R 609

Minutes for September 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 _____

Gov. Robertson _____

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Gov. Maisel _____

Gov. Brimmer _____

Minutes of the Board of Governors of the Federal Reserve System on Monday, September 19, 1966. The Board met in the Board Room at 9:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary

A record of the discussion that occurred during the initial portion of today's meeting is appended to these minutes as Attachment A.

At 10:15 a.m. the following members of the staff were called into the room:

Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior Adviser to the Board and Director, Division of International Finance
Mr. Solomon, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Gramley, Associate Adviser, Division of Research and Statistics
Messrs. Eckert, Ettin, and Keir of the Division of Research and Statistics
Mr. Egertson of the Division of Examinations

Regulation of interest rates. The Chairman explained for the benefit of the staff members who had joined the meeting that the Board had been giving consideration to what action should be taken under

Regulation Q, Payment of Interest on Deposits, in keeping with bill H.R. 14026, now before the President for signature, providing increased flexibility for establishing ceiling rates on time deposits and savings accounts at commercial banks and other depository institutions. He said the Board had tentatively agreed to reduce to 5 per cent (from 5-1/2 per cent) the maximum rate of interest permitted to be paid by member banks on any time deposit under $100,000. The maximum rate payable on savings accounts would remain at 4 per cent. The maximum rates payable on multiple maturity time deposits (4 per cent or 5 per cent, depending on maturity) would also remain unchanged, and the ceiling rate on single maturity time deposits of over $100,000 would remain at the present level of 5-1/2 per cent. He further indicated that it was the Board's thinking that the reduction from 5-1/2 per cent to 5 per cent in the maximum rate applicable to time deposits up to $100,000 would be made effective at the beginning of business September 26, 1966.

Question was raised whether the 5 per cent maximum rate would apply to outstanding deposits, and Governor Robertson stated that the announcement of the action should make clear that the 5 per cent maximum would apply only to contracts made on and after the effective date of the amendment to the Supplement to Regulation Q.

It was noted that the proposed amendment would also contain a statement that in calculating the rate of interest paid on time and savings deposits, member banks could disregard the effects of compounding

of interest. However, a member bank that elected to compound interest--either at the maximum permissible rate or at a lower rate--must state the basis of compounding (such as semiannually, quarterly, monthly, weekly, daily, or continuously) in every advertisement, announcement, solicitation, and agreement relating to the rate of interest paid on a deposit.

Governor Robertson pointed out that this was in line with a proposal that had previously been sent to the Federal Deposit Insurance Corporation for consideration and that the Corporation was now willing to go along in terms of its interest rate regulation applicable to non-member insured banks.

The Chairman then called for staff views on the proposed interest rate action, and Mr. Brill pointed out that there had been distributed to the Board a memorandum indicating the virtue of a proposal such as the Board had in mind that was simply stated and easily applied. Such action would preserve maximum flexibility for the Board. However, there was the possibility that the ceiling would become the floor in some areas; the Board would have to follow developments closely and be alert to any shifts in competitive relationships.

Mr. Partee commented that some banks might find themselves in considerable difficulty, in the absence of a grandfather clause, as deposit contracts matured. For example, one national bank in the New York City area had attracted a significant volume of high-rate funds

from around the country through an aggressive advertising campaign, and it might experience a run-off of deposits that would require special assistance. In the absence of a grandfather clause, there was little that such a bank could do to protect itself.

Chairman Martin commented that any action the Board might take in this area was certain to hurt somebody. The Federal Reserve probably would have to be prepared to assist some banks, such as the one mentioned, if they got into serious difficulty.

Governor Robertson observed that it had been indicated in the September 1 letter to member banks that banks experiencing a severe loss of deposits could obtain assistance through the discount window.

It was pointed out that there was still the question whether the President would sign the new legislation today, and it was understood that announcement of the Board's action would have to be governed accordingly. However, it was understood that the Board had agreed on the action that was to be announced when the President signed the bill.

Question was raised about the actions that would be announced by the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board under the new legislation, and Chairman Martin noted that Governor Robertson had been in consultation with them.

Governor Brimmer expressed his understanding that each agency knew fairly well what the other agencies had in mind in the way of action that would be taken. There was admittedly some risk that the other

agencies would move in a direction quite different from the Board, but he felt the risk was slight.

On the matter of the effective date, Chairman Martin expressed the opinion that the opening of business on September 26 was probably the best choice, thus allowing a brief period of adjustment but not an unduly long period. No disagreement was expressed with that view.

Governor Brimmer mentioned that Governor Robertson had suggested periodic surveys in order to keep the Board up to date on developments, and he inquired whether Governor Robertson had in mind including reference to such surveys in the Board's press release. Governor Robertson indicated that he felt there was some obligation to make known, either in the press release or otherwise, that the Board would be alert to developments and be prepared to take whatever further action was appropriate at any time. Governor Brimmer agreed that it would be in order to indicate that the Board would stay alert to developments. He also agreed that it might be premature to make a commitment at this time that the Board would conduct a survey of a certain type at a certain date. Governor Daane expressed the view that the simplicity of the action that the Board was taking should be kept in mind in formulating an announcement.

Mr. Cardon referred to a letter that had been received from Congressman Mills this morning inquiring whether municipal deposits might be exempted from whatever rate ceilings were applied to other time deposits under the new legislation.

Governor Robertson expressed the opinion that public deposits should not be excluded at this time and that the answer to Congressman Mills should be in terms that the problem would be kept in mind and the Board would watch developments. Chairman Martin agreed that the need for experience was indicated. He felt that the Board probably would have to make further amendments at some stage, but it seemed desirable for the Board at this time to move in a simple, direct way and then see what occurred.

Mr. Gramley commented that the situation might become quite difficult for the banking system, particularly some larger banks. One of the main remaining sources of funds on which such banks had been relying was being cut off, in view of prevailing market rate relationships. The situation must be watched carefully to see how the banks responded, for at some point they might become panicky.

Chairman Martin agreed that the point was well taken. However, he did not think the Board had any alternative except to take some action under the new legislation, and the question was what type of action would be least damaging, yet of some significance. The discount window or other facilities would have to be relied upon to help any banks that became panicky.

Mr. Hexter mentioned that the Board did not have any legal duty under the bill to moderate rates, and Chairman Martin agreed. He recalled that earlier in the year he had testified that he would prefer

not to do anything. However, the whole history of the debate of the new legislation over the summer must be borne in mind. In the circumstances, while the Board legally could stand aside and do nothing, he felt that that would be a mistake.

The discussion then turned to the content of the press release that would be issued by the Board, and Chairman Martin expressed the view that it should emphasize that the purpose of the action was to limit further escalation of interest rates paid in competition for consumer savings. This, to him, was the element that should be stressed, although it could also be indicated that the action was designed to help keep the growth of commercial bank credit to a moderate pace.

There were several expressions of agreement with the Chairman's view that the press release should be in such terms and also that it should be kept relatively brief.

There followed further discussion of the effect that the action might have on banks in the deposit range of $50 to $500 million, and several comments were made reflecting sensitivity to the possible consequences. It was brought out, however, that as the Chairman had noted earlier any type of action in this area seemed certain to affect a certain number of banks rather severely. It was suggested that action such as the Board had in mind was likely to have considerable impact in individual bank cases, but that it did not portend a disruption of community banking services generally.

There was also some further discussion of the part of the proposed amendment relating to compounding of interest. Among other things, it was noted that it would be possible for banks, through frequent compounding, to pay an effective rate slightly above the maximum rates expressed in Regulation Q, which were geared to quarterly compounding. Governor Daane recalled that he had had reservations when the proposal was under consideration earlier, and he inquired whether it seemed essential to make such an amendment at this time. Governor Robertson expressed the view that that would be desirable, for banks would then be placed on a more equitable competitive basis. They would be required, however, to state the basis of compounding clearly in their advertising, thus minimizing possible misunderstanding and confusion.

Governor Brimmer recalled that the Board had come to a tentative conclusion on this feature earlier and that it had been awaiting the view of the Federal Deposit Insurance Corporation, which was now reported to be favorable. The discussion concluded with a consensus that the provisions relating to compounding of interest should be included in the proposed amendment to the Supplement to Regulation Q.

At this point a draft of possible press release developed by the staff was distributed. There emerged from discussion of the draft a general consensus in favor of a statement along the lines that had been indicated earlier during the meeting; that is, a release going somewhat beyond a technical description of the action being taken but stopping short of pronouncements on the prospective effects of the action.

As to procedure, it was understood that Governor Robertson would be in touch with Chairman Randall of the Federal Deposit Insurance Corporation and Chairman Horne of the Federal Home Loan Bank Board to advise them of the action that had been agreed upon by the Board. It was also understood that the staff would continue work on the drafting of a press release conforming to the views that the Board had expressed regarding the scope of such statement. It was further understood that when word had been received that the President had signed the new legislation, the Board would meet again to take whatever steps were then necessary.

Reports on S. 3158 and H.R. 17703 (Items 1 and 2). There had been distributed a draft of letter to the Chairman of the House Banking and Currency Committee regarding S. 3158, a bill to strengthen the enforcement powers of the three Federal bank supervisory agencies and the Federal Home Loan Bank Board. The Board had supported the bill in the form in which it was originally introduced, but as the bill now stood it reflected three major changes made by the Senate. The first change, to which the Board had previously indicated that it would not object, limited suspension and removal orders to cases regarding personal dishonesty. The second change vested authority to issue such orders with respect to national banks in the Board of Governors rather than the Comptroller of the Currency, although the Comptroller would be authorized to participate, with power to vote, in Board proceedings in

such cases. The third change would require a Federal agency, before invoking procedures authorized by the bill against a State-chartered institution, to notify the State supervisory authorities of its intent and the grounds for acting, and to specify an appropriate period within which corrective action should be taken. The Federal agency could then proceed if the State authority failed to act within the specified period.

A distributed memorandum from Mr. Cardon dated September 16, 1966, reported that the Home Loan Bank Board had testified in support of the bill as passed by the Senate, and an understanding that the Treasury Department and the Federal Deposit Insurance Corporation also supported the bill. The draft of proposed letter to Chairman Patman would recommend prompt and favorable action.

There had also been distributed a draft of letter in response to Chairman Patman's request for the Board's views on H.R. 17703, a different version of proposed legislation in the same area. The draft letter commented on the main differences between the two bills, as they applied to banks, and recommended against enactment of H.R. 17703.

The two letters to Chairman Patman were approved unanimously; copies are attached as Items 1 and 2.

Approved letters. The following letters, copies of which are attached under the respective item numbers indicated, were approved unanimously after consideration of background information that had been made available to the Board:

	Item No.
Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch in the Borough of Brooklyn.	3
Letter to Iowa State Bank and Trust Company of Fairfield, Iowa, Fairfield, Iowa, approving the establishment of an in-town branch.	4
Letter to Charlevoix County State Bank, Charlevoix, Michigan, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	5

Public Bank matter. Mr. Sherman reported receipt of a telegram from President Scanlon of the Federal Reserve Bank of Chicago stating his understanding that an agreement providing for the purchase of assets of Public Bank, Detroit, Michigan, by Bank of the Commonwealth, also of Detroit, was being signed in Washington today and that the Chicago Reserve Bank recommended approval despite the capital position of Bank of the Commonwealth.

Mr. Egertson brought out that it was still necessary to obtain the approval of the stockholders of Public Bank, which apparently might take some little time.

Mr. Shay said it was his understanding that the Federal Deposit Insurance Corporation now contemplated less precipitate action on the matter than had only recently been envisaged, which might mean that the proposed merger would be handled as a case where competitive factor reports would be obtained on a ten-day basis.

Members of the Board urged that the staff keep closely in touch with developments so as to avoid any possibility that it could be said that consummation of the proposed merger was in some manner being held up by the Federal Reserve.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Dallas (copy attached as Item No. 6) approving the appointment of John N. Ainsworth as Federal Reserve Agent's Representative at the Houston Branch.

Letter to the Federal Reserve Bank of Dallas (copy attached as Item No. 7) approving the appointment of Robert G. Jenkins as assistant examiner.

Letter to the Federal Reserve Bank of San Francisco (copy attached as Item No. 8) approving the appointment of Willard A. Bogart as assistant examiner.

Memorandum from the Division of Research and Statistics dated September 16, 1966, recommending that Professor Otto Eckstein of the Center for Advanced Study in the Behavioral Sciences be appointed as consultant effective to December 31, 1966, on a temporary contractual basis with compensation at the rate of $75 a day, with the understanding that any necessary travel would be in accordance with the Board's travel regulations.

Memoranda recommending the following actions relating to the Board's staff:

Transfers

Helen C. Droitsch, from the position of Clerk-Typist in the Division of Personnel Administration to the position of Clerk-Typist in the Office of the Secretary, with no change in basic annual salary at the rate of $4,701, effective September 25, 1966.

Joyce M. Hile, from the position of Secretary in the Office of the Secretary to the position of Secretary in the Division of Data Processing, with an increase in basic annual salary from $5,683 to $6,065, effective September 25, 1966.

Transfers (continued)

Kathryn A. Jackson, from the position of Statistical Assistant to the position of Statistical Supervisor, Division of Data Processing, with an increase in basic annual salary from $7,055 to $7,516, effective September 25, 1966.

Marguerite L. Renucci, Statistical Assistant, Division of Data Processing, to another budget position in that Division, with no change in basic annual salary at the rate of $6,211, effective September 25, 1966.

Dorothy B. Slagle, from the position of Statistical Clerk to the position of Statistical Assistant, Division of Data Processing, with no change in basic annual salary at the rate of $5,256, effective September 25, 1966.

Acceptance of resignation

Michael W. Estes, Electrician-Operating Engineer, Division of Administrative Services, effective the close of business September 29, 1966.

Governor Shepardson today noted on behalf of the Board a memorandum advising that Glenn M. Goodman, Assistant Director, Division of Examinations, had filed application for retirement effective October 1, 1966.

Attached as Item No. 9 is a copy of a letter sent to the Bureau of the Budget over the signature of Chairman Martin recommending approval of enrolled bill H.R. 14026, which had been the subject of discussion at today's Board meeting.

In July the Board agreed to publish for comment certain proposed amendments to its regulations to sharpen the technical distinctions between time and savings deposits, but it was understood that a check would first be made with the Federal Deposit Insurance Corporation. That now having been done, action was instituted to transmit to the Federal Register a notice

of proposed rule making. Attached as Item No. 10 is a copy of the notice as submitted. It did not include a proposal to classify Christmas and vacation club accounts as savings deposits in view of an objection expressed by the Corporation.

Secretary

Attachment A
9/19/66

Governor Robertson reported on conversations that he had had over the past few days with the representatives of various agencies that would be concerned with the implementation of bill H.R. 14026, now before the President for signature, providing increased flexibility for establishing ceiling rates on time deposits and savings accounts at commercial banks and other depository institutions. The conversations reported at this meeting included those with representatives of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, with both of which the new legislation required consultation in connection with the changing of maximum permissible rates. Governor Robertson commented on several alternative procedures that had been discussed, noting that he had pointed out that the entire Board would have to consider what action it would wish to take and that he could not speak for the Board until the latter had considered the matter. However, his own view was that the best course would be a simple change that would reduce from 5-1/2 per cent to 5 per cent the maximum permissible rate on all time certificates of deposit of less than $100,000. This would leave the present maximum of 4 per cent applicable to savings accounts and 5-1/2 per cent applicable to time deposits of $100,000 or more. Governor Robertson indicated that he had also discussed the possibility of including a "grandfather" provision whereby presently held deposits could be renewed at the existing rates rather than be made

subject to the reduced rate of 5 per cent for amounts of less than $100,000, but that there was not much disposition to include such a provision, partly because it would be somewhat complex to administer.

Chairman Martin expressed the view that the simpler any change made under the new legislation the better. It appeared probable that the bill would be signed by the President early this week, and it would seem desirable for the Board to be in a position to announce promptly whatever changes it agreed upon under the new bill.

Governors Brimmer and Maisel also reported on conversations that they had had over the week end, all of which seemed to point toward the desirability of a simple reduction from 5-1/2 per cent to 5 per cent in the maximum permissible rate for time deposits of less than $100,000.

In response to a question from Governor Daane, Governor Robertson stated that no views had been expressed in his conversations regarding a figure different than $100,000 as the amount below which deposits would be subject to a reduced rate. In response to an inquiry from Governor Shepardson, Governor Robertson stated that his own approach had been that any changes should apply only to deposits made after the effective date--perhaps October 1, 1966.

Governor Maisel inquired again as to the possibility of including a "grandfather" clause that would permit banks already holding certain deposits to continue to pay the present maximum rate on renewals of such deposits. His feeling was that this might avoid liquidity problems for certain banks which were now paying more than 5 per cent and

which otherwise might be faced with considerable pressure if those deposits were to move elsewhere.

In discussion of this point, the consensus seemed to be that while a provision such as that suggested by Governor Maisel might have logic, it would complicate the administration of the regulation and, further, such a provision was not looked upon with favor by the other agencies concerned.

Chairman Martin suggested that if members of the Board were generally in agreement that a simple change along the lines mentioned by Governor Robertson under which the maximum permissible rate on time deposits of less than $100,000 would be reduced to 5 per cent would be appropriate, it would be desirable to call in other members of the staff and to explore in greater detail the effects of such a change and the kind of announcement that might be issued by the Board in connection with such action, dependent, of course, on the signing of the legislation by the President.

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

Item No. 1
9/19/66

OFFICE OF THE CHAIRMAN

September 19, 1966.

The Honorable Wright Patman,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to your request for a report on S. 3158, as passed by the Senate.

As you know, the Board joined with the Secretary of the Treasury, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the Federal Home Loan Bank Board in recommending enactment of S. 3158 as introduced. We now recommend favorable action on the bill as passed by the Senate.

In exercising its supervisory responsibilities with respect to State member banks, the Board has found that for the most part questionable practices are corrected when brought to the attention of the officers or directors of the bank involved. In the exceptional case where corrective action is not obtained in this fashion, the Board has available two basic enforcement procedures, both of which are too severe and too cumbersome for use in any but the most extreme cases. Under section 9 of the Federal Reserve Act, the Board may terminate a State bank's membership in the System, with a resulting loss of its deposit insurance. Under section 30 of the Banking Act of 1933 the Board may remove an officer or director of a member bank for continuing a violation of law or unsafe or unsound practice after having been warned to stop it (where a national bank is involved, the proceeding must be initiated by the Comptroller, but the Board determines whether the individual should be removed).

The provisions of S. 3158 authorizing cease and desist orders fill two important needs: the need for an intermediate, less drastic means of enforcement than those now available, and the need for a sanction that can be employed promptly in emergency situations. Although the Board has reservations about the Senate amendment limiting suspension and removal orders to cases involving personal dishonesty--an amendment that may prove unduly restrictive--we believe that the benefits to the public and the banking industry to be derived from the new cease and desist procedures outweigh any shortcomings in the suspension and removal procedures.

Accordingly, we recommend prompt and favorable action on the bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
9/19/66

OFFICE OF THE CHAIRMAN

September 19, 1966.

The Honorable Wright Patman,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to your request for the Board's views on H.R. 17703, a bill to strengthen the regulatory and supervisory authority of Federal agencies over insured banks and insured savings and loan associations, and for other purposes. Because of the limited time available to study this bill, our comments will be restricted to the main features in which it differs from S. 3158. We are also commenting only on title II of the bill, inasmuch as we assume title I, dealing with savings and loan associations, will be the subject of comment by the Federal Home Loan Bank Board.

Title II of H.R. 17703 differs from the corresponding title of S. 3158 in four principal respects, one relating to suspension or removal orders and three relating to cease and desist orders. First, H.R. 17703 omits the provisions of S. 3158 relating to suspension or removal of directors, officers, and other persons participating in the management of banks. Insofar as member banks are concerned, it would thus leave in effect the existing provisions of section 30 of the Federal Reserve Act, 1/ which have proved too drastic for use in most cases and too cumbersome to bring about prompt correction. Since the suspension and removal provisions of S. 3158 were amended in the Senate to limit their use to cases involving personal dishonesty, we believe that this authority would be of very limited use; nevertheless, in those rare instances when dishonest individuals might threaten the safety of a bank we believe the much more expeditious provisions of S. 3158 should be available for the protection of the public.

1/ Should have read "section 30 of the Banking Act of 1933."

The differences between the two bills as regards cease and desist orders are of much greater importance, since the authority to issue such orders is, in our judgment, the heart of the bill. H.R. 17703 omits the provisions of S. 3158 authorizing the issuance of temporary cease and desist orders to cope with emergency situations. It also provides for de novo review in Federal district courts of cases in which permanent cease and desist orders are issued, in contrast to S. 3158, which follows the standard pattern specified in the Administrative Procedure Act for review by Federal courts of appeal based on the record made at the administrative proceeding. The third difference as regards cease and desist orders between the two bills relates to State-chartered banks. S. 3158 provides that before the Federal supervisory agency may take action under the bill with respect to such a bank, it must notify the State supervisor and allow an appropriate time for the State supervisor to take action. Failing such action, the Federal agency may then proceed. Under H.R. 17703, however, the only action the Federal agency could take in such a situation would be to bring suit in a Federal district court to settle the question of which agency, if either, should be allowed to proceed. Taken together, these provisions of H.R. 17703 would so delay the taking effect of a cease and desist order as to render such a proceeding useless in emergencies and extremely cumbersome in other situations.

The Board of Governors, therefore, recommends against enactment of H.R. 17703.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 3
9/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1966

Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bankers Trust Company, New York, New York, of a branch on the northwest corner of 88th Street and Fourth Avenue, Brooklyn, New York, 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. 4
9/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1966.

Board of Directors,
Iowa State Bank and Trust Company
of Fairfield, Iowa,
Fairfield, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Iowa State Bank and Trust Company of Fairfield, Iowa, Fairfield, Iowa, of a branch at 311-313 West Burlington Street, Fairfield, Iowa, provided the branch is established within six months 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. 5
9/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1966

Board of Directors,
Charlevoix County State Bank,
Charlevoix, Michigan.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors a letter dated September 7, 1966, signed by President E. D. Hawley, 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 Chicago of the Federal Reserve stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon.

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
9/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1966

AIR MAIL

Mr. Carl J. Thomsen,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Thomsen:

In accordance with the request contained in your letter of September 2, 1966, the Board of Governors approves the appointment of Mr. John N. Ainsworth as a Federal Reserve Agent's Representative at the Houston Branch to succeed Mr. H. A. Yancey.

This approval is given with the understanding that Mr. Ainsworth will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Ainsworth may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Houston Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Ainsworth is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, with the approval of Mr. Ainsworth's appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board together with advice of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
9/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1966

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained in your letter of September 13, 1966, the Board approves the appointment of Robert G. Jenkins as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 8
9/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 21, 1966

Mr. Irwin L. Jennings, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Jennings:

In accordance with the request contained in your letter of September 14, 1966, the Board approves the appointment of Willard A. Bogart as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 9
9/19/66

OFFICE OF THE CHAIRMAN

September 20, 1966.

Mr. Wilfred H. Rommel,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Rommel:

This is in response to your communication of September 16, 1966, requesting the views of the Board on enrolled bill, H.R. 14026, "To provide for the more flexible regulation of maximum rates of interest or dividends payable by banks and certain other financial institutions on deposits or share accounts, to authorize higher reserve requirements on the time deposits at member banks, to authorize open market operations in agency issues by the Federal Reserve banks, and for other purposes."

The Board favors prompt Presidential approval of the bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

FEDERAL RESERVE SYSTEM

Item No. 10
9/19/66

[12 CFR Parts 204, 217]

[Regs. D, Q]

RESERVES OF MEMBER BANKS; PAYMENT OF INTEREST ON DEPOSITS

Notice of Proposed Rule Making

The Board of Governors is considering amending Parts 204 and 217 as follows:

1. Section 204.1(d) and (e) and § 217.1(d) and (e) would be amended to read as follows:

(d) Time deposits, open account.--The term "time deposit, open account" means a deposit, other than a "time certificate of deposit", with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit, [2] or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal. [3]

(e) Savings deposits.--The term "savings deposit" means a deposit--

(1) which consists of funds deposited to the credit of

2/ Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of the period.

3/ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time deposit, open account", within the meaning of the above definition.

one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;[4/] or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) with respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made[5/] and which is not payable on a specified date or at the expiration of a specified time after the date of deposit.

2. Footnote 7 in § 217.2(b)(2) would be redesignated footnote 6; footnote 8 in § 217.3(e) would be redesignated footnote 7.

3. Section 217.5 would be amended to read as follows:

§ 217.5 Withdrawal of savings deposits.

(a) Requirements regarding notice of withdrawal.--Whether or not interest is paid, no member bank shall require notice of withdrawal as to any amount or percentage of the savings deposit of any depositor

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4/ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

5/ The exercise by the bank of its right to require such notice shall not cause the deposit to cease to be a savings deposit.

unless it shall similarly require such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirements as to notice of withdrawal. If a member bank, without requiring notice of withdrawal, pays interest that has accrued on a savings deposit during the preceding interest period, it shall, upon request and without requiring such notice, pay in the same manner interest that has accrued during the preceding interest period on the savings deposits of every other depositor. No member bank shall change its practice with respect to requiring notice of withdrawal of savings deposits for the purpose of discriminating in favor of or against any depositor or depositors, and no such change of practice shall be made except pursuant to duly recorded action of the banks's board of directors or a properly authorized committee thereof.

(b) Loans on security of savings deposits.--If it is not the practice of a member bank to require notice of withdrawal of savings deposits, no restrictions are imposed by this part upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of withdrawal of a savings deposit, such bank may make loans to a depositor upon the security of such deposit, but the rate of interest on such loans shall be not less than 2 per cent per annum in excess of the rate of interest paid on the savings deposit.

3. Subparagraphs (2), (3), and (4) of present § 217.1(e) would be transferred to § 217.5 and become paragraph (c) of that section, with redesignation of such subparagraphs as subparagraphs (1), (2), and

(3) respectively, with conforming changes in cross-references within such subparagraphs, and with redesignation of present footnote 5 as footnote 8.

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The purpose of these amendments is to sharpen the distinction between savings deposits and time deposits in order to facilitate interpretation and administration of the Regulations. The Regulations are not entirely clear whether certificates or other instruments that are payable at a "fixed" maturity (i.e., at a specified date or at the expiration of a specified period after the date of deposit), which meet the definition of a "time certificate of deposit", may nevertheless be classifed as savings deposits.

Also, under the present Regulations, "savings deposits" are defined as deposits of individuals and certain types of non-profit organizations as to which the depositor "is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made." Because this definition includes a deposit of an individual as to which at least 30 days' written notice of withdrawal is <u>required</u> by the deposit contract, an individual is literally precluded from having a "time deposit, open account". The definition of that term includes deposits as to which not less than 30 days' written notice of withdrawal is required, and expressly excludes any deposit that meets the definition of a savings deposit.

The proposed amendments to the Regulations would amend the definition of savings deposit so that--

(1) deposits payable on a specified date or at the expiration of a specified period of time after the date of deposit would be expressly excluded from savings deposits;

(2) deposits as to which notice of withdrawal is required by the contract would be excluded from savings deposits, but the exercise of a bank's reserved right to require such notice would not cause a savings deposit to cease to be such.

Because the definitions of "time deposit, open account" and "savings deposits" would no longer overlap, the exception from the definition of "time deposit, open account" of a "savings deposit" would be eliminated. Because a savings deposit contract could no longer contain a provision requiring the depositor to give notice of withdrawal, the provisions of Regulation Q with respect to the requirements of notice in connection with contracts containing such a provision would also be eliminated. In doing so, the section relating to notice of withdrawal of savings deposits would be editorially revised, and subparagraphs (2), (3), and (4) of the present § 217.1(e), which relate to the manner of payment of savings deposits, would be transferred thereto.

This notice is published pursuant to section 553(b) of title 5, United States Code, and section 1(b) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.1(b)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or

arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C., 20551, to be received not later than October 21, 1966.

Dated at Washington, D. C., this 21st day of September, 1966.

By order of the Board of Governors.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)