

Minutes for January 19, 1966

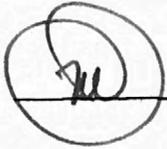
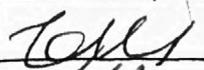
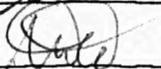
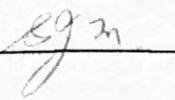
To: Members of the Board

From: Office of the Secretary

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

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, January 19, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. Hexter, Associate General Counsel
 Mr. O'Connell, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Leavitt, Assistant Director, Division of Examinations
 Miss Eaton, General Assistant, Office of the Secretary
 Mrs. Heller and Mr. Sanders, Senior Attorneys, Legal Division

Distributed 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 The Kinsley Bank, Kinsley, Kansas, approving the declaration of a dividend in January 1966.	1
Letter to the Federal Reserve Bank of New York approving the payment of salary to six officers at rates fixed by the Bank's Board of Directors.	2

Whitney Holding Corporation (Item No. 3). There had been distributed a memorandum from the Legal Division dated January 17, 1966,

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presenting for consideration a request by Whitney Holding Corporation, New Orleans, Louisiana, that the Board afford an opportunity for oral argument in the matter of the Board's reconsideration of Whitney's holding company proposal. The Board originally approved the proposal by order dated May 3, 1962, but the matter was remanded to the Board by the United States Court of Appeals for the Fifth Circuit following a decision by the U.S. Supreme Court in a related case involving action by the Comptroller of the Currency in authorizing the opening for business of a new bank to be operated as part of Whitney's holding company plan. Briefs had since been filed with the Board by the interested parties, and the only question for decision at this time was whether to grant Whitney's request for oral argument. The opposing banks, having submitted briefs, no longer requested oral argument, but indicated that they would participate if oral argument was scheduled.

The memorandum pointed out, among other things, that in May 1965 Whitney had filed an action in State court against the State Bank Commissioner for a declaratory judgment that the Louisiana anti-bank holding company statute was inapplicable or unconstitutional. In October the court ruled that the statute was applicable to Whitney and was constitutional. However, in November an appeal was taken to the Louisiana Circuit Court of Appeals, and the appeal was still pending.

Questions by members of the Board elicited verification from the staff that at this point oral argument had been requested only by Whitney,

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that any delay in Board action apparently would cause no harm to Whitney's opponents, and that, even if oral argument was held at this stage, additional oral argument possibly would be requested or considered necessary after the completion of the current State court test of the Louisiana anti-bank holding company law.

Accordingly, it was the view of the Board that it would be appropriate to defer consideration of the question of oral argument pending the outcome of the State court test of the Louisiana anti-bank holding company law. A copy of the order issued pursuant to the Board's decision is attached as Item No. 3.

Compounding of interest on savings accounts (Item No. 4). In a letter dated December 30, 1965, Wachovia Bank and Trust Company, Winston-Salem, North Carolina, requested that Regulation Q, Payment of Interest on Deposits, be interpreted to permit a member bank to compound interest monthly at the maximum permissible rate on any savings account with respect to which the bank contracted with its depositor that it would pay interest only for the days the bank actually had use of the funds deposited, that is, without taking grace periods into account.

A memorandum from the Legal Division dated January 14, 1966, which had been distributed for the consideration of the Board, expressed the view that an interpretation of the pertinent provisions of Regulation Q in the manner suggested by Wachovia would be inappropriate. The Board could amend the regulation consistent with Wachovia's request, but the

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Legal Division believed this would add confusion and further complicate the administration of the regulation. This did not necessarily mean that greater use of compounding interest on a monthly basis than was presently possible under the regulation should not be permitted. If that were to be done, however, the most workable approach would be to amend the regulation generally to permit a member bank to compound interest monthly at the maximum permissible rate.

After a general discussion of the subject, there was agreement with the view of the Legal Division that the interpretation suggested by Wachovia would not be appropriate. Accordingly, unanimous approval was given to a letter to Wachovia in the form attached as Item No. 4.

However, the Board indicated that it would like to consider further the question whether Regulation Q should be amended to permit member banks to compound interest more frequently than quarterly at the maximum permissible rate. The staff was requested to prepare a notice of proposed rule making along those lines, to provide a focus for Board consideration of the matter.

San Francisco National Bank matter (Item No. 5). Mr. O'Connell reported that word had been received that Vice President Merritt of the San Francisco Reserve Bank had been subpoenaed to appear in court today in the matter of the United States v. Don C. Silverthorne and William C. Bennett.

Mr. O'Connell recommended that the Board authorize him to contact San Francisco Reserve Bank counsel by telephone prior to Mr. Merritt's

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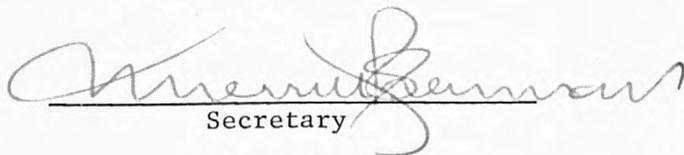
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appearance in court for the purpose of conveying the Board's action in authorizing Mr. Merritt's appearance on the witness stand, pursuant to subpoena. Counsel would be advised that the authorization given contemplated Mr. Merritt's being accompanied by Reserve Bank counsel who, assuming prior agreement by the court, would take whatever steps were necessary to confine Mr. Merritt's disclosure of "unpublished information" within the limits set forth in the Board's November 15, 1965, letter of authorization transmitted to the Reserve Bank incident to the pending case of Federal Deposit Insurance Corporation v. A.M.R., Inc., et al.

Mr. O'Connell was authorized to proceed in the manner he had recommended. Attached as Item No. 5 is a copy of a letter subsequently sent to the San Francisco Reserve Bank in further regard to this matter.

The meeting then adjourned.

Secretary's Note: On December 29, 1965, Governor Shepardson approved on behalf of the Board an additional overexpenditure of \$65,080 in the Retirement Contributions Account of the 1965 Board budget. (On September 30, 1965, the Board approved an overexpenditure estimated at \$420,000 to fund increases in the retirement allowances of annuitants of the Board Plan of the Retirement System of the Federal Reserve Banks and their eligible survivors. The Board was subsequently billed by the Retirement Office in a larger amount.)


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
1/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1966.



Board of Directors,
The Kinsley Bank,
Kinsley, Kansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a dividend of \$7,500 by The Kinsley Bank, Kinsley, Kansas, in January 1966. This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

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. 2
1/19/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1966

CONFIDENTIAL (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

The Board of Governors has approved the payment of salary to officers of the Federal Reserve Bank of New York listed below for the period January 6 through December 31, 1966, at the following rates fixed by your Board of Directors, as reported in your letter of January 7, 1966.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Francis H. Schott	Adviser	\$23,000
Richard G. Davis	Manager	18,500
Edward J. Geng	Manager and Assistant Secretary	18,000
Fred H. Klopstock	Senior Economist	20,000
Frederick W. Deming	Manager	19,500
Frederick C. Schadrack, Jr.	Manager	20,000

The Board has noted the change in duties for Aloysius J. Stanton to Manager of the Accounting Department.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
1/19/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
WHITNEY HOLDING CORPORATION
for approval of its becoming a bank holding
company by acquiring the stock of Crescent
City National Bank, New Orleans, Louisiana,
and Whitney National Bank in Jefferson Parish,
Jefferson Parish, Louisiana

ORDER

By order dated July 23, 1965, the Board of Governors provided an opportunity for the submission of briefs in connection with the Board's reconsideration of the application of Whitney Holding Corporation ("Applicant") for approval of its becoming a bank holding company. By letters of the same date, the Board advised Applicant, opposing banks, and the State Bank Commissioner of Louisiana that the Board's decision on a pending request for the presentation of oral argument would be deferred until after the submission and examination of briefs filed pursuant to the Board's July 23 order.

After due consideration of the arguments presented in the briefs filed pursuant to said order, and of the views submitted by the above-named participants with respect to the pending request for the presentation of oral argument, the Board has concluded that the

final decision in the case of Whitney National Bank in Jefferson Parish et al. v. A. Clayton James, State Bank Commissioner of the State of Louisiana, No. 6745 in Court of Appeals, First Circuit, State of Louisiana ("Whitney v. James"), may be helpful or determinative in the resolution of certain issues before the Board in the matter herein; that the persons urging the Board to await final decision in the State court suit appear to be the only ones for whom a delay could be injurious; that deferment of Board decision in this matter while awaiting final decision in the suit pending in the State court is warranted in the circumstances; and that oral argument before the Board at this time would serve no useful purpose.

IT IS HEREBY ORDERED that:

1. The proceeding before the Board be continued pending the final decision in the aforementioned suit, Whitney v. James. In the event new circumstances arise that suggest that further postponement of Board action on this matter may not be in the public interest, the Board will reconsider its decision herein.
2. Applicant's request for the presentation of oral argument be denied without prejudice to renewal after final decision in the aforementioned suit or should circumstances warrant such renewal.

Dated at Washington, D. C., this 24th day of January, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 4
1/19/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1966.

Mr. E. T. Shipley, Comptroller,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina. 27102

Dear Mr. Shipley:

This is in response to your letter of December 30, 1965, urging that Regulation Q be interpreted to permit a member bank to compound interest monthly at the maximum permissible rate on any savings account with respect to which the bank contracts with its depositor that it will pay interest only for the days the bank has the use of the funds deposited - that is, without any "grace period" of either kind permitted by section 217.3(d).

You suggest that this interpretation could be supported on the ground that a depositor in such an account would receive no greater interest on his funds, calculated on the basis of the number of days that he gives up the use thereof, than if the bank compounded interest quarterly at the maximum permissible rate and gave him the benefit of "grace periods".

Irrespective of effects that grace periods have on the yield that a depositor receives on funds placed in a member bank, the Board considers that an interpretation of or an amendment to Regulation Q along the lines of your suggestion would be unwise because it would inject additional confusion into and further complicate the administration of the regulation.

Furthermore, the Board does not consider that your suggested interpretation would be consistent with the principles governing the computation of maximum permissible interest on deposits under Regulation Q. Pursuant to section 217.3(a), a member bank may not pay interest on a savings deposit at a rate in excess of the maximum rate prescribed by the Board from time to time. That paragraph further provides that "any rate or rates which may be so prescribed by the Board will be set forth in supplements" to Regulation Q.

Paragraph (b) of the current Supplement prohibits the payment of interest on a savings deposit "at a rate in excess of 4 per cent per annum, compounded quarterly". A footnote states that "This limitation

Mr. E. T. Shipley

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

The Board considers that the proper interpretation of these provisions is that reference should be made solely to the Supplement in calculating the maximum permissible interest on a savings deposit. The fact that a member bank may, pursuant to section 217.3(d), pay interest on funds received on the tenth day of a month as if they were received on the first day thereof is considered as a matter of "convenience" for banks and depositors that is not related to the rules governing the computation of maximum permissible interest.

Even if the effect of grace periods on the yield a depositor receives on his funds were significant insofar as maximum permissible interest is concerned, the Board would not consider your suggested interpretation consistent with the language of the Supplement that permits the compounding of interest monthly or at other intervals on condition that "the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the [four per cent per annum] rate . . . compounded quarterly."

In determining the aggregate maximum amount of interest computed at four per cent compounded quarterly, it seems appropriate to consider, at most, only those transactions that are possible in the particular account. On this basis, in an account with respect to which the bank does not give the depositor the benefit of grace periods, the aggregate permissible amount of interest for one year at the rate of four per cent per annum compounded quarterly is \$40.60 per \$1,000. If the Board were to interpret the Regulation as you suggest, a depositor could earn interest for one year in excess of that amount, for example \$40.74 per \$1,000 on money placed in such savings account on January 1.

Accordingly, the Board has concluded that the interpretation you suggested would not be appropriate. However, the Board is considering whether to amend the Supplement to permit member banks to compound interest monthly, or even more frequently, at the maximum permissible rate.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
1/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 20, 1966.



Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This refers to the criminal case of United States v. Silverthorne, et al. now in trial in the United States District Court for the Northern District of California, and to your letter of January 17, 1966, enclosing a copy of a subpoena served on Mr. A. B. Merritt of your Bank, issued on application of defendant Silverthorne, calling for Mr. Merritt's appearance on January 19, 1966, as a witness in the case. Your letter advised that, in aid of the Board's consideration as to Mr. Merritt's response to the subpoena, information would be transmitted to the Board as to the nature of the testimony to be elicited from Mr. Merritt and, perhaps, a different date upon which he would be required to testify. Subsequent to the mailing of your letter, your Bank's counsel advised Mr. O'Connell of the Board's staff that they had been unable to talk to Mr. Silverthorne's counsel with respect to either the nature of or date for Mr. Merritt's testimony. Accordingly, in view of the apparent urgency of the matter, the question of Mr. Merritt's response to the subpoena was considered by the Board without awaiting the additional information mentioned in your January 17 letter.

This letter is intended to confirm advice of the Board's action given by telephone on January 19, 1966, by Mr. O'Connell to Messrs. Bollow and Cooper of your legal staff, and to state our understanding of certain occurrences following that conversation, advice of which was given to Mr. O'Connell by telephone later in the day. Your Bank's counsel was advised of the Board's authorization for Mr. Merritt's appearance in response to the subject subpoena, it being understood that he would be accompanied to court by your Bank's counsel. Further, it was stated that the Board's authorization contemplated, if required, testimony by Mr. Merritt of a nature and within the guidelines set forth in the Board's letter to you of November 15, 1965. That letter contained a statement of

Mr. Eliot J. Swan

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Board authorization regarding disclosure by your Bank's officers either in the form of deposition or testimony at trial in relation to the case of FDIC v. A.M.R., Inc., et al. During the course of the conversation between Messrs. Bollow and Cooper, and Mr. O'Connell, it was agreed that, in connection with Mr. Merritt's scheduled appearance, your Bank's counsel would make an effort to inform the court, prior to Mr. Merritt's appearance, of possible restrictions on Mr. Merritt's testimony that might be imposed by the Board's Rules Regarding Information, Submittals, and Requests, and that counsel would endeavor to secure from the court permission to interpose objections to any questions propounded, the answers to which could involve disclosure of the nature guarded against by the terms of the Board's authorization.

Mr. O'Connell was advised late in the day on January 19 that Mr. Merritt appeared in response to the subpoena, but that he was not called to the witness stand. It is understood that your Bank's counsel advised the court generally along the lines set forth above and that the court reserved ruling on the question of whether Mr. Merritt would be required to answer questions where objections thereto were interposed on the basis of the Board's Rules. It is also understood that the likelihood and time of Mr. Merritt's testimony were "open questions" at the end of yesterday's trial session.

We will await advice from you as to further developments regarding prospects of Mr. Merritt's testimony and the nature and time of such testimony.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.