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
Discount rates. The establishment without change by the Federal Reserve Banks of New York and Atlanta on March 8, 1962, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Letter Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of branches in (1) Friendly Shopping Center, Greensboro, and (2) Jamestown.</td>
</tr>
<tr>
<td>4</td>
<td>Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to the Bank's painters at specified rates.</td>
</tr>
<tr>
<td>5</td>
<td>Letter to Brownfield State Bank &amp; Trust Co., Brownfield, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.</td>
</tr>
<tr>
<td>6</td>
<td>Letter to Levelland State Bank, Levelland, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.</td>
</tr>
</tbody>
</table>

Messrs. Hooff and Benner withdrew from the meeting at this point, and Mr. Molony, Assistant to the Board, entered the room.

Report on competitive factors (New York, New York). There had been distributed, with a memorandum from the Division of Examinations dated March 2, 1962, a draft of report to the Comptroller of the Currency regarding the competitive factors involved in the proposed merger of The

Following comments by Mr. Leavitt in response to questions by Governor Robertson concerning the apparent lack of any significant competition between the merging banks, the report was approved unanimously for transmittal to the Comptroller. The conclusion in the report read as follows:

The proposed merger of The Bensonhurst National Bank of Brooklyn in New York, New York, New York, into The Meadow Brook National Bank, New York, New York, would appear to have little effect on competition.

Addressing himself more broadly to the competitive aspects of bank mergers, Governor Mills observed that in his view a proposed merger involving a smaller bank situated within the metropolitan area of a large city with numerous banks perhaps should be judged in a somewhat different light from other mergers, because the needs of a large community could probably be served best by having large financial institutions available to provide banking facilities. If that viewpoint was valid, it seemed to follow that a smaller commercial bank that found itself in such a competitive situation should not be compelled to continue in business if it desired to accept a merger proposal. Such a proposal would not involve the degree of alteration of the over-all competitive situation that would prevail in a case where a commercial bank was seeking, by merger, to penetrate a new area.
Report on competitive factors (Meadville-Oil City, Pennsylvania).

A draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Crawford County Trust Company, Meadville, Pennsylvania, with Oil City National Bank, Oil City, Pennsylvania, had been distributed with a memorandum from the Division of Examinations dated March 2, 1962. The conclusion in the report read as follows:

Due mainly to the 38 miles separating the nearest offices of the two institutions desiring to merge, there is little evidence of competition for commercial banking business between them except as may be gained incidental to the acquisition of trust business for which National actively competes with Crawford in Meadville. The proposed merger is not expected to have any competitive effects on any other area banks except in Crawford County and more specifically in Meadville where competition may be intensified through the entry of an institution significantly dominant in size.

During discussion of the competitive situation in the Meadville-Crawford County area, attention was focused particularly on the words "competition may be intensified," as contained in the report's conclusion, and whether a desirable or undesirable connotation was intended. In light of this discussion, suggestions were made that the conclusion be revised as follows:

Except for trust business in Meadville, there is little competition between these two banks because of the distance between them. The proposed merger would not seem to have competitive effects on any other area banks except in Crawford County and more specifically in Meadville where competition may be affected by the entry of an institution significantly dominant in size.
The report was then approved unanimously for transmittal with the conclusion in that form.

Survey of chain banking through indirect controls. There had been distributed a memorandum from the Division of Bank Operations dated March 5, 1962, discussing a letter dated February 19, 1962, from Congressman Patman, Chairman of the House Select Committee on Small Business, that requested a survey of member banks concerning the extent of chain banking through indirect controls. The memorandum brought out the complex problems presented by the requested survey and outlined various procedures that would be involved in conducting it, along with some indication of the possible cost. Two possible approaches that might be followed in replying to Congressman Patman's letter were suggested, as follows: (1) a reply that would transmit a proposed questionnaire for appraisal and raise the question whether a summarization of replies by the Board was desired, and (2) a reply that would identify the difficulties seen in conducting such a survey and suggest possible alternatives, including the compilation of certain statistics from bank examination reports. Drafts of letters reflecting the two approaches were submitted with the memorandum.

In response to a request from the Chairman for comment, Mr. Cardon expressed doubt that the alternatives suggested in the second draft of letter would be acceptable to Congressman Patman. He noted that the requested survey had been discussed earlier by the Board's staff with
the Chief Economist of the Select Committee and that such an approach had been rejected. During a recent conversation, the Chief Economist expressed surprise that this possible approach was again being considered.

A general discussion ensued regarding the type of reply that would seem most appropriate in the circumstances, and a number of possibilities were suggested, ranging from an expression of reluctance to an agreement to make the survey. The problems involved in accomplishing the survey were also discussed, especially from the standpoint of being able to produce accurate information of the type Congressman Patman evidently desired.

Question was raised as to whether the Comptroller of the Currency would be willing to cooperate by extending the survey to national banks. The Comptroller, it was pointed out, had not been asked by Mr. Patman to participate in the survey. In this connection, there was a view expressed that if a survey was decided upon and the Comptroller should be unwilling to participate, the Board should undertake the entire survey.

Question also was raised relating to that part of the survey that involved reporting the names and addresses of individual shareholders of banks, and agreement was expressed with a suggestion that the staff look into the matter from a legal standpoint.

At the conclusion of the discussion, the staff was requested to prepare a draft letter, for the Board's consideration, that would reflect a willingness to make the survey if Congressman Patman so desired, but
would spell out for his consideration the difficulties that were foreseen, particularly in producing the information that he apparently was seeking.

All members of the staff except Messrs. Sherman, Kenyon, Hackley, and Hexter then withdrew from the meeting.

Meeting with the Comptroller of the Currency. On February 27, 1962, the Board approved a letter to the Comptroller of the Currency stating reasons why, under present law, it felt the Federal Reserve was not in a position to make contributions toward the cost of examining national banks. In a letter dated March 6, 1962, the Comptroller expressed further views on this subject.

Prior to receipt of that letter, the Board on March 7, 1962, had agreed that it might be helpful to invite the Comptroller to meet with the Board for a general discussion of this question and other questions of mutual interest in the field of bank supervision. Such a meeting had been arranged for tomorrow morning.

In preparation for the forthcoming meeting with the Comptroller, there was an extended discussion of the points covered in his March 6 letter in light of the position that the Board had expressed in its letter, the provisions of present law, and the possible desirability of changes in the existing law. It was understood that at tomorrow's meeting the Board would receive such additional views as the Comptroller might express, although without indication of the possibility of a change in the position that the Board had already taken.
Reference also was made to several other matters on which it was understood that the Comptroller might wish to confer with the Board, including the possibility of a change in the law that would transfer to the Comptroller the authority for granting permission to national banks to establish foreign branches.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

**Salary increases, effective March 18, 1962**

Athens J. Messick, Secretary to Governor Mitchell, from $7,260 to $7,560 per annum.

Patricia Ann D'Ambrosio, Secretary, Division of Examinations, from $4,840 to $5,160 per annum.

**Acceptance of resignation**

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

This refers to your letter of February 20, 1962, enclosing correspondence between your Bank, The Delaware County National Bank, Chester, Pennsylvania, and Provident Tradesmens Bank and Trust Company, with respect to services performed by the latter bank, at a nominal charge of $1.00 per year, for School District of the Township of Nether Providence in connection with the maintenance of a demand deposit by the school district.

In 1957, the Board gave careful consideration to the question whether the offering of various services and benefits by a member bank, without charge or at a reduced charge, pursuant to its bid for designation as depository of city funds, involved an indirect payment of interest on deposits. The Board stated (S-1617; FRLS #6244) that those services and benefits might reasonably be regarded as normal banking functions or services and need not be regarded as constituting indirect payments of interest within the provisions of Regulation Q. The Board has also stated that "where a bank renders banking services to its customers for which it may or may not make a charge, the omission of the bank to make a charge for such services does not involve any 'payment' to the depositor."

As a practical rule, the Board has concluded that ordinary or usual expenses of operation, which may be classed as "overhead", need not be considered in determining whether a bank is paying interest to a depositor; no money is actually being paid to the depositor or credited to his account, even though the customer may benefit by free services.

The services offered by Provident Tradesmens Bank and Trust Company to the school district are mostly of an agency or quasi-fiduciary nature for which a bank might properly make a reasonable charge, but, as indicated in the Board's 1957 interpretation, the Board does not consider the failure to make a charge for services as a payment to the customer.
Furthermore, the bank has stated that there is no agreement as to a minimum balance and, in similar cases, an "over-all profitable relationship has existed based on our normal methods of analysis and costing." In 1944, the Board considered whether a bank's practice of analyzing individual accounts, under which the bank determines whether to make a charge against the customer for services rendered, but in no case makes any payment to the customer or gives any credit which increases the amount of his deposit balance, constitutes a payment of interest on demand deposits. The Board recognized that the bank's relations with the customer and the service charges which may be imposed are matters of contract between the bank and the customer. The Board stated (1944 Bulletin 13; FRLS #6238) that an account "analysis is simply an internal arrangement to enable the bank to determine whether it should make a charge" and the use of the analysis is not a payment of interest, and does not violate the law or the Board's Regulation.

Accordingly, on the basis of information submitted, the Board believes that this case may properly be regarded as one to which the principles and conclusion stated in the 1957 interpretation are applicable and that it would not seem to involve an indirect payment of interest on a deposit within the provisions of Regulation Q.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,  
Wachovia Bank and Trust Company,  
Winston-Salem, North Carolina.  

Gentlemen:  

The Board of Governors of the Federal Reserve System approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch in the Friendly Shopping Center at the intersection of Elizabeth Avenue and Green Valley Road, Greensboro, North Carolina, provided the branch is established within 12 months from the date of this letter. The Board of Governors also approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch on the east side of Main Street near Oakdale Road, Jamestown, North Carolina, provided the branch is established within 6 months from the date of this letter.

Very truly yours,  

(Signed) Elizabeth L. Carmichael  

Elizabeth L. Carmichael,  
Assistant Secretary.
Board of Directors,
Farmers Bank and Trust Company,
Knox, Indiana.

Gentlemen:

The Board of Governors has received from the Federal Reserve Bank of Chicago a copy of a letter from Mr. Alexander L. Jonas, President of Farmers Bank and Trust Company, dated February 12, 1962, requesting approval to declare a dividend of $2,250 payable as of March 31, 1962. The Board's permission is necessary under the provisions of paragraph 6, Section 9, of the Federal Reserve Act and Section 5199(b), United States Revised Statutes.

After consideration of the facts, the Board approves the declaration of this dividend. This approval is restricted to the payment of this dividend only and does not authorize any other declaration of dividends during 1962 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
March 12, 1962

CONFIDENTIAL (FR)

Mr. H. J. Newman, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Newman:

As requested in your letter of February 28, 1962, the Board of Governors approves the payment of salaries by the Federal Reserve Bank of Chicago to the incumbents of the positions shown below at the rates indicated effective April 1, 1962:

<table>
<thead>
<tr>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Painter</td>
<td>$8,112.00</td>
</tr>
<tr>
<td>Painter</td>
<td>7,300.80</td>
</tr>
</tbody>
</table>

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
Brownfield State Bank & Trust Co.,
Brownfield, Texas,
Brownfield, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter and resolution dated February 13, 1962, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
Levelland State Bank,
Levelland, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter and resolution dated February 13, 1962, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.