

Minutes for February 1, 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

Handwritten initials and signatures on lines next to names:

- Chm. Martin: AM
- Gov. Mills: [Signature]
- Gov. Robertson: R.
- Gov. Balderston: CCB
- Gov. Shepardson: [Signature]
- Gov. King: [Signature]
- Gov. Mitchell: [Signature]

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, February 1, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Benner, Assistant Director, Division of
Examinations

First Virginia Corporation (Item No. 1). Pursuant to the understanding at the meeting of the Board on January 2, 1962, the staff had held a conference on January 8 with representatives of First Virginia Corporation, Arlington, Virginia, regarding an indicated change in accounting practice whereby that Corporation would show in published statements as an asset the excess of cost of common stock of subsidiary banks over the Corporation's equity in their net assets at date of acquisition. The Securities and Exchange Commission had been invited to have representatives present at the conference, but did not participate.

2/1/62

-2-

However, there had subsequently been a meeting between members of the Board's staff and members of the staff of the Commission.

There had now been distributed to the Board, under date of January 30, 1962, a memorandum from the Division of Examinations discussing the circumstances involved and presenting arguments for and against taking exception to the change in accounting practice. On the basis of its consideration of the matter, the Division had concluded that the "excess cost" item should not be shown as an asset on First Virginia's balance sheet. Submitted with the memorandum was a draft of letter to First Virginia Corporation expressing this view, but indicating that the Board would see no objection to the facts regarding the "excess cost" being set forth in a footnote or explanation to the balance sheet. An optional final paragraph indicated that the Board would not object to First Virginia's deferring removal of the present item of "excess cost" until December 31, 1972, as requested by the Corporation, inasmuch as the particular point had not previously been called specifically to the attention of the Corporation. However, it was the recommendation of the Division of Examinations that this paragraph not be included.

At the request of the Board, Mr. Solomon summarized the discussions held with First Virginia Corporation and with representatives of the Securities and Exchange Commission. He noted, among other things, that in industrial accounting the practice proposed to be followed by

2/1/62

-3-

First Virginia Corporation was generally accepted. However, the Securities and Exchange Commission had expressed the view that the method of financial reporting followed in the past by First Virginia Corporation would be preferable for bank holding companies and holding company affiliates. It likewise seemed desirable to the Division of Examinations that the "excess of cost" item be excluded from the balance sheet; such exclusion would conform with a practice that all other holding company affiliates had been following for many years.

There followed a number of questions, to which Mr. Solomon responded, on the effect of the issuance of a letter such as recommended by the Division of Examinations. At the conclusion of this discussion, the letter to First Virginia Corporation was approved unanimously in a form excluding the optional final paragraph. A copy of the letter, as sent, is attached as Item No. 1.

In this connection, Governor Mills cited reasons why he considered it likely that the position stated in the letter would be resisted by First Virginia Corporation. If further representations should be made, it was his view that the Board should stand firm in the position it had taken.

United Security Account Plan (Item No. 2). Since the middle of 1960 the Board had considered at various times the status under Regulation Q, Payment of Interest on Deposits, of the United Security Account Plan offered by Citizens Bank and Trust Company, Park Ridge

2/1/62

-4-

(Chicago), Illinois. Although details of this plan had been changed somewhat from time to time, three principal features were consistently included: the customer would maintain only one deposit account in the bank, on which interest would be paid at the maximum rate allowed by Regulation Q; the customer had the privilege of drawing checks on the bank up to the full amount of said deposit; and the customer's obligation to the bank, arising out of checks drawn by him, could be discharged by payment to the bank out of the customer's deposit account. The Board had taken the position that under an amendment to Regulation Q, which became effective January 15, 1962, the United Security Account Plan could not be legally operated.

A memorandum from the Legal Division dated January 30, 1962, reviewed developments in this matter and submitted a resume of a meeting held on January 25, at the request of Citizens Bank and Trust Company, between representatives of that bank, the Chicago Reserve Bank, and the Board of Governors. For reasons stated in the memorandum, it was felt advisable for the Board to act as promptly as possible with respect to the United Security Account Plan, as currently operated. Accordingly, there was submitted for the Board's consideration a draft of letter to the Federal Reserve Bank of Chicago asking to be advised promptly and in detail of the actual manner in which operations under the United Security Account Plan were being conducted. It was stated that the necessary information could be obtained either in the course of a regular examination

2/1/62

-5-

of the bank or through a special examination with respect to this subject alone. The memorandum noted that officers of the Chicago Reserve Bank had expressed the view that because of the timing arrangements in the plan, it would not seem feasible to ascertain its actual operation (since January 15, 1962) until the end of February 1962.

Following explanatory comments by Mr. Hexter, there ensued a discussion of various aspects of the matter, including the applicable statutory provisions and their underlying purpose, the possibility of a modification of the plan to place it in acceptable form, and the reasons why the staff considered it desirable that an examination or investigation be made by the Reserve Bank to determine the exact manner in which the plan was currently being operated. In the latter connection, it was noted that if the Reserve Bank did not make its examination or investigation until the end of February, a period of about 45 days would have elapsed since the effective date of the recent amendment to Regulation Q. Accordingly, sufficient time should have passed to provide adequate information as a basis for determining what, if any, further steps should be taken.

At the conclusion of this discussion, the letter to the Federal Reserve Bank of Chicago was approved unanimously. A copy is attached as Item No. 2.

Messrs. Hackley and Solomon stated for the record that because of the posture of the matter, the investigation of which might lead to

2/1/62

-6-

disciplinary procedures, they were not participating in the current phase of the staff work.

Messrs. Young, Hexter, O'Connell, Hooff, and Benner then withdrew.

Federal Advisory Council topics (Item No. 3). There had been distributed to the Board copies of a draft of letter to the Secretary of the Federal Advisory Council suggesting topics for inclusion on the agenda for the meeting of the Council to be held on February 19, 1962, and for discussion at the joint meeting of the Council and the Board on the following day.

In discussion, several suggestions were made for changes in the wording of the respective topics, following which unanimous approval was given to a letter in the form attached as Item No. 3.

Interest payable on savings deposits by banks in New York State. With reference to the rates of interest permitted to be paid on savings deposits by banks in the State of New York, a topic that had been discussed most recently at the Board meeting yesterday, Mr. Hackley reported that just before this meeting he had received a telephone call from the Superintendent of Banks of New York, who urged that the Federal Reserve Bank of New York not publicize the position that the Board had taken, at least for the present. It appeared that the Superintendent did not plan to publicize the correspondence between him and the Board if he could avoid doing so. He thought that the Board's position would eventually

2/1/62

-7-

become public knowledge, but felt that with a little more time the situation might be eased. Following past practice, however, and in line with the language in the Board's letter of January 10, 1962, it appeared likely that the Federal Reserve Bank of New York would go ahead and issue a routine operating bulletin to member banks, and such a circular would reflect the Board's position.

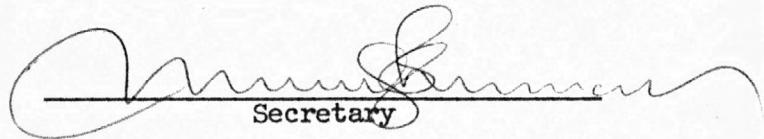
Mr. Hackley went on to say that it had not been entirely clear to him yesterday whether it was the sense of the meeting that the New York Reserve Bank should refrain from sending out a circular at this time, and should merely advise member banks of the Board's position if the question should be raised. In the light of Superintendent Root's specific request, Mr. Hackley said he had thought it desirable to bring the question back to the Board so that definite advice could be given to the Reserve Bank.

Discussion indicated that it was the feeling of the Board that it would be unnecessary to give publicity to the matter at this time. Accordingly, Chairman Martin suggested that Mr. Hackley get in touch with the Federal Reserve Bank of New York and say that in the circumstances the Board felt that it would be well for the Reserve Bank not to send out its usual operating circular. There was agreement with this suggestion, and it was understood that the Reserve Bank would be advised to such effect by Mr. Hackley.

2/1/62

-8-

Mr. Thomas reported briefly on comments made by certain bankers at a meeting yesterday with regard to interest rates being paid on time deposits, including particularly negotiable certificates of deposit, following which the meeting adjourned.


Secretary

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

Item No. 1
2/1/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 1, 1962

Mr. Ralph A. Beeton,
Executive Vice President,
The First Virginia Corporation,
Arlington 4, Virginia.

Dear Mr. Beeton:

This refers to your letter of January 19, 1962, regarding the item "excess of cost of common stock of subsidiary banks over the Corporation's equity in their net assets at date of acquisition" shown on your Corporation's balance sheet as of August 31, 1961. The balance sheet was included in one of the schedules contained in the Corporation's current application to acquire a majority of the shares of Farmers and Merchants National Bank, Winchester, Virginia.

The inclusion of this item of "excess cost" as an asset represents a change in accounting practice from that followed with respect to your Corporation's balance sheet shown as of December 30, 1960, in its Annual Report to stockholders. It is also a departure from what the Board considers to be sound financial reporting for "bank holding companies" and "holding company affiliates". There are important similarities between such institutions and banks, and the financial statements of all three are likely to be used for similar purposes and compared with one another. In the circumstances, in the event of any difference between the methods of bank reporting and nonbank reporting, the Board is of the opinion that the bank method should be considered to prevail for bank holding companies and holding company affiliates.

While the Board feels, for these reasons, that the "excess cost" should not be shown as an asset on your Corporation's balance sheet, it would see no objection to the facts regarding the "excess cost" being set forth in a footnote or explanation to the balance sheet. Furthermore, the views expressed in this letter have no reference to the Agreement entered into by the Corporation in June 1961, with respect to the issuance of certain notes and stock purchase

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

To Mr. Ralph A. Beeton

-2-

warrants; the transaction reflected in that Agreement is a matter of extensive and detailed contract between the parties, and the contract should necessarily be construed and applied in the light of its own terms.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
2/1/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 1, 1962

Mr. C. J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Scanlon:

Over a period of months, Citizens Bank and Trust Company, Park Ridge, Illinois, a member bank, has offered by mail, in various sections of the country, a service called the United Security Account Plan. In a circular that has come to the Board's attention, Citizens Bank has stated that "a U. S. Account not only PAYS YOU FULL INTEREST on your money but lets you write checks - any time you like . . . to anyone . . . to cash for yourself . . . anywhere you may happen to be" (no omissions; thus in original).

As you know, Federal Reserve Regulation Q (Payment of Interest on Deposits) was recently amended, effective January 15, 1962, with respect to its "savings deposits" provisions. The amended section 217.1(e)(3) provides that

" . . . no withdrawal shall be permitted by a member bank to be made from a savings deposit after January 15, 1962, through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor . . . if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral,

"(i) which authorizes such payments or transfers of credit to be made as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank;"

On the basis of information now available to the Board, it appears that operation of the United Security Account Plan after January 15, 1962, might involve withdrawals from savings deposits in Citizens Bank in a manner prohibited by section 217.1(e)(3) of Regulation Q, as amended.

Mr. C. J. Scanlon

-2-

In view of the widespread advertising of the United Security Account Plan by Citizens Bank and the inquiries regarding the legality and status of that Plan under Regulation Q that the Board has received from banks and others, the Board would appreciate being apprised in detail of the actual manner in which the United Security Account Plan is being conducted since the effective date of the amendment to Regulation Q referred to above. This information may be obtained either in the course of a regular examination of the member bank or through a special examination with respect to this subject alone. In either event, it is requested that your Bank's report on this matter be forwarded to the Board as promptly as possible.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
2/1/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 1, 1962.



Mr. Herbert V. Prochnow, Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on February 19, 1962, and for discussion at the joint meeting of the Council and the Board on February 20:

1. What are the observations of the Council regarding the current business situation, the prevailing sentiment of the business community, and the general outlook for the next six months? What indications does the Council have on current trends in consumer credit, residential mortgage credit, and business loans? Are there indications of stockpiling of steel and steel products as protection against a strike or price increases?
2. What evidences are seen of current or prospective improvement in the unemployment situation?
3. What are the prospects for demand at banks during the next six months for commercial and industrial loans?
4. What has been the reaction of banks to the recent increase in the maximum permissible rates of interest on time and savings deposits? What structure of rates on different types of time and savings accounts, including certificates of deposit, is developing in various areas of the country? What is the Council's impression as to the origin of the funds being added to savings accounts and time accounts, including certificates of deposit? How will the higher rates of interest paid by banks affect their lending and investment policies?
5. Does the Council detect any change in public concern about the persisting deficit in the United States balance of payments?

Mr. Herbert V. Prochnow, Secretary

-2-

6. What are the views of the Council regarding the impact of current monetary and credit policy?

The arrangements in connection with the meeting of the Council that were requested in your letter of January 19 are being made.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.