

Minutes for March 18, 1957

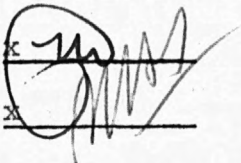
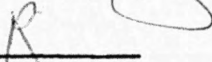
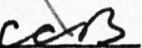

To: Members of the Board

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x 	_____
Gov. Szymczak	x _____	_____
<u>1/</u> Gov. Vardaman	_____	x _____
Gov. Mills	x _____	_____
Gov. Robertson	x 	_____
Gov. Balderston	x 	_____
Gov. Shepardson	_____	x 

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 18, 1957. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Hackley, Associate General Counsel
 Mr. Solomon, Assistant General Counsel
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Masters, Associate Director, Division of Examinations

The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Recommendations in a memorandum from Mr. Marget, Director, Division of International Finance, regarding Federal Reserve representation at the Fifth Meeting of Central Bank Technicians of the Western Hemisphere to be held in Bogota, Colombia, June 3-15, 1957. The recommendation in the memorandum with respect to a representation allowance was approved with the understanding that such expenditures will be reported to the Controller as in other recent cases where such an allowance was approved. 1

Letter to the Federal Reserve Bank of New York regarding foreign travel plans for members of its staff during the year 1957. 2

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Item No.

- Letter to the Federal Reserve Bank of New York authorizing the Bank to waive the assessment of a penalty for deficient reserves incurred by The Bank of Huntington, Huntington, New York. 3
- Telegram to the Federal Reserve Bank of New York approving the opening and maintenance of an account in the name of Centrale Bank van Suriname. 4
- Letter to The First National Bank of Tuscaloosa, Tuscaloosa, Alabama, approving its supplemental application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Atlanta.) 5
- Letter to the Federal Reserve Bank of Chicago approving the request of McHenry State Bank, McHenry, Illinois, for permission to carry its bank building on its books at a figure recommended by its tax consultant. 6
- Letter to the Federal Reserve Bank of Minneapolis regarding the status under Regulation Q of certain instruments of Fidelity State Bank, Minneapolis, Minnesota, designated "capital debentures". 7
- Letter to Alice Bank & Trust Company, Alice, Texas, approving the application for fiduciary powers filed on behalf of Alice National Bank, into which Alice Bank & Trust Company is to be converted. (For transmittal through the Federal Reserve Bank of Dallas.) 8
- Letter to the Federal Reserve Bank of Dallas regarding the registration statement filed by H. Kempner, Galveston, Texas, pursuant to the Bank Holding Company Act of 1956. 9
- Letter to the Comptroller of the Currency requesting his views with respect to the application of Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, to acquire shares of Southgate National Bank of Milwaukee. 10

Application to organize a national bank at Treasure Island,

Florida. The Comptroller of the Currency had requested the recommendation of the Board with respect to an application signed

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by Emerson L. Parker and associates to organize a national bank at Treasure Island, Florida. A report of field investigation made by the Federal Reserve Bank of Atlanta indicated that the proposed capital structure of the bank would be adequate if the investment in fixed assets was held to a reasonable amount, but that the prospects for profitable operations were not very favorable, the general character of the management could not be regarded as satisfactory, and there did not appear to be sufficient need for the bank in the area at this time. Accordingly, there had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency which would state that the Board would not feel justified in recommending approval of the application.

When the file was in circulation to the Board, Governor Mills appended a note suggesting that the language of the proposed letter, particularly with regard to the management factor, might be too harsh. At this meeting he discussed the matter in more detail, stating that from the report of field investigation it appeared that the proposed directors constituted a reasonably satisfactory group for a bank of small size.

Following a discussion based on Governor Mills' comments, Governor Robertson suggested that the application be referred back to the Federal Reserve Bank of Atlanta for further review. He noted

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that the community of Treasure Island, with a population estimated at about 4,500, was without banking facilities and that two competing applications to establish banks in the same area had been filed. In the circumstances, he thought it advisable to clarify questionable factors, including the competitive position of existing banking institutions in nearby locations.

There was unanimous agreement with the procedure suggested by Governor Robertson.

Proposal to amend Regulation T. Reference was made to a memorandum from Mr. Solomon dated March 12, 1957, copies of which had been distributed to the members of the Board, relating to a proposal from the New York Stock Exchange for a technical amendment to section 4(f)(2) of Regulation T, which makes special provision for loans made for capital purposes to a member firm of an exchange by a corporate affiliate of the member firm. Since the New York Stock Exchange now permits corporations to be members, the proposed technical amendment would take account of that fact. It would also permit certain additional types of loans between member firms or member corporations and their corporate affiliates. The proposal had been the subject of informal discussions between the staffs of the Stock Exchange, the Federal Reserve Bank of New York, and the Board, and Mr. Solomon's memorandum recommended favorably. The memorandum suggested, therefore, that the proposed amendment be published in the Federal Register for comments.

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Following a statement by Mr. Solomon concerning the nature of the proposed amendment, unanimous agreement was expressed with the procedure suggested in his memorandum.

Request for report on enrolled bill H.J. Res. 209. This bill, now awaiting the President's signature, would "provide interim assistance, through the Federal National Mortgage Association, in relieving the shortage of funds for home loans". It would convert \$50 million of notes owed by the Association to the Treasury into preferred stock, and therefore would have the effect of increasing the Association's total borrowing power by \$500 million. It would also increase from \$1 billion to \$1,350,000,000 the amount which the Association may borrow from the Treasury, and the authority of the Association to enter into advance commitments on cooperative housing projects would be increased from a total of \$50 million to a total of \$100 million.

The principal features of the bill, namely, those relating to the conversion of borrowings from the Treasury into preferred stock and the increase in authority to borrow from the Treasury, were the subject of a letter from the Board to the Budget Bureau dated December 21, 1956, although the amounts involved at that time were twice the size of those in the present bill. Since the principles applicable to both bills appeared to be similar, Mr. Solomon's memorandum suggested that, if the Board wished to reiterate its position,

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a letter could be sent to the Budget Bureau attaching a copy of the earlier letter and stating that the Board's views continued to be the same.

In response to a question regarding the need for submitting a report on the enrolled bill, in view of the Board's previous letter, Chairman Martin said he believed that the President liked to have the views of the various interested agencies on file when he was considering proposed legislation. In the circumstances, he saw no objection to following the procedure suggested in Mr. Solomon's memorandum.

Accordingly, unanimous approval was given to a letter to the Bureau of the Budget in the form attached to these minutes as Item No. 11.

Testimony on mortgage credit. Reference was made to testimony to be given by Chairman Martin tomorrow before the Subcommittee on Housing of the Senate Banking and Currency Committee and it was stated that a draft of such testimony had been completed by the staff and would be available for distribution to the Board later in the day.

Chairman Martin inquired whether the proposed testimony would be substantially different from the statement made by Mr. Riefler recently before the House Subcommittee on Housing, and Mr. Riefler replied that there had been some rearrangement of the material and that some additional data were included.

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Chairman Martin then suggested that the draft testimony be distributed to the members of the Board as soon as available, with the understanding that if any member of the Board wished to have the statement discussed at a meeting of the Board, he could do so, but that otherwise the testimony would be presented as drafted.

There was unanimous agreement with the procedure suggested by Chairman Martin and it was understood that unless some member of the Board desired to have a meeting called on the matter, the testimony would be presented in a final form satisfactory to Chairman Martin.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Balderston, acting as alternate to Governor Shepardson, today approved on behalf of the Board increases in the basic annual salaries of the following persons, effective on the dates indicated:

March 24, 1957:

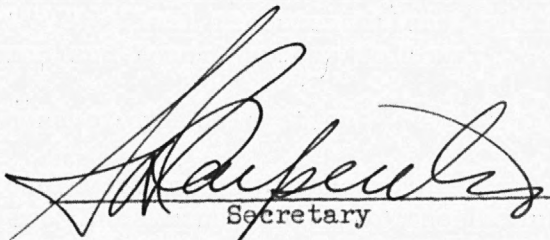
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Office of the Secretary</u>		
Edythe J. Bascom, Records Clerk		\$3,500	\$3,585
Loretta D. Beale, Senior Records Clerk		4,345	4,480
	<u>Examinations</u>		
C. N. Griffin, Supervisory Review Examiner		11,180	11,395
J. Frank Holahan, Supervisory Review Examiner		11,180	11,395
Walter A. Walter, Assistant Federal Reserve Examiner		4,930	5,065

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Salary increases (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
Harry E. Kern, Supervisor, Procurement Section		\$6,115	\$6,250
Donald B. Fitzhugh, Tabulating Planner		4,795	4,930
Ruth E. Ellis, Cafeteria Helper (half-time basis)		1,488	1,525
<u>April 1, 1957:</u>			
Jean Crosby, Secretary	Legal	4,755	4,930


 Secretary

Item No. 1
3/18/57

To: Board of Governors

March 8, 1957

From: Arthur W. Marget

Subject: Meeting in Bogota,
Colombia, and travel connected
therewith

1. On August 10, 1956, Messrs. Thomas and Young and I submitted to the Board a memorandum (a copy is appended hereto) on the composition of the Federal Reserve delegation to the Fifth Meeting of Central Bank Technicians of the Western Hemisphere in Bogota, Colombia, June 3-15, 1957. In a memorandum dated September 4, 1956, Governor Shepardson, acting on behalf of the Board, concurred in principle with the proposals embodied in the memorandum of August 10, 1956, and stated his understanding that "final recommendations for individuals to comprise the delegation will be submitted in the spring." My final recommendations, which are concurred in by Messrs. Thomas and Young, are as follows:

a. I would act as head of the delegation.

b. The "two additional members of the Board's staff" would be Mr. Robert L. Sammons, Chief of the Latin American Section of the Board's Division of International Finance, and Mr. Donald C. Miller, Chief of the Government Finance Section of the Board's Division of Research and Statistics. As stated in the memorandum of August 10, 1956, Mr. Sammons would act as secretary of the delegation.

c. As indicated in Mr. Hayes's letter to the Board, dated March 4, 1957, the members from the Federal Reserve Bank of New York would be Messrs. Peter P. Lang and George Garvy, "and another member of the Research Department."

d. In accordance with the memorandum of August 10, 1956, Mr. George Mitchell, Vice President of the Federal Reserve Bank of Chicago, has been invited to be a member of the delegation, and has accepted.

2. In accordance with the foregoing, travel and per diem allowance for the trip to Bogota and attendance at the sessions there is hereby requested for the three members of the Board's staff who will be in attendance: namely, Messrs. Sammons and Miller, and myself. In addition, the Board's attention is invited to the fact that, in connection with previous meetings of the Central Bank Technicians, the Board has authorized a representation allowance "not to exceed \$500," with the understanding that "the

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furnishing of receipts for expenditures under this authorization will not be required," although "such expenditures are to be reported to the Board's Personnel Committee." It is of course for the Board to decide whether a similar action should be taken in the present instance. I myself would recommend it.

3. For various reasons, visits by members of the Board's Division of International Finance to the central banks of Latin American countries have been much less frequent and extensive than those, say, of the staff of the Federal Reserve Bank of New York. The fact that Mr. Sammons and I shall be going as far as Bogota, in connection with the meetings there, would suggest that an effort be made to extend this trip sufficiently to include visits to the central banks of the countries neighboring Colombia. Specifically, I would recommend that the Board approve additional travel and per diem allowance sufficient to cover the following:

a. To permit Mr. Sammons, after the conclusion of the meetings in Bogota, to proceed to Quito (Ecuador) and Lima (Peru), and to spend approximately one week at each of the two central banks, for the purpose of seeing at close range just how Latin American central banks are organized and operated.

b. To permit me, in advance of the Bogota meetings, to visit the central banks in the following three countries: Bolivia (La Paz), Peru (Lima), and Ecuador (Quito). The purpose of my visit would differ from that of Mr. Sammons's visit in that I should be chiefly concerned with the currency stabilization operations which are being undertaken in all three countries, with the central bank playing a major role in each case. (Bolivia is in the midst of a heroic effort to stop a disastrous hyper-inflation that had reduced the boliviano to a free market rate of over 11,000 to one U. S. dollar; Peru, in contrast, has been holding its currency stable under a program involving standby arrangements with the International Monetary Fund, the U. S. Treasury, and U. S. commercial banks; Ecuador is about to receive a mission, whose organization was instigated by the International Bank, to study and make recommendations on its general financial position.) I believe that, by proper adjustment of the length of my stay in Bogota, I could accomplish the trip within a total of approximately three weeks (apart from the time required for air travel), including attendance of at least one week of the meetings in Bogota.

Board of Governors

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March 8, 1957

My request therefore entails authorization for approximately one week's stay beyond the two weeks I should otherwise have devoted to the Bogota meetings, and the extra travel expense beyond Bogota, to La Paz, Lima, and Quito. The proposed difference in the timing of Mr. Sammons's visits and my own visits to Quito and Lima would have the further advantage that, apart from a one-week overlap in Bogota, the two of us would not be away from the Board at the same time.

(Signed) AWM

Attachment

Item No. 2
3/18/57

March 18, 1957

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, N. Y.

Dear Mr. Hayes:

Your letter of March 4, 1957 regarding foreign travel plans for members of your staff during the current year has been brought to the attention of the Board of Governors. With the possible exception of attendance of Mr. Sedwitz at the session of the Center for Latin American Monetary Studies, the Board has no objection to the plans as approved by your directors.

As indicated in Chairman Martin's letter of February 26, 1957, the Board would prefer to defer any commitment with respect to student attendance at the Center until a procedure for participation by Federal Reserve System personnel can be determined.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 3
3/18/57

March 18, 1957

Mr. J. P. Jensen,
Manager, Accounting Department
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Jensen:

This refers to your letter of March 8, regarding the penalty of \$559.32 incurred by The Bank of Huntington, Huntington, New York, on a deficiency of 8.7 per cent in its required reserves for the semimonthly period ended February 15, 1957.

It is noted that the deficiency resulted from the fact that, through inadvertence, a transfer draft for \$300,000 was made payable to and deposited in the Chemical Corn Exchange Bank, instead of the Federal Reserve Bank of New York; the subject bank's auditor and his assistant, who had the responsibility of maintaining the bank's reserve account, were absent from the bank for about ten days and the error was not discovered; and this is the bank's first deficiency since it became a member in 1941.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in this case.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 4
3/18/57

March 18, 1957

SANFORD - NEW YORK

Your wire March 7. Board approves the opening and maintenance of an account on your books in the name of the Centrale Bank van Suriname, subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments.

It is understood that you will in due course offer participation in this account to other Federal Reserve Banks.

(Signed) S. R. Carpenter

CARPENTER

Item No. 5
3/18/57

March 18, 1957

Board of Directors,
The First National Bank of Tuscaloosa,
Tuscaloosa, Alabama.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Alabama. The exercise of all such powers shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The First National Bank of Tuscaloosa is now authorized to exercise will be forwarded to you in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 6
3/18/57

March 18, 1957

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

Reference is made to your letter of March 5, 1957, submitting the request of the McHenry State Bank, McHenry, Illinois, for permission to carry its bank building on its books at a figure of \$185,493.61.

On June 22, 1954, the Board of Governors approved the investment in bank premises by the McHenry State Bank of an amount not to exceed \$250,000, provided such bank premises are carried as an asset upon the books of the bank at a figure not to exceed \$150,000. The bank's tax consultant, after an analysis of the bank's expenditures, has recommended that the bank premises be carried at \$185,493.61. This does not represent an increase in the proposed cost of the building but gives effect to the amount properly chargeable to expense at the present time.

In view of the circumstances, the Board of Governors interposes no objections to the bank's proposal to carry the bank premises at a figure not to exceed \$185,493.61.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 7
3/18/57

March 18, 1957

Mr. H. G. McConnell, Vice President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. McConnell:

Consideration has been given to the question raised in your letter of January 28, 1957, and earlier letters concerning the status under Regulation Q of certain instruments of Fidelity State Bank, Minneapolis, Minnesota, designated "Capital Debentures" bearing 4 per cent interest.

On the basis of the Board's understanding of all the information that has been submitted, it is the Board's view that the funds received by the bank and evidenced by the instruments in question should be regarded as "deposits" for the purposes of Regulation Q and also Regulation D. In arriving at this view, the Board has noted that the instruments apparently are issued in the regular course of business at the request of any customer and in any amount desired by the customer in much the same way as ordinary deposit instruments are issued. While the instruments have been altered to state that payment of the funds evidenced thereby will be "subject to the approval of the Commissioner of Banks", they nevertheless provide for payment "on demand"; and it is understood that, as a practical matter, the customer will obtain his money on demand because the bank proposes to have an affiliate buy the debentures when they are presented for payment.

In these circumstances, the fact that the instruments recite that they "shall be subordinate and subject to the claims of depositors and may be subordinate and subject to the claims of other creditors", is not sufficient, in the Board's judgment, to alter their essential characteristics as deposit instruments. Accordingly, since the instruments do not conform to the definitions of "savings deposit" or "time deposit" in Regulation Q, the funds evidenced by the instruments must be regarded as "demand deposits". These views seem to accord with those of counsel to your Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 8
3/18/57

March 18, 1957

Board of Directors,
Alice Bank & Trust Company,
Alice, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made by you on behalf of the Alice National Bank, Alice, Texas, the national bank into which the Alice Bank & Trust Company, Alice, Texas, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas. The exercise of all such rights shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

After the conversion of the Alice Bank & Trust Company into the Alice National Bank becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Dallas for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.

Item No. 9
3/18/57

March 18, 1957

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Pondrom:

This refers to your letter to Mr. Sloan of January 25, 1957, transmitting along with other enclosures a registration statement filed by H. Kempner, Galveston, Texas, pursuant to the Bank Holding Company Act of 1956.

It is understood that H. Kempner, a business trust, filed its registration statement on January 22, 1957, notwithstanding that it was required under section 5(a) of the Act and section 3 of Regulation Y to register with the Board not later than January 15, 1957. In this connection, section 8 of the Bank Holding Company Act prescribes penalties for any company ". . . which willfully violates any provision of this Act, or any regulation or order issued by the Board pursuant thereto" In considering whether or not to report this matter pursuant to the Board's letter of December 4, 1956 (FRLS #9310), it is appropriate for your Bank to request from the Registrant a statement in explanation of the delinquent filing. If on the basis of such a statement and all the facts and circumstances you may deem it necessary to investigate, your Bank should determine that the Act and regulation were not "willfully" violated, then it would be the view of the Board that it would be within the exercise of sound discretion for your Bank not to report this matter.

As indicated in your letter and in Mr. Rudy's memorandum, it appears that H. Kempner falls within the definition of a holding company affiliate as that term is defined in section 2(c)(1) of the Banking Act of 1933, as amended, and that it has voted the stock of two national banks without obtaining a voting permit as required by section 5144 of the Revised Statutes and the Board's Regulation P. It is assumed that your Bank will pursue this matter with H. Kempner, pointing out the need for complying with the voting permit requirement, and that you will call attention to the provisions of section 2 of Regulation P with respect to organizations not engaged as a business in holding stock of, or managing or controlling, banks.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Item No. 10
3/18/57

March 18, 1957

BY MESSENGER

The Honorable,
The Comptroller of the Currency,
Washington 25, D. C.

My dear Mr. Comptroller:

In accordance with the provisions of section 3(b) of the Bank Holding Company Act of 1956, you are advised that Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, a bank holding company, has made application to this Board for prior approval by the Board of the acquisition of 2,950 shares of the capital stock of Southgate National Bank of Milwaukee, Milwaukee, Wisconsin. There is enclosed for your information a copy of the application.

It will be appreciated if you will advise the Board in writing of your views and recommendations with respect to this application.

The date of receipt of this letter by your office must be made a part of the Board's records with respect to the application. Therefore, it will be appreciated if the enclosed copy of the letter is signed and returned with the date of receipt indicated thereon.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Enclosure

Item No. 11
3/18/57

March 18, 1957

Mr. Roger W. Jones,
Assistant Director for Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Jones:

This refers to your memorandum of March 15, 1957 requesting a report on the enrolled bill H. J. Res. 209, "To provide interim assistance, through the Federal National Mortgage Association, in relieving the shortage of funds for home loans, and for other purposes."

The bill would convert \$50 million of notes that Federal National Mortgage Association owes to the Treasury into preferred stock. Since FNMA can borrow ten times the amount of its stock, this would have the effect of increasing FNMA's total borrowing power by \$500 million. The bill would also increase the amount which FNMA may borrow from the Treasury from the present maximum of \$1 billion to \$1,350,000,000.

The authority of FNMA to enter into advance commitments on cooperative housing projects would be increased from a total of \$50 million, with not more than \$5 million for any one State, to a total of \$100 million with not more than \$10 million for any one State. The authority of HHPA to increase the size of rehabilitation mortgage that may be insured in high cost areas would be broadened.

The principal features of the bill are those relating to the conversion of \$50 million of FNMA borrowings from the Treasury into preferred stock and the increase in the authority of FNMA to borrow from the Treasury. These were the subject of a report which the Board made to the Bureau of the Budget on a similar proposal on December 21, 1956. The amounts there involved were twice the size of those in the present bill. The present bill also omits a feature which was in the bill commented on in December, namely, a provision allowing FNMA to treat dividends which it pays to the Treasury as being the same as interest for purposes of income taxes. However, the general principles applicable to the December bill and the present bill would seem to be similar.

Mr. Roger W. Jones

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For convenient reference there is attached a copy of the Board's letter of December 21, 1956, mentioned above, and the Board's views with respect to the main features of the present Bill continue to be as indicated in that letter.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

Attachment.