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Minutes for June 24, 1963

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 Monday, June 24, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. O'Connell, Assistant General Counsel
Mr. Mattras, General Assistant, Office of the Secretary
Mr. McClelland, Assistant to the Director, Division of Examinations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

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

	<u>Item No.</u>
Letter to Chemical Bank New York Trust Company, New York, New York, approving (1) the establishment of a branch at 57-02 99th Street, Corona, and (2) the establishment of the branch in temporary quarters at 59-05 Junction Boulevard, Corona, the temporary branch to be closed simultaneously with the opening of the permanent branch.	1
Letter to The Connecticut Bank and Trust Company, Hartford, Connecticut, approving the operation of a branch at 61 State Street, New London, contingent upon approval and consummation of a proposed merger of The Union Bank and Trust Company of New London, New London, Connecticut, with and into The Connecticut Bank and Trust Company.	2

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Item No.

Letter to the Federal Deposit Insurance Corporation regarding the annual expense incurred by the Federal Reserve System in the discharge of responsibilities deemed to be related to the examination and supervision of State member banks.

3

Letter to the Federal Reserve Bank of Dallas regarding whether a member bank may credit interest semiannually on all savings accounts at a rate of 4 per cent per annum and recompute and adjust the interest on any part of a savings deposit that does not remain in the bank for 12 months.

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In connection with Item No. 2, there was a discussion relating to the application of Federal statutes, including the Bank Merger Act, to mergers involving nonmember uninsured banks (such as the proposed merger of The Union Bank and Trust Company of New London into The Connecticut Bank and Trust Company). It was understood that the Legal Division would prepare a memorandum on this matter for the Board's information.

With reference to Item No. 3, it was stated that the Federal Deposit Insurance Corporation wanted an approximation of the annual expenses incurred by the System in its examination and supervision of State member banks to assist it in projecting a hypothetical aggregate of noninsurance expenses of the proposed Federal Banking Commission (the subject of a bill pending in the Congress). Such information would provide a base for estimating refunds to be made by the Commission to each insured bank (other than a national bank) to defray the

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cost of State bank examination and supervision if such legislation should be enacted.

In connection with Item No. 4, Governor Mills had suggested when the file was in circulation that the procedure for crediting of interest could convey an erroneous impression to depositors and could be conducive to false advertising. Mr. O'Connell, after reviewing the facts of the matter in some detail, agreed that these possibilities existed but expressed the opinion that the crediting of interest in the manner described would not technically violate the provisions of Regulation Q. As indicated in the draft letter, there should be a full and explicit statement in the deposit contract. The draft letter was approved subject to the understanding that language would be added calling attention to the importance of stating clearly in any advertising the conditions under which interest would be paid at the rate of 4 per cent. It was also understood that the proposed letter would be checked with the Federal Deposit Insurance Corporation before being sent.

The meeting then adjourned.

Secretary's Notes: A letter was sent today over the signature of Chairman Martin to Mr. H. K. Newburn, President of Montana State University, Missoula, Montana, accepting his resignation from the Board of Directors of the Helena Branch, Federal Reserve Bank of Minneapolis, effective September 1, 1963, due to a change of residence out of the Ninth District.

Governor Shepardson today approved on behalf of the Board the following items:

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Letter to the Federal Reserve Bank of Chicago (attached Item No. 5) approving the designation of Louis N. Buettner as special assistant examiner.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 6) approving the appointment of Marvin C. McCoy as examiner.

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

Appointment

Bernadine H. Woods as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,110, effective the date of entrance upon duty.

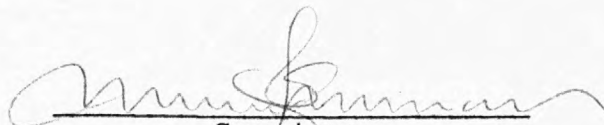
Salary increases

D. Lee Shafer, from \$4,110 to \$4,565 per annum, with a change in title from Clerk-Stenographer to Secretary, Division of International Finance, effective July 7, 1963.

John S. Hollis, from \$3,770 to \$3,980 per annum, with a change in title from Messenger to Messenger (Driver), Division of Administrative Services, effective June 24, 1963.

Change in official headquarters

Hanvey Stanford, Assistant Federal Reserve Examiner, Division of Examinations, from Birmingham, Alabama, to Atlanta, Georgia, effective immediately.


Secretary

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

Item No. 1
6/24/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1963

Board of Directors,
Chemical Bank New York Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves (1) the establishment of a branch at 57-02 99th Street, Corona, Queens County, New York, by Chemical Bank New York Trust Company, provided the branch is established within two years from the date of this letter; and (2) the establishment of the branch in temporary quarters at 59-05 Junction Boulevard, Corona, Queens County, New York, provided the temporary branch is established within six months from the date of this letter and is closed simultaneously with the opening of the permanent branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branches; and that if an extension should be requested for either branch, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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Item No. 2

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 27, 1963.



Board of Directors,
The Connecticut Bank and Trust Company,
Hartford, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the operation of a branch by The Connecticut Bank and Trust Company, Hartford, Connecticut, at 61 State Street, New London, Connecticut, providing the proposed merger of The Union Bank and Trust Company of New London, New London, Connecticut, with The Connecticut Bank and Trust Company, Hartford, Connecticut, is approved and consummated.

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
6/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1963

Mr. William M. Moroney,
Assistant to Chairman and Controller,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Moroney:

Reference is made to your informal request made through Mr. Frederic Solomon, Director of the Board's Division of Examinations, for an approximation of the annual expense incurred by the Federal Reserve System in the discharge of responsibilities deemed to be related to the examination and supervision of State member banks. It is understood that this estimate, together with similar estimates relating to insured State nonmember banks and national banks, is to be used solely for the purpose of projecting a hypothetical aggregate of noninsurance expenses of the proposed Federal Banking Commission to provide a base for estimating refunds to be made by such Commission to each insured bank (other than a national bank) under Section 11, H.R. 5874, to defray the cost of State bank examination and supervision. It is further understood that, for your purposes, a detailed accounting and allocation of each and every expense which may be related to the specific aspects of the bank examination and supervisory function with which we are to deal is not required or expected.

In the light of the foregoing, it is our estimate that the annual expenses incurred by the Federal Reserve System in the discharge of responsibilities directly related to the examination and supervision of State member banks and Bank Holding Companies approximate \$7,900,000. In general, this estimate reflects the following: (a) Federal Reserve Banks - actual expenses of the Bank Examinations Departments for the calendar year 1962 without allocation of officers' salaries to reflect duties in other Departments, exclusive of System retirement and other benefits, but with adjustment for Civil Service retirement contributions at 6-1/2 per cent per annum, and (b) Board of Governors - budgeted expenses of the Division of Examinations and other Divisions for the calendar year 1963 to reflect the first step in the general pay increase and organizational changes, exclusive of System retirement and other benefits, but with adjustment for Civil Service retirement contributions at 6-1/2 per cent per annum.

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
6/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 8, 1963

Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Irons:

This refers to Mr. Boykin's letter of May 1, 1963, addressed to Mr. Hackley, presenting an inquiry by the president of a national bank in Louisiana, as to whether a member bank may credit interest semiannually on all savings accounts at a rate of 4 per cent per annum and recompute and adjust the interest on any part of a savings deposit that does not remain in the bank for 12 months.

The Supplement to Regulation Q (section 217.6) provides, in part, that a member bank may pay interest at a rate not in excess of 4 per cent per annum "on that portion of any savings deposit that has remained on deposit for not less than 12 months".

Published statements by the Board (1961 Bulletin, page 1404 and 1962 Bulletin, page 398) imply that interest should be "restricted to a rate of 3-1/2 per cent until the funds have remained on deposit for 12 months at which time they become eligible for the so-called retroactive bonus of 1/2 per cent". However, such statements were made on the supposition that the normal procedure for crediting interest would be on the "bonus" basis; and the specific question now presented has not heretofore been considered.

The Board has not objected to the payment semiannually of accrued interest at 4 per cent on a 12 months' time certificate, subject to an express understanding that interest will be recomputed at a lower rate, such as 1 per cent, if the funds should be withdrawn during the year after 30 days' written notice. As a matter of principle, there appears to be no sound basis for applying a different rule in the case of a savings deposit. In both cases, the practice appears to be dictated by considerations of bookkeeping convenience and not to involve an actual payment of interest at a rate in excess of the maximum permitted by Regulation Q.

Mr. Watrous H. Irons

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Accordingly, it is the Board's opinion that interest may be credited on a savings deposit at a rate not in excess of 4 per cent during the first year of the deposit, provided that the deposit contract expressly states that the amount of interest credited to a deposit before the first anniversary date thereof is not to be deemed payment of the one-half of 1 per cent interest differential, and that interest will be recomputed at a rate not in excess of 3-1/2 per cent as to any part of the principal withdrawn before 12 months have elapsed. In order to avoid public misunderstanding of the effect of the bank's interest crediting procedures, it is suggested that the bank, in addition to inserting the above-mentioned express provision in the deposit contract, be urged to make clear in whatever form of advertising it may undertake that the payment of maximum allowable interest will be made only on savings that have remained on deposit for not less than 12 months.

It should be noted that under the procedure contemplated by the national bank a savings depositor might encounter an income tax problem, since all interest credited during the first year of the deposit would have to be reported by the bank to the Federal Government, whereas the depositor's tax return for the year might not reflect the full amount of the interest so credited if amounts withdrawn during the year bore interest at the recomputed lower rate. Further, as to interest credited at the maximum 4 per cent per annum rate and reported by the bank for tax purposes, but prior to payment recomputed as to any portion of the deposit withdrawn prior to the anniversary date, the bank may be required to file with the Internal Revenue Service an amended Form 1099, Information Return. You may wish to call these latter considerations to the attention of the inquiring bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
6/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1963



AIR MAIL

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of June 18, 1963, the Board approves the designation of Louis N. Buettner as a special assistant examiner for the Federal Reserve Bank of Chicago for the purpose of participating in examinations of State member banks.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 6
6/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 24, 1963



AIR MAIL

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Sullivan:

In accordance with the request contained in your letter of June 14, 1963, the Board approves the appointment of Marvin C. McCoy, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Dallas effective July 1, 1963.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.