have been into every matter that has been discussed by him [Mr. Roussel]" (Tr. 54). Similar replies by Mr. Monroe relative to Mr. Sehart's statements are found at pages 55-56 of the transcript.

In view of the bearing that these matters might have on the Board's decision on Whitney Holding Corporation's application, the Board would appreciate any comments that you may have relative to these statements and responses, which appear in their entirety at pages 25 through 56 of the transcript of the oral presentation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
1/31/62

OFFICE OF THE CHAIRMAN

February 1, 1962

Mr. Oren Root, Superintendent of Banks,
Banking Department, State of New York,
100 Church Street,
New York 7, New York.

Dear Mr. Root:

This refers to your letter of January 17, 1962, regarding the position that has been taken by the Board of Governors as to the maximum rate of interest that may be paid by national banks in New York State under the Board's Regulation Q, in the light of General Regulation No. 3 of the New York State Banking Board and provisions of section 24 of the Federal Reserve Act. Under that position, as related to you by the Federal Reserve Bank of New York, a national bank in New York State may pay interest at an effective rate not in excess of 3-3/4 per cent for any period after January 1, 1962 on that part of a savings deposit that remains continuously on deposit for 12 months (including months in 1961); in other words, it may currently credit interest at a rate of 3-1/2 per cent and, at the end of the 12-months period, credit an additional 1/4 of 1 per cent for such period. Thereafter, of course, the bank may pay interest at a rate not in excess of 4 per cent.

The Board has considered your request that it take steps to restrict all member banks in New York State, including national banks, to payment of interest on savings accounts on deposit for one year or less at a rate not greater than that permitted by the New York State regulations for State-chartered commercial banks. Recognizing the problem with which you are confronted in this matter, the Board has carefully considered all of the arguments and comments set forth in your letter, as well as your presentation of the problem when you met with members of the Board in Washington on January 30, 1962.

Mr. Oren Root

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After full discussion of the question that you raise, and having in mind both legal and policy considerations, the Board has concluded that it would not be warranted in making any change in its position with respect to this matter.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.