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Minutes for October 19, 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

W

Gov. Mills

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SMO

Gov. King

King

Gov. Mitchell

UM

Minutes of the Board of Governors of the Federal Reserve System on Friday, October 19, 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. Mitchell

Mr. Sherman, Secretary
Mr. Cardon, Legislative Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Brill, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Mr. Goldstein, Economist, Division of International Finance

Money market review. There was distributed a table summarizing monetary developments during the five-week period ending October 17, 1962. Mr. Yager discussed recent developments in the Government securities market, following which Mr. Eckert reported on trends in bank credit and reserves and Mr. Goldstein discussed foreign exchange developments.

All members of the staff then withdrew except Messrs. Sherman, Cardon, Noyes, Furth, and Mattras, and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel

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Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Potter, Senior Attorney, Legal Division

Real estate study. Mr. Noyes requested authorization to explore the possibility of engaging as consultants Dr. Ernest Fisher, Professor of Economics at Columbia University, and Mr. Miles Colean, a commercial consultant, to conduct an economic study of the field of real estate other than single-family dwellings.

During a short discussion that followed, the feeling was expressed that there was need for such a study and that the proposed consultants could be relied on to prepare a comprehensive and objective report.

The Board then authorized Mr. Noyes to explore the matter further.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Minneapolis, Kansas City, and San Francisco on October 18, 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.

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Letter to Hempstead Bank, Hempstead, New York,
approving the establishment of a branch in
the Town of Islip, Suffolk County.

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Item No.

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Letter to President Schwegler of the Swiss National Bank regarding the possibility of Federal Reserve examinations of the proposed Geneva branch of First National City Bank, New York, New York.

With respect to Item No. 2, which related to a subject previously discussed at the meeting on October 4, 1962, the Board authorized certain minor changes in the wording of the draft letter that had been distributed. It was understood that Governor Mitchell would contact President Hayes of the Federal Reserve Bank of New York to advise him of the Board's action in sending the letter.

Branch of Wells Fargo Bank (Item No. 3). The action taken on October 18, 1962, in sending to the Federal Reserve Bank of San Francisco a telegram authorizing Wells Fargo Bank, San Francisco, California, to establish and operate a branch each year during the Quarter Horse Show and sale at the Livestock Pavilion, San Mateo County, was ratified by unanimous vote. A copy of the telegram is attached as Item No. 3.

Report on competitive factors (McKeesport-Clairton, Pennsylvania).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The First National Bank of Clairton, Clairton, Pennsylvania, by Western Pennsylvania National Bank, McKeesport, Pennsylvania.

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After a short discussion, it was agreed that the conclusion of the report should be revised to reflect the view that only a moderate, rather than a significant, amount of competition would be eliminated as a result of the proposed transaction. The report was then approved unanimously for transmission to the Comptroller of the Currency in a form in which the conclusion read as follows:

While concentration in the area would be increased slightly, only a moderate amount of competition would be eliminated.

Report on competitive factors (Dayton-Vandalia, Ohio). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Vandalia State Bank, Vandalia, Ohio, into The Third National Bank and Trust Company of Dayton, Ohio, Dayton, Ohio.

After discussion, the report was approved for transmission to the Comptroller of the Currency in a form in which the conclusion read as follows:

Merging The Vandalia State Bank into The Third National Bank and Trust Company of Dayton would eliminate a fairly substantial amount of competition and increase concentration in Montgomery County where the three large Dayton banks now hold about 89 per cent of deposits of individuals, partnerships and corporations.

Report on competitive factors (Roanoke-Blacksburg, Virginia). There had been distributed a draft of report to the Comptroller of the Currency regarding the competitive factors involved in the proposed merger of Farmers & Merchants National Bank of Blacksburg, Blacksburg,

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Virginia, into The First National Exchange Bank of Roanoke, Roanoke, Virginia.

After a short discussion, certain changes in the conclusion of the report were agreed upon. The report was then approved unanimously for transmission to the Comptroller of the Currency in a form in which the conclusion read as follows:

The proposed merger of Farmers & Merchants National Bank of Blacksburg into The First National Exchange Bank of Roanoke would not alter the competitive picture in the Roanoke area. However, the remaining independent bank in Blacksburg would be in direct competition with a branch of a much larger institution instead of a bank about the same size.

Whitney Holding Corporation (Item No. 4). There had been distributed memoranda from the Legal Division dated October 17 and 18, 1962, regarding a request from Counsel for Whitney Holding Corporation, New Orleans, Louisiana, for the suspension of a provision in the Board's order of May 3, 1962, "that Whitney National Bank in Jefferson Parish shall be opened for business within six months." Whitney Holding Corporation contended that the Jefferson Parish bank could not be opened by November 3, 1962, as ordered, due to a court injunction resulting from pending law suits that had been brought by certain banks in Louisiana to prevent the opening of the Jefferson Parish bank. The time that would be required for final disposition of the law suits was uncertain and Whitney felt that it should be allowed a reasonable time after the issues were resolved to open the Jefferson Parish bank for business.

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Mr. Hexter noted that the Board could grant an extension of time to some later date but that the uncertain duration of the litigation might require a series of extensions. This would impose an increased burden on the Board since each extension would require a re-examination of the matter. Each extension would normally provide a six-month time limit. The Board's decision would have to be made in light of existing circumstances, and the Board's determination could not extend beyond the reasonably foreseeable future.

Mr. Hexter added that as an alternative the Board could advise Whitney that a request for a suitable amendment of the May 3, 1962, order should be submitted if and when Whitney was in a position to open the Jefferson Parish bank. It was possible, of course, that opposing banks might try to have the case declared a moot issue if an extension was not granted.

Governor Mills expressed the feeling that in view of the Board's approval of the Whitney application, the Board should stand firmly behind Whitney and avoid any action that might weaken its position in the current litigation. He felt that a refusal to extend the expiration date of the order might be regarded as an indication that the Board had ended its interest in the case.

Governor Balderston suggested a one-year extension at this time. In the absence of unusual circumstances, he felt the Board had a moral obligation to preserve its decision in the case even if the litigation were to continue for several years.

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Mr. Hackley expressed the view that a twelve-month extension rather than the usual six-month extension could be regarded as appropriate in this instance since the delay in opening the Jefferson Parish bank was the result of litigation and not due to any laxity on the part of Whitney.

The feeling was expressed that a periodic review of the developments in the case would be useful to the Board and that an extension of time for the establishment of the Jefferson Parish bank would be the most effective way of demonstrating support for Whitney's position.

The Board then approved unanimously the issuance of an order extending the time for opening of the Jefferson Parish bank by Whitney from November 3, 1962, to November 4, 1963. A copy of the order is attached to these minutes as Item No. 4.

Premiums paid by member banks (Item No. 5). There had been distributed a memorandum from the Legal Division dated October 12, 1962, with respect to a request from the Federal Reserve Bank of Chicago for the Board's opinion on whether the offer by a member bank of a premium, or credit, the redeemability of which was subject to a condition as to the length of time a newly opened savings deposit must remain with the bank, would involve the payment of interest on such deposit.

It was noted that the Board had decided on previous occasions that premiums or gifts would not be regarded as involving the payment of interest if they were nominal in value and nonrecurring, and if they

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were offered as part of an advertising plan. A time-limit condition had also been considered previously by the Board. In a letter to the Federal Reserve Bank of Chicago dated June 7, 1961, the Board adopted the position that a time-limit condition alone would not alter the advertising character of a premium provided the premium was of nominal value and nonrecurring, and that an indirect payment of interest would not be involved. Since the Board's decision in 1961, however, the Federal Deposit Insurance Corporation had held in a particular case that a time-limit condition on a deposit in order to retain a premium constituted the payment of interest. It was therefore felt that the Board might wish to reconsider the matter.

Mr. Hackley noted that Regulation Q, Payment of Interest on Deposits, did not attempt to define interest in detail. It was his feeling that the determining factor in deciding what constitutes interest should be the purpose of the premium. Mr. Hackley felt that a time limit was a reasonable and practical limitation. If the premium was nonrecurring and nominal in value, it would seem to him proper to regard such a premium as an advertising outlay.

Mr. Potter expressed the opinion that a time-limit condition should be regarded as indicating a payment of interest. He felt that a line should be drawn at this point since the time-limit condition would seem to introduce a fundamental characteristic of interest. In addition, Mr. Potter felt that it would be administratively advantageous to have the Board's view coincide with that of the Federal Deposit Insurance Corporation.

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There followed a discussion and an exchange of views with respect to the opinions expressed by the legal staff. The Board then decided to adhere to its 1961 position, which provided that a time limit on a premium would not be regarded as involving an indirect payment of interest. A letter advising the Federal Reserve Bank of Chicago of the Board's position is attached to these minutes as Item No. 5.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Director appointments. The following actions were taken with respect to the appointment of Chairmen, Deputy Chairmen, and Class C directors at Federal Reserve Banks and the appointment of directors at Federal Reserve Bank branches, with the understanding that the timing of advice of the appointments would be determined by Chairman Martin and that public announcement would be made near the end of the year in accordance with the usual practice:

The following were reappointed as Class C directors of the Federal Reserve Banks indicated, each for a three-year term beginning January 1, 1963:

<u>Name</u>	<u>Bank</u>
Nils Y. Wessell	Boston
Philip D. Reed	New York
David C. Bevan	Philadelphia
J. M. Cheatham	Atlanta
James H. Hilton	Chicago
Atherton Bean	Minneapolis
Robert O. Anderson	Dallas
F. B. Whitman	San Francisco

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The following were reappointed as directors of the Federal Reserve Bank branches indicated, each for a three-year term beginning January 1, 1963:

<u>Name</u>	<u>Branch</u>
Howard E. Whitaker	Cincinnati
F. L. Byrom	Pittsburgh
J. C. Cowan, Jr.	Charlotte
Jack W. Warner	Birmingham
Claude J. Yates	Jacksonville
Andrew D. Holt	Nashville
J. O. Emmerich	New Orleans
William H. Harrison	Louisville
William King Self	Memphis
Roger B. Corbett	El Paso
John R. Stockton	San Antonio

The following were reappointed as directors of the Federal Reserve Bank branches indicated, each for a two-year term beginning January 1, 1963:

<u>Name</u>	<u>Branch</u>
Harry K. Newburn	Helena
R. A. Burghart	Denver
Otto C. Barby	Oklahoma City
Clifford Morris Hardin	Omaha
S. Alfred Halgren	Los Angeles
Raymond R. Reter	Portland
Thomas B. Rowland	Salt Lake City

The following were designated as Chairmen and Federal Reserve Agents of the Federal Reserve Banks indicated for the year 1963, with compensation fixed at an amount equal to the fees that would be payable to any other director of the same Bank for equivalent time and attendance to official business:

<u>Name</u>	<u>Bank</u>
Nils Y. Wessell	Boston
Philip D. Reed	New York
Walter E. Hoadley	Philadelphia
Joseph B. Hall	Cleveland
Jack Tarver	Atlanta

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<u>Name</u>	<u>Bank</u>
Robert P. Briggs	Chicago
Atherton Bean	Minneapolis
Homer A. Scott	Kansas City
Robert O. Anderson	Dallas
F. B. Whitman	San Francisco

The following were appointed as Deputy Chairmen of the Federal Reserve Banks indicated for the year 1963:

<u>Name</u>	<u>Bank</u>
Erwin D. Canham	Boston
James DeCamp Wise	New York
David C. Bevan	Philadelphia
Edwin Hyde	Richmond
Henry G. Chalkley, Jr.	Atlanta
James H. Hilton	Chicago
J. H. Longwell	St. Louis
Judson Bemis	Minneapolis
Lamar Fleming, Jr.	Dallas
John D. Fredericks	San Francisco

Travel by Mr. Reynolds. Governor Shepardson advised the Board of a request from Mr. Reynolds, Chief, Special Studies and Operations Section, Division of International Finance, for Board authorization of expenses of a trip to Paris, France, during the period October 23-30, 1962, to attend meetings of Working Party 2 of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

Governor Shepardson noted that it had been the practice of the Department of State to pay the costs of representatives of other agencies to such meetings but that the State Department now felt that other agencies should defray the costs of their own representatives.

The Board then authorized the payment of Mr. Reynolds' expenses to the meeting of Working Party 2 on the basis of actual

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necessary transportation expenses and a per diem in lieu of subsistence in accordance with the Federal Government travel regulations.

Actions relating to Board's staff. Governor Shepardson stated that on the basis of discussions with Mr. Noyes he recommended the following actions:

1. Appointment of Mr. Koch, Adviser, Division of Research and Statistics, as Associate Director, Division of Research and Statistics, effective immediately.
2. Appointment of Mr. Brill, Associate Adviser, Division of Research and Statistics, as Adviser, Division of Research and Statistics, effective immediately.

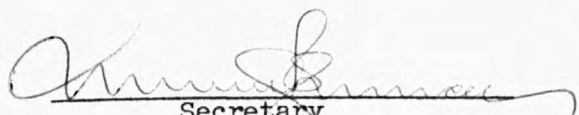
The Board approved the actions recommended by Governor Shepardson.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Mr. Noyes, Director, Division of Research and Statistics, recommending the appointment of James R. Schlesinger, Associate Professor of Economics at the University of Virginia, as Consultant effective until December 31, 1962, on a temporary contractual basis with compensation at the rate of \$75 for each day worked for the Board and with the understanding that any necessary transportation and per diem for time spent in travel status would be paid in accordance with the Board's travel regulations.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 6) approving the appointment of Paul J. Martin as assistant examiner.


Secretary

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

Item No. 1
10/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 19, 1962

Board of Directors,
Hempstead Bank,
Hempstead, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at Store No. 13, Great Bay Shore Shopping Center, Montauk Highway, Hamlet of Islip (unincorporated area), Town of Islip, Suffolk County, New York, by Hempstead Bank, Hempstead, New York, provided the branch is established within six months from the date of this letter.

As noted in the Board's letter of June 29, 1962, approving the establishment of a branch in Old Bethpage, Nassau County, the Board is concerned about the bank's capital position and again wishes to stress the need for strengthening that position at the earliest opportunity.

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. 2
10/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1962.

Dr. Walter Schwegler,
President,
Banque Nationale Suisse,
Zurich 22, Switzerland.

Dear Dr. Schwegler:

Reference is made to your letter dated September 7, 1962, received September 21, from your Direction Generale Department I, regarding the plans of First National City Bank, New York, to establish a branch in Geneva. Mr. Alfred Hayes, President of the Federal Reserve Bank of New York, has informed the Board of Governors of his conversation with you about the matter during the course of the recent Basle meeting.

On April 11, 1962, pursuant to the provisions of Section 25 of the Federal Reserve Act, the Board of Governors authorized First National City Bank to establish a branch in the City of Geneva and to operate and maintain such branch subject to the provisions of such Section. In granting authority to member banks to establish branches in other countries, the Board, of course, recognizes that such establishment is subject to all statutory and regulatory requirements as may be prescribed by the host country.

Your letter states that Mr. Richard S. Perkins, Chairman, Executive Committee, First National City Bank, has informed you that he has been in touch with the Board and the Comptroller of the Currency and that he could give you assurance that the application of paragraph 6, Section 25, of the Federal Reserve Act, which relates to examinations and reports of condition, will in no way conflict with Swiss banking laws and regulations. Nonetheless, you have asked for an answer to the following question: "Will you please advise us in how far, with regard to the Geneva branch of the First National City Bank, the Board of Governors and the Comptroller of the Currency intend to make use of their authority vested in them by virtue of Section 25 (6) of the Federal Reserve Act, and, in particular, whether you and the Comptroller will abstain from asking for information or records from the First National City Bank concerning the business activity of the Geneva branch with its customers."

Dr. Walter Schwegler

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Although the Federal Reserve Act vests in the Board of Governors the authority to grant permission to member banks to establish overseas branches, the Comptroller of the Currency, a Bureau of the Treasury Department, has primary responsibility for the supervision of national banks, and overseas branches of national banks are examined from time to time by examiners for the Comptroller of the Currency. The reports of examination by national bank examiners of overseas branches of national banks are furnished to the respective Federal Reserve Banks and are available to the Board of Governors for official purposes.

The Board has heretofore found that the review of such reports made by the examiners for the Comptroller of the Currency of overseas branches has been adequate for its purposes and neither the Board nor the Federal Reserve Banks have examined overseas branches of national banks. Nevertheless, there might be circumstances which, in the Board's judgment, would make it necessary or advisable for the Board to resort to the authority granted it by Section 25 of the Federal Reserve Act to order special examinations of overseas branches of national banks, and the Board would be acting inconsistently with the statute were it to give any assurance that its authority would not be exercised even if such a situation should arise.

In view of some of the remarks in your letter, it might be worth noting the scope of examinations of overseas branches of United States banks. The examiner undertakes to ascertain the condition of the branch and the quality of its assets and management. In doing so, he would review the books, records, and credit files of the branch in order to reach a conclusion concerning the quality of the assets held and the nature of its liabilities. However, it would not be for the purpose of sending "accounts, contracts, correspondence, or any other records of the branch concerning its dealings with customers" to the United States for submission to the Board, as you seem to fear. Incidentally, the United States Criminal Code provides severe penalties for improper disclosure by a bank examiner of "the names of borrowers or the collateral for loans of any member bank of the Federal Reserve System, or bank insured by the Federal Deposit Insurance Corporation, examined by him". Where examinations are made, the examiners would, of course, be expected to have access to all books and records of the branch.

Under present procedures, overseas branches of both national and State member banks render reports of their condition at the end of each year, to the Comptroller of the Currency in the case of national banks, and to the Federal Reserve Bank in the case of State member banks. A copy of the report form used by the Comptroller of the Currency is enclosed.

Dr. Walter Schwegler

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Obviously, the Board cannot make any commitments for the Comptroller of the Currency. If you wish to ascertain his policy, you may make direct inquiry or, if you so desire, the Board would be glad to make inquiry in your behalf.

With kindest regards,

Sincerely,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

T E L E G R A M
LEASED WIRE SERVICEItem No. 3
10/19/62BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 18, 1962

GALVIN - SAN FRANCISCO

Board of Governors has approved the establishment of a branch during the annual Quarter Horse Show and sale to be held at the Livestock Pavilion, San Mateo County, by Wells Fargo Bank American Trust Company 1/ to be operated during the period October 19 through October 21, 1962.

It is understood the bank wishes to operate an office at this location each succeeding year in which the Quarter Horse Show is open to the public. Consequently, the Board of Governors approves the establishment and operation of a new branch at this location each succeeding year that the Quarter Horse Show and sale are open to the public. This approval for each succeeding year is subject to cancellation by the Board of Governors upon reasonable notice to the bank prior to the beginning of such period of any year.

(Signed) Merritt Sherman

SHERMAN

1/ Title changed to Wells Fargo Bank, effective January 31, 1962.

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
 WHITNEY HOLDING CORPORATION
 for approval of its becoming a bank holding
 company by acquiring the stock of Crescent
 City National Bank, New Orleans, Louisiana,
 and Whitney National Bank in Jefferson Parish,
 Jefferson Parish, Louisiana

ORDER EXTENDING PERIOD OF TIME
PRESCRIBED BY PROVISIO IN ORDER OF APPROVAL

WHEREAS, by Order dated May 3, 1962, the Board of Governors,
 pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956
 (12 U.S.C. 1842) and section 222.4(a)(1) of Federal Reserve Regulation Y
 (12 U.S.C. 222.4(a)(1)), approved action whereby Whitney Holding
 Corporation would become a bank holding company by acquiring substantially
 all of the voting stock of two banks named therein, and said Order was
 made subject to the proviso "that Whitney National Bank in Jefferson
 Parish shall be opened for business within six months after said date";
 and

WHEREAS, Whitney Holding Corporation has applied to the
 Board for modification of said proviso for the reason that compliance
 within the time prescribed therein apparently will not be feasible, and

it appears to the Board that good cause exists for modification of the terms of the proviso with respect to the period of time prescribed therein;

IT IS HEREBY ORDERED, that said Order be, and it hereby is, amended so that said proviso shall read as follows: "provided further that Whitney National Bank in Jefferson Parish shall be opened for business not later than November 4, 1963".

Dated at Washington, D. C., this 19th day of October, 1962.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(Seal)

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

Item No. 5
10/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1962.



Mr. Paul C. Hodge, Vice President,
General Counsel & Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

This refers to your letter of September 14, 1962, requesting a ruling as to whether the offer by member banks of a premium, subject to a limitation as to length of time a deposit must remain in the bank, amounts to the payment of interest on the deposit.

It is understood that a Chicago food chain will sell a game containing a coupon redeemable by the holder for credit of \$2.50 on the deposit of \$25.00 in a savings account in any of the participating banks listed on the coupon, but no bank would redeem more than one coupon per customer. The premium would be credited to the account at the time of deposit but the signature card would provide that the bank could charge the customer with the amount of the premium in the event the account was closed prior to the expiration of six months from the date of opening. National expansion of the program is contemplated.

As you indicated in your letter, the Board has stated (June 7, 1961, S-1798; FRLS #6245) in a somewhat similar situation also involving nonrecurring premiums of only nominal value as part of an advertising plan, that the Board does not consider such premiums to be an indirect payment of interest even though a time limit is imposed in order for the customer to retain the credit premium. Although in the present case many banks may be involved and national expansion of the program is contemplated, it appears that the plan now proposed does not deviate materially from that passed upon by the Board in 1961.

The Board has frequently stated that it does not look with favor upon the practice of giving premiums to depositors as inducement for the opening of accounts, particularly because of possible abuses that may result. However, the Board recognizes that it has become the practice of many banks, in order to stimulate new business, promote good will, and encourage thrift, to offer such premiums as an advertising or promotional medium and not as financial compensation to the customer for

Mr. Paul C. Hodge

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the use of his funds. The Board does not believe that the imposition of a time limitation is a material variation from the "advertising" concept and therefore the Board does not deem the value of the premium to be interest on the deposit.

However, there is a feature of this proposed plan that is objectionable; namely, the failure to prescribe a time within which the coupon may be used to obtain the premium. An advertising program should not run for an indefinite period. Therefore, there should be some definite terminal date, not to exceed six months, for the advertising campaign and use of the coupon.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
10/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 22, 1962

Mr. P. W. Cavan, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Cavan:

In accordance with the request contained in your letter of October 11, 1962, the Board approves the appointment of Paul J. Martin as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.