Minutes for July 16, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act the entries covering the items in this set of minutes commencing on the page and dealing with the subjects referred to below:

Page 20 Amendment to Supplement to Regulation Q, Payment of Interest on Deposits.

Page 20 Approval of a discount rate of 3-1/2 per cent for the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas; and agreement to approve a rate of 3-1/2 per cent for any other Reserve Bank advising of the establishment of such rate.

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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King ✓

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, July 16, 1963. The Board met in the Board Room at 10:00 a. m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Circulated 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 County Trust Company, Tenafly, New Jersey, approving the establishment of a branch in Haworth.	1
Letter to Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, approving (1) the relocation of a branch from Fifth and Chestnut Streets to Sixth and Ranstead Streets, and (2) an investment in bank premises.	2

Report on competitive factors (Winchester-Berryville, Virginia). 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 First National Bank of Berryville, Berryville, Virginia, into Farmers and Merchants National Bank, Winchester, Virginia.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

> The proposed merger would not significantly alter Farmers and Merchants' competitive capabilities in the areas in which it now operates. Consummation of the proposal would, however, eliminate the moderate amount of competition existing between the merging banks and would subject the remaining bank in Berryville to more direct competition from a larger institution.

Mr. McClintock then withdrew from the meeting and Mr. Fauver, Assistant to the Board, entered the room.

Maximum rates of interest under Regulation Q. Pursuant to the understanding at the meeting of the Board on July 11, 1963, there had been distributed under date of July 12, 1963, individual statements from Messrs. Furth, Dembitz, and Partee regarding maximum rates of interest under Regulation Q, Payment of Interest on Deposits.

The statement from Mr. Furth, which related particularly to interest rates on Euro-dollar deposits, pointed out that the Euro-dollar market rates for time deposits maturing in 90 to 180 days were at times not much higher than corresponding money market rates in the United States, but that the rates for time deposits with short maturities (call and

30 days) were consistently well above comparable yields in the United States money market. While information on the composition of Euro-dollar deposits was inadequate, it was believed that time deposits with short maturities constituted a large part of the total.

The chart accompanying Mr. Furth's statement showed further that Euro-dollar rates were very flexible, thereby making it particularly difficult to foresee the effect of changes in United States money market conditions on the differential between the United States and Euro-dollar rates.

The statement by Mr. Dembitz contained comments relating to the rationale for changing the maximum interest rates on time deposits under Regulation Q in the event that the discount rate were to be increased. It was his suggestion that the maximum rate for all time deposits with maturities of 90 days or more be changed to a flat 4 per cent and that there be no change in maximum rates of interest on savings accounts.

As a basis for arriving at this suggestion, the statement contained a discussion of several pertinent questions. With reference to negotiable certificates of deposits, it was pointed out that the ability of banks in the United States to issue these certificates seemed to have some effect on keeping dollars in this country and, accordingly, if an increase in maximum rates seemed necessary in order to enable banks to continue competing in this field, the increase should presumably be made. As to whether a higher maximum rate of interest would be necessary to enable banks to continue competing in this market following any change in the discount rate, it was noted that throughout 1962 and 1963 to date the rate on all maturities of six months or longer had almost always been some fraction above the discount rate, the most typical rates offered by the prime banks being about 3-1/8 per cent for deposits with a six-month maturity and about 3-3/8 per cent for those with a twelve-month maturity. While it was not certain that this same relationship would continue if the discount rate were higher, it was Mr. Dembitz' view that (1) if present economic and financial conditions, including the lower level of "free reserves," were to continue, the rate needed to sell these certificates would be likely again to go above the discount rate, and (2) there would arise widespread and possibly destabilizing speculation as to what might be the intention of the Board concerning the future ability of banks to sell certificates of deposit, if the Board were to keep the interest rate ceiling (for certificates of less than one-year maturity) at the same level as the discount rate.

While there was growth of the certificate market in 1961 when the maximum rate under Regulation Q was equal to the discount rate, this occurred in a period when free reserves were higher and money was "easier" than at present. With the lower level of free reserves at the present time, it seemed likely that such an equality of interest rates would make it necessary for the banks to repay a considerable part of their certificates at maturity.

In considering the question as to what specific changes should be made in the scale of maximum rates and when they should be announced, it was pointed out that the largest volume of certificates issued had been those with maturities in the six-month to one-year range for which the ceiling rate was now 3-1/2 per cent. Rates at prime banks had rarely (if at all) reached this level, although 3-1/2 per cent had apparently been paid at times by secondary banks desiring to offer a premium over the rate of the prime banks. A new ceiling of 3-3/4 per cent could be considered. However, if the discount rate were raised by 1/2 per cent, there was a possibility of increases of the same amount in other short-term rates, which could bring the prime banks' rate on these certificates to 3-3/4 per cent; a ceiling at this figure would deprive the secondary banks of the ability to continue offering some small premium. Since it did not seem desirable for these banks to be so deprived, it was suggested that an increase of 1/2 per cent to 4 per cent would seem appropriate for this maturity range.

For certificates of one year or longer, the existing 4 per cent maximum rate would seem adequate. Leading banks had not offered more than 3-1/2 per cent on such certificates, or 1/2 per cent above the discount rate, and since it was assumed that the discount rate would not exceed 3-1/2 per cent, a 4 per cent rate would seem adequate.

On the matter of deposits with maturities of 90 days to six months, it was noted that the present interest ceiling of 2-1/2 per cent had made it impossible recently for banks to compete in issuing certificates of deposit. If banks could again compete in the issuance of 90-day certificates, it would strengthen them to some extent in competition with the Euro-dollar market. While one possibility would be to increase from 2-1/2 to 3-1/2 per cent the maximum rate for this maturity range, it was concluded in the statement that the ceiling might well go to 4 per cent.

With respect to time deposits having maturities of less than 90 days, Mr. Dembitz favored no change in the present rate of 1 per cent. These deposits were closely related to demand deposits, on which the payment of interest was prohibited.

If maximum rates of interest for time deposits were increased, it was suggested that this action be announced at the same time as any increase in the discount rate.

It was noted that savings deposits, unlike negotiable certificates, were important to small as well as large banks, and the rate a bank could afford to pay on savings deposits was especially influenced by the rates it could earn on mortgages or other long-term investments. Accordingly, if it was the intention of official policy that increases in open market interest rates be confined to the short-term rather than the long-term part of the market, it would be undesirable to encourage banks to incur higher interest costs on savings deposits by raising the maximum rates of interest. Also, any increase in the maximum rates of interest that commercial banks may pay on savings might seem to weaken competing savings institutions through pressure to increase their rates further.

The statement by Mr. Partee that had been distributed related mainly to the implications for the capital markets of interest rate limitations on time deposits. Since the spring of 1961, and especially following the change in Regulation Q rates at the beginning of 1962, commercial banks had become much more vigorous participants in the municipal and mortgage markets. The propelling force bringing banks heavily into these capital markets, as well as the source of funds, had been the large rise in savings and time deposit balances. In 1960 such balances rose $5.5 billion; in 1961, $9.3 billion, and in 1962, $15.5 billion. Since it might be assumed that some of these deposits were interest sensitive, it would be reasonable to suppose that a material rise in short-term money market yields would significantly erode the competitive attractiveness to investors of the time deposit medium. The impact of an abrupt shift in time deposit flows on bank investment patterns could be substantial.

The statement indicated further that if it seemed likely that short-term interest rates would continue upward, or if any action were contemplated that might lift money market rates further, increasing the present rate limitations on time deposits, at least for deposits having six- to 12-month maturities, would be favored. This would permit those banks desiring to remain competitive with money market rates to do so.

At Chairman Martin's request, Mr. Dembitz commented on the information contained in his statement that had been distributed. He observed that if any change were to be made in the discount rate, it would seem desirable to increase the maximum rate of interest for time deposits having maturities of six to 12 months from 3-1/2 per cent to 4 per cent and probably to increase the maximum rates on deposits with maturities of three to six months from 2-1/2 per cent to 4 per cent.

Responding to a question from Chairman Martin regarding time certificates maturing in three to six months, Mr. Dembitz stated that the question here was whether the Board would want to permit American banks to compete more effectively with foreign banks for deposits in this range. He added that while some certificates of deposit had been issued by American banks within this maturity range, largely as a matter of accommodation to customers, the present ceiling of 2-1/2 per cent had made it impossible recently for domestic banks to compete for short-term time deposits. Depositors wishing to acquire instruments having maturities of three to six months could buy Treasury bills, finance company paper, or bank certificates of deposit to the extent that they were available in the markets, or they could make deposits in foreign banks that were offering more attractive rates. If American banks were in a position to compete with foreign banks for deposits in the three- to six-month range, this would make some small contribution to arresting the movement of funds outside the United States. Where foreign banks paid a substantially higher rate of interest for time deposits than that offered by American banks, it was reasonable to expect that some deposits would go to the foreign banks if they went to banks at all. However, if the rate paid by foreign banks was only slightly higher than that paid by American banks, it would seem reasonable to expect that American banks might be in a position to offer certain other advantages and inducements that would be attractive to depositors. While the volume of deposits in the three- to six-month maturity range was not large, it was Mr. Dembitz' view that it would be desirable to permit American banks to compete for deposits in this area.

In commenting on the points covered by Mr. Dembitz, Mr. Furth said that his concern was whether within reasonable limits an increase in Regulation Q rates would narrow the differential between domestic and foreign rates of interest or whether this would force Euro-dollar rates up by approximately the same amounts as those proposed under Regulation Q. Since the recent rise in United States money market rates, there had been an upturn in the Euro-dollar rates. He observed that perhaps this was a coincidence or it might have been related to an increase in the speculative buying of gold in London. In his view it was a matter of judgment as to what the effect of any increase in maximum rates of interest in this country would have on the Euro-dollar market.

Mr. Molony, Assistant to the Board, Mr. Cardon, Legislative Counsel, and Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics, entered the room at this point.

Mr. Koch commented that in his judgment two questions of fact were relevant to the subject under consideration. In the first place, there was a secondary market in certificates of deposit with effective rates throughout the whole maturity range. Certificates of deposit with three- to six-month maturities were being traded on that market even though banks might not be issuing new certificates. There were instruments in this maturity range to compete with the Euro-dollar market. Since the volume of certificates of deposit issued by American banks in this maturity range was not large, any increase in the maximum rates of interest for such certificates was not the complete answer to the problem. Secondly, up to the present time American banks generally were not paying the maximum rates of interest on time deposits and they would continue to determine on an individual basis the rates that they wished to pay within the established ceilings.

In Mr. Koch's view the real question related to the maximum rate of interest for time deposits maturing in three to six months, an area in which American banks had not been in position to compete effectively with foreign banks in the past. His own preference would be not to change the present 2-1/2 per cent maximum rate for this maturity range. However, if it was thought desirable to permit American banks to compete with those in foreign countries for time deposits in this maturity range, there was the question whether the ceiling should be set at 3-1/2 per cent or 4 per cent. He would be inclined to make no change or to increase the ceiling to 4 per cent.

Mr. Koch went on to say that, with respect to time deposits maturing in six to 12 months, the rates established by American banks had been competitive with those in foreign countries. However, if the discount rate should be increased, it would seem desirable to increase the ceiling for this group to 3-3/4 per cent or 4 per cent, and at the moment he would be inclined to favor 4 per cent.

Mr. Partee stated that he also would favor an increase in the ceiling for time deposits with maturities of six to 12 months and, if the discount rate were increased, he believed 4 per cent would be an appropriate ceiling. In the case of time deposits in the three- to six-month maturity range, he considered it somewhat arbitrary to exclude banks by regulation from competing in this area, which was one in which corporations and sophisticated investors could purchase other instruments--for example, Treasury bills, open market paper, and finance company paper. At the present time banks were excluded from competing in this area because of the 2-1/2 per cent ceiling limitation. His inclination would be to increase the interest ceiling for time deposits in the three- to six-month maturity range but to keep the rate somewhat lower than that for time deposits in the six- to 12-month range in order to indicate that a scale of rates was appropriate.

Mr. Furth commented that, while reliable data showing the composition of Euro-dollar deposits were not available, it appeared that the bulk of such deposits were in time deposits maturing in 90 days. If this were true, it would seem desirable to increase the rate for deposits in the three- to six-month category in order to enable American banks to compete with the Euro-dollar market.

In further discussion Mr. Noyes referred to the following provision of section 19 of the Federal Reserve Act, which contained certain arbitrary lines with respect to the maximum rates of interest that the Board might establish:

> The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts.

Mr. Noyes recalled that Mr. Woodlief Thomas, former Adviser to the Board, had expressed from time to time the view that it was not desirable to encourage banks to offer their depositors very short-term time deposits as a substitution for demand deposits. Certificates of deposit with maturities of less than 90 days represented pretty "hot money" and, if the maximum rates for such certificates were increased from the present 1 per cent ceiling, there would be an incentive for depositors to shift demand deposits into these time deposits. For this reason he felt that it was not desirable to increase the maximum rate of interest for time deposits maturing in less than 90 days.

In the discussion that followed, Governor Shepardson raised a question as to whether it would be desirable to establish a flat 4 per cent maximum rate for savings deposits instead of the present split rates of 3-1/2 per cent for deposits of less than one year and 4 per cent for those on deposit for one year or more. He mentioned that bankers visiting at the Board had expressed considerable criticism of the present split rates on savings deposits. The additional cost and work involved in calculating these rates appeared to be a source of irritation to some bankers.

Governor Shepardson added that there seemed to be some movement on the part of banks to reduce the rates of interest that they were paying on savings accounts. If a maximum flat 4 per cent rate were established, this might create the impression that the Board's action had been taken in an effort to reverse the trend toward reducing rates of interest.

There followed a general discussion of the possible effects of establishing a maximum flat rate of 4 per cent for savings accounts during which reference was made to the relation between interest rates for time and savings deposits and the possible confusion on the part of bank customers over inconsistencies in these rates. In this connection the view was expressed that it would not seem unreasonable for a customer to receive a somewhat higher rate on time deposits than on savings deposits since a time deposit represented a definite commitment to leave funds in a bank for a specific length of time.

In the course of the discussion Governor Robertson said that he favored the idea of eliminating split rates of interest for savings deposits; however, he did not believe that this was the time to make the change. If a flat rate of 4 per cent were established as a ceiling at this time, he thought the banks would interpret the Board's action as an attempt to increase interest rates. There appeared to be general agreement with Governor Robertson's position that no change should be made at this time in the maximum rates of interest on savings accounts.

Governor Robertson then read the following statement setting forth his views on possible changes in the maximum rates of interest on time deposits:

> I will go along with the recommendation that the maximum allowable interest rate on certificates of deposit be raised to 4 per cent for all maturities of three months and longer, still confining the ceiling rate to 1 per cent on maturities of less than three months. This is not a change that I regard desirable in its own right, but the combination of other policies that we are embarked on at this time makes some kind of change in Q ceilings necessary if even more undesirable consequences are to be avoided. Given action to increase the discount rate and the accompanying upward push on short rates generally, banks are going to have to be able to pay a correspondingly higher rate on their negotiable time certificates if they are not to lose their ability to sell new certificates or even to replace maturing certificates as they come due. And if banks were to lose this source of deposit funds at this time, they would be likely to curtail their rate of investment in long-term debts such as mortgages, municipal obligations, and perhaps even consumer loans. The result would be higher rates and less availability of funds in the long-term markets, precisely a consequence we are trying to avoid. In other words, I favor the proposed action because I believe in a stimulative monetary policy under prevailing economic conditions, and fear that failure to so amend Regulation Q would tend to tighten bank credit and thus dampen down domestic business activity.
>
> At the same time, I want to express my concern over the longer run consequences of the combination of actions to hold short rates up. It is costing the Federal Government hundreds of millions of dollars in extra short-term interest costs, and giving rise to a growing total of short-term interest-bearing liquid assets. From a longer range point of view I am not happy about the amount of "hot money"

deposits that banks have attracted with their aggressive C.D. promotion and have invested in long-term assets. We should give serious thought to what the limits of prudence are in this respect. Ordinarily such matters could be dealt with adequately through bank supervision. However, in light of my doubts concerning existing Federal bank supervision, I would hesitate to trust it to do the job. Hence, I suggest that consideration be given to amending Regulation Q itself to place a limit of 10 per cent of total deposits on the amount of negotiable C.D.'s a bank may have outstanding at one time at rates exceeding 3 per cent. In effect, this would provide for a 1 per cent lower ceiling interest rate to be applicable to certificates issued by any bank in excess of 10 per cent of its total deposits outstanding. This would not forbid additional C.D. sales beyond that 10 per cent level, but it would discourage them, and it would make it particularly likely that any such additional sales would not be made to "hot money" investors.

At the very least, we should insert in our announcement of the Regulation Q action an admonition cautioning against the use of this type of interest-sensitive funds for long-term lending.

Governor Shepardson remarked that there seemed to be no question as to the desirability of increasing to 4 per cent the maximum rate of interest on time deposits having maturities of six months or more. There was a question as to whether the interest ceiling for time deposits with maturities of three to six months should be somewhat lower (3-3/4 per cent, for example). So far as he was concerned, he would not be averse to a 4 per cent ceiling for time deposits in this range. He would not, however, favor making any change in the ceiling for deposits with maturities of less than 90 days because of their close connection with demand deposits.

Chairman Martin stated that his preference would be to get rid of the need to prescribe maximum rates or to place the authority on a standby basis. At this time, however, he believed that the only real justification for making any change in the maximum rates of interest under Regulation Q was the balance of payments situation. He considered that the Board would be in a stronger position if it increased to 4 per cent the interest ceiling for all time deposits with maturities of 90 days or more in order to provide a greater latitude to bankers. He did not believe that banks would change their rates of interest substantially on the basis of action along this line, but he would not want to have bankers feel that they could not help in the balance of payments situation because of a Board regulation. Aside from the balance of payments problem, he saw no reason for increasing the ceiling on time deposits.

With reference to Governor Robertson's suggestion that Regulation Q be amended to place a limit on the amount of negotiable certificates of deposit that a bank might have outstanding at any time with rates exceeding 3 per cent, Chairman Martin thought that this might be misunderstood by banks. The Board was either right or wrong on the proposed action to improve the balance of payments situation, and he did not believe that any action should be taken that would complicate its position.

Governor Robertson commented that the statute that gave the Board authority to establish maximum rates of interest was designed to enable the Board to adjust rates of interest but at the same time maintain soundness in the banking structure. The 10 per cent limitation that he had suggested would indicate that, although action was being taken to enable domestic banks to compete with foreign banks and thereby make a contribution to the balance of payments problem, the Board was not throwing the gates wide open and was still concerned with the primary purpose of the statute.

Chairman Martin expressed the view that Governor Robertson's suggestion was very interesting and asked for comments on it.

Mr. Noyes responded that he was in sympathy with the suggestion in terms of principle. He pointed out that the statistics that had been furnished Governor Robertson by the Division of Research and Statistics in connection with his proposal probably had not included all negotiable certificates of deposit according to legal definition. For example, a considerable number of certificates of deposit were actually issued in negotiable form but were not regarded either by banks or depositors as negotiable certificates. By legal definition, however, these instruments would be considered as negotiable certificates of deposit and would therefore have some effect on the proposed 10 per cent limitation mentioned by Governor Robertson. He noted also that this limitation might as a practical matter operate as an absolute ceiling. He pointed out that banks have certificates maturing almost daily and no bank could afford to let itself get in a position of not being able to renew certificates as they matured.

Governor Balderston remarked that his approach on the domestic side would be to establish a 4 per cent ceiling on time deposits having a maturity of six months or more. In reaching this conclusion he had in mind the point that Mr. Partee had mentioned with respect to the impact on the capital markets of an abrupt loss in the volume of time deposits. On the international side, Governor Balderston said he felt that there was reason for raising the interest ceiling for time deposits maturing in three to six months. The arguments that had been presented for a 4 per cent ceiling were appealing to him from the international standpoint; otherwise, he would favor 3-3/4 per cent for this group. The question whether the ceiling should be set at 3-3/4 or 4 per cent was not, in his judgment, a matter of great moment, and he would not be averse to a 4 per cent ceiling for all time deposits with maturities of three months or more. As to Governor Robertson's proposal for amending Regulation Q in order to place a limit on the volume of negotiable certificates of deposit that a bank might have outstanding with rates exceeding 3 per cent, this was a matter that had been of concern to him also. However, his solution to this problem would be in the nature of moral suasion rather than an amendment to Regulation Q. In announcing any increase in the maximum rates of interest under the regulation, he would include a paragraph along the lines that it was hoped that the general effect of the change would prove beneficial to the country as a modest contribution toward stemming the outflow of capital, but it was also hoped that any individual bank that might take advantage of this liberalization would take care to keep the volume of its negotiable certificates of deposit outstanding at any time in appropriate relation to the size of the institution. In his judgment a 10 per cent limitation (in relation to total deposits) might well be something for an individual bank to keep in mind as a red light to signal when the volume of certificates of deposits needed to be reviewed. While he was tempted to go along with Governor Robertson's suggestion, he was fearful at this juncture about complicating the Board's action. He believed that the Board could rely on the large banks to take care of themselves and that it could admonish the medium-size banks by saying "watch your volume."

During the discussion that followed, Governor Shepardson expressed the view that, with the objective that the Board had in mind in its consideration of increasing rates of interest on time deposits, it seemed to him that the simpler the provisions were kept the better it would be. If banks should increase their volume of certificates too extensively, he believed that the Board would learn of this within a fairly short time. By that time it might also be known what contribution the Board's action had made to the international balance of payments problem.

Chairman Martin expressed agreement with this view, after which all members of the staff except Mr. Sherman withdrew from the meeting.

Report by Chairman Martin. Chairman Martin then reported on a meeting that he had had with other Government officials and referred to the actions of seven Reserve Banks in increasing the discount rate from 3 per cent to 3-1/2 per cent.

Maximum rates of interest under Regulation Q (Item No. 3). Following further discussion of the maximum rates of interest payable on time deposits, the Supplement to Regulation Q, Payment of Interest on Deposits, was amended by unanimous vote effective July 17, 1963, to provide a maximum permissible rate of 4 per cent on time deposits having a maturity of 90 days or more. A copy of the amended Supplement, as published in the Federal Register, is attached as Item No. 3.

It was understood that an announcement of this action would be released to the press at 4 p.m. EDT today; that appropriate notification would be sent by telegram to the Federal Reserve Banks and branches; and that a notice would be published in the Federal Register.

> Secretary's Note: The Federal Deposit Insurance Corporation, which regulates the maximum rates of interest payable on time and savings deposits by insured banks that are not members of the Federal Reserve System, took similar action, also effective July 17, 1963, increasing maximum rates on time deposits having a maturity of 90 days or more.

Discount rates (Item No. 4). Telegrams had been received from seven Federal Reserve Banks (Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas) stating that the directors of those Banks had established, subject to review and determination by the Board of Governors, a discount rate of 3-1/2 per cent (rather than 3 per cent) on discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act along with appropriate subsidiary rates on advances of other types.

After discussion, the rates established by the seven Reserve Banks were approved, effective July 17, 1963, Governor Robertson dissenting. It was understood that a telegram advising of this action would be sent to all Federal Reserve Banks and branches, that a notice would be published in the Federal Register, and that a press statement covering this action would be released today at 4 p.m. EDT.

The rates approved for the respective Banks pursuant to this action were as follows:

> On discounts for and advances to member banks under sections 13 and 13a: for the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas--3-1/2 per cent;
>
> On advances to member banks under section 10(b): for each of these Banks--4 per cent;
>
> On advances to individuals, partnerships, and corporations other than member banks under the last paragraph of section 13: for Minneapolis--4 per cent; for Boston, New York, Richmond, St. Louis, and Dallas--4-1/2 per cent; for Cleveland--5 per cent. (The rates approved under this paragraph for the Federal Reserve Banks of New York, Minneapolis, and Dallas were the rates previously in effect.)

Until such time as all Federal Reserve Banks had established a discount rate of 3-1/2 per cent, the Secretary's Office was authorized to advise of approval and to take related procedural actions, in the event advice should be received that any Federal Reserve Bank had established a discount rate of 3-1/2 per cent along with appropriate subsidiary rates on advances of other types.

Governor Robertson dissented from the Board's discount rate action on the grounds that the probable benefit to the U. S. balance of payments resulting from the discount rate increase would be so small as to be considerably outweighed by its potential adverse effects upon domestic economic activity. It was his view that the balance of payments problem should be attacked by measures that dealt directly with its underlying causes. Such basic remedies might appropriately be supported by a progressively less easy monetary policy in due course, provided the combination of public and private stimulation of business expansion had proceeded to a point where higher interest rates and restrained credit availability were an appropriate concomitant. If a stimulative tax cut were forthcoming promptly, for example, this stage of economic advance conceivably might be reached in a very few months. But in the interim Governor Robertson felt a discount rate increase was premature, likely both to create some dampening influences within what needed to be a stimulative domestic monetary environment and, at the same time, to have only trivial effects on international capital flows because of the combination of compensating adjustments in foreign money and exchange rates and the large remaining differentials between foreign and U. S. rates of return on long-term credit and equity capital.

A copy of the press release covering the Board's actions today on discount rates and on maximum rates of interest under Regulation Q is attached as Item No. 4.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Division of Administrative Services, Governor Shepardson approved on behalf of the Board on July 15, 1963, the transfer of Mary M. McDowell from the position of Statistical Assistant in the Division of International Finance to the position of Editorial Assistant in the Division of Administrative Services, with no change in basic annual salary at the rate of $5,685, effective July 21, 1963.

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

Letter to the Federal Reserve Bank of Richmond (attached Item No. 5) approving the appointment of Robert E. Pugh as assistant examiner.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 6) approving the appointment of Andrew C. Woofter, Jr., as assistant examiner.

Letter to the Federal Reserve Bank of Dallas (attached Item No. 7) approving the appointment of Gerald B. Garrett and Alfred J. Sullivan as assistant examiners.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 8) approving the designation of 34 employees as special assistant examiners.

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

Salary increases, effective July 21, 1963

Herbert W. Bundy, from $4,909 to $5,179 per annum, with a change in title from Operator, Duplicating Devices, to Bindery Helper and Operator (Mimeograph), Division of Administrative Services.

Salary increases, effective July 21, 1963 (continued)

Charles E. Evans, from $3,980 to $4,160 per annum, with a change in title from Mail Clerk to Operator, Duplicating Devices (Trainee), Division of Administrative Services.

Garland R. Gaines, from $3,875 to $4,085 per annum, with a change in title from Messenger to Mail Clerk, Division of Administrative Services.

Outside activities

Irving Gedanken, Statistician, Division of Research and Statistics, to perform work from time to time without compensation for the U. S. Department of Health, Education and Welfare, reviewing proposed statistical methods for State merit system examinations, and for the U. S. Civil Service Commission in the rating of Forms 57 for the Statistical Register.

Acceptance of resignation

Robert N. Westmoreland, Jr., Assistant Federal Reserve Examiner, Division of Examinations, effective at the close of business July 26, 1963.

Governor Shepardson today noted on behalf of the Board a memorandum advising that application for retirement had been filed by Mary J. Craven, Charwoman, Division of Administrative Services, effective July 31, 1963.

Secretary

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

Item No. 1
7/16/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1963

Board of Directors,
County Trust Company,
Tenafly, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by County Trust Company, Tenafly, New Jersey, of a branch in the vicinity of the intersection of Terrace Street and Haworth Avenue, Haworth, Bergen County, New Jersey, provided the branch is established within one year from the date of this letter.

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 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.

Item No. 2
7/16/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1963

Board of Directors,
Fidelity-Philadelphia Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the relocation of a branch by Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, from the Lafayette Building at the northeast corner of Fifth and Chestnut Streets, Philadelphia, to the Rohm and Haas Building at the northwest corner of Sixth and Ranstead Streets, Philadelphia, provided the branch in the latter location is established within one year from the date of this letter and operations at the bank's existing office located in the Lafayette Building are discontinued simultaneously with the opening of the office in the Rohm and Haas Building.

The Board of Governors also approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $125,000 in bank premises incident to the relocation of the branch approved in this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 3314
7/16/63

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

[Reg. Q]

PART 217 - PAYMENT OF INTEREST ON DEPOSITS

MAXIMUM RATES OF INTEREST

1. Effective July 17, 1963, § 217.6 (Supplement to Regulation Q) is amended to read as follows:

§ 217.6 Maximum rates of interest payable on time and savings deposits by member banks.

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates[1/] of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(a) Maximum rate of 4 per cent. - No member bank shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly,[2/] regardless of the basis upon which such interest may be computed:

(1) On that portion of any savings deposit that has remained on deposit for not less than 12 months,

(2) On any time deposit having a maturity date 90 days or more after the date of deposit or payable upon written notice of 90 days or more,

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1/ The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

2/ This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

(3) On that portion of any Postal Savings deposit which constitutes a time deposit that has remained on deposit for not less than 12 months.

(b) Maximum rate of 3-1/2 per cent. - No member bank shall pay interest accruing at a rate in excess of 3-1/2 per cent per annum, compounded quarterly,[2/] regardless of the basis upon which such interest may be computed:

(1) On any savings deposit, except as otherwise provided in paragraph (a)(1) of this section,

(2) On any Postal Savings deposit which constitutes a time deposit, except as otherwise provided in paragraph (a)(3) of this section.

(c) Maximum rate of 1 per cent. - No member bank shall pay interest accruing at a rate in excess of 1 per cent per annum, compounded quarterly,[2/] regardless of the basis upon which such interest may be computed:

(1) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days.

2a. The purpose of the amendment is to increase to 4 per cent per annum, compounded quarterly, the maximum permissible rate of interest which member banks of the Federal Reserve System may pay on certain time deposits, either certificates or open accounts.

2/ This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

b. The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such act, are not followed in connection with this amendment for the reasons and good cause found, as stated in section 2(e) of the Board's rules of procedure (12 CFR 262.2(e)), and especially because in connection with this liberalizing amendment such procedures would prevent the action from becoming effective as promptly as is desirable for the convenience of the banks.

(Sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interprets or applies secs. 19, 24, 38 Stat. 270, 273, as amended, sec. 8, 48 Stat. 168, as amended; 12 U.S.C. 264(c) (7), 371, 371a, 371b, 461)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 4
7/16/63

For release at 4:00 p.m.
Eastern Daylight Time,
Tuesday, July 16, 1963.

July 16, 1963.

The Federal Reserve System acted today on two fronts to aid in the United States' efforts to combat its international balance of payments problem.

The Board of Governors approved actions by the Directors of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas, increasing the discount rates at those banks from 3 per cent to 3-1/2 per cent, effective Wednesday, July 17, 1963. The change was the first since mid-1960, when Federal Reserve Bank discount rates were reduced in two steps from 4 per cent to 3 per cent.

The Board of Governors also increased to 4 per cent, effective Wednesday, July 17, the maximum rate of interest that member banks are permitted to pay on time deposits and certificates with maturities from 90 days to one year. Since January 1962, the permissible rate ceilings had been 3-1/2 per cent on time deposits and certificates with maturities of six months to one year, and 2-1/2 per cent on those of 90 days to six months' duration.

Payment of the higher rates was authorized by a revision of the Supplement to the Board's Regulation Q. There were no changes in the maximum rates that member banks are permitted to pay on savings deposits. Neither were there any changes in the maximum rates on time deposits and certificates having maturities of less than 90 days, which remain at 1 per cent, or on those of one year or more, where the ceiling remains 4 per cent.

Both actions are aimed at minimizing short-term capital outflows prompted by higher interest rates prevalent in other countries. Preliminary information indicates that short-term outflows contributed materially to the substantial deficit incurred once again in the balance of payments during the second quarter of this year.

Recently, market rates on U. S. Treasury bills and other short-term securities have risen to levels well above the 3 per cent discount rate that had prevailed for nearly three years, making it less costly for member banks to obtain reserve funds by borrowing from the Federal Reserve Banks rather than by selling short-term securities.

The increased discount rates will reverse that circumstance, making it once again more advantageous for member banks seeking reserve funds to obtain them by selling their short-term securities rather than by borrowing from the Federal Reserve Banks. Sales so made should have a bolstering effect on short-term rates, keeping them more in line with rates in other world financial markets.

Meanwhile, the increase in the maximum rates of interest payable on time deposits and certificates with maturities from 90 days to one year will permit member banks to continue to compete effectively to attract or retain foreign and domestic funds for lending or investing.

These actions to help in relieving the potential drain on United States monetary reserves associated with the long-persistent deficit in the balance of payments do not constitute a change in the System's policy of maintaining monetary conditions conducive to fuller utilization of manpower and other resources in this country.

Item No. 5
7/16/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1963

(CONFIDENTIAL - FR)

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of July 5, 1963, the Board approves the appointment of Robert E. Pugh as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

It is noted that Mr. Pugh is indebted to The First National Exchange Bank of Virginia, Roanoke, Virginia, and to Merchants and Farmers Bank, Portsmouth, Virginia, a State member bank. Accordingly, the Board's approval of the appointment of Mr. Pugh is given with the understanding that he will not participate in any examination of either of the above banks so long as his indebtedness thereto remains unliquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 6
7/16/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1963

CONFIDENTIAL (FR)

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of July 2, 1963, the Board approves the appointment of Andrew C. Woofter, Jr., as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

It is noted that Mr. Woofter owns ten shares of stock of Commercial Banking & Trust Company, a nonmember bank located in Parkersburg, West Virginia, Federal Reserve District No. 5, but that he will not participate in any examination of that bank.

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. 7
7/16/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1963

CONFIDENTIAL (FR)

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 July 5, 1963, the Board approves the appointment of Gerald B. Garrett and Alfred J. Sullivan as assistant examiners for the Federal Reserve Bank of Dallas, effective today. Their names have been deleted from the list of special assistant examiners as requested.

It is noted that Mr. Sullivan is indebted to Mercantile National Bank, Dallas, Texas. Accordingly, the Board's approval of Mr. Sullivan's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

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. 8
7/16/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1963

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of July 2, 1963, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in examinations of State member banks:

D. W. Barsch	J. F. Lucey, Jr.	J. B. Wilson
J. J. Carson	J. A. Martin	R. A. Wing
J. E. Cramer, Jr.	R. A. McKeirnan	G. F. McCarthy
F. S. J. Donato	M. F. Passino	R. R. Porter
J. A. Ellis	H. G. Ramirez	J. M. Start
D. L. Gentile	R. L. Rasmussen	M. T. Whalen
J. R. Gilliland	M. Spear	W. G. Wyly
G. H. Green	R. G. Torgeson	R. E. Prosser
J. W. Kerr	J. N. Vasey	T. A. Flowers
J. L. Lein	W. C. Wargin	B. D. Simmons

The Board also approves the designation of the following employees as special assistant examiners for your bank for the purpose of participating in examinations of State member banks except those listed opposite their names:

E. M. Lund	Oakland Bank of Commerce, Oakland, California
R. G. Lambert	Wells Fargo Bank, San Francisco, California
F. W. Montenegro	Wells Fargo Bank, San Francisco, California
J. J. Laurie	Union Bank, Los Angeles, California

Authorization heretofore given your bank to designate these individuals as special assistant examiners are hereby canceled and appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.