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Minutes for March 12, 1964

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

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Thursday, March 12, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Noyes, Adviser to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. O'Connell, Assistant General Counsel  
Mr. Spencer, General Assistant, Office of the Secretary

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 Fayette Bank and Trust Company, Connersville, Indiana, approving the establishment of a branch at East 6th Street and Eastern Avenue.	1
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in the vicinity of Freeport Boulevard and Potrero Way, Sacramento, with the understanding that (1) the branch would be opened in temporary quarters at 4401 Freeport Boulevard, and (2) operations at the temporary location would be discontinued simultaneously with the opening of the permanent office.	2

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Item No.

Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch at Doolittle Drive and Marina Boulevard, San Leandro.

3

Letter to County Bank of Santa Cruz, Santa Cruz, California, approving an extension of time to establish a branch in the vicinity of Front and Cooper Streets.

4

Letter to Bremen State Bank, Bremen, Indiana, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

5

Letter to Old Capital Bank and Trust Company, Corydon, Indiana, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

6

Letter to Englewood State Bank, Englewood, Colorado, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

7

Warren Bank (Items 8 and 9). There had been distributed a memorandum from the Legal Division dated March 11, 1964, with regard to a letter dated February 27, 1964, from Herbert J. Miller, Jr., Assistant Attorney General, Criminal Division, Department of Justice. The letter requested on behalf of Federal Deposit Insurance Corporation Examiner Thomas E. Lindsey, who was currently serving as an agent of a Federal grand jury in the Eastern District of Michigan, access to certain documents relating to the Warren Bank, Warren, Michigan, that were in the possession of the Federal Reserve Bank of Chicago; namely, reports

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of examination, open and confidential sections, for the years 1961 to the present; related correspondence; and examiners' loan line cards.

The memorandum discussed the request at some length and concluded by expressing the view that the assertion by the Justice Department of possible banking irregularities in the Warren Bank would justify the Board in authorizing Examiner Lindsey to review confidential portions of the reports of examination. Attached to the memorandum was a draft of reply to the Department of Justice that would authorize access by Examiner Lindsey to the requested documents at the Federal Reserve Bank of Chicago under certain conditions. The letter also expressed the assumption that the Department would make prompt disclosure to the Board of any evidence indicating banking irregularities.

At the Board's request Mr. O'Connell reviewed the facts relating to the request, his comments being based substantially on the information presented in the March 11 memorandum.

In discussion, Governor Mills remarked that the Board was familiar with his attitude toward disclosure of the kind requested by the Department of Justice. He thought that release of such information was improper. The subpoena procedure should be followed; if the records were used in evidence, the fact that it had been necessary to resort to the subpoena procedure would afford indication of the Board's opposition to making available information that should be confidential between the supervisory agency and the bank under examination. Therefore, he would not accede to the present request.

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Governor Robertson stated that he would accede to the request, subject to the conditions recommended by the Legal Division. It seemed to him that there was more to be lost by failing to make the records available, especially where there was a specific allegation of criminal irregularities. He was not aware of any information in the confidential sections that could be helpful, but if the material were subpoenaed, the confidential sections might be subjected to publicity.

After further discussion, during which Chairman Martin and Governors Balderston and Shepardson indicated that they also favored making the requested material available, the letter to the Department of Justice was approved, Governor Mills dissenting. A copy of the letter is attached as Item No. 8, and a copy of the letter sent to the Federal Reserve Bank of Chicago is attached as Item No. 9.

Deferment schedules (Item No. 10). There had been distributed under date of March 11, 1964, a draft of reply to a letter of February 20, 1964, from Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations regarding the possibility of reducing float in the Federal Reserve System by raising the maximum deferment time for check credits. The proposed reply would indicate that there had been few developments that would add to the information previously furnished with the Board's letters of August 15, 1963, and April 14, 1961.

Discussion reflected general agreement as to the appropriateness of the proposed reply under present circumstances. Governor Balderston

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pointed out, however, that the Subcommittee had inquired about the deferment schedules from time to time, and presumably could be expected to continue to check on the matter. It was of some concern to him that each time the Subcommittee inquired it was told, in somewhat defensive fashion, that the question was continuing under consideration. These remarks led to a rather extended discussion of Federal Reserve check collection procedures and reasons why it would seem inopportune, at the present stage, to move toward a change in maximum deferment. The discussion also touched upon commercial banking practices and the bearing upon them of the float factor, including competitive benefits accruing to banks of various size categories. It was generally agreed that the subject deserved continuing attention by the Board in the light of developments.

At the conclusion of the discussion, the letter to Chairman Fascell was approved unanimously. A copy is attached as Item No. 10.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

#### Appointment


Joyce J. Wood as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$3,880, effective the date of entrance upon duty.

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Salary increase

Helen M. Dunn, Statistical Assistant, Division of Research and Statistics, from \$4,850 to \$5,235 per annum, effective March 15, 1964.

  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964



Board of Directors,  
Fayette Bank and Trust Company,  
Connersville, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Fayette Bank and Trust Company, Connersville, Indiana, of an in-town branch (facility) at the northwest corner of the intersection of East 6th Street and Eastern Avenue, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
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, D. C. 20551

Item No. 2  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964



Board of Directors,  
United California Bank,  
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank in the vicinity of the intersection of Freeport Boulevard and Potrero Way, Sacramento, California, provided the branch is established within one year from the date of this letter.

It is understood that this branch will be opened in temporary quarters at 4401 Freeport Boulevard, Sacramento, and later moved to permanent quarters when they are available. It is also understood that operations at the temporary location at 4401 Freeport Boulevard will be discontinued simultaneously with the opening of the permanent office.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
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, D. C. 20551

Item No. 3  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964

Board of Directors,  
United California Bank,  
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 24, 1964, the time within which United California Bank may establish a branch at the intersection of Doolittle Drive and Marina Boulevard, San Leandro, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



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

Item No. 4  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964



Board of Directors,  
County Bank of Santa Cruz,  
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 16, 1964, the time within which County Bank of Santa Cruz, Santa Cruz, California, may establish a branch in the vicinity of the intersection of Front and Cooper Streets, Santa Cruz, California.

In granting this sixth extension of time, the Board has taken particular note of your expectations of beginning construction of the branch by August 5, 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964



Board of Directors,  
Bremen State Bank,  
Bremen, Indiana.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter dated February 20, 1964, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six-months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964



Board of Directors,  
Old Capital Bank and Trust Company,  
Corydon, Indiana.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors President Wiseman's letter dated February 13, 1964, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

The Board of Governors waives the requirement of six-months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 7  
3/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 12, 1964



Board of Directors,  
Englewood State Bank,  
Englewood, Colorado.

Gentlemen:

The Federal Reserve Bank of Kansas City has forwarded to the Board of Governors a letter dated February 25, 1964, signed by President Wendell H. Martin, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

The Board of Governors waives the requirement of six-months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Kansas City of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Kansas City.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 8  
3/12/64

OFFICE OF THE CHAIRMAN

March 16, 1964

The Honorable Herbert J. Miller, Jr.,  
Assistant Attorney General,  
Criminal Division,  
Department of Justice,  
Washington, D. C. 20530

Dear Mr. Miller:

This is in reply to your letter of February 27, 1964, advising that a Federal grand jury is currently inquiring into the activities of the Warren Bank, Warren, Michigan. You ask that Mr. Thomas E. Lindsey, an Examiner on the staff of the Federal Deposit Insurance Corporation, currently empowered to act as agent for the grand jury, be authorized by the Board to review in detail the following data related to the Warren Bank: (a) open and confidential sections of reports of examination from January 1, 1961, to the date of any review authorized; (b) open and confidential sections of related correspondence for the same dates; and (c) examiners' loan line cards relating to the examinations in question. In making this request, you have given assurance that none of the material to which Mr. Lindsey may be given access will be utilized as evidence in grand jury or court proceedings, but will be used only by Mr. Lindsey for informational purposes.

The Board authorizes Mr. Lindsey's access to the following described data under the conditions hereinafter set forth. The Board agrees to make available for Mr. Lindsey's study in the offices of the Federal Reserve Bank of Chicago, under the direction of Reserve Bank officials, the open and confidential portions of the reports of examination of the Warren Bank prepared as of the close of business February 10, 1961, June 4, 1962, and June 17, 1963.

The authorization given does not contemplate the preparation of copies of the whole or any part of the confidential portion of any report of examination. It does contemplate, upon request, the preparation of copies of the open section of any of the reports to which access is herein authorized.

The Board further authorizes Mr. Lindsey to study, under arrangements agreeable to officials of the Federal Reserve Bank of Chicago, the examiners' loan line cards relating to the subject reports of examination of the Warren Bank, it being understood that the

The Honorable Herbert J. Miller, Jr. -2-

originals of such line cards are not to be removed from the Federal Reserve Bank and that the Bank is to make copies, if requested, only of such cards as may be determined to be reasonably related to the scope of the grand jury's investigation.

In response to your request for open and confidential sections of related correspondence, the Board authorizes Mr. Lindsey's access to copies of correspondence exchanged between the Federal Reserve Bank and the Warren Bank in the period January 1, 1961 to date. This authorization covers the preparation by the Reserve Bank, if requested, of copies of any correspondence reviewed by Mr. Lindsey.

Your letter contained the stated understanding that the material requested is located at the Detroit Branch of the Federal Reserve Bank of Chicago and could be reviewed by Mr. Lindsey at that place. Inasmuch as the material has been determined to be located at the head office of the Federal Reserve Bank of Chicago, the authorizations herein contemplate review of the material at the head office of the Reserve Bank. The authorizations are given subject to the understanding that (1) the contents of the documents to which the Department's access is authorized will not be used as evidence either before the grand jury or in any court proceedings, but rather, only as background information incident to the pending grand jury investigation; (2) the documents to which access is authorized will remain in Mr. Lindsey's custody at all times; and (3) copies of any documents given to Mr. Lindsey will be returned by him to the Federal Reserve Bank of Chicago within 30 days of the date upon which he takes possession of them unless upon written request addressed by Mr. Lindsey to President C. J. Scanlon of the Federal Reserve Bank, additional time for possession of the documents is authorized.

The Board's action in this matter has been taken in accordance with section 261.2(c) of the Board's Rules Regarding Information, Submittals, and Requests which provides, in part, that

"The Board . . . may make available to . . . agencies of the United States . . . reports of examination and other information, for use where necessary in the performance of their official duties . . .".

Relative to the activities of the Warren Bank which you advise are the subject of the grand jury's investigation, in view of the Board's continuing responsibility as a Federal banking supervisory authority, it will be assumed that, to the extent permitted by the grand jury's function, prompt disclosure will be made to this Board of any evidence of banking irregularities within the Warren Bank not reflected in the reports of examination to be studied by Mr. Lindsey.



The Honorable Herbert J. Miller, Jr. -3-

A copy of this letter is being sent President C. J. Scanlon, Federal Reserve Bank of Chicago. A copy of the Board's letter to President Scanlon is enclosed for your information. It is suggested that Mr. Lindsey contact Vice President Ross in regard to arrangements for access to the documents as herein authorized.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

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

Item No. 9  
3/12/64



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 16, 1964

Mr. C. J. Scanlon, President,  
Federal Reserve Bank of Chicago,  
P. O. Box 834,  
Chicago, Illinois. 60690

Dear Mr. Scanlon:

There is enclosed a copy of a letter to Chairman Martin, dated February 27, 1964, from Mr. Herbert J. Miller, Jr., Assistant Attorney General, Criminal Division, Department of Justice, requesting on behalf of Federal Deposit Insurance Corporation Examiner \* Thomas J. Lindsey, who is currently serving as an agent of a Federal grand jury in the Eastern District of Michigan, access to certain documents in the possession of the Detroit Branch of the Federal Reserve Bank of Chicago. Mr. Miller advises that the request is made incident to a current investigation by the grand jury into the activities of the Warren Bank, Warren, Michigan. It is understood that this request has been the subject of a brief discussion between Vice President Ross of your Bank and Mr. Frederic Solomon of the Board's staff, during the course of which it was determined that the requested materials would be found at the head office of your Bank.

As reflected in the Chairman's reply of this date to Mr. Miller, a copy of which is also enclosed, the Board authorizes you to make available to Examiner Lindsey the reports of examination of the Warren Bank, in their entirety, as of the close of business February 10, 1961, June 4, 1962, and June 17, 1963. The foregoing authorization contemplates Mr. Lindsey's review of confidential portions of reports of examinations without removing the same from your Bank, and under such physical circumstances as are determined to be satisfactory to you. While the authorization herein does not contemplate the making of copies of any of the confidential portions of reports of examination, you are authorized, if requested, to make available to Examiner Lindsey copies of the open sections of any of the reports of examination.

Authorization is also given for making available for Examiner Lindsey's review correspondence exchanged between your Bank and the Warren Bank in the period from January 1, 1961 to the present time and, if requested by Examiner Lindsey, for the preparation of copies of such correspondence.

\* Should have read Thomas E. Lindsey.

Mr. C. J. Scanlon

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In respect to the examiners' loan line cards, item c) in Mr. Miller's letter, following a study of these cards at your Bank by Examiner Lindsey and a person or persons of the Bank's staff designated for this purpose, you are authorized to place in Examiner Lindsey's possession prepared copies of such of the cards as may be determined to be reasonably related to the scope of the grand jury's investigation.

The foregoing authorization is given with the understanding that copies of any documents placed in Mr. Lindsey's custody will be retained at all times by him; that none of the documents shown or given to Mr. Lindsey, nor their contents, will be used as evidence either before the grand jury or in any court proceeding, but will be used only as background information incident to the pending grand jury's investigation; and that all copies of documents received by Examiner Lindsey pursuant to this authorization will be returned by him within 30 days of the date upon which he takes possession of them, unless upon written request addressed to you by Mr. Lindsey, you authorize retention of the documents beyond the 30-day period specified.

You will note that the Board's letter to Mr. Miller suggests that Mr. Lindsey contact Vice President Ross of your Bank in regard to arranging the details for Mr. Lindsey's access to the documents mentioned. A copy of this letter has been enclosed with the Chairman's reply to Mr. Miller.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 10  
3/12/64

OFFICE OF THE CHAIRMAN

March 13, 1964

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

Dear Mr. Chairman:

In your letter of February 20, 1964, you refer to previous correspondence about the possibility of reducing float in the Federal Reserve System by raising the maximum deferment time for check credits, and you ask five specific questions about this matter. You also ask for any additional information that might be helpful in considering the subject of float in the light of deferment schedules.

Generally speaking, there have been no new developments that would add much to the information previously furnished to your Subcommittee with the Board's letter of August 15, 1963, and to its predecessor with our letter of April 14, 1961. However, reshaping this information in reply to the questions in your recent letter may be helpful.

1. To what extent would the "float" be reduced by changing the deferment schedule from two to three days?

It is estimated that a change in the maximum deferment of credit for interdistrict country items from two to three days would result in a daily average reduction of something between \$700 million and \$800 million in time-schedule float.

2. What circumstances make it inappropriate to now change the deferment schedule from two to three days?

There are three factors that impel the Board to a belief that such a change should not be made at this time: namely, (1) the requirement of additional sorting work by member banks, (2) the effect on hold-over float, and (3) the possible effect on credit and money market conditions.

Under present circumstances, a change in the maximum deferment for check credits from two to three days would require an additional sort and added expense on the part of many member banks. At such time, however, as the Federal Reserve Banks are able to process most of their check

The Honorable Date B. Fascell

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volume on high-speed equipment, it should be possible to change the deferment schedule without requiring member banks to make an additional sort, and perhaps to reduce the number of sorts the member banks would have to make even though the deferment schedule were changed. This is because the high-speed equipment has the capability of making the deferment schedule sorts on the basis of the magnetic ink characters on the checks, rather than on the basis of a physical separation of the checks.

A study last year indicated that daily average "holdover" float was in the neighborhood of \$500 million, and was rising much more rapidly than "time-schedule" float. The study also showed that holdover float is significantly influenced by problems incident to the transition to high-speed electronic procedures for handling checks, and that this type of float can be and will be reduced as more and more commercial banks are able to deposit with the Reserve Banks checks that are fully coded for high-speed handling. In other words, the hope of reducing holdover float depends in large measure on the continued cooperation of commercial banks. This cooperation might not be so readily forthcoming if member banks were now burdened with the requirement of an additional sort of checks they presented for payment through the Federal Reserve Banks.

Credit and money market conditions are now geared in part to time-schedule float. While the elimination of this source of reserves could be offset in total member bank reserves, the net effect of the reduction and the counteraction would undoubtedly be far from equal among individual banks. A change from two to three days in the maximum deferment for check credits would affect the reserve accounts of only those banks that clear through the Federal Reserve Banks. The most severe effect would be on the banks, generally located in the larger cities, that act as collection agents for correspondent country banks. It would be difficult to use open market operations or a change in reserve requirements to channel appropriate amounts of reserves to those banks that would suffer from the deferment schedule change, and only to those banks. The effect that such resulting disequilibrium might have on credit and money market conditions is difficult to predict.

3. Under what circumstances would it be appropriate to make the change, and when could such circumstances be expected to come into being?

During the year 1962, Federal Reserve Banks and Branches handled a total of about 3 billion country checks, of which 272 million were processed on high-speed equipment. In 1963 the total volume of country checks was 3.2 billion, of which 872 million were handled on high-speed

The Honorable Dante B. Fascell

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equipment. The use of high-speed equipment is expected to increase even more rapidly this year. If these expectations materialize, there is hope that both holdover float and sorting required of member banks can be substantially reduced in another year or so.

This prospect, however, should not be taken as an implication that the Board would favor changing maximum check credit deferment from two to three days in a year or two. This decision would still be heavily influenced by the possible effect of such a change on credit and money market conditions at that time.

4. What would be the estimated effect of such change on fluctuations of reserves, and on the money supply; and could such effects be offset by agency action?
5. What other means does the Federal Reserve Board have at its disposal to offset a change in reserves caused by change in deferment schedule?

As previously indicated, it is estimated that changing the maximum deferment of credit for interdistrict country items would reduce reserves by \$700 million or \$800 million. The resulting reduction in the money supply would be at least that much, and probably several times more. If time-schedule float on interdistrict country items were removed from float-based reserves, fluctuations in such reserves would be reduced in terms of dollar amounts; however, fluctuations on a percentage basis would be sharper and perhaps more troublesome.

While a reduction in reserves resulting from the elimination of time-schedule float on interdistrict country items could be offset in total either by a reduction in reserve requirements or by open market purchases of Government securities, neither of these two alternatives would be completely satisfactory since they would have to be based on country-wide averages. A reduction in reserve requirements would benefit some banks that would not have suffered from the reduction in float-based reserves, and it might fall short of the objective in the case of banks that would have suffered. Open market purchases might come closer to restoring equilibrium, but they would have the effect of requiring banks to give up earning assets to offset the loss of reserves accruing from float.

In summary, an extension of the deferment schedule for the purpose of reducing time-schedule float and the compensating action that would have to be taken would undoubtedly disturb money market conditions, and would also disturb--perhaps to a significant extent in some cases--the competitive position that now exists among member banks.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.