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Minutes for November 18, 1963

To: Members of the Board

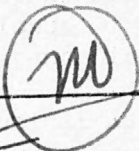
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

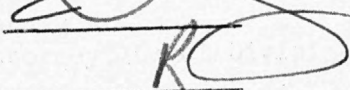
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

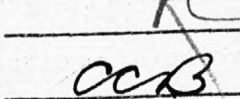
Chm. Martin



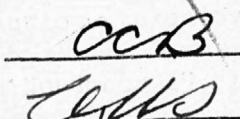
Gov. Mills



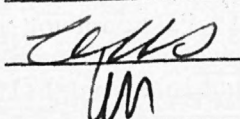
Gov. Robertson



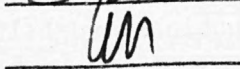
Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on Monday, November 18, 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. Mitchell

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research  
and Statistics  
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. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Holland, Adviser, Division of Research  
and Statistics  
Mr. Kiley, Assistant Director, Division of  
Bank Operations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of  
the Secretary  
Mr. Doyle, Attorney, Legal Division

Ratification of actions. Actions taken by the available members of the Board at the meeting held on November 15, 1963, as recorded in the minutes of that meeting, were ratified by unanimous vote.

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Circulated 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 Muscatine Bank and Trust Company, Muscatine, Iowa, approving the declaration of a dividend in December 1963.	1
Letter to the Federal Reserve Bank of Dallas approving the payment of salary to Tony J. Salvaggio as Assistant Cashier at the rate fixed by the Bank's Board of Directors.	2

Definition of savings deposit. In response to a request made orally by a representative of the Federal Deposit Insurance Corporation, it was understood that there would be no objection to appropriate members of the Board's staff participating with staff members of the Corporation and the Office of the Comptroller of the Currency in an initial meeting pertaining to a study announced recently by the Corporation relating to the definition of a savings deposit.

Absorption of exchange charges. With a memorandum dated September 27, 1963, the Legal Division submitted to the Board a preliminary revision of Regulation Q, Payment of Interest on Deposits. The memorandum presented twenty-odd questions arising within the scope of the regulation; the first of these, whether or not absorption of exchange charges constitutes a payment of interest on demand deposits, was discussed preliminarily by the Board on October 10, 1963. That discussion related principally to the

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possibility, suggested by the Legal Division, that the Board might want to consider reversing its position of long standing that absorption of exchange charges does constitute a payment of interest and thus falls within the provision of section 19 of the Federal Reserve Act that prohibits the payment of interest on demand deposits "directly or indirectly, by any device whatsoever." The Federal Deposit Insurance Corporation, in its regulation applicable to nonmember insured banks, had long taken a contrary position, and the discussion at the Board's October 10 meeting recognized the possibility that this problem of divergent rulings by supervisory agencies conceivably might be removed after changes took place in the near future in directorships of the Corporation.

There had now been distributed a memorandum dated November 8, 1963, from Mr. Hackley, attaching a memorandum of background information prepared in March 1962 and sent to members of the Federal Advisory Council in advance of a meeting of the Council at which absorption of exchange charges was a topic on the agenda. Mr. Hackley's memorandum had been placed on today's agenda for discussion in preparation for the Board's meeting with the Federal Advisory Council tomorrow, at which the problem of absorption of exchange charges was again, at the Board's request, to be a topic of discussion.

At the Board's invitation, Mr. Hackley summarized arguments for and against reversal of the Board's position, after which there was discussion of various aspects of the problem, including the definition



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of interest. It was suggested, among other things, that many member banks, particularly the large ones, probably would not welcome a reversal of the Board's position because they would then be under pressure to absorb exchange charges at considerable expense.

At the conclusion of the discussion, it was understood that at the meeting with the Federal Advisory Council the Board's posture would be one of making the Council aware that the exchange absorption problem continued to be a matter of concern, on which the Board would like to elicit the current thinking of the members of the Council, and that reversal of the Board's position was one possibility.

Messrs. Hexter, Hooff, and Smith then withdrew from the meeting.

Department store reporting program (Item No. 3). On March 6, 1963, the Board discussed progress being made toward resolving problems relating to the System's contemplated disengagement from the department store reporting field, and on April 19, 1963, a letter was sent to Mr. H. H. Bennett, President, National Retail Merchants Association, commenting on suggestions he had made regarding the program. There had now been distributed a draft of letter to Mr. Bennett setting out developments subsequent to the Board's previous letter to him.

At the Board's invitation, Mr. Sherman commented on the draft letter. The program described in it called for the Federal Reserve to cease preparing "national interest" statistics, since the Bureau of the

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Census was now compiling these data and its figures were considered more representative. For the time being the System would be prepared to continue, on certain conditions, the collection of "local interest" data, that is, figures for cities or standard metropolitan areas, for which the Census Bureau was not prepared to compile data at the present time. The draft letter also discussed the proposal for a national departmental report and outlined the status of the study of the feasibility of such a report, a subject that had been discussed with trade representatives fairly recently. If the national departmental report was developed successfully, its compilation would be turned over to the Bureau of the Census. It was intended that the letter to Mr. Bennett would be followed up by a letter of instruction to the Federal Reserve Banks as to specific steps to be taken, and that an appropriate press release would be issued at about the end of the year describing the changes to be made in the reporting program. The letter was thought to be consistent with prior correspondence, and to go a considerable way in stating clearly the principle that the Census Bureau was the agency that had responsibility for trade statistics and that the Federal Reserve Banks, even on the local data, would continue their work for only a temporary period. It was hoped that, even though there might be some people in the trade who would be disappointed at the discontinuance of some of the material they had had available in the past, the need for the proposed changes in the program would be evident.

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There ensued a discussion of the extent to which Federal Reserve Banks would continue to compile local department store figures and the procedures that would be followed in making such a determination. It was contemplated that within a year the Reserve Banks would discontinue the collection of data for cities for which a statistically significant reporting sample was not available, with the trade being given advance notice of this intention. Federal Reserve Banks might even discontinue gathering data for other cities in their discretion. It was understood that the Census Bureau was prepared to compile data for only 5 cities at the present time, but that this might be expanded eventually to a substantial number. Comments were made on the desirability of leaving to the Federal Reserve Banks as far as possible the decisions as to cities to be dropped. On the other hand, the need to avoid precipitous moves that might upset relations with the trade also was noted.

Several changes in the text of the draft letter to Mr. Bennett were suggested and agreed upon, after which the letter was approved unanimously, with the understanding that copies would be sent to the Presidents of the Federal Reserve Banks. A copy of the letter, as sent, is attached as Item No. 3.

Mr. Noyes then withdrew from the meeting.

Bank service charges (Item No. 4). On November 14, 1963, the Board considered, but deferred action on, a draft of reply to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House

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Committee on Government Operations concerning a constituent's questions about bank service charges. There had now been distributed a revised draft of reply to Chairman Fascell.

After a discussion during which several changes in the draft letter were suggested, one of which was agreed upon, the letter was approved unanimously in the form attached as Item No. 4.

Messrs. Shay and Doyle then withdrew from the meeting.

Examination review of Federal Reserve Bank expenses. There had been distributed a memorandum dated October 22, 1963, from the Division of Examinations, prepared in light of comments at recent meetings of the Board regarding the relative infrequency of detailed comments, in reports of examination, on specific expenditures made by the Reserve Banks. The memorandum outlined the procedures followed by the field staff in reviewing Reserve Bank expenses, and discussed the various S-letters through which the Board provided guidelines to the Reserve Banks regarding such expenses. It was understood by the Division that the Board's interest centered primarily on expenditures that might be described as unusual or non-routine (i.e., those not directly and necessarily related to operations, those that presented a question of propriety either per se or in the light of the Board's expressions on the particular subject, or those that might be of questionable necessity or extravagant in the light of the special relationship of the Reserve Banks to the Government). Such expenses usually fell into such classifications as fees, entertainment, dues and subscriptions, travel, employee welfare, and public relations.



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The memorandum concluded by stating that, in the event the Board wished to be kept informed more currently and in greater detail on Reserve Bank expenditures than present procedures provided, it was believed that that purpose could be served on a more regularized and uniform basis by requesting the Reserve Banks to submit periodic reports detailing specified types of expenditures. Also, the Board might wish to have the instructions on the preparation of Reserve Bank budgets amended to request appropriate descriptive information pertaining to projected expenditures of the types discussed in the memorandum.

At the Board's invitation, Mr. Solomon commented on the memorandum. In substance, the current instructions to the Board's examiners required them to review expenses in detail and report any that they felt should be brought to the attention of the Board, the intention being to present to the Board only those expenditures that seemed to need attention rather than long lists of expenditures that involved little or no question. The examination manual directed examiners to review the Board's guideline letters (the S-letters), to read the Reserve Bank's own regulations, to study the Bank's budget, and then to review all expenses in the light of that background and to prepare exceptions to any expenses that raised questions, these exceptions then to be reviewed with the Chief Federal Reserve Examiner. The aim was to make sure that the expense was not only proper but had been put into the proper classification. It was hoped that the present procedure would call attention to any improper expenditures

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with reasonable accuracy so that any needed corrections could be effected. In Mr. Solomon's opinion, revision of the Board's outstanding S-letters was not needed; they were not absolutely rigid guidelines, but made provision for the exercise of discretion, flexibility, and judgment.

In discussion, Governor Mills stated that he wished the record to show that he was disappointed in the Division of Examinations' memorandum, into which he read a proposal that the Division abdicate its function and that the examination of expenses be buried in the budgetary program, especially since he regarded the current budget procedures as inadequate. He considered the examining procedures that were followed as white-washing the expenditures of the Reserve Banks on the premise, implied in the memorandum, that the examiners disliked to irritate the management of the Banks by calling to the Board's attention expenditures that might be subject to discussion. Mr. Solomon, in his summary, had mentioned borderline cases, and Governor Mills believed that the examiners surely must find cases of that kind where they were not satisfied with the classification of expenses and the purposes of the expenses. It was the duty of the examiner to bring such an expenditure to the attention of the Board, which was the proper body to pass on the question of propriety. The procedures now followed, it seemed to him, involved a dereliction of duty on the part of the Division of Examinations in relation to an area of Federal Reserve Bank expenditures that was open to serious criticism on the part of Congress. He felt that the Federal Reserve Banks were much

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more closely identified with the Federal Government establishment than they were with the private field of activity, and that the Board's procedures for their supervision should bear this in mind.

Mr. Solomon clarified that it had been intended that any requirement that the Board might wish to institute for periodic reporting by the Reserve Banks of certain types of expenditures would supplement rather than replace the activities of the field examining staff. As to exclusion of items from reports of examination out of apprehension that their inclusion might irritate the Reserve Banks, he had not intended to convey the impression that this was in any sense a factor. If an item was considered questionable, reference was made to it in the report. He had only intended to say that if upon review it developed that an item was determined not to be questionable, then it was not included.

Further discussion elicited the comment from Mr. Solomon that it had not been intended to suggest that items were referred to in examination reports only when there was substantial question about their propriety. Items were omitted only if it developed, upon further review by the examiner, that any initial doubts could be satisfactorily resolved.

Following this discussion, Chairman Martin commented that there appeared to have been some element of misunderstanding and that he thought the views of Governor Mills and the Division of Examinations probably were closer together than might have at first appeared. Governor Mills observed that he hoped this was so, for his thinking was substantially

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different from the impression he had received concerning the views of the Division of Examinations upon reading the memorandum from the Division.

Governor Mitchell expressed the view that the procedures being followed, as reflected in the memorandum, were appropriate. The Federal Reserve Banks were spending in all over \$200 million a year, and in today's discussion the Board was focusing on types of expenditures involving only a few hundred or a few thousand dollars. Effective supervisory efforts called for attention to be directed principally toward the substantial cost of the basic functions of the Banks. It seemed to him that, if anything, present procedures tended to focus the Board's attention too much on minutia. He would dislike to see the Board concentrate its review increasingly on small expense items as contrasted with matters of greater operating significance.

After further discussion, Chairman Martin said again that he did not think the members of the Board and the Division of Examinations were actually too far apart in their views. The problem was one of discharging the Board's responsibilities effectively, and he thought Mr. Solomon could be guided by the tenor of today's comments. The Board would not want the examiners to do things that would irritate the Reserve Banks needlessly, such as getting too much into the minutia mentioned by Governor Mitchell while ignoring matters of fundamental importance, but there was the question of improving the examining procedures in a way that would develop any matters of questionable propriety for the Board's consideration.



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There followed comments by members of the Board on certain expressions in the Division memorandum that seemed to contribute to possible misunderstanding, wherefore it was suggested that the document be replaced by a revised memorandum that would correct these difficulties. There was agreement with this suggestion, and it was understood that a revised memorandum would be made available to the members of the Board.

Administration of oath of office. The following resolution was adopted by unanimous vote:

It is hereby resolved that the Board of Governors of the Federal Reserve System, in accordance with 5 U.S.C. 16a, hereby designates the Chairman of the Board or any other member of the Board as an officer with authority to administer the Oath of Office required to be taken by any new member of the Board.

All of the members of the staff except Messrs. Sherman, Young, and Johnson then withdrew from the meeting.

Meeting with academic economists. With reference to previous discussions concerning a meeting of the Board with a group of academic economists, arrangements for which were being made by Governor Mitchell and Messrs. Young and Noyes in conjunction with Professor G. L. Bach, who was to serve as chairman and organizer of the group of economists, Governor Mitchell said that plans were now being made to hold the meeting on January 30, 1964, and no objection to that date was indicated. In this connection, the Board authorized payment of the cost of a dinner for the economists to be given on the evening of January 29.

Mr. Young then withdrew from the meeting.

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Reserve Bank salaries. Governor Balderston recalled that on October 5, 1962, the Board wrote to the Chairmen of all Federal Reserve Banks setting forth guidelines for the salaries of Reserve Bank Presidents and First Vice Presidents. He said that several of the Banks had come in with recommendations for salaries of Presidents and First Vice Presidents effective at the beginning of 1964 and that apparently one or two of the Banks had overlooked the fact that under the guidelines stated in the Board's letter, a President would be eligible for a salary increase after a three-year interval, or after a two-year interval in the case of a newly appointed President. He raised the question whether it would be well to send a letter to the Chairmen of all of the Banks refreshing them on the terms of the original letter. After discussion, however, the Board decided that no general letter would be necessary and that cases should be dealt with individually.

Governor Balderston also raised a question as to what the Board's policy should be in those cases where a Federal Reserve Bank proposed an increase for a President or First Vice President without the time lag specified in the Board's letter of October 5, 1962. In the ensuing discussion Chairman Martin expressed the opinion that the guidelines stated in the Board's letter should be followed, and there was unanimous agreement with this view.

The meeting then adjourned.

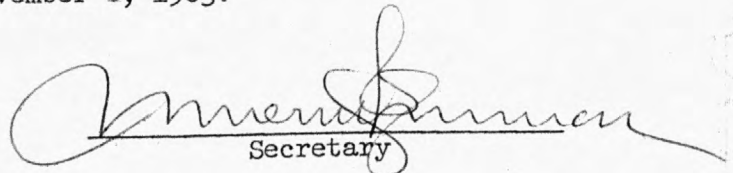
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Secretary's Notes: A letter was sent today to The Chase Manhattan Bank, New York, New York, acknowledging receipt of notice of its intent to establish an additional branch in San Juan, Puerto Rico, such branch to be located at the southwest corner of Franklin D. Roosevelt Avenue and Main Street.

The requirements contemplated by the Board's action on October 25, 1963, in approving the issuance of a preliminary permit to Provident Tradesmens International Corporation, Philadelphia, Pennsylvania, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

Pursuant to action taken by the Board on October 23, 1963, it had been ascertained that William McGregor, Vice President, McGregor Land and Livestock Company, Hooper, Washington, would accept appointment if tendered as a director of the Seattle Branch of the Federal Reserve Bank of San Francisco for the two-year term beginning January 1, 1964. An appointment telegram was sent to Mr. McGregor on November 8, 1963.

  
Secretary

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

Item No. 1  
11/18/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 18, 1963.

Board of Directors,  
Muscatine Bank and Trust Company,  
Muscatine, Iowa.

Gentlemen:

The Board of Governors has received from the Federal Reserve Bank of Chicago a copy of a letter dated October 28, 1963, from Mr. F. W. Allen, Chairman of the Board, Muscatine Bank and Trust Company, in which he requests permission for the declaration of a dividend by Muscatine Bank and Trust Company of \$37,500 in December 1963. The Board's permission for the declaration of this dividend is required by the provisions of paragraph 6, Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes.

After consideration of the facts, the Board approves the declaration of a dividend of \$37,500 to be declared in December 1963. This letter does not authorize the declaration of any other dividend in 1963 or later.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 2  
11/18/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 18, 1963.

CONFIDENTIAL (FR)

Mr. Watrous H. Irons, President,  
Federal Reserve Bank of Dallas,  
Dallas, Texas 75222.

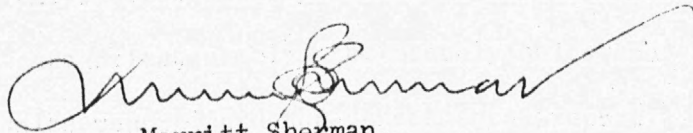
Dear Mr. Irons:

The Board of Governors approves the payment of salary to Mr. Tony J. Salvaggio as an Assistant Cashier of the Federal Reserve Bank of Dallas at the rate of \$10,000 per annum, for the period January 1 through December 31, 1964.

The salary rate approved is that fixed by your Board of Directors, as reported in your letter of November 1, 1963.

Salary proposals for other Dallas officers will be reviewed simultaneously with those of other Reserve Banks; therefore, it will probably be sometime in December, as in the past, before you are advised of Board action.

Very truly yours,



Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
11/18/63

OFFICE OF THE CHAIRMAN

November 19, 1963.

Mr. H. H. Bennett, President,  
National Retail Merchants Association,  
c/o Zion Cooperative Mercantile Institution,  
Salt Lake City, Utah.

Dear Mr. Bennett:

The purpose of this letter is to bring you to date with respect to plans for the Federal Reserve department store reports, as they have been developed since our correspondence last winter and spring. It is expected that a communication will go from the Board to the Federal Reserve Banks within the next few days regarding the detailed changes to be made in the reports at the close of the current year, and the Reserve Banks will then proceed to notify respondent stores of the changes in both the data to be collected and in the summary reports to be prepared by the Federal Reserve covering department store trade.

For convenience, the reports will be discussed in the following paragraphs under three categories, namely, the monthly sales and stocks report, the weekly sales report, and the departmental report.

Monthly Sales and Stocks (Total Store Data)

The Bureau of the Census is now preparing monthly sales measures of department store trade for the United States as a whole and for Census regions. From the present sample such figures also

Mr. H. H. Bennett

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can be derived for most of the geographic divisions and for a few large States and a few very large Standard Metropolitan Statistical Areas. In view of the availability from Census reports of these more representative national interest data, the Federal Reserve will discontinue the collection and tabulation of such department store statistics after the close of the current fiscal year (January 31, 1964). In those instances where the Federal Reserve Banks previously have acted as collection agents for the Bureau of the Census, direct collection of reports by the Bureau will be undertaken.

The Federal Reserve is now collecting data for, and compiling a national monthly index of, department store stocks based on the limited group of department stores reporting to the Reserve Banks. Collection of monthly stocks data for a more representative sample of the entire department store trade is to be undertaken by the Bureau of the Census (which now collects such data for all other retail trades) to provide a measure for the nation as a whole. Therefore, the Federal Reserve will cease the collection and compilation of stocks data after January 31, 1964.

The Federal Reserve Banks will, for the time being, continue to collect and prepare monthly reports of department store sales of local interest where adequate statistics can be derived. This means that reports of department store sales for a considerable number of individual cities or Standard Metropolitan Statistical Areas will be compiled by the Federal Reserve Banks to the extent that statistically reliable data are not provided by the Bureau of the Census for such areas. The Federal Reserve does not intend to compile individual city or area comparisons in any case where the measures are not believed to be reasonably valid indicators of changes in department store trade of the particular city or area.

#### Weekly Department Store Sales (Total Store Data)

The same procedure will be followed for weekly sales reports of department store trade as are outlined in the foregoing paragraphs for the monthly sales report: Census will collect reports and derive estimates of weekly department store sales to provide total United States measures; the Federal Reserve will, for the time being, continue to compile weekly sales reports of department store trade of local interest where valid statistical data are available.

#### Departmental Sales--Monthly

The Federal Reserve has not yet proceeded sufficiently far with its feasibility study of the proposed national departmental report referred to in my letters to you on December 5, 1962, and



Mr. H. H. Bennett

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April 19, 1963, to ascertain that such a report for the United States as a whole is practicable on a statistically valid basis. Since work necessary for making that determination will require several more months, the national departmental report as envisaged in the letters referred to can not be definitely established as feasible or not feasible by February 1, 1964, as of which date we had agreed that the present Federal Reserve departmental report containing data for approximately 100 departments would be discontinued. The study of the feasibility of the proposed new report will proceed as rapidly as possible, however, and the Reserve Banks will continue the present departmental sales form until we have reached a decision as to the new national departmental report, at which time the long form will be discontinued. When and if the proposed national departmental is found to be feasible as to statistical coverage, it is expected that the responsibility for its preparation will be transferred to the Bureau of the Census.

With respect to the local department store data, you will recall the statement in my letter of December 5, 1962, that it has been, and still is, the intent of the Federal Reserve to limit its gathering of trade figures to local area and transition requirements as Census expands into the field. It should be clearly understood that the preparation of local area department store statistics by the Federal Reserve is regarded as temporary and that, except for a transition period, the Bureau of the Census is the agency having the responsibility for whatever is needed in the way of a Federal Government program for retail trade statistics. If cooperation on the part of department stores regarded by the Federal Reserve as essential to valid local area totals is not readily forthcoming, the Reserve Bank concerned will discontinue reports for the area after notifying respondent stores of the situation. In any case,



Mr. H. H. Bennett

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any Federal Reserve Bank will feel free to discontinue local area trade data, regardless of the technical validity of the figures, after a twelve-month notice period to respondents or other users of the data.

As indicated earlier in this letter, the Reserve Banks will shortly be in touch with respondent stores regarding the changes to be made in our department store statistics at the end of this year. In the meantime, if you feel that it would be desirable to do so, there would be no objection on our part to your bringing this letter to the attention of the National Retail Merchants Association's Committee on Department Store Statistics or to a larger segment of the trade. In fact, we feel that such a distribution of this letter might be desirable as a means of giving interested members of the trade information regarding the forthcoming changes in the reports.

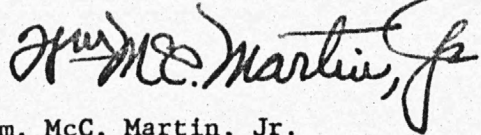
It is my understanding that those who have worked on the program for improving the quality of the department store statistics feel generally that the steps being taken as outlined in this letter will represent a material advance in the quality of data for this area and the elimination of some highly questionable statistics prepared in the past. It is realized, of course, that the revised reports will not provide all of the information that some analysts or some members of the trade will find desirable, but further

Mr. H. H. Bennett

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development of improved statistics may be anticipated in future years, both on the part of Governmental agencies and through such agencies as the trade may wish to employ in preparing statistics for trade use.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.", with a large, sweeping flourish at the end.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
11/18/63

OFFICE OF THE CHAIRMAN

November 19, 1963.

The Honorable Dante B. Fascell, Chairman,  
Legal and Monetary Affairs Subcommittee,  
Committee on Government Operations,  
House of Representatives,  
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to your letter of October 17, 1963, requesting comments on a communication from Mr. Charles L. Kimmel of Miami Beach, Florida, and inquiring what action, if any, the Board takes in respect of protest fees on unpaid checks and service charges made by member banks.

As you know, it is customary for banks to have schedules of charges for various services, such as the ones referred to in Mr. Kimmel's letter. The amount of such charges normally depends upon the cost of the services rendered and the benefit to the bank of the particular account, as well as upon prevailing competitive influences.

It is unfortunate that occasionally some banks make charges that appear to give rise to irritation and complaints on the part of customers. However, it does not appear that any action could be taken by the Board of Governors that would effectively meet the problem.

There is a provision of section 16 of the Federal Reserve Act that authorizes the Board to "fix the charges to be collected by the member banks from its [their] patrons whose checks are cleared through the Federal Reserve Bank." However, any action taken by the Board under this authority would be applicable only to banks that are members of the Federal Reserve System and not to nonmember banks. Even in the case of member banks, any such action would not cover charges made with respect to the substantial volume of checks that are cleared through clearing houses and correspondent banks rather than through the Federal Reserve Banks. Moreover, it is by no means clear under the law that the Board's authority would extend to service charges that are not directly related to the collection of checks, such as the monthly service charge and the charge for

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Honorable Dante B. Fascell -2-

returning an overdraft check mentioned in Mr. Kimmel's letter. Protest fees, of course, are actually made by notaries rather than by the banks themselves, even though the bank may pass such a fee along to its depositor.

Wholly apart from the limited scope of the Board's authority in this field, it has always been the belief of the Board that any controls with respect to bank service and collection charges would prove unworkable and give rise to inequities. This is because the expenses incurred by banks in serving their customers may vary among different depositors, different banks, different parts of the country, and different types of transactions. Thus, it would be impracticable to prescribe any rule of general application unless ceilings on bank charges were set high enough to accommodate the highest-cost banks; but in that event, of course, such a rule might induce the lower-cost banks to raise their charges to the extent that the prescribed ceilings - and competition - would permit such increases.

One way around this difficulty would be to "freeze" charges as of a given date, following the pattern of wartime price controls. However, any such action would not only be limited to member banks and certain types of charges, as previously indicated, but it would lead inevitably in our judgment to the same kinds of expense, red tape, and inequities that have persuaded people in this country to rely on competition rather than Governmental action setting prices as a normal rule.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

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