FR 609
Rev. 10/59

Minutes for May 2, 1960

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. Szymczak

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Monday, May 2, 1960. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Marget, Director, Division of International Finance
Mr. Garfield, Adviser, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Robinson, Adviser, Division of Research and Statistics
Miss Burr, Associate Adviser, Division of Research and Statistics
Mr. Williams, Associate Adviser, Division of Research and Statistics
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Hersey, Associate Adviser, Division of International Finance

Messrs. Gehman, Solomon, Eckert, Keir, Kalachek, Fisher, and Trueblood, and Miss Dingle of the Division of Research and Statistics

Messrs. Katz, Irvine, Wood, Gemmill, Maroni, and Anderson of the Division of International Finance

Economic review. The staffs of the Divisions of International Finance and Research and Statistics presented a review of international and domestic conditions and developments. At the conclusion of the staff

review Mr. Garfield reported on the meeting of the Committee on Current Business Developments held in Richmond on April 25 and 26.

Following this presentation all of the members of the staff with the exception of Messrs. Sherman, Thomas, Young, Fauver, Noyes, and Furth withdrew, and Miss Carmichael, Assistant Secretary, and Messrs. Shay, Legislative Counsel, Molony, Assistant to the Board, Hackley, General Counsel, Solomon, Director, Division of Examinations, Johnson, Director, Division of Personnel Administration, Hexter and O'Connell, Assistant General Counsel, Hostrup and Nelson, Assistant Directors, Division of Examinations, and Hooff, Assistant Counsel, entered the room.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on April 28, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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

	Item No.
Letter to The National Shawmut Bank of Boston, Boston, Massachusetts, granting an extension of time, under section 4(a) of the Bank Holding Company Act, to retain shares of the Nevada-Massachusetts Company and the Loyal Protective Life Insurance Company.	1

	Item No.
Letter to the Marine Midland Corporation, Buffalo, New York, granting an extension of time, under section 4(a) of the Bank Holding Company Act, to retain indirect control of shares of the Liberty Building Corporation and Knowlton Brothers, Inc.	2
Letter to the Federal Reserve Bank of St. Louis approving a salary structure adjustment at the head office.	3

Mr. Johnson withdrew from the meeting at this point.

United States Court of Appeals decision in the case of Old Kent Bank and Trust Company v. Martin, et al. On August 1, 1958, a suit for declaratory judgment was filed against the Members of the Board of Governors of the Federal Reserve System by Old Kent Bank and Trust Company, Grand Rapids, Michigan, in the United States District Court for the District of Columbia, challenging, among other things, the statutory authority of the Board to approve or disapprove the operation of branches acquired by a State member bank as a result of a merger and the authority of the Board to consider competitive effects in passing upon the operation of such branches. On April 22, 1959, the District Court granted a motion for summary judgment in favor of the Board and denied a cross-motion for summary judgment filed by plaintiff. On April 30, 1959, an order to this effect was signed and filed.

In a memorandum dated April 29, 1960, from the Legal Division, which was distributed, it was indicated that the United States Court of Appeals for the District of Columbia Circuit on April 28, 1960, had

reversed by a two-to-one vote the District Court's judgment in the Board's favor. The memorandum pointed out that under the Court of Appeals Rules a party against whom a judgment is rendered may file a petition for rehearing within 15 days after rendition of judgment. If the petition is granted, the matter would again be argued before the 3-judge court that originally decided the case. Another form of review of the Court's judgment would be to petition, within 90 days from date of judgment, the United States Supreme Court for a writ of certiorari whereby, if granted, the Supreme Court would review the judgment of the Court of Appeals. A decision as to what action, if any, was to be taken relative to a review of this decision would be made by the United States Solicitor General upon recommendation of the Civil Division, Department of Justice. Presumably that Division's recommendation will be made after consultation with the Board's representatives. A copy of the majority and dissenting opinions were attached to the memorandum.

Mr. Hackley referred to the recent judgment in the Old Kent case and its possible effect on the two cases appearing on the agenda of today's meeting: (1) Request of the Marine Midland Trust Company of Southern New York, Elmira, New York, for approval of the establishment of a branch in Windsor incident to its proposed merger with The Windsor National Bank, Windsor, New York; (2) Request of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, for the approval

of the establishment of 18 branches incident to its proposed merger with Guaranty Bank and Trust Company, Greenville, North Carolina. He expressed the thought that there might be some question regarding the Board's decisions in the pending cases if they were announced immediately after the Court of Appeals had issued a judgment to the effect that the Board of Governors did not have statutory authority to approve branches acquired by merger. In view of this, he raised a question as to the desirability of adding a paragraph referring to the Old Kent decision in the draft letters that would approve the applications of the Marine Midland Trust Company of Southern New York and the Wachovia Bank and Trust Company.

Mr. O'Connell said that, if desired, the Board could defer taking any action at this time on the two pending cases. He indicated, however, that the Legal Division did not feel this procedure would be appropriate. The recent judgment in the Old Kent case would have no effect until a mandate was issued by the Court, he said, and there was nothing in the judgment to prevent the Board from acting on the two pending applications.

In response to a question from Chairman Martin, Mr. Hackley noted that, if a paragraph concerning the Old Kent decision were included in letters to the Marine Midland Trust Company and Wachovia Bank and Trust Company, the public and the newspapers might regard it as giving acquiescence to the Court of Appeals decision. If such a paragraph

were not included, particularly in the case of Wachovia Bank and Trust Company, the public and probably even the Court of Appeals might regard it as a further indication of what Mr. Gesell, attorney for the Old Kent Bank and Trust Company, referred to as the Board's assumption of authority. On balance, Mr. Hackley felt that the paragraph could do no harm and it might be desirable to include it. He said he thought it was a matter of judgment. In the case of Board approval of branches the situation was less difficult than in instances of disapproval.

Mr. Solomon asked whether, if a paragraph referring to the Old Kent case decision were included in letters to the Marine Midland Trust Company and Wachovia Bank and Trust Company, similar paragraphs would be included in all cases involving mergers until the Old Kent case was finally decided.

Mr. Hackley replied that he would contemplate including such a paragraph in all cases. In that event, he thought it would also be desirable to send a brief letter to the Federal Reserve Banks informing them concerning the Board's present policy in handling requests for the establishment of branches in the case of merging banks. He suggested that such a letter might state that any approval or disapproval of branches would be subject to the understanding that the Board's action would have no legal effect if the final decision should be that the Board lacks authority to pass on the establishment of such branches;

and that, if a member bank should acquire branches through a merger without receiving Board approval and subsequently the determination should be in favor of the Board's authority, there would be some question as to the legality of the bank's action.

Mr. Hexter noted that the situation with respect to applications to operate branches acquired by mergers was likely to continue for many months before a final decision in the Old Kent case. He questioned the advisability of adopting the procedure suggested by Mr. Hackley for all cases which might arise during that period. Inclusion of the suggested paragraph might raise doubts as to the Board's position and authority, and, in his view, any benefit derived from such a paragraph would be outweighed by the uncertainty it would create. Mr. Hexter also referred to Mr. Hackley's argument that failure to include the paragraph might give the impression that the Board was disregarding the recent judgment of the United States Court of Appeals. He felt that the inclusion of an "apologetic" paragraph would point up the matter more than its omission. His opinion was that the paragraph should not be included unless the Board had occasion to disapprove branches, if used at all.

Mr. O'Connell said that he agreed with the position taken by Mr. Hackley and would urge consideration of including an explanatory paragraph concerning the recent judgment. He felt it was important to bear in mind that there might be a rehearing of the case. On the other

hand, the United States Solicitor General might not favor a rehearing. Accordingly, the problem being considered might be answered by the action of the Solicitor General.

Mr. Hackley said that he thought it was probably more important to include the paragraph in the Wachovia Bank and Trust Company letter than in later letters since this case was being considered so soon after the Court decision. He reiterated that he had considerable feeling that an explanatory letter should be sent to the Reserve Banks, although he did not think it would be necessary to include the explanatory paragraph in all future cases. He felt that the Board's position would be sufficiently established by that time.

Mr. Solomon thought it might be important to include an explanatory paragraph in the case of the denial of approval of branches, but he doubted whether, in the event of approval, there would be any appreciable reason for including the paragraph.

Governor Balderston raised a question as to the effect of the pending bank merger legislation on the matter being discussed, and Mr. Hackley replied that he did not believe the two matters were strictly related. If the merger bill did become law, the question being considered currently would become moot. If the recent decision in the Old Kent case were suspended, the Board still could not approve mergers. In the event the bank merger bill is passed, the Board would then have authority to pass on a merger itself and could base

its decision on the discontinuance of certain branches if it so desired. On this point, Mr. O'Connell quoted the following excerpt from the majority decision in the United States Court of Appeals: "The Board is not, and does not claim to be, authorized to prevent the merger of the two banks. It should follow, in the absence of clear language to the contrary, that the Board has no authority to prevent the incident of merger which is involved here." If the Board is given authority over mergers, he said, the approval of branches would be incidental to the authority for approving mergers; having in mind the language in the recent decision, the Board could also pass on branches.

Governor Mills said that he agreed completely with Mr. Hexter's position. Until the case is closed he believed that, to use a military term, the Board would be retreating in disorder from a position held in accordance with its own best judgment. He observed that if the Board were to take any other position at the present time, he would feel very uneasy about it. It was his opinion that each of the pending cases should be discussed completely on its merits and then the Board's decision should be reached in the same manner as in other previous cases.

Governor Robertson said that a decision on each of the pending cases would represent one link in a chain. He felt that the Board should not change its present position in any stage of the chain. He

would agree completely with Mr. Hexter that the Board should not change its position simply because one Court had ruled against the Board's authority to pass on branches acquired by merger. The final decision might go the other way. Thus, he would favor holding the Board's present view and sending the letters as written originally to the two banks involved. If at a later date the Board should deny approval for the establishment of branches, he would be inclined to favor including an explanatory paragraph as suggested by Mr. Hackley.

Governor Shepardson and Chairman Martin expressed agreement with the views set forth by Governor Robertson.

Mr. Hooff withdrew from the meeting at this point.

Following the above discussion, the Board then proceeded to consider the two pending requests for the establishment of branches incident to proposed mergers.

Request of Marine Midland Trust Company of Southern New York to establish a branch incident to merger with The Windsor National Bank (Item No. 4). There had been distributed under date of April 15, 1960, a memorandum from the Division of Examinations regarding an application from Marine Midland Trust Company of Southern New York, Elmira, New York, for permission to establish a branch in Windsor, New York, incident to merger with The Windsor National Bank, Windsor, New York. Both the Federal Reserve Bank of New York and the Board's Division of Examinations recommended favorable action on the establishment of

the branch. A draft of letter to Marine Midland Trust Company that would approve establishment of the branch was attached to the memorandum.

Mr. Nelson summarized the memorandum from the Division of Examinations, indicating that the plan of merger provided for the two banks to merge under the charter and title of Marine Midland Trust Company of Southern New York. Under the plan the Marine Midland Trust Company would take over The Windsor National Bank, a small bank in Windsor, with deposits of $1.6 million. He noted that Windsor's population is about 900, that The Windsor National Bank is the only bank in the town, and that the nearest other banks are The First-City National Bank located in Binghamton about 15 wiles west of Windsor, and The Farmers National Bank in Deposit, New York, about 10 miles east. The applicant bank, on the basis of total deposits in Broome County, ranks third with 21.4 per cent of total deposits and 25 per cent of the total banking offices. On the basis of commercial bank deposits, it ranks second with 31.6 per cent of such deposits and 28 per cent of the total commercial banking offices. The Trust Company's chief competitor in the County, The First-City National Bank, holds 43 per cent of the total commercial deposits and 33 per cent of all commercial banking offices. While the applicant is the largest of the 27 commercial banks in the Seventh Banking District with 20.1 per cent of all bank deposits and 27 per cent of all commercial deposits in the district, acquisition of The Windsor National Bank, with its

nominal .6 per cent of total deposits of Broome County and .2 per cent of total deposits of the Seventh District, would result in no material lessening of competition on a local, county, or district basis.

The Board approved unanimously the establishment of the branch in Windsor, New York, by Marine Midland Trust Company of Southern New New York, Elmira, New York, in connection with the proposed merger with The Windsor National Bank, Windsor, New York. A copy of the letter to Marine Midland Trust Company is attached as Item No. 4.

Mr. Rudy, Special Assistant, Legal Division, and Miss Hart, Assistant Counsel, entered the room at this point.

Request of Wachovia Bank and Trust Company to establish branches incident to merger with Guaranty Bank and Trust Company (Item No. 5). There had been distributed a memorandum dated April 22, 1960, from the Division of Examinations concerning a request from Wachovia Bank and Trust Company, Winston-Salem, North Carolina, for approval of the continued operation of the main office and 17 branches of Guaranty Bank and Trust Company, Greenville, North Carolina, as branches of the continuing institution following merger into the applicant bank. Both the Federal Reserve Bank of Richmond and the Board's Division of Examinations recommended approval of the application.

Mr. Nelson summarized the Division of Examinations memorandum, indicating that Wachovia Bank and Trust Company has deposits of $591 million.

Guaranty Bank and Trust Company has deposits of $44 million and operates 17 branches located in 7 counties. Wachovia Bank and Trust Company has no offices in any of the counties in which Guaranty Bank and Trust Company is located. The trade area of Guaranty Bank and Trust Company is comprised of 25 counties in the northeastern section of the State. Nine of Guaranty Bank and Trust Company's 18 offices are situated in small communities with estimated populations of 2,500 or less, and they are the only commercial banking facilities in these communities. In each of the other communities served by Guaranty Bank and Trust Company there is strong competition and only in Greenville, the site of its main office, does that bank maintain a dominant position with regard to deposits. Greenville has a population of about 19,500 and in that city Guaranty Bank and Trust Company has five offices with deposits of about $17 million. There is one other bank in Greenville which operates three offices.

Mr. Nelson indicated that there were several other large branch banking corporations in the State of North Carolina. Wachovia Bank and Trust Company, however, is the largest bank in the State, operating a main office and 51 branches located in 11 cities and one town, covering the western, central, and southeastern areas of the State. Wachovia does not generally serve the northeastern section of the State and has minor southeastern representation. While it operates the largest number of branches in the State, it operates in a considerably lesser

number of locations. The competitive situation is intense throughout the State and Wachovia would appear to have attained and held its pre-eminence as a result of its banking policies rather than saturation of the State with branch offices. There was no evidence that a lessening of competition would result from the proposed merger and establishment of branches; rather, it was indicated that competition and consequently service to customers would be increased.

Governor Mills said that he wished to commend and agree with the recommendation of the Division of Examinations. Acquisition of the branches would mean that Wachovia would move its area of service and competition toward the coastal line into an area where there were two other relatively important and strong branch banking organizations that would provide competition. Also, there were several competing independent banks in that area. Governor Mills said that in giving approval for the establishment of the branches it would seem that the Board should look to the future and the possibility of a trend that would gradually result in the absorption of independent banks by the larger corporations. He noted that, while there was nothing along this line to consider at the present time, the banking history of the State suggested a potential development in this direction.

In response to a query from Governor Balderston as to the difference between the request of Wachovia and that of Old Kent Bank, Mr. Solomon stated that the legal issue relating to the authority of

the Board to approve the continuance of branches acquired by mergers was the same in both cases; otherwise, the situation was quite different. In the Old Kent case, the continuation of branches to be acquired by the merger would result in an overwhelming preponderance of Old Kent banking offices in the area involved. With respect to Wachovia, the branches to be acquired were in an area where that bank did not have any other banking offices. After the merger was completed Wachovia would have acquired no more banking offices than had been operated by the bank it absorbed.

After further discussion, a letter to Wachovia Bank and Trust Company, approving the continuation of 18 branches incident to its proposed merger with Guaranty Bank and Trust Company, was approved unanimously. A copy of the letter to the bank is attached as Item No. 5. Governor Robertson requested that the record show that the action was taken on the basis of the existing law and without any regard to the pending bank merger legislation, and there was no indication of disagreement.

Mr. Nelson then withdrew from the meeting.

Proposed amendment to Regulation Y. Pursuant to Board action on March 2, 1960, there was published in the Federal Register on March 15 notice of a proposed amendment to Regulation Y which, in effect, would provide that notice of receipt of each application under section 3 of the Bank Holding Company Act would be published in the Federal Register;

that 30 days would be allowed for the submission of views by interested persons with respect to such applications; and that applications would be available for inspection with the permission of the Board, the Board expressly reserving the right to refuse inspection of any part of the application, disclosure of which, in the Board's judgment, would not be in accordance with the public interest.

A memorandum dated April 28, 1960, from the Legal Division, which was distributed, along with a revised draft of proposed amendment to Regulation Y, summarized the comments received on the proposed amendment. It noted that no objection had been raised to the proposal for publication of notice of receipt of holding company applications. The principal objection related to the proposed availability of applications for inspection. In the light of the comments received, the memorandum indicated that the principal questions for Board determination were as follows:

1. Should the provision as to inspection of applications be retained or deleted?

The Legal Division was of the opinion that the provision for inspection of applications should be retained in order to enable parties with a legitimate interest to make comments. However, it was recognized that such right of inspection could become a precedent for requests to disclose unpublished information relating to other types of transactions and this would be a departure from the traditional practice of maintaining the confidentiality of information regarding particular institutions. The contemplated procedure would appear to make it necessary for the Board, at the time of publication of notice of each application, to determine what, if any, parts of the application would not be made available for inspection.

2. If the right of inspection is retained, should any provision be added for the protection of confidential information?

The Association of Registered Bank Holding Companies suggested that the Board withhold any information that the applicant might wish to have kept confidential. At the suggestion of the New York Reserve Bank, the following sentence had been included in the revised draft of the proposed amendment to Regulation Y: "In this connection, the Board will consider a written request by the applicant that a specified part or parts of the application not be made available for such inspection."

3. Should the applicant be advised of each request for inspection of the application and of the Board's decision on such request?

This procedure would afford the applicant some measure of protection.

4. Should all comments be submitted through the Federal Reserve Bank?

The Legal Division concurred in a suggestion of the Minneapolis Reserve Bank that the amendment require comments to be submitted in triplicate so that the Board or the Reserve Bank could transmit a copy to the applicant. In this connection, the memorandum indicated that the Board might wish to consider the adoption of a more flexible position that would allow withholding from the applicant comments that the Board found should be withheld in the public interest.

5. In requesting the views of the State bank supervisor or the Comptroller of the Currency, should the Board advise these authorities that the application is submitted to them in confidence and that, except as provided for in the Regulation, there should be no disclosure of the contents of the application?

This suggestion would not affect the language of the amendment. If inspection of the application should be permitted, the Minneapolis Reserve Bank proposed that

such a statement be made in order to guard against disclosure of the contents of an application by the supervisory authorities in a manner contrary to Regulation Y.

Mr. Hackley summarized the Legal Division memorandum. He referred to the provision in the revised draft of the proposed amendment that comments and views on bank holding company applications should be "submitted in triplicate to the Federal Reserve Bank, which will transmit one copy to the Board and one copy to the applicant." Along this line, he suggested that the following be added if the Board should conclude that it would be preferable to provide for withholding from the applicant certain comments:

"(except where the Board concludes that, in the public interest, a part or all of such a communication should not be transmitted to the applicant)".

He indicated that there was some difference of opinion in the Legal Division with respect to including the above provision for withholding certain information from the applicant.

Mr. Hexter indicated that, if the amendment to Regulation Y were adopted in accordance with the revised draft, the Board would be bound to turn over to the applicant any comments received. The Board would have no discretionary authority for withholding any information from the applicant. It was Mr. Hexter's view that a reservation of authority for the Board to withhold portions or all of a communication regarding an application should be included, if any indication were given that comments would be transmitted to the applicant.

In this connection, Chairman Martin observed that inclusion of the following provision, as mentioned by Mr. Hackley, would make it possible to withhold certain information if desired:

> "(except where the Board concludes that, in the public interest, a part or all of such a communication should not be transmitted to the applicant)".

Governor Robertson was of the opinion that there was no need for including any provision regarding transmittal to the applicant of comments or views received by the Board. He saw no reason why an individual should not be in a position to submit his views fully and felt that the views of parties commenting on holding company applications should be protected in the same way as those of applicants with respect to confidential information furnished on their applications.

Mr. Molony observed that he favored publishing in the Federal Register notice of the receipt of holding company applications for the approval of the acquisition of bank shares or assets but, from a public relations viewpoint, he would be troubled if the Board were in a position where it would be necessary to determine in each individual case what information could be released. He said that there were several banking publications that could be presumed to have an interest in every holding company application and he thought it probable that they would wish to see each application that was filed. He thought this would be troublesome and wondered if the problem might not be solved by changing the application form so that all information included on it could be made

available to the general public. He favored some standard procedure that could be followed in each case.

Mr. Hackley said that this was a fundamental question and the problems involved were recognized. In order for a party adversely affected by a holding company application to comment intelligently, Mr. Hackley thought that it would be necessary for that party to have available some of the information on the application. He believed that the holding companies themselves would not object to this procedure, if there was a provision that the Board were in a position to keep confidential some parts of the application. A separate section might be provided on the application in which the applicant could set forth any information that should not be disclosed.

Chairman Martin noted that if the proposed amendment to Regulation Y were changed along the lines suggested, it would probably be necessary to republish the proposed amendment, and Governor King stated that he would not object to this procedure. The latter wondered if it might not be desirable to have a uniform notice of receipt of holding company applications with a certain amount of detailed information from applicants that could be given to anyone. The actual application itself could still remain confidential. Governor King went on to say that he had been troubled about turning over to anyone some of the information contained on applications. He felt that, if interested parties could not comment intelligently on applications after having

general information, it was not the Board's obligation to furnish them with the additional information they desired.

Governor Mills said that, as he analyzed the situation, the proposed action was really a confusing effort to abort the more serious commission of original sin. The original sin was the Board's majority decision to publish in the Federal Register the proposed amendment to Regulation Y. His dissent at that time would still hold and, if he should not be present when the secondary decision was made by the Board, he would wish to be recorded as abstaining from voting.

In response to a query from Chairman Martin, Mr. Hackley expressed the view that there was no reason to take action at this time on the proposed amendment to Regulation Y since the tentative decision procedure was working fairly well.

Chairman Martin then suggested that Governor Mills' comments be noted and that the question of the proposed amendment to Regulation Y be passed over. No indication of disagreement with Chairman Martin's suggestion was heard.

Application of The Marine Corporation for approval of acquisition of voting shares (Items 6 and 7). Pursuant to Board action on April 22, 1960, the Legal Division submitted with a covering memorandum dated April 28, 1960, a draft of a Notice of Tentative Decision stating that the Board proposes to grant The Marine Corporation's application relating to its proposed acquisition of Peoples Trust & Savings Bank,

Green Bay, Wisconsin, together with a draft of an accompanying Tentative Statement, which would be published in the Federal Register in accordance with the procedure adopted by the Board. A draft of a proposed press statement was also attached to the memorandum.

The Board approved unanimously the Notice of Tentative Decision and the Tentative Statement, which are attached as Items 6 and 7. The proposed press statement was also approved.

Application of Regulation U to loans made by a bank acting in a trustee capacity (Item No. 8). Pursuant to discussion at a Board meeting on September 8, 1959, there was referred to the staff for further study a question raised by the Federal Reserve Bank of Atlanta as to whether "purpose" loans made by Trust Company of Georgia in its capacity as trustee of an employees' savings plan were subject to the provisions of Regulation U. The results of that study were presented by the Legal Division in a memorandum dated April 28, 1960, which was distributed to the Board.

The memorandum pointed out that similar policy questions had come up on previous occasions. In 1946, the Board published an interpretation (1946 Federal Reserve Bulletin, page 874) holding that loans made by a bank in its capacity as trustee were subject to the regulation. In 1956, The Chase Manhattan Bank was trustee of an employee retirement plan trust for the American Investment Company when the trustor amended the trust to require the bank to make loans for the purpose of exercising employee stock options when directed to do so by the other trustees.

Chase applied for an interpretation which would permit it to make the loans on an unregulated basis on the ground that it had no discretion in making the loans. After much discussion and reconsideration, the Board reaffirmed its 1946 position. At that time, however, when queried by the Board, a majority of the Federal Reserve Banks were in favor of reversing the 1946 interpretation and permitting banks to make such loans in a trustee capacity, at least where the bank exercised no discretion. On June 6, 1957, Governor Balderston stated before the Subcommittee on Securities of the Senate Banking and Currency Committee that "the Board has . . . expressed the opinion that the Regulation (U) applies to a loan made by a bank in its capacity as trustee."

As noted in the memorandum, the present policy of the Board is that unregulated loans of banks acting in a trustee capacity for the purpose of purchasing or carrying securities registered on a national securities exchange are covered by Regulation U regardless of the presence or absence of discretion in the trustee bank. Arguments for and against this position were presented and commented on in the memorandum.

Reference also was made to a memorandum dated September 2, 1959, prepared by the Legal Division in connection with the request of the Trust Company of Georgia. This memorandum concluded that "the question whether the 1946 interpretation should be modified or withdrawn

(or overruled by amendment) is basically a matter of policy for the Board's determination. However, after careful reconsideration, it is believed that the present position of the Board is sound and is probably preferable." The Legal Division concluded in its memorandum of April 28, 1960, that the question was a close one, but it continued to be of the opinion expressed in the September 1959 memorandum. A draft of a proposed letter to the Federal Reserve Bank of Atlanta that would express this view as the Board's position with respect to the question raised by the Trust Company of Georgia was attached to the Legal Division memorandum.

Governor Mills stated that, after reviewing the matter in the light of the Legal Division's memorandum of April 28, 1960, he had modified the position he had indicated at the meeting on September 8, 1959. He was now in accord with the recommendation of the Legal Division that this type of transaction should be subject to Regulation U and margin requirements. He said, however, that he thought the approach might be somewhat different. In effect, the Board was talking about the equivalent of a nonbank lender. In looking at this type of transaction, a trustee bank was not a bank in the usual sense; it was an agent for the trustor and as such the bank was in the same position as a nonbank lender and should be subject to the same requirements.

The Board then approved unanimously the recommendation of the Legal Division that there be no change in the Board's position that

Regulation U applies to the activities of a bank when it is acting in its capacity as trustee. A copy of the letter sent to the Federal Reserve Bank of Atlanta under date of May 2, 1960, is attached as Item No. 8.

Mr. Hostrup and Miss Hart then withdrew, and Mr. Wood, Senior Economist, Capital Markets Section, Division of Research and Statistics, entered at this point.

Letter to the Bureau of the Budget regarding S. 3282 (Item No. 9). There had been distributed a draft of a letter to the Bureau of the Budget with respect to a proposed report by the Federal Home Loan Bank Board on S. 3282, "to amend section 5 of the Home Owners Loan Act of 1933." The Federal Home Loan Bank Board proposed that it be authorized to provide for the organization, incorporation, and operation of an international savings and loan development corporation, with authority to issue its shares to savings and loan associations, Federal and state-chartered, and to invest its funds to assist or participate in the establishment and development of mutual savings and loan associations in underdeveloped countries.

The draft letter indicated that the Board doubted the wisdom of the proposed amendment for several reasons.

Mr. Noyes said that there appeared to be no problem in connection with the proposed letter. Mr. Furth reported that the Federal Home Loan Bank Board was aware of the Board's position in this matter and

that the Foreign Economic Policy Committee had endorsed the proposal but the National Advisory Council had gone on record as not favoring it.

After a brief discussion, the letter to the Bureau of the Budget was approved unanimously and is attached as Item No. 9.

Messrs. Furth and Wood then withdrew from the meeting.

Authority of the Federal Reserve Banks to purchase United States obligations directly from the Treasury. There had been distributed a memorandum dated April 27, 1960, which Mr. Mayo, Assistant to the Secretary, Treasury Department, had sent to Mr. Young regarding a possible bill that was being considered at the Treasury Department for amending section 14(b) of the Federal Reserve Act to extend the authority of Federal Reserve Banks to purchase United States obligations directly from the Treasury in an amount not to exceed $5 billion outstanding at any one time. The proposal being studied would extend the direct purchase authority indefinitely rather than for a two-year period and would provide for an annual accounting by the Treasury Department as to the use of the authority. Attached to Mr. Mayo's memorandum were drafts of a possible bill and an explanatory letter transmitting the bill to the President of the Senate.

Governor Mills expressed concern as to the language of the proposed letter, pointing out that it appeared to stray from what had been a clear line of thinking that the Board and the Treasury Department

have looked on the device of direct purchasing as a means for taking care of a temporary situation, particularly at tax paying dates. He thought the wording of the letter, by suggesting that the authority be extended on a permanent basis, could be construed to indicate a lack of concern that there would ever be an abuse of the direct borrowing privilege.

Mr. Young stated that Mr. Mayo had called him regarding the memorandum and had emphasized that the proposal did not represent an approved position of the Treasury. The matter was under consideration by the Secretary and Under Secretary of the Treasury but no decision had been reached as to what the Treasury would propose to Congress.

Governor Mills felt that there was no necessity to extend the authority to make direct purchases of Treasury obligations on a permanent basis. He thought it was a good idea for Congress to review the matter periodically.

After a brief discussion, Chairman Martin said he thought Governor Mills had made a point that should be taken into account. He stated reasons why he believed a request for a two-year extension from June 30, 1960, of the existing authority would be appropriate and desirable, and it was understood that he would discuss the matter with Treasury Secretary Anderson.

The meeting then adjourned.

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

Appointment

Norman J. Gharrity as Research Assistant, Division of Research and Statistics, from about June 1 to about September 15, 1960, with basic annual salary at the rate of $5,130, effective the day he assumes his duties.

Salary increases

Name and title	Division	Basic annual salary From	To
Effective May 2, 1960:			
	Administrative Services		
Wesley B. Collins, Senior Mail Clerk (change in title from Mail Clerk)		$4,065	$4,230
Esmond C. Langley, Senior Messenger (change in title from Assistant Head Messenger)		3,825	3,970
Charles R. Norris, Head, Mail and Messenger Services (new position - change in title from Head Messenger)		4,515	4,640
James T. Stewart, Mail Clerk		3,825	3,970
Effective May 29, 1960:			
	Examinations		
William E. Rumbarger, Federal Reserve Examiner (change in title from Assistant Federal Reserve examiner)		6,285	7,030

Permission to work additional period prior to maternity leave

Ann S. Gormus, Clerk-Stenographer, Division of Bank Operations, to work through May 20, 1960, before beginning maternity leave.

Acceptance of resignation

Earl C. Hald, Senior Economist, Division of Research and Statistics, effective May 31, 1960.

On April 29, 1960, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board the following items:

Memorandum dated April 26, 1960, from Mr. Sherman, Secretary of the Board, recommending an increase in the basic annual salary of Vivienne O. Goebel from $4,040 to $4,190, effective May 1, 1960, with a change in title from Minutes Clerk to Secretary in the Secretary's Office, and with a change in status of appointment from temporary to permanent.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 10) approving the appointment of John M. Beducian as assistant examiner.

Secretary

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

Item No. 1
5/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1960

Mr. A. B. Tyler, Vice President,
The National Shawmut Bank of Boston,
40 Water Street,
Boston, Massachusetts.

Dear Mr. Tyler:

This refers to your Bank's application, pursuant to section 4(a) of the Bank Holding Company Act of 1956, for an extension, for one year from May 9, 1960, of the period within which it may retain ownership of 12,601 of the 100,000 outstanding voting shares of the Nevada-Massachusetts Company, and 6,970 of the 100,000 outstanding voting shares of the Loyal Protective Life Insurance Company.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extension to and including May 9, 1961.

Attention is drawn to the fact that, pursuant to sections 4(a) and 4(c)(5) of the Act, by May 9, 1961, the shares of Nevada-Massachusetts Company and Loyal Protective Life Insurance Company, owned or controlled, directly or indirectly, by The National Shawmut Bank of Boston shall not include more than five per cent of the outstanding voting shares of each company, respectively.

It is requested that the Board be advised, through the Federal Reserve Bank of Boston, when control of the shares of each of the aforementioned companies is reduced to the limitation which will become effective on May 9, 1961.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
5/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1960

Mr. Baldwin Maull, President,
Marine Midland Corporation,
Marine Trust Building,
Buffalo 5, New York.

Dear Mr. Maull:

This refers to your Corporation's applications, pursuant to section 4(a) of the Bank Holding Company Act of 1956, for extensions, for one year from May 9, 1960, of the period within which it may retain indirect control of 5,027 shares of Liberty Building Corporation, Buffalo, New York, and 2,500 shares of the common stock of Knowlton Brothers, Inc., Watertown, New York.

In accordance with the provisions of section 4(a) of the Act, the Board has granted the requested extensions to and including May 9, 1961.

Attention is drawn to the fact that, pursuant to sections 4(a) and 4(c)(5) of the Act, by May 9, 1961, the shares of Liberty Building Corporation and Knowlton Brothers, Inc., owned or controlled, directly or indirectly, by your Corporation shall not include more than five per cent of the outstanding voting shares of each company, respectively.

It is requested that the Board be advised, through the Federal Reserve Bank of New York, when control of the shares of each of the aforementioned companies is reduced to the limitation which will become effective on May 9, 1961.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
5/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1960

CONFIDENTIAL (FR)

Mr. Delos C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

In accordance with the request outlined in your letter of April 14, 1960, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the salary structure applicable to the Head Office of the Federal Reserve Bank of St. Louis, effective July 1, 1960:

Grade	Minimum Salary	Maximum Salary
1	$ 2,280	$ 3,060
2	2,580	3,480
3	2,700	3,700
4	2,880	3,900
5	3,180	4,300
6	3,480	4,700
7	3,800	5,100
8	4,200	5,600
9	4,600	6,200
10	5,100	6,900
11	5,700	7,700
12	6,300	8,500
13	7,100	9,500
14	7,900	10,700
15	8,900	12,000
16	9,900	13,300

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than October 1, 1960.

The Board notes that, while no explicit provision was made in the budget to cover increased expenses arising from this change in salary structure, you anticipate total salaries paid for the year 1960 will not exceed the budget estimate.

It is understood that the present employees' salary structures at the Little Rock, Louisville, and Memphis Branches will continue to be applicable to those offices.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
5/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1960

Board of Directors,
Marine Midland Trust Company
of Southern New York,
Elmira, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch on the east side of Main Street, 800 feet north of the intersection of Main and Chapel Streets, Windsor, New York, by the Marine Midland Trust Company of Southern New York, Elmira, New York, in connection with the proposed merger with The Windsor National Bank, Windsor, New York.

This consent is given provided:

a. the merger with The Windsor National Bank, Windsor, New York, is effected substantially in accordance with the plan of merger dated March 16, 1960; and

b. the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
5/2/60

May 2, 1960

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

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond and subject to the circumstances described therein, the Board of Governors of the Federal Reserve System approves the establishment of branches by Wachovia Bank and Trust Company at the locations listed below, following consummation of the proposed merger of your bank and Guaranty Bank and Trust Company, Greenville, North Carolina:

200 West Fifth Street, Greenville, North Carolina;
417 South Evans Street, Greenville, North Carolina;
726 Dickinson Avenue, Greenville, North Carolina;
1100 North Greene Street, Greenville, North Carolina;
1610 Dickinson Avenue, Greenville, North Carolina;
Fifth and Main Streets, Aurora, North Carolina;
312 Main Street, Bayboro, North Carolina;
301 East Main Street, Belhaven, North Carolina;
201 Railroad Street, Bethel, North Carolina;
Front and Liberty Streets, Hamilton, North Carolina;
600 East Main Street, Elizabeth City, North Carolina;
113 South Main Street, Robersonville, North Carolina;
104 Greene Street, Snow Hill, North Carolina;
306 Main Street, Vanceboro, North Carolina;
Railroad and Main Streets, Walstonburg, North Carolina;
103 South Market Street, Washington, North Carolina;
313 Hackney Avenue, Washington, North Carolina; and
122 West Main Street, Williamston, North Carolina.

This approval is given provided:

1. Shares of stock acquired from dissenting stockholders are disposed of within six months from the date of acquisition, and

2. The branches are established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 6
5/2/60

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

NOTICE OF TENTATIVE DECISION ON APPLICATION FOR PRIOR APPROVAL OF ACQUISITION BY A BANK HOLDING COMPANY OF VOTING SHARES OF A BANK

Notice is hereby given that, pursuant to section 3(a) of the Bank Holding Company Act of 1956, The Marine Corporation, Milwaukee, Wisconsin, a bank holding company, has applied for the Board's prior approval of the acquisition of 80 per cent or more of the 5,000 voting shares of Peoples Trust & Savings Bank, Green Bay, Wisconsin. Information relied upon by the Board in making its tentative decision is summarized in the Board's Tentative Statement of this date, which is attached hereto and made a part hereof, and which is available for inspection at the Office of the Board's Secretary, at all Federal Reserve Banks, and at the Office of the Federal Register.

The record in this proceeding to date consists of the application, the Board's letter to the office of the Commissioner of Banks for the State of Wisconsin inviting his views and recommendations on the application, this Notice of Tentative Decision, and the facts set forth in the Board's Tentative Statement.

For the reasons set forth in the Tentative Statement, the Board proposes to grant the application.

Notice is further given that any interested person may, not later than fifteen (15) days after the publication of this notice in the Federal Register, file with the Board in writing any comments upon or objections to the Board's proposed action. Communications should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington 25, D. C.

Following expiration of the said 15-day period, the Board's Tentative Decision will be made final by order to that effect, unless for good cause shown other action is deemed appropriate by the Board.

Dated at Washington, D. C., this 2nd day of May 1960.

By order of the Board of Governors.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 7
5/2/60

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY THE MARINE CORPORATION, MILWAUKEE, WISCONSIN, FOR PRIOR APPROVAL OF ACQUISITION OF VOTING SHARES OF PEOPLES TRUST & SAVINGS BANK, GREEN BAY, WISCONSIN

TENTATIVE STATEMENT

The Marine Corporation, Milwaukee, Wisconsin ("Marine"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of 80 per cent or more of the 5,000 voting shares of Peoples Trust & Savings Bank, Green Bay, Wisconsin ("Peoples").

Views and recommendations of the Commissioner of Banks. - As required by section 3(b) of the Act, the Board forwarded notice of the application to the Commissioner of Banks for the State of Wisconsin. The Commissioner of Banks, however, submitted no views regarding the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and area concerned; and (5) whether or not the effect

of the acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Marine, the smallest of the three bank holding companies in Wisconsin, currently has five subsidiary banks in or near Milwaukee. The largest bank of the group is Marine National Exchange Bank, located in the business center of Milwaukee.

Peoples is located in downtown Green Bay and its primary service area includes the city of Green Bay, and the following adjacent towns: Ashwaubenon, Allouez, Preble, and Howard. The area comprises approximately 25 square miles, is primarily urban in character, and has an estimated population of 65,000. Peoples is the second largest of six banks serving the area and is approximately one-third the size of the largest.

The financial history and condition, prospects, and management of both Marine and Peoples are satisfactory.

Marine's application offers its services in securing management succession for Peoples, and proposes to have Peoples provide several additional banking services, if the application is granted. On the basis of available information, it appears that Peoples is serving the convenience and needs of its area in a satisfactory manner and that acquisition by Marine is not the only solution

to the problem of management succession. These considerations would not therefore have a material effect on the convenience, needs, and welfare of the community and area concerned, but would not be inconsistent with approval of the application.

Peoples is located more than 100 miles from Marine's subsidiary banks and outside of their service area. There are five other banks operating in Peoples' primary service area. With the acquisition of Peoples, Marine would control one of six banking offices (16.7 per cent) and $14,908,000 (16.1 per cent) of the $92,626,000 total deposits of individuals, partnerships, and corporations (IPC) as of December 31, 1959, of all banks operating in that area. Only Marine's largest subsidiary bank holds any IPC deposits from the primary service area of Peoples. These deposits from Peoples' area are only 0.3 per cent of that subsidiary's deposits and are equal in amount to 2.3 per cent of the total IPC deposits of Peoples.

It does not appear that the acquisition proposed would result in an undue concentration of banking resources or produce circumstances which would have an adverse effect on competition. A consideration of all the facts in this case does not indicate that the proposed acquisition would expand the size or extent of banking resources under Marine's control beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Conclusion. - Viewing the relevant facts in the light of the general purposes of the Act and the factors enumerated in section 3(c), it is the judgment of the Board that the proposed acquisition would be consistent with the statutory objectives and the public interest and that the application should be approved.

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

Item No. 8
5/2/60

May 2, 1960

Mr. Harold T. Patterson,
Vice President and General Counsel,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Patterson:

This refers to your letter of August 11, 1959, transmitting a letter from Mr. James M. Sibley, counsel for Trust Company of Georgia, which requests a ruling on whether that bank's activities in connection with the administration of an employees' savings plan are subject to Regulation U.

Under the plan, any regular, full-time employee may participate by authorizing the sponsoring company to deduct a percentage of his salary and wages and transmit the same to the bank as trustee. Voluntary contributions by the company are allocated among the participants. A participant may direct that funds held for him be invested by the trustee in insurance, annuity contracts, Series E Bonds, or in one or more of three specified securities which are listed on a stock exchange. Loans to purchase the stocks may be made to participants from funds of the trust, subject to approval of the administrative committee, which is composed of five participants, and of the trustee. The bank's right to approve is said to be restricted to the mechanics of making the loan, the purpose being to avoid cumbersome procedures.

Loans are secured by the credit balance of the borrowing participants in the savings fund, including stock, but excluding (in practice) insurance and annuity contracts and government securities. Additional stocks may be, but, in practice, have not been pledged as collateral for loans. Loans are not made, under the plan, from bank funds, and participants do not borrow from the bank upon assignment of the participants' accounts in the trust.

Mr. Sibley urges that loans under the plan are not subject to Regulation U because a loan should not be considered as having been made by a bank where the bank acts solely in its capacity of trustee, without exercise of any discretion.

The Board reviewed this question upon at least one other occasion in recent years, and full consideration has again been given to the matter since receipt of the request from Trust Company of Georgia. After considering the arguments on both sides, the Board has reaffirmed its earlier view that, in conformity with the interpretation published at page 874 of the 1946 Federal Reserve Bulletin, Regulation U applies to the activities of a bank when it is acting in its capacity as trustee. Although the bank in that case had at best a limited discretion with respect to loans made by it in its capacity as trustee, the Board concluded that this fact did not affect the application of the regulation to such loans. It is believed that this interpretation controls the situation described in Mr. Sibley's letter, and that loans by Trust Company in its capacity of trustee under the plan would similarly be regulated loans.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
5/2/60

May 2, 1960.

Mr. Phillip S. Hughes,
Assistant Director for Legislative Reference,
Bureau of the Budget,
Executive Office of the President,
Washington 25, D. C.

Dear Mr. Hughes:

This is in reply to your request of April 25 for the views of the Board of Governors on the proposed report by the Federal Home Loan Bank Board on S. 3282, "To amend section 5 of the Home Owners Loan Act of 1933."

The Federal Home Loan Bank Board proposes that it be authorized:

> "to provide for the organization, incorporation, and operation of an international savings and loan development corporation, with authority to issue its shares to savings and loan associations, Federal and state-chartered, and to invest its funds to assist or participate in the establishment and development of mutual savings and loan associations in underdeveloped countries. Express authority to invest in its shares, to the extent permitted by rules and regulations of the Board, could be conferred on Federal savings and loan associations and on savings and loan associations chartered or organized in the District of Columbia, and other savings and loan associations could be permitted to make such investments to the extent of their legal power subject to such rules and regulations. Appropriate provisions could be included to authorize the corporation to borrow and give security and to confer on the corporation and its obligations a tax status similar to that of the Federal Home Loan Banks and their obligations."

The Board of Governors doubts the wisdom of such a course, for several reasons. First, there are now in operation a number of private, quasi-public, and Federal organizations and agencies with flexible authority to extend financial and economic assistance to underdeveloped countries. Operating through entities with broad authority to take

account of particular situations seems preferable to creating a new corporation with an inflexible objective and mode of operation.

Second, savings and loan associations are generally considered to operate most effectively when they operate as local thrift and home financing institutions. Corporate investment, particularly international investment, seems remote from their field of competence.

Third, especially if the proposed corporation is given authority to borrow in the capital market, and the corporation and its obligations receive "a tax status similar to that of the Federal Home Loan Banks and their obligations," the corporation is likely to be regarded generally as a Federal instrumentality. There is no suggestion, however, that the operations of the proposed corporation be subject to the coordination of international economic policy that governs Federal and quasi-public international economic operations.

Fourth, creation of such a corporation with power to borrow in financial markets might permit a limited amount of foreign aid to be financed outside the Federal debt limit. Such gain as this might be thought to represent would probably not outweigh the disadvantages likely to accrue from further complication of Treasury debt management problems.

Fifth, the tendency of Federally sponsored activities of this sort to become actual or contingent liabilities of the Treasury should not be overlooked.

Sixth, many economic arrangements that work well in highly developed countries work poorly in underdeveloped areas. There is little evidence that the savings and loan type of operation can be extended successfully to many areas that might legitimately look to the United States for assistance. The proposed device might, therefore, have a severely limited usefulness. If it seems important to help in establishing organizations of the savings and loan type in particular areas, there is nothing in existing law that would prevent individuals and organizations from providing technical assistance, either privately or through established channels.

For these reasons, the Board of Governors would not favor the proposal under discussion.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
5/2/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 29, 1960

Mr. N. L. Armistead, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Armistead:

In accordance with the request contained in your letter of April 25, 1960, the Board approves the appointment of John M. Beducian as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.