

Minutes for July 11, 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	<u>(M)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System on Thursday, July 11, 1963. 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. Kenyon, Assistant Secretary  
 Mr. Fauver, Assistant to the Board  
 Mr. Farrell, Director, Division of Bank Operations  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Johnson, Director, Division of Personnel Administration  
 Mr. Connell, Controller  
 Mr. Hexter, Assistant General Counsel  
 Mr. Koch, Associate Director, Division of Research and Statistics  
 Mr. Daniels, Assistant Director, Division of Bank Operations  
 Mr. Masters, Associate Director, Division of Examinations  
 Mr. Thompson, Assistant Director, Division of Examinations  
 Mr. Sprecher, Assistant Director, Division of Personnel Administration  
 Mr. Spencer, General Assistant, Office of the Secretary  
 Mr. Bakke, Senior Attorney, Legal Division  
 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:

Item No.

Letter to Rhode Island Hospital Trust Company,  
 Providence, Rhode Island, approving the establish-  
 ment of a branch on North Main Street.

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	<u>Item No.</u>
Letter to The Elyria Savings & Trust Company, Elyria, Ohio, approving an extension of time to establish a branch on Cleveland-Elyria Road, North Ridgeville, branch operations conducted at 7077 Avon-Belden Road to be discontinued simultaneously with the establishment of the new branch.	2
Letter to Union Trust Company of Maryland, Baltimore, Maryland, approving the establishment of a branch at Belcamp.	3
Letter to Bankers Dispatch Corporation, Chicago, Illinois, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act; letter to the Federal Reserve Bank of Chicago transmitting the letter to Bankers Dispatch Corporation and commenting on the situation.	4-5
Letter to all Federal Reserve Banks regarding the handling of applications from State member banks for permission to exercise trust powers.	6
Letter to the Office of the Comptroller of the Currency with respect to annual leave accumulated by employees of the Federal Reserve Issue and Redemption Division.	7
<p>With respect to <u>Item No. 4</u>, Governor Mills commented that the application of Bankers Dispatch Corporation seemed to involve almost a borderline case. It was noted, in discussion, that the last paragraph of the letter to the Corporation had been drafted in recognition of this situation and that the transmittal letter to the Federal Reserve Bank of Chicago (<u>Item No. 5</u>) would call attention to the need for following developments through periodic review.</p>	

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Regarding Item No. 7, the letter to the Office of the Comptroller of the Currency, as approved, reflected certain changes in the draft that had been distributed prior to the meeting.

Messrs. Johnson, Connell, Daniels, Masters, Sprecher, Thompson, and Bakke then withdrew and Mr. Furth, Adviser, Division of International Finance, entered the room, along with Mr. Dembitz, Associate Adviser, Division of Research and Statistics.

Report on competitive factors (Baltimore-Pleasantville, Ohio).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposal of The First National Bank of Baltimore, Baltimore, Ohio, to acquire the assets of and assume liability to pay deposits made in The Pleasantville Bank, Pleasantville, Ohio.

The report was approved unanimously for transmittal to the Comptroller, the conclusion therein being stated as follows:

The First National Bank of Baltimore and The Pleasantville Bank apparently serve primarily their respective small communities, and the acquisition of Pleasantville Bank by First National would have no serious adverse effects on competition.

Mr. McClintock then withdrew, and Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics, entered the room.

Rates on time deposits. There had been distributed to the Board a letter dated June 27, 1963, from the Federal Reserve Bank of New York regarding provisions of Regulation Q, Payment of Interest on Deposits, relating to the maximum permissible rates of interest payable on time

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certificates of deposit. The letter supported the recommendation made by the Commission on Money and Credit, the Advisory Committee on Banking to the Comptroller of the Currency, and the President's Committee on Financial Institutions that Federal authority to regulate interest rates on time and savings deposits be placed on a standby basis, and it noted that a bill (S. 1799) to put this recommendation into effect had been introduced in the Congress. The letter stated that the New York Reserve Bank also looked with favor on the emergence of negotiable time certificates of deposit and the development of the secondary market in which they were actively traded. The Reserve Bank believed that this instrument had increased the flexibility of the banking system by providing another sensitive market mechanism.

The letter from the New York Reserve Bank urged the Board to increase the present rate ceilings with respect to certain classes of time deposits, other than savings deposits, in view of the possibility that short-term interest rates might rise above levels that had prevailed for the past two years, and because this development might take place before enactment of possible legislation that would obviate the need for continuously regulating the maximum rates on time and savings deposits. In this respect, it recommended that the maximum rate for time certificates of deposit having maturities of not less than six months but less than one year be raised to 3-3/4 per cent from 3-1/2 per cent, the belief being stated that this was the most vulnerable area;

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it accounted for approximately two-thirds of outstanding certificates of deposit. The Board was also urged to establish a maximum rate for time deposits with maturities of not less than 90 days but less than six months that was in line with market rates. It was believed that in this maturity range domestic banks could become most effective in competition with the Euro-dollar market. At the present time the 2-1/2 per cent maximum rate for such deposits was not sufficiently high to enable banks in the United States to hold or attract foreign private balances or to retard or reverse the growing tendency of corporate treasurers to place dollar funds abroad. An increase in time deposit rates here probably would not be fully matched by a related rise in the Euro-dollar market, and consequently some restraint on corporate funds going into that market should result. It was suggested, therefore, that the Board raise the maximum permissible rate on time deposits with maturities of not less than 90 days but less than six months to at least 3-1/2 per cent.

Governor Balderston, who had requested that the letter from the New York Reserve Bank be placed on the agenda for this morning's meeting for discussion, spoke of his concern as long as a year ago with respect to the loss of short-term funds through Canada into the Euro-dollar market. He said that in February he had given thought to bringing before the Board a suggestion for changing the ceiling rates for time deposits with maturities of one year and under, but he had come to the conclusion

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at that time that the development of the secondary market for negotiable certificates of deposit might provide an alternative answer. However, if at any time there should be a change in the discount rate, such a change might precipitate a loss of negotiable certificates of deposit, and the major impact of that loss would likely fall first upon the market for municipal securities and probably upon the mortgage market. In short, the response in terms of investment and lending practices might be one that was not desired. In his own thinking, Governor Balderston commented, if there were a change in the discount rate sometime in the future, there should also be a change in the ceiling rate applicable to certificates of deposit with maturities from six months to one year. The New York Reserve Bank had recommended, as of June 27, that the ceiling be changed to 3-3/4 per cent. In his view, 4 per cent might be more appropriate, particularly in the light of recent market developments. However, an unanswered question in his mind was whether such a change would reduce the term of all negotiable certificates of deposit to six months. With respect to the maximum rate for time deposits with maturities of 90 days to six months, the New York Reserve Bank had stated that the 2-1/2 per cent ceiling was unrealistic, a point with which he concurred, and had suggested that it be raised to 3-1/2 per cent. Governor Balderston suggested, however, that some thought might be given to raising the maximum permissible rate as high as 3-3/4 or even 4 per cent. Alternatives for U. S. corporate treasurers included 6-month Treasury bills yielding roughly

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3.30 per cent and Euro-dollar rates that might be running as high as 4 per cent. Hire-purchase paper in England was yielding 4-1/2 per cent.

Governor Mills expressed an opposite view concerning the proposal, which he thought could be more harmful than helpful. He suggested that it was necessary to consider whether the large commercial banks should be operating in negotiable certificates of deposit. The loss of liquidity incident to going into municipals and mortgages had been encouraged by this kind of operation. The banks had been borrowing short and lending long, contrary to sound banking principles, because they could not cover the interest paid on the time certificates except by acquiring assets of long maturity. If there should be an increase in the Regulation Q rates, which he thought would be completely wrong policy, that would have to be a substantial increase, and it would further encourage the practice of borrowing short and lending long. If one was thinking in terms of a monetary and credit policy aimed at the balance of payments problem, an increase of the permissible rates under Regulation Q might lead to a weaker rather than a stronger position. If the ceiling rates were left at their present levels and the negotiable certificates began to run off, the question was what the investors in those certificates would do with the proceeds. They would not necessarily move them to Canada or into the Euro-dollar market. The issuing banks would have less loanable funds at their disposal, and in the face of that they would tighten their lending processes. This would result in a strengthening of interest



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rates, out of the banks' own activities, that would abet the policy of a stronger interest rate structure. Further, it was conceivable that the current investors in time certificates of deposit were also bank borrowers. If the money came back to them from the certificates, it presumably would flow back into the demand deposits of the issuing banks, at least to some extent. This would relieve pressure on the money supply that the tightening of monetary and credit policy would otherwise exert and allay some of the concern that monetary policy would be economically damaging through contracting the money supply. Or, if holders of the certificates would otherwise have felt compelled to borrow at their banks at a higher cost, they could be relieved of that necessity by having funds at their disposal that had been placed in the time certificates. As to the issuing banks, if they could be conceived of as managing their affairs with any discretion, they must have staggered within some reason the paper held against the time certificates. This would mean a correlated runoff, and they should not be faced with severe difficulties. If in some individual cases banks should be confronted with problems through their operations in negotiable time certificates, that would reflect poor management, and banks of that type should be encouraged to drop out of this field. In his opinion, in fact, the banks had no business in this field to begin with, and this would be a favorable opportunity to wedge them out. None of them seemed to have made any money; the bulk, even last year, showed no net

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operating profits, and now they would have the cost of higher interest expense. They only got an increase in total deposits, for whatever gain that might be in terms of pride and power to attract business. In addition, if the ceiling rates were raised, one would have to think beyond the field of banking to the ramifications of such action in the mortgage loan field, where there was a substantial flow of mortgage funds and every reasonable encouragement to pull them down. For the Federal Reserve to encourage higher rates on time money would not be in the public interest, as he saw it. At any rate, this was nothing that would be acted upon at this meeting or in the very near future, he judged.

Chairman Martin said that the matter was not up for action today, but it was something that ought to be studied because it had a bearing on the over-all problem.

There followed comments by several members of the staff, at the invitation of the Board, on various aspects of the problem under discussion, and it was suggested by Chairman Martin that the principal comments be summarized in memorandum form so that they might be available to the members of the Board for further study.

Secretary's Note: Memoranda from Messrs. Furth, Dembitz, and Partee were distributed to the Board members under date of July 12, 1963.

The discussion concluded with general comments and questions by members of the Board based to a considerable extent on the points raised by the members of the staff who had spoken.

The meeting then adjourned.

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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:

#### Appointments

Eva L. Jarvis as Minutes Clerk, Office of the Secretary, with basic annual salary at the rate of \$3,820, effective the date of entrance upon duty.

Mary Ann Monaghan as Clerk-Typist, Division of Personnel Administration, with basic annual salary at the rate of \$3,820, effective the date of entrance upon duty.

Wilbert J. Hart as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,245, effective date of entrance upon duty.

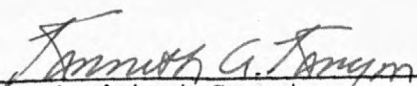
#### Acceptance of resignations

Rufus S. Hill, Jr., Attorney, Legal Division, effective July 13, 1963.

Norma Jean Hicks, Clerk-Stenographer, Division of Research and Statistics, effective July 26, 1963.

Bettie P. Tuttle, Secretary, Division of Research and Statistics, effective July 19, 1963.

Florence S. Doane, Clerk, Division of International Finance, effective July 12, 1963.

  
Assistant Secretary

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

Item No. 1  
7/11/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 11, 1963



Board of Directors,  
Rhode Island Hospital Trust Company,  
Providence, Rhode Island.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Rhode Island Hospital Trust Company, Providence, Rhode Island, of a branch on North Main Street in the Lippitt Hill section of Providence, Rhode Island, provided the branch is established within two years from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
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 branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 2  
7/11/63

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 11, 1963



Board of Directors,  
The Elyria Savings & Trust Company,  
Elyria, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to June 25, 1964, the time within which The Elyria Savings & Trust Company, Elyria, Ohio, may establish a branch on the south side of Cleveland-Elyria Road east of the intersection of Avon-Belden Road, North Ridgeville, Ohio, provided that branch operations conducted at 7077 Avon-Belden Road, North Ridgeville, are discontinued simultaneously with the establishment of the above branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 3  
7/11/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 11, 1963



Board of Directors,  
Union Trust Company of Maryland,  
Baltimore, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Union Trust Company of Maryland, Baltimore, Maryland, of a branch at Belcamp, Maryland, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
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 branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)



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

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Item No. 4  
7/11/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 11, 1963

Bankers Dispatch Corporation,  
4658 South Kedzie Avenue,  
Chicago 32, Illinois.

Gentlemen:

This refers to the request contained in a letter dated May 24, 1963, submitted to the Federal Reserve Bank of Chicago by Andrew G. Pitt, Esquire, for a determination by the Board of Governors of the Federal Reserve System as to the status of Bankers Dispatch Corporation as a holding company affiliate.

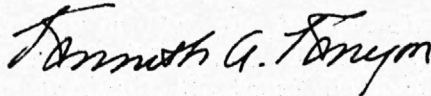
From the information presented, the Board understands that Bankers Dispatch Corporation is engaged, through five wholly-owned subsidiaries, in the transportation of commercial papers, documents and non-negotiable instruments for banks, the transportation of exposed color film and prints, microfilm and general office records, the delivery of mail to and from post offices in Chicago for their customers, the conduct of a check cashing business in the Chicago area, and, through a sixth wholly-owned subsidiary, the purchase of vehicles used by the other subsidiaries to which they are leased on a monthly rental basis; that the Corporation is a holding company affiliate by reason of the fact that it owns, directly and indirectly, 14,600 of the 26,208 shares of common stock of The District National Bank of Chicago voted for the election of directors at the stockholders' meeting on January 8, 1963; that the Corporation also owns, indirectly, 2,100 of the 15,000 outstanding shares of capital stock of The Archer National Bank of Chicago; and that the Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Bankers Dispatch Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

Bankers Dispatch Corporation -2-

If, however, the facts should at any time indicate that Bankers Dispatch Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Should future activities of, or acquisitions by Bankers Dispatch Corporation or its subsidiaries, particularly in bank stocks, even though not constituting control, result in its attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.



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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 11, 1963



AIR MAIL

Mr. Leland Ross, Vice President,  
Federal Reserve Bank of Chicago,  
P. O. Box 834,  
Chicago 90, Illinois.

Dear Mr. Ross:

This refers to your letter of May 31, 1963, relating to the status of Bankers Dispatch Corporation, Chicago, Illinois, as a holding company affiliate of the District National Bank of Chicago, Chicago, Illinois.

There is enclosed for transmittal a letter of this date addressed to Bankers Dispatch Corporation advising it of the action taken by the Board with reference to this matter. A copy of the letter is also enclosed for your files.

In view of the fact that the application submitted by Bankers Dispatch Corporation represents that there may very well be further acquisitions of bank stocks in the future, it would be very much appreciated if you would keep the situation under review and furnish the Board with a summary of the status of this case each year, including: (1) information as to bank stocks controlled together with a percentage of the total assets of the Corporation represented by the investment in bank stocks, obtained either from examination reports of banks or from the Corporation directly; and (2) information obtained from examination reports of banks in which the Corporation has an interest as to the degree and results of control of policies, if any, by the Corporation in banks in which it has an interest.

Very truly yours,

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosures

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

S-1879  
Item No. 6  
7/11/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 22, 1963.



Dear Sir:

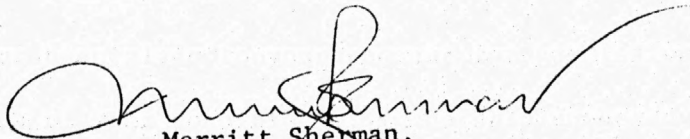
This letter supplements the Board's letter S-1872, dated May 29, 1963, with respect to applications by State member banks for permission, under applicable provisions of Standard Condition of Membership Number 1, to exercise statutory fiduciary powers.

In appropriate cases, in the discretion of the Reserve Bank, such applications should be the subject of a field investigation, including an interview with the bank's directors and executive officers at which the responsibilities and potential liabilities inherent in fiduciary activities are fully explored, together with the requirements for sound and creditable administration of fiduciary appointments.

With respect to each such application (whether the Reserve Bank is to advise of approval on behalf of the Board or whether the application is to be forwarded to the Board for action--see S-1872) the Reserve Bank will prepare a memorandum supporting its conclusion relative to the appropriateness of the exercise of the powers for which permission has been requested. Such memorandum shall reflect the results of the field investigation, if any, and shall include a recitation and analysis of all factors of importance bearing on whether the requested permission should be granted, i.e., the condition of the member bank and the adequacy of its capital structure; the general character and ability of the management of the bank; local conditions, including the competitive situation, affecting the need for the corporate fiduciary services desired to be furnished; qualifications of those directors, officers, and employees who would be responsible for supervision and administration of fiduciary activities; and the availability of legal counsel to advise and pass upon fiduciary matters.

A form of letter-advice is enclosed which should be used in each case where a Reserve Bank, under authority contained in S-1872, acts on behalf of the Board in granting permission to a State member bank to exercise statutory fiduciary powers. As in the case of Board-approved applications, a copy of the letter of authority may be furnished interested State banking authorities.

Very truly yours,



Merritt Sherman,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

Suggested letter of advice to State member bank authorizing, on behalf  
of the Board of Governors, the exercise of fiduciary powers.

Board of Directors,  
(Name of Bank),  
(City), (State).

Gentlemen:

Consideration has been given to your request for permission,  
under applicable provisions of your condition of membership numbered 1,  
to exercise fiduciary powers.

(For cases involving exercise of full statutory powers)

On behalf of the Board of Governors of the Federal Reserve  
System, permission is hereby granted to \_\_\_\_\_ to exercise  
any and all fiduciary powers now or hereafter conferred upon such bank  
by or pursuant to the laws of the State of \_\_\_\_\_.

(For cases involving limited exercise of statutory powers)

On behalf of the Board of Governors of the Federal Reserve  
System, permission is hereby granted to \_\_\_\_\_ to act as \_\_\_\_\_,  
with the understanding that (fiduciary appointments of other kinds)  
(any other fiduciary appointments) will not be accepted without first  
obtaining the permission of the Board.

Very truly yours,

\_\_\_\_\_  
(To be signed by President or  
First Vice President)

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

Item No. 7  
7/11/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 11, 1963.



Mr. A. J. Faulstich,  
Administrative Assistant to the  
Comptroller of the Currency,  
Department of the Treasury,  
Washington 25, D. C.

Dear Mr. Faulstich:

This refers to your letter of June 28 concerning accumulated annual leave of employees of the Federal Reserve Issue and Redemption Division, and suggesting that the liability for such leave should be provided for as part of the recognized cost of this activity.

It is the Board's understanding that salary costs of the Federal Reserve Issue and Redemption Division, for which reimbursement is claimed from the Board, have always included any amounts that have been paid pursuant to Annual and Sick Leave Regulations applicable to Federal employees.

The Board prefers to continue this method of reimbursement, as it conforms with the practice by Government agencies whereby the employing agency makes lump sum payments for annual leave at the time employees leave the Federal service.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,  
Assistant Secretary.