

Minutes for April 29, 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

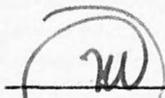
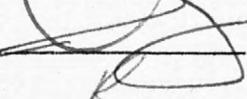
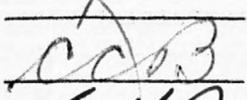
Gov. Robertson

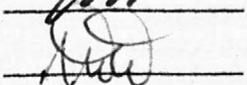
Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, April 29, 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 1/
Mr. Shepardson
Mr. Mitchell
Mr. Daane

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. Johnson, Director, Division of
Personnel Administration
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Partee, Adviser, Division of Research
and Statistics
Mr. Dembitz, Associate Adviser, Division of
Research and Statistics
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Sprecher, Assistant Director, Division
of Personnel Administration
Mrs. Semia, Technical Assistant, Office of
the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations

1/ Withdrew from meeting at point indicated in minutes.

4/29/64

-2-

Mr. White, Review Examiner, Division of Examinations

Mr. Hart, Personnel Assistant, Division of Personnel Administration

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 Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch approximately one-half mile north of the city limits of Winston-Salem.	1
Letter to Marine Midland Trust Company of Central New York, Syracuse, New York, approving an extension of time to establish a branch on Erie Boulevard East.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of First State Bank, Monahans, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to the Attorney General for the State of South Dakota regarding the merger of three State banks into National Bank of South Dakota, Sioux Falls, South Dakota.	4

Application of County Trust Company, Tenafly, New Jersey. There had been distributed a memorandum dated April 24, 1964, from the Division of Examinations, with other pertinent papers, regarding the application of County Trust Company, Tenafly, New Jersey, for permission to merge with The First National Bank of Park Ridge, Park Ridge, New Jersey. The Division recommended approval.

At the Board's request, Mr. Leavitt commented in supplementation of the memorandum, after which he responded to several questions asked by Governor Mills in the interest of clarification.

4/29/64

-3-

The Chairman then called upon the members of the Board for expressions of their views, in response to which Governor Mills stated that he would approve, although in his judgment this was a very close case because it marked a further attrition in the number of independent units in the area. However, the area was densely populated and had services available from a large variety of competing banks, including New York City banks. He noted that, as Mr. Leavitt had mentioned, there was pending before the Comptroller of the Currency a proposal to merge Citizens National Bank of Englewood, Englewood, New Jersey, and The Hackensack Trust Company, Hackensack, New Jersey. That proposal, on which the Board would have to make a competitive factor report to the Comptroller, constituted another step in the trend toward elimination of independent units in this area of New Jersey. Because of the trend definitely exhibited, this was a marginal case, in Governor Mills' view, but on balance he would approve.

Governor Robertson concurred in the thought that this was a close case. He cited the expansion-mindedness of the applicant bank, the large premium being offered, and, in his view, the lack of any real public need or advantage to be derived from the proposed merger. On the other hand, there was a minimum of competition between the two institutions, and there were a great number of other banking facilities available in the market area. Consequently, he would go along with the recommendation of the Division of Examinations.

4/29/64

-4-

Governor Shepardson stated that he would follow the recommendation of the Division, and the remaining members of the Board also indicated that they would approve.

The application was thereupon approved unanimously, it being understood that the Legal Division would prepare for the Board's consideration a draft of order and statement reflecting this decision.

Messrs. Hricko, Egertson, and White then withdrew and Messrs. Young, Adviser to the Board and Director, Division of International Finance, Hexter, Assistant General Counsel, and Furth, Adviser, Division of International Finance, entered the room.

Payment of interest on deposits. On April 13, 1964, the Board gave preliminary consideration to the nature of a reply to be made to a request dated March 24, 1964, from Chairman Robertson of the Senate Committee on Banking and Currency for the Board's views on the merits of Regulation Q, Payment of Interest on Deposits, and on the general policy of regulating the rates of interest paid on savings deposits (assumed to include time deposits). At the conclusion of the discussion, the staff was requested to develop material regarding the pros and cons of the issue that would assist the Board in arriving at a position. Such material, prepared by Mr. Partee, was attached to a distributed memorandum from Mr. Brill dated April 27, 1964.

As background for consideration of Chairman Robertson's request, the memorandum explained that the subject came up in the testimony of the

4/29/64

-5-

Comptroller of the Currency on S. 2576, a bill to liberalize the limitations on real estate loans by national banks. The Comptroller had strongly attacked Regulation Q, both in testimony and in a prepared statement submitted later. His conclusion was that "neither ceiling rates on deposits nor the standby authority to impose them are likely to bring improvements in the social welfare. On the contrary, they are likely to produce much damage."

Chairman McMurray of the Federal Home Loan Bank Board attended the hearing and later submitted a letter stating that his agency "strongly opposes the elimination of the statutory authority for Regulation Q," and that "elimination of that authority at this time would lead to serious undesirable consequences," stemming mainly from excessive interest rate competition for savings and a probable further deterioration in the quality of credit. Mr. McMurray conceded that if "one group is limited and others are not, there is a competitive disadvantage." He also recognized that there might be an argument against the necessity of continuous regulation. Therefore, the Home Loan Bank Board would apparently be inclined to support "the type of standby control offered by the administration in S. 1799," which would permit interest rate regulation over commercial bank time and savings deposits upon a determination of need, and provide for similar authority regarding the limitation of rates of interest or dividends paid by Federal Home Loan Bank System member institutions.

4/29/64

-6-

The sections of S. 1799 relating to interest rate regulation, the memorandum continued, were essentially identical to the recommendations of the President's Committee on Financial Institutions, contained in its report of April 1963. The Committee stated its belief "that the purpose served by continuous regulation of interest rates on time and savings deposits would be served equally well by standby authority to impose maximum rates, and that this regulation should apply as well to nonbank financial institutions that accept deposits or shares. The standby authority might be invoked either to help assure the continued safety of the institutions or to promote the stability of the economy. In exercising this authority, the supervisory agencies should be permitted to establish, at their discretion, different maximum rates for different accounts according to type, holder, maturity, or other characteristics." Chairman Martin, as a member of the Committee, signed the report; he also testified in favor of eliminating rate ceilings, as far as savings deposits and time deposits beyond the "30, 60, and 90-day area" were concerned, in hearings before the House Banking and Currency Committee in July 1962. However, the Board did not appear to have gone on record in this matter.

The memorandum then mentioned a number of positions the Board could adopt in replying to Senator Robertson. It could support the present provision for continuous regulation of interest rates on commercial bank time and savings deposits, and advocate extension of regulation to savings and loan associations as well, as a desirable and at

4/29/64

-7-

times necessary check on market competition. It could support abandonment of interest rate regulation altogether, as the Comptroller of the Currency proposed, on the grounds that such regulation interfered needlessly with the forces of free institutional competition. The Board could join Mr. McMurray in supporting the concept of standby regulatory authority, applying to both insured banks and Home Loan Bank System members. Or the Board could support one of these last two options in principle, but express doubt that the present would be a good time to suspend Regulation Q ceilings.

The memorandum discussed economic pros and cons that the Board might want to take into account in reaching its decision, noting that there might also be considerations relating to legal interpretation, supervisory policy, public relations, and relationships with other Government agencies.

At the Board's request, Mr. Partee sketched the complexities of the issue. Among the arguments in favor of retaining Regulation Q were that it provided an anchor for the structure of institutional rates; that in the absence of regulation, a general move toward higher rates would be limited only by the inability of institutions to cover their interest costs on time and savings deposits, with consequent lowering of asset quality in the search for higher earnings; that there was a question as to the ability of the bank examination process to keep within reasonable limits any pervasive tendency toward lower quality

4/29/64

-8-

assets that might occur; that at times in recent years variable interest rate ceilings had served as a helpful accessory to monetary policy; and that, assuming advocacy of the principle of prohibition of payment of interest on demand deposits, there was the problem of protection of that principle in the absence of limitation of interest rates payable on time and savings deposits.

The principal argument in favor of eliminating Regulation Q, Mr. Partee pointed out, was a preference for free markets over controlled markets. The free market environment of savings and loan associations had been an important factor in their growth. A second argument for abandonment was the inequity of limiting commercial banks when other institutions were not similarly limited: this argument would of course be vitiated if savings and loan associations were also made subject to interest rate regulation. Third, the relatively close relationship in recent years between ceilings under Regulation Q and market rates had resulted in a reduction in bank liquidity. With rates within reaching distance of competition, banks had attracted billions of dollars of short-term funds in the form of negotiable certificates of deposit, time deposits open account, and large savings deposits, which they had invested in longer term instruments. These funds they would be likely to lose if their rates did not remain broadly competitive.

Placing the regulatory authority on a standby basis, Mr. Partee continued, had some advantages from the standpoint of flexibility, and,

4/29/64

-9-

more importantly, from the standpoint that savings and loan associations as well as banks might be subjected to regulation on that basis. Although this would be an important competitive improvement, from the standpoint of bank supervision, it would not lessen either the analytical problems the Board would face when considering removal or reinstatement of ceilings, or administrative problems such as the definition of savings deposits. Also, under the terms of S. 1799, any change in ceilings apparently would require agreement among the Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board, which might at times be difficult to achieve.

Chairman Martin then called for general discussion, and Governor Mills stated his position that the existing formula under Regulation Q and the existing authority should be retained. He was not in favor of a standby authority, because he felt that under it a ceiling, once removed, would be difficult if not impossible to reinstate until after the horse was out of the barn. Conversely, after a ceiling was removed, officials with authority to reinstate it might be prone to act too hastily. The over-all problem seemed to present a division in thinking between the practical realities of bank supervision, with its responsibilities for exerting influence and authority to foster sound banking practices, on the one hand, and on the other the economic theorizing, which had some persuasiveness, that free markets would justify the elimination of controls and provide a better allocation and flow of resources from one financial area to another. He noted, incidentally,

4/29/64

-10-

that there had been in the past discussions of the thesis that commercial banks should divest themselves entirely of the time and savings deposit function, letting those activities reside with other financial intermediaries. The recent phenomenon of extreme exuberance in soliciting time and savings deposits might not be permanent. He reiterated his firm personal belief that the present law and present authority vested in the Board to impose rate ceilings should be retained.

Governor Robertson said that his previously-expressed views had not changed. He would support the recommendation of the Committee on Financial Institutions for standby authority over rates payable on commercial bank time and savings deposits if that was necessary in order to have authority given to the Federal Home Loan Bank Board to impose ceilings on dividends payable on share accounts at savings and loan associations. However, he did not believe that S. 1799 represented the best way to accomplish the purpose. If legislation was called for, he would favor merely a substitution of the word "may" for "shall" in the present statute, and raise the rate ceilings to a level that would constitute a standby authority. This authority would be one that the Board would be exercising constantly. It would not involve the same difficulties as a purely standby authority if effective ceilings had to be reimposed at some future time. Although these were his convictions in principle, he nevertheless regarded the present as a bad time to make a change. He thought the importance of timing must be stressed. Many

4/29/64

-11-

banks that had increased their interest rates should not have done so. To make a change now could therefore have undesirable results. Savings and loan associations could be placed in a difficult position, and this in turn could redound to the disadvantage of the commercial banks. If the time to act could be chosen, he would prefer a period of downswing, when banks would not be reaching for deposits as they were at present. Banks could then work gradually into a situation in which they would meet competition on a basis of rates they could afford to pay. In summary, if the Board must take a position now, he would support the recommendation of the Committee on Financial Institutions for rate authority across the board, but with a warning that timing was very important and this was not the time to act.

Governor Shepardson commented that basically he was inclined to the idea of a free market and no regulation, but the more he had listened to the discussions of banker groups that had visited the Board recently, the more he questioned whether such a move would be wise. He was concerned about the competitive aspects of the problem. It seemed to him that it would be desirable, if feasible, to bring nonbank financial institutions under regulation similar to that imposed upon the banks. He also regarded Governor Robertson's point about timing as significant. He questioned the merits of standby authority because a situation that would call for reinstatement of ceilings would also, by its very nature, make reinstatement difficult. In summary, his conclusion was that this

4/29/64

-12-

was not the time to make a change except, if possible, to have limitations placed on nonbank financial institutions competing for the savings dollar.

Governor Mitchell agreed that the present was not the time for action. While he believed that it would be desirable eventually to remove the ceilings on interest payable on time and savings deposits, he had difficulty in knowing how to get rid of them without inviting practices that would in effect amount to the payment of interest on demand deposits. He regarded changes in ceiling rates as more of a monetary policy decision than a regulatory decision, and did not want to share the authority to make such a decision with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board. If the consultation called for in S. 1799 meant that before making a change the Board must get the consent of those agencies, he would be opposed. If, however, it merely meant that the other agencies must be informed and given an opportunity to voice any objections they might have, without blocking Board action, he would not object. He was basically in sympathy with coming to a situation where bankers were able to fix the rates they paid without any interference from supervisory agencies, but he did not think that such a day should be expected to arrive automatically. Bankers needed more experience in setting their rates, which they were now getting. Expression of views such as he had outlined, in a reply to Chairman Robertson's inquiry, would be in the nature of opposition to S. 1799 as presently drawn.

4/29/64

-13-

Governor Daane expressed concurrence with the recommendation of the President's Committee on Financial Institutions for standby authority, with considerable flexibility in its possible application to different types of deposits. The inclusion of savings and loan associations within the standby authority would be a definite advantage. He believed the Committee had contemplated that the existence of the standby authority would in itself act as a deterrent to payment of excessive rates of interest, and therefore that it would be used rather infrequently. His own conclusion, however, was that the proper use of the standby authority would be to have it in effect more often than not. In the current context, he would not want to make any change to remove the rate ceilings.

In response to an inquiry by Governor Robertson, there ensued a discussion of the apparent intent of the interagency consultation provided for in S. 1799 and contemplated by the President's Committee on Financial Institutions. It appeared that, although the Committee may have had in mind relatively informal consultation, under the terms of the proposed legislation there would have to be a fair measure of agreement before any of the agencies could take action. It was observed, however, that even if the Federal Home Loan Bank Board should be unwilling to agree to a proposed action on ceiling rates, banks would be no worse off on a competitive basis than they now were, with no regulation applying to rates paid by savings and loan associations.

4/29/64

-14-

At the same time, though, the competitive improvement sought in the proposed legislation could hardly be realized unless there was effective consultation with the Federal Home Loan Bank Board.

Governor Balderston commented that the fundamentals of the problem bothered him: although he believed in free markets, he had to make an exception for demand deposits, which carried him to the realm under discussion. He would support a move that would bring savings and loan associations under rate ceiling regulation, and would stress the word "may" in the authority as distinct from "shall." He would hope that in the reply to be sent to Chairman Robertson a distinction would be drawn between (1) the long-run solution embodied in legislation and (2) the problem that demanded attention at the moment. He agreed with those who regarded rate ceiling regulation as a monetary policy instrument of significance. The increase in permissible rates of interest under Regulation Q made effective at the beginning of 1962 had had a far-reaching impact on commercial banking in this country, perhaps more than any other single move he had observed during his tenure as a member of the Board. He would not want to see the control of ceiling rates for member banks shared with other supervisory agencies except on an informal basis. More specifically, he would not want to see that control shared to the point where another agency could veto an action that the Board deemed advisable. Therefore, he felt that the letter to Chairman Robertson should carefully differentiate between informal discussion among the three agencies and the authority to act, which certainly

4/29/64

-15-

ought to remain with the Board as to member banks. The letter might discuss the problem in the long run, but it should make clear that the immediate problem was that the adoption of any statute should not force the Board to move from the present control to a standby. It would be one thing to place the authority on a standby basis when rates were down to 2 per cent; it would be another thing to do so when there were almost \$11 billion of negotiable time certificates of deposit outstanding, with higher rates a likely prospect if ceilings were removed.

Chairman Martin expressed the understanding that Chairman Robertson's inquiry reached only to the merits of Regulation Q and the general question of regulating interest rates on time and savings deposits. He went on to say that his own tentative position was in agreement with the view that it would not be desirable to have any legislation enacted that would direct the Board to remove at any given moment any controls that the Board thought should remain. The Board's reply to Chairman Robertson should emphasize the timing problem.

His personal preference, Chairman Martin continued, would be to remove rate ceilings entirely from time and savings deposits at some point; yet he could see some merit in the standby arrangement, even with the administrative difficulties it might create. Accordingly, he was prepared to go along with the recommendation of the Committee on Financial Institutions and accept the administrative difficulties. In any event, a reply to Chairman Robertson's letter apparently would have to be couched in terms of a rather general discussion, in something of a scholarly vein,

4/29/64

-16-

of the pros and cons of the issues raised. The majority view within the Board, it seemed, was that while the standby authority was acceptable in principle, a move to it should not be immediate but should await the first reasonable opportunity. Since the Board was certainly not united on all aspects of the question, perhaps the best service it could give Chairman Robertson would be to provide as good a digest as possible, but with an indication that the majority position within the Board favored moving at an appropriate time toward standby control, as recommended by the Committee on Financial Institutions. He suggested that the staff work on a draft of reply along those lines for the Board's consideration, and no disagreement with this procedure was indicated.

Governor Shepardson stated, to clarify his position, that he would basically favor the idea of no restrictions, if such a change could be effected at a time free from the present pressures. He regarded the standby authority as a worse situation than a continuing regulation, unless it was argued that acceptance of the standby basis was the only way to buy some control over rates paid by nonbank financial institutions. Even then, he thought its merits were doubtful.

Governor Balderston suggested that thought be given to including in the reply to be made to Chairman Robertson a recommendation that in the provision of section 19 of the Federal Reserve Act prohibiting payment of interest on demand deposits "directly or indirectly, by any device whatsoever," the word "indirectly" be clarified.

4/29/64

-17-

Messrs. Cardon, Noyes, Hexter, Shay, Hooff, Partee, Dembitz, Furth, and Eckert then withdrew.

Retirement System earnings (Item No. 5). There had been distributed a memorandum dated April 23, 1964, from the Division of Personnel Administration regarding distribution of excess earnings of the Retirement System of the Federal Reserve Banks.

Pursuant to action at the meeting of the Board on April 7, 1964, regarding various proposals relating to the Retirement System, the Board had sent a letter on April 10 to Mr. Hayes, Chairman of the Conference of Presidents of the Federal Reserve Banks, stating, among other things, that "The Board is not prepared, at this time, to approve a proposal for distribution of excess earnings of the Retirement System." In its April 23 memorandum, the Division of Personnel Administration referred to the recommendation of the Subcommittee on Personnel of the Presidents' Conference that the Retirement System provide for the equitable distribution of excess earnings of the Retirement System to active members, pensioners and their beneficiaries, and the employing Banks, by the allocation of such earnings on a pro-rata basis, after the interest rate was increased to 3-1/2 per cent and the Reserve for Income Equalization and the Reserve Against Investments had reached prescribed maximums, to the Retirement Reserve Account, Annuity Accumulation Account, and Pension Accumulation Account. It was pointed out that Mr. Hayes, at the time Vice Chairman of the Conference of Presidents, informed the Board in a letter dated January 31, 1964, that the Conference had approved various

4/29/64

-18-

recommendations of the Subcommittee, and stated that "In approving the Subcommittee's recommendation for treatment of earnings of the Retirement System in excess of actuarial requirements for all of the Retirement System's accounts, the Conference recognized that it will be necessary to develop specific procedures governing the distributions recommended."

The memorandum of the Personnel Division then set forth certain circumstances related principally to the necessity to ascertain from Internal Revenue Service whether the tax-exempt status of the Retirement System would be jeopardized by revisions being made in the Rules and Regulations of the Retirement System to effectuate the changes in benefits that were in process of adoption. These circumstances had prompted Mr. Deming, Chairman of the Board of Trustees of the Retirement System, to ask if the Board would be willing to consider at this time a proposal for distribution of excess earnings of the Retirement System if it were resubmitted accompanied by specific procedures governing distribution.

Governor Robertson stated that he was not in favor of doing anything about "cutting a melon." In his view, excess earnings should be used for the purpose of reducing the contributions of the Reserve Banks. He suggested that the words "at this time" be eliminated from the indication given to the Conference of Presidents of the Board's April 7 action.

Governor Mills expressed the belief that the Trustees of the Retirement System should be allowed to present a detailed earnings

4/29/64

-19-

distribution plan to the Board for consideration. It would be important for the Board to see examples of what such a distribution would mean to the individual pension benefits of members of the Retirement System. He believed that such examples would show that the benefits to be received by individuals would be minimal, although the amount of money involved might be substantial for the System as a whole. Since the contributions of the Banks and of the members of the Retirement System had drawn interest for many years and had built up the reserve funds, there was some ground for saying that the members should be permitted to enjoy a fractional benefit. He hesitated to cut the proposal short without giving a hearing to the Trustees.

Governor Robertson then withdrew from the meeting.

Governor Daane expressed concern that an indication that the Board was willing to listen to a proposal might by implication be construed as probable acceptance of any formula proposed. If the Board was opposed in principle to a distribution of excess earnings, it should not ask that a formula be submitted.

Governor Mills remarked that such an implication could be avoided by language that would make it clear that the Board merely was willing to have the subject elaborated to a greater extent so that it might have the full benefit of the Trustees' thinking. In response to a statement by Mr. Johnson that the formula that would be submitted no doubt would be the same as that originally proposed by the Subcommittee on Personnel,

4/29/64

-20-

Governor Mills commented that the original proposal lacked specific examples. He thought it quite important for the Board to know particularly what bearing adoption of the proposal would have on the benefits received by active and retired members of the Retirement System. It was necessary to know whether a large amount would accrue to each member, or whether the importance of the proposal had been exaggerated.

Governor Mitchell expressed the view that the Board did not have adequate information on which to base a decision as to the desirability of allowing excess Retirement System earnings to accumulate. First, there was the question of the sufficiency of the reserves from the standpoint of dealing with various contingencies. Also, he felt there was an equity issue involved that the record did not fully disclose. When the Board said it was disinclined to do anything "at this time" on the earnings distribution proposal, he had understood that this was intended to provide an opportunity for it to think further about the subject.

As the discussion proceeded, it was brought out that an element of timing was involved, for there was the problem of presenting to Internal Revenue Service for review as to effect on the tax-exempt status of the Retirement System all changes in the Rules and Regulations of the Retirement System that were in prospect of adoption in the near future. It seemed desirable, therefore, that the Board decide whether it would be willing to consider a specific proposal for the distribution of excess earnings. If the Board should be willing, and if upon such consideration

4/29/64

-21-

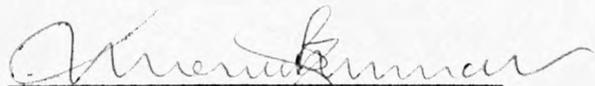
it indicated tentative approval of such a proposal, this could be part of the package of changes in the Rules and Regulations of the Retirement System that Counsel for the Retirement System would submit to the Internal Revenue Service to obtain its reaction. In this connection, Chairman Martin was explicit in his view that it would not be desirable to have submitted to the Internal Revenue Service, even informally, any earnings distribution proposal that had not previously been submitted to, and tentatively approved by, the Board.

Chairman Martin then suggested that a letter be sent to President Deming indicating, without commitment one way or the other, that the Board would be willing to take a look at a proposal for the distribution of excess earnings of the Retirement System if such a proposal were submitted in company with specific procedures governing distribution and specific examples of its application. There was general agreement with this suggested approach.

A copy of the letter sent to President Deming pursuant to this understanding is attached as Item No. 5.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Legal Division, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Walter P. Doyle, Attorney in that Division, effective at the close of business May 22, 1964.


Secretary

1536

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

Item No. 1
4/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964

Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wachovia Bank and Trust Company on U. S. Highway 52, approximately one-half mile north of the city limits of Winston-Salem, in Forsyth County, North Carolina, 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

1537

Item No. 2
4/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964

Board of Directors,
Marine Midland Trust Company of
Central New York,
Syracuse, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to April 5, 1965, the time within which Marine Midland Trust Company of Central New York may establish an in-town branch at 700-730 Erie Boulevard East.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

1538

Item No. 3

4/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964

The Honorable Joseph W. Barr,
Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of April 13, 1964, concerning the application of First State Bank, Monahans, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and, in the Board's opinion, there are no such programs that it would be advisable to incorporate as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

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. 4
4/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964.

The Honorable Frank L. Farrar,
Attorney General,
State of South Dakota,
Pierre, South Dakota.

Dear Mr. Farrar:

Your letter of April 17, 1964, regarding the merger of three State banks in South Dakota into the National Bank of South Dakota, has been transmitted to the Board of Governors by the Federal Reserve Bank of Minneapolis.

It is understood that you wish to be advised whether or not the National Bank of South Dakota or the First Bank Stock Corporation of Minneapolis, Minnesota; obtained permission from the Attorney General of the United States for the merger in question, and also whether approval for this merger was requested of and obtained from the Board of Governors of the Federal Reserve System.

There is no Federal statute under which the permission of the Attorney General of the United States is necessary before consummation of a bank merger, although the banks involved might wish to discuss a proposed merger with the Attorney General in view of his responsibilities under the Federal antitrust laws.

Under the so-called Bank Merger Act of 1960 (12 U.S.C. 1828(c)), any merger of insured banks must have the prior approval of either the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation, depending upon the nature of the resulting bank. In this instance the resulting bank, the National Bank of South Dakota, was a national bank and, accordingly, it was necessary for prior approval of the Comptroller of the Currency to be obtained. It is understood that the merger was approved by the Comptroller on December 6, 1962.

It may be noted that, in accordance with the Bank Merger Act of 1960, it was necessary for the Comptroller of the Currency, before acting on the merger, to obtain advisory reports as to the

The Honorable Frank L. Farrar -2-

competitive effects of the merger from the Attorney General of the United States as well as from the FDIC and the Board of Governors of the Federal Reserve System. However, the responsibility for approving or disapproving the merger rested solely with the Comptroller of the Currency. For this reason, the Board's approval of the proposed merger was neither requested nor given.

Under the Bank Holding Company Act of 1956, it is necessary for a bank holding company to obtain prior approval of the Board of Governors in connection with the acquisition by such company of ownership or control of more than 5 per cent of the voting shares of any bank, unless, prior to such acquisition, a majority of the bank's voting shares is owned by the acquiring bank holding company. That Act also requires the Board's prior approval in any case in which a bank holding company or a subsidiary thereof, other than a bank, acquires all or substantially all of the assets of the bank. These provisions, however, were not applicable in this instance, and the Board's approval of the transaction was therefore not required under the Bank Holding Company Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
4/29/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1964.

Mr. Frederick L. Deming,
Chairman, Board of Trustees
of the Retirement System of
the Federal Reserve Banks,
c/o Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Deming:

As you were advised by telephone today, the Board again has reviewed the proposal of the Conference of Presidents, as transmitted by Mr. Hayes in his letter of January 31, 1964, for distribution of excess earnings of the Retirement System of the Federal Reserve Banks. The Board is of the opinion that this is a matter that should be given full consideration and has indicated that it would be prepared, at this time, to review a proposal for distribution of excess earnings if submitted, with the understanding that this would in no way be considered as a willingness to approve or disapprove. In the submission of a proposal, the Board would like to have included examples of the effect of the proposal for distribution upon the retirement allowances of active employees and of retirees of the System.

In its consideration, the Board was of the opinion that any change in the Retirement System's Rules and Regulations concerning distribution of excess earnings should not be submitted to the Internal Revenue Service informally at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

c.c.: Mr. Marcus A. Harris