FR 609
Rev. 10/59

Minutes for May 20, 1960

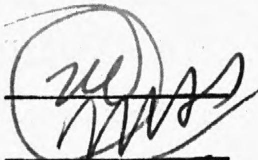
To: Members of the Board

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.

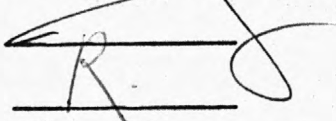
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

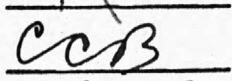
Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only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

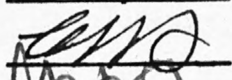
Chm. Martin 

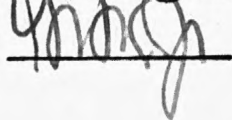
Gov. Szymczak

Gov. Mills

Gov. Robertson 

Gov. Balderston 

Gov. Shepardson 

Gov. King 

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Minutes of the Board of Governors of the Federal Reserve System on Friday, May 20, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Fisher, Economist, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on May 19, 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 Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch at 1008-A Kings Drive, Charlotte.	1

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	Item No.
Letter to the City Bank and Trust Company, Jackson, Michigan, approving the establishment of a branch in Parma.	2
Letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Fort Lauderdale, Florida.	3
Letter to the Presidents of all Federal Reserve Banks supplementing the Board's letter of March 14, 1960, regarding discussions with V-loan guaranteeing agencies on their plans for the decentralization of authority to certify loans in an emergency.	4
Letter to the Federal Reserve Bank of Richmond approving the payment of salary to an officer at the Charlotte Branch at the rate fixed by the Board of Directors.	5

Letter to Bank of the Commonwealth, Detroit, Michigan (Item No. 6). There had been circulated a letter to Bank of the Commonwealth, Detroit, Michigan, that would approve the establishment of a branch in Nankin Township. An accompanying memorandum from the Division of Examinations dated April 25, 1960, indicated that State approval had been received for this application and that approval had been recommended by the Chicago Reserve Bank. However, the Office of the Comptroller of the Currency had called attention to pending applications of Manufacturers National Bank of Detroit and National Bank of Detroit for branches in Nankin Township, at sites 2-3/4 miles and four miles, respectively, from the proposed branch of Bank of the Commonwealth. The application of Manufacturers National Bank had not been acted on and the National Bank of Detroit application was

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being held in abeyance awaiting the outcome of litigation wherein certain local banks were attempting to stop the Comptroller from approving the application of Manufacturers National Bank for a branch in another unincorporated area, Clinton Township. The Michigan statute was said to imply that no branch should be established by an outside bank in a city or village in which a State or national bank or branch thereof was operating. Apparently question had arisen as to whether this prohibition would apply to an unincorporated area such as Nankin Township. The Comptroller's Office seemed to be concerned about the possibility that, should the Board approve the establishment of the branch for Bank of the Commonwealth in Nankin Township, it might preclude Manufacturers National Bank and National Bank of Detroit from establishing their proposed branches in that same unincorporated area.

Governor Robertson commented that there appeared to be no basis for holding up the instant application as suggested by the Comptroller's Office. He noted that there was room for competition in the area involved, and should the Comptroller see fit to approve the applications of Manufacturers National and National Bank of Detroit for branches in Nankin Township, this would be all to the good.

Mr. Nelson said that he had talked with Deputy Comptroller Taylor over the telephone this morning, that the situation had been clarified, and that the Comptroller's Office now wished to announce its approval of the applications of Manufacturers National and National Bank of Detroit

for branches in Nankin Township at the same time that action became known on the branch application by Bank of the Commonwealth.

Unanimous approval was then given to the letter to Bank of the Commonwealth, Detroit, Michigan, approving the establishment of a branch in Nankin Township, with the understanding that Mr. Nelson would inform the Comptroller's Office of the Board's action. A copy of the letter to Bank of the Commonwealth is attached as Item No. 6.

Letter to Bank of America, New York City (Item No. 7). There had been circulated a draft letter to Bank of America, New York City, that would grant consent to the establishment by Banca d'America e d'Italia of a branch in Catania, Italy, and agencies in Bologna, Genoa, Milan, Rome, Sanremo, Trieste, and Turin. This letter was accompanied by a memorandum from the Division of Examinations dated May 11, 1960, indicating that neither the Department of State nor the New York Reserve Bank had any objection to approval of the request and that the Division recommended approval unless the Board preferred to obtain certain information beforehand. This information would relate to (1) the manner in which Bank of America is carrying out its supervision of Banca d'America e d'Italia; (2) how the proposed branch and agencies would fit into the plans of Bank of America to operate Banca d'America e d'Italia as a separate permanent institution; and (3) the volume and nature of business the proposed offices would be expected to develop. If the Board did not wish to request such information in advance of granting its consent to the establishment of

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the branch and agencies involved, it was proposed that Bank of America be requested to supply certain additional information beyond that already received from Mr. Pierotti of Bank of America National Trust and Savings Association in a letter dated August 2, 1956.

Governor Mills said that he concurred with the recommendation of the Division of Examinations as to granting the request by Bank of America, and he felt the request for the additional information referred to was in order. However, he was concerned that the Board was "groping in the dark" regarding the operations of Banca d'America e d'Italia, and that it would be difficult to understand that operation until the results of an examination of the Italian bank were available to the Board. He referred to the discussion that the members of the Board had with Mr. Beise, President of both Bank of America National Trust and Savings Association, San Francisco, and Bank of America, New York, on January 29, 1960, regarding capital adequacy of the parent institution vis-a-vis its total commitments in the domestic and international spheres. That discussion, he said, indicated that Mr. Beise apparently had misunderstood the Board's approval of the acquisition in 1957 by Bank of America of Banca d'America e d'Italia, and that he was proceeding today on the basis of the situation that existed at the end of 1956 which, in Governor Mills' judgment, differed materially from the present situation. Since that time, Bank of America N.T.&S.A. had experienced substantial growth in deposits, loans, and risk assets, while its capital had not increased in relation to these risk assets or

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in relation to the growth in activities abroad. It was Governor Mills' feeling that it would be difficult to apprise Mr. Beise of the Board's position regarding the Bank of America organization until he or another executive officer of that bank visited the Board's offices for further discussion of the subject.

Governor Robertson said that he had much the same feeling that Governor Mills had expressed. He would go along with the proposal for getting the additional information from Bank of America, although he would somewhat prefer to delay approval of the instant application until such information had been received. He was entirely willing to approve the branch and the seven agencies, but before doing so his preference would be to get Bank of America to indicate whether it planned to orient the operations of the Italian bank to international business and to curtail its operations otherwise, or whether it planned to branch out in Italy.

Governor Shepardson said that he was somewhat surprised to learn from the May 11 memorandum that not all of the questions posed by the Board in its letter of July 27, 1956, to Mr. Pierotti of Bank of America National Trust and Savings Association, had been answered. He went on to say that the instant application seemed to depart from the conception the Board had at the time it approved the acquisition of Banca d'America e d'Italia. He could see merit in Governor Robertson's suggestion, provided Bank of America N.T.&S.A. had been approached previously for answers to those of its questions not responded to. On the other hand,

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should there not have been such a follow-up to the July 27, 1956, letter, he thought it would be preferable to send a letter to Bank of America such as the draft attached to the memorandum of May 11.

Governor Robertson commented that Mr. Beise had indicated on January 29 that he was not aware of any plan to curtail the offices or operations of the Italian bank. The merit of his (Governor Robertson's) suggestion would be to force on Mr. Beise's attention the statements made by his own staff concerning the relationship between Bank of America and Banca d'America e d'Italia.

Mr. Goodman observed that probably Mr. Beise thought that he had disposed of the Board's questions during his January 29 meeting with the Board.

Governor Shepardson then said that, if that were the case, his inclination would be to send a letter approving the present application and at the same time to request the information as outlined in the May 11 memorandum.

Governor King said he could see no objection to asking for the information prior to approving the application and he believed this could be done in an inoffensive way. He saw no point in antagonizing Bank of America, however, and he would be entirely willing to send a letter saying that the Board approved the branch and agencies and which also asked for the additional information.

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In response to a request by Governor Robertson for Mr. Solomon's views as to the better procedure, the latter said he doubted there was much basis for choosing. It would seem a little more orderly in the usual case to ask for needed information in advance of approving an application.

Governor Mills said that since there appeared to be no real doubt among the Board members present that the instant application should be approved, he would prefer to give that approval without delay and thus avoid possible needless irritation. He went on to comment on other instances in which complaints had been made regarding delays in processing applications before the Board, and he stressed the importance of avoiding such delays unless there was some real reason why the Board was unable to complete its consideration of the matter. That did not appear to be the case in the present application.

There followed a discussion of the point raised by Governor Mills regarding the time taken in processing applications, at the conclusion of which unanimous approval was given to a letter to Bank of America, New York, granting the Board's consent to the establishment by Banca d'America e d'Italia of a branch in Catania, Italy, and designated agencies and requesting certain information. It was understood that a copy of the letter, which is attached as Item No. 7, would be sent to Bank of America N.T.&S.A.

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At this point, Messrs. Furth, Goodman, and Nelson withdrew, and Messrs. O'Connell, Assistant General Counsel, and Rudy, Special Assistant, Legal Division, entered the meeting.

Letter to the Budget Bureau reporting on H. R. 12153 (Item No. 8). A draft of letter dated May 18, 1960, to the Budget Bureau reporting on H. R. 12153, the proposed "Home Financing Act of 1960", introduced by Congressman Rains, had been distributed.

After comments by Mr. Noyes regarding the draft and several proposed revisions in the language, unanimous approval was given to a letter in the form of attached Item No. 8.

Messrs. Young, Shay, Noyes, and Fisher then withdrew from the meeting.

Interpretation of section 4(a)(2) of the Bank Holding Company Act (Item No. 9). A memorandum dated May 16, 1960, from the Legal Division had been distributed concerning a request by The Marine Corporation, Milwaukee, Wisconsin, a bank holding company, for an interpretation of section 4(a)(2) of the Bank Holding Company Act of 1956. Marine proposed to enter into an agreement with a Wisconsin insurance agency whose ownership and control are completely independent of Marine. Under the agreement, the insurance agency would place an employee in each of Marine's subsidiary banks. These employees would sell all lines of insurance except life (other than credit-life) to customers of the banks and to the banks themselves. Marine's request was for an interpretation as to whether the

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arrangement was permissible under the Bank Holding Company Act. Attached to the Legal Division's memorandum were alternative draft letters to the Chicago Reserve Bank regarding this request. Both drafts noted that the Board heretofore had taken the position that the providing of insurance by a holding company to subsidiary banks does not come within the "servicing" exemption of section 4(a)(2), and, accordingly, if the proposed agreement caused Marine to be "engaged in any business" within the meaning of that section, the arrangement would not be permissible. One draft went on to express the view that the proposed agreement would not cause Marine to be "engaged in any business" within the meaning of section 4(a)(2), and thus would not be prohibited; while the other took the opposite position.

Mr. Hackley stated that, in his opinion, this was an important matter for decision and that it deserved full discussion. Section 4(a)(2) of the Bank Holding Company Act provides that, with certain exceptions, no bank holding company shall "engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares." In this case, Marine proposed to enter into a contract with an insurance agency whose ownership and control were completely independent of Marine; the agency would pay its own expenses and retain a portion of the commissions on policies written by its employees in the banks; and the balance of the commissions would be paid to Marine except those covering insurance for the banks.

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Mr. Hackley went on to say that there was agreement in the Legal Division that this could not be regarded as providing a service to or for the subsidiary banks of the holding company of the type that would be permitted under section 4(a)(2) and 4(c)(1). Thus, the crucial question presented to the Board was whether the proposed contract would cause Marine to be "engaged in any business" within the meaning of section 4(a)(2), and if this was answered in the affirmative, the arrangement would be prohibited by the statute.

There was a difference of opinion in the Legal Division with respect to this question, Mr. Hackley said, with the majority feeling that the contract would not cause Marine to be engaged in a "business" and that, therefore, the transaction would not be prohibited. The minority view was to the contrary. However, the majority position was not strongly held, and in his opinion good reasons could be advanced from the legal standpoint to support an interpretation either to permit or deny Marine's entering into the proposed arrangement.

Mr. Rudy then commented on the matter, summarizing the arguments for the minority view that the proposed activity be considered as engaging in a business contrary to the Bank Holding Company Act as follows: (1) the numerous references to "activities" in the legislative history of the Bank Holding Company Act furnish support for the view that Congress intended the phrase "engage in any business" in section 4(a)(2) to be synonymous with "engage in any activity"; (2) such an interpretation of

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"engage in any business" would be convenient from an administrative standpoint, since a contrary construction of the phrase would require a Board determination in each case of this sort as to whether a particular activity fell within the meaning of the phrase; (3) Marine would derive a profit from these insurance activities; and (4) the proposed activity by Marine should not be considered as a single transaction of entering into a contract with an insurance agency, since the contract would provide for a continuing activity in the furnishing of insurance service to subsidiary banks. On the other hand, Mr. Rudy said, the arguments for the majority view were: (1) when Congress used the term "engage in any business," it adopted the usual meaning of the term which contemplates more than a single transaction or isolated act; and (2) the Bank Holding Company Act is a penal statute and as such a narrow construction should be given to the term "engage in any business" in order to avoid punishment of persons subject to the Act unless they violated provisions clearly within its prohibitions.

Mr. Hackley said that an additional argument for the minority position was that, should the Board sanction the proposed arrangement, such a ruling might encourage evasions of the prohibitions of section 4 of the Act when they would result in income to the holding company.

Mr. Hexter suggested that the basic objective of the prohibitions in section 4(a)(2) of the Act against a bank holding company engaging in "any business other than that of banking or of managing or controlling

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banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares" was to some extent to prevent a holding company from a diffusion of its interests into other fields. More importantly, however, this prohibition was intended to prevent a conflict of interests whereby some business might be denied access to credit from the holding company system, or whereby through ownership by the holding company some business might be unduly benefited through its access to credit. He thought the danger was slight that under the arrangement proposed by Marine there would be any violation of this objective of the law. To the extent there was such danger, it existed in any event since the subsidiary banks of the holding company could no doubt engage in the insurance activity individually.

Mr. O'Connell said that his reservations about adopting the view that a holding company was precluded from entering into a contract such as that proposed by Marine on the ground that this constituted "engaging in a business," related to the added difficulty that such a ruling would cause in determining what sorts of activities a holding company could lawfully engage in. For example, would it follow that a contract between the holding company and a trash collection company would cause the holding company to be "engaged in the business" of collecting trash?

Mr. Solomon remarked that the question of possible evasion of the law did not seem serious in this particular situation since, if the subsidiary banks were to provide the insurance service themselves, the

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activity probably would be permissible under section 4(c)(6) of the Act. However, when the Board grants approval of such an arrangement under section 4(c)(6), it passes judgment on the appropriateness of the activity, whereas in the instant case the question was not the appropriateness of the activity but rather the form of the arrangement. The so-called staff majority view was a simple legal interpretation, not contemplating the use of judgment as to the appropriateness of the specific activity. If that position were adopted, would it also permit an arrangement under which mutual funds were being sold at a desk in the subsidiary bank? Mr. Solomon doubted that the Board would wish to permit a holding company to enter into an arrangement for an activity that might not be desirable and that did not seem to be contemplated under the Bank Holding Company Act.

Governor Mills said that Mr. Solomon had touched on an aspect of the problem that concerned him. As he saw it, the Board should not limit itself to a strictly legalistic determination. Instead, it should proceed to a rule of reason and, in combination with legal analysis, reach a decision. He agreed with the minority position as expressed in the draft letter that would prohibit the holding company from entering into the proposed contractual arrangement. Since the Board had already set up a line of reasoning with respect to the appropriateness and method whereby holding companies and their subsidiary banks may engage in the insurance business, the decision on the request for interpretation under section 4(a)(2) should correspond to the rulings already made to the effect that, where a holding

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company seeks to enter the insurance business for the benefit of its subsidiaries and where national and State banking laws condone such activities, the Board would sanction that type of activity through a subsidiary. He went on to say that, in considering cases of this type in the past, the Board had made an investigation to satisfy itself that the bulk of the insurance business was being done for the subsidiary banks' customers, rather than for the general public. Should the Board approve an arrangement of the type proposed by Marine, it would be difficult for the Board to ascertain the amount of business done for the banks' customers, and it might be approving an insurance business to be conducted on the bank premises for other than the bank customers and outside the direct control of the bank. He agreed with Mr. Solomon that the extension of Marine's activities in this direction under the proposed arrangement might throw the doors open to other bank holding company activities in borderline areas that would present the Board with difficult decisions. Governor Mills said he found it difficult to see how the proposed arrangement would relieve Marine from its responsibility for the conduct of its insurance agents, thus exposing subsidiary banks to liabilities that were less likely to be incurred if the insurance business were conducted by the wholly-owned subsidiaries of Marine.

Governor Robertson said that he strongly favored the position that would indicate that the proposed arrangement would cause Marine to be engaged in a business that was not permissible under the Bank Holding

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Company Act. The other view, which would conclude that the arrangement would not cause the holding company to be engaged in a prohibited business, would open the door to a wide variety of activities that, in Governor Robertson's judgment, were not contemplated under the statute.

Governor King said that he had no difficulty in interpreting the proposed arrangement as causing Marine to be engaged in the business of providing insurance. As he saw it, Marine proposed to enter into a contract with the insurance agency for the purpose of making a profit, not to provide a service to the subsidiary banks. He was satisfied that the proposed arrangement should be denied.

Mr. Hackley suggested, with respect to the point that had been raised by Mr. O'Connell, that if the Board concluded that the proposed contract was prohibited by the statute, the letter conveying this view be reworded to avoid indicating that engaging in any activity necessarily meant that a holding company would be engaging in the business, but that in the case of this particular contract the Board took the view that the holding company would be engaging in the business.

Unanimous approval was then given to a letter to the Federal Reserve Bank of Chicago expressing the view that the proposed transaction by Marine was within the prohibitions of the Bank Holding Company Act, it being understood that the draft letter would be reworded in such a way as not to place the Board on record as stating that any kind of activity

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of this nature would necessarily be regarded as a violation of the Act.

A copy of the letter is attached as Item No. 9.

The meeting then adjourned.

Secretary's Note: On the dates indicated, Governor Shepardson approved on behalf of the Board the following items:

On May 19, 1960:

Memorandum from Mr. Sherman, Secretary of the Board, recommending the appointment of Nancy H. McCaslin as Indexing and Reference Assistant in the Office of the Secretary, with basic annual salary at the rate of $4,940, effective the date she assumes her duties.

Memorandum from Miss Hart, Assistant Counsel, Legal Division, requesting permission to engage, on occasional evenings and weekends, in consulting work with a local law firm on tax aspects of matters handled by the firm, with compensation on an hourly basis.

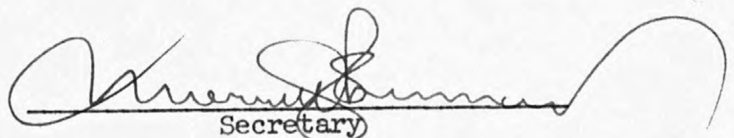
On May 20, 1960:

Memoranda from appropriate individuals concerned recommending transfers of the following persons on the Board's staff:

Jane C. Charuhas, from the position of Records Clerk in the Office of the Secretary to the position of Utility Clerk in the Division of Administrative Services, with an increase in her basic annual salary from $3,945 to $4,040, effective May 29, 1960.

Patricia L. Gannon, from the position of Secretary in the Division of International Finance to the position of Secretary in the Division of Administrative Services, with no change in her basic annual salary at the rate of $4,790, effective May 23, 1960.

Letter to the Federal Reserve Bank of Boston (attached Item No. 10) approving the appointment of Whitfield Painter, Jr., as assistant examiner.



Secretary

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

Item No. 1
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 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, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, at 1008-A Kings Drive, Charlotte, North Carolina, provided 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.

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

Item No. 2
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960

Board of Directors,
City Bank and Trust Company,
Jackson, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 125 W. Main Street, Parma, Michigan, by City Bank and Trust Company, provided 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.

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

Item No. 3
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated February 1, 1960, submitting copies of an application to organize a national bank in Fort Lauderdale, Florida, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure of the bank may be somewhat low. However, the proponents indicated that additional capital would be provided if required by your office. The prospects for profitable operations of the bank were reasonably favorable. According to the information available, there is some question as to the ability of the proposed management to operate the bank satisfactorily and it appears that the area is presently being satisfactorily served by other banks in Fort Lauderdale and its environs. Accordingly, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 4
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960.

Dear Sir:

This letter supplements the Board's letter of March 14, 1960, regarding discussions with V-loan guaranteeing agencies on their plans for the decentralization of authority to certify loans in an emergency.

All guaranteeing agencies agree with the position of the Conference of Presidents that Federal Reserve Banks should not issue V-loan guarantees in an emergency without reference to the guaranteeing agencies.

As to the need and status of planning for decentralization of authority, the following is reported:

1. For a limited war situation such as the Korean conflict, none of the agencies contemplate advance decentralization of authority. If such need should arise, it is felt that delegations could be made expeditiously.

2. For a general war situation with a nuclear attack on the United States:

   a. The Department of Defense believes that decentralization of authority will be necessary. The contract financing offices of the military departments will be moved to relocation sites where there would be continuity of performance of V-loan functions.

   b. The Atomic Energy Commission has already established designated positions which constitute an authorized succession of command in the event of a disaster. It has also provided for a complete decentralization of authority including authority to certify V-loan guarantees to the managers of all Atomic Energy Commission Operations Offices and those in line of succession to those Offices. An immediate need for V-loan financing is considered probable.

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c. The Department of Agriculture has emergency plans which provide for the decentralization of authority including authority to certify V-loan guarantees to its regional representatives at the OCDM Regional Headquarters and to the officers in charge at the Department's State and County offices. An immediate need for V-loan financing is anticipated.

d. The Department of Interior expects to decentralize authority for certification of V-loan guarantees only in the event the postattack situation requires it. An immediate need is not anticipated.

e. The Department of Commerce tentatively plans to delegate certifying authority preattack to its Regional Emergency Planning Coordinators with authority in such officials to redelegate postattack to Production Coordinators. An immediate need for V-loan financing is anticipated.

f. General Services Administration feels that decentralization of authority may be necessary but it is not yet prepared to say what its plans for decentralization may be.

g. National Aeronautics & Space Administration has not participated in the discussions but has been kept informed of them.

It is concluded that the Banks should anticipate:

1. The preattack decentralization of authority by Atomic Energy Commission, the Department of Agriculture, and the Department of Commerce.

2. The postattack decentralization of authority by the three military Departments and General Services Administration as circumstances require.

3. The postattack decentralization of authority by the Department of Interior if a situation not now contemplated should make this desirable.

All agencies which have expressed a preference, with the exception of the Department of the Army, have indicated that they would prefer to delegate authority at the regional level to their representatives at the OCDM Regional Offices or, as in the case of Atomic Energy Commission, to the managers of its Operations Offices. The Department of the Army

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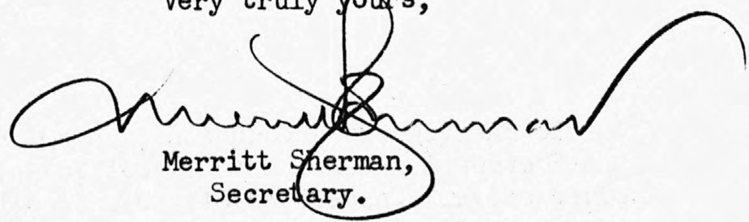
prefers to assign a representative with certifying authority to Federal Reserve Banks, while neither the Navy nor Air Force has expressed a preference.

The guaranteeing agencies have agreed to keep the Board advised of further developments in their plans. This information will be relayed to the Banks when it is received.

It is suggested that the Banks may wish to consider what documentary or other evidence they would require to verify the extent of authority and identity of individuals or of incumbents of designated positions having certification authority. The Board will advise the guaranteeing agencies of such requirements so that they may be incorporated in the agencies' plans.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 5
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960

CONFIDENTIAL (FR)

Mr. Alonzo G. Decker,
Chairman of the Board,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Richmond, assigned to the Charlotte Branch, for the period June 1 through December 31, 1960, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of May 12, 1960:

Name	Title	Annual Salary
Robert R. Fentress	Assistant Cashier	$12,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 6
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

May 20, 1960

Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 29450 W. Warren Avenue, Nankin Township, Wayne County, Michigan, by Bank of the Commonwealth, provided the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
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WASHINGTON 25, D. C.

Item No. 7
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

May 20, 1960

Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Coughran:

In response to the request contained in your letter of April 12, 1960, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the establishment by Banca d'America e d'Italia, Milan, Italy, of a branch in Catania, Italy and seven agencies to be located in the following cities:

1. Bologna - Zona Arienti-Castiglione-Rialto
2. Genoa - Sampierdarena
3. Milan - Piazza Missori/Piazza Diaz
4. Rome - Piazza Bologna (Piazza Pontida and vicinity)
5. Sanremo - Sanremo Flower Market
6. Trieste - Via Belpoggio-corner Via Grumula
7. Turin - Via di Nanni

This consent is granted subject to the conditions contained in the Board's letter of September 12, 1957, granting consent to the purchase of shares of Banca d'America e d'Italia.

Unless the branch and agencies are actually established and opened for business on or before June 1, 1961, all rights granted hereby will be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch and agencies are established and opened for business, furnishing information as to their exact locations. The locations may not be changed after establishment without the prior approval of the Board of Governors.

In the Board's letter of July 27, 1956, addressed to Mr. Roland Pierotti, Assistant to the President, Bank of America NT&SA,

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in response to his letter of July 23, 1956, requesting on behalf of Bank of America approval in principle of the purchase of BAI, certain information was requested. In his reply of August 2, 1956, Mr. Pierotti commented regarding two of the questions, as follows:

"5. <u>What would be the nature of Bank of America's supervision of BAI? Would investment and credit operations of BAI be supervised in same manner as branches of Bank of America? Would the controller of Bank of America periodically examine the head office and branches of BAI?</u>

"It is intended to implement, within the corporate structure of BAI, substantially the same investment and credit policies as are applicable to the branches of Bank of America, as far as practicable and consistent with Italian laws and regulations. It is further contemplated to develop appropriate methods to supervise investment and credit operations in accordance with such policies. The same would apply to periodic examinations of the head office and branches of BAI by the controller of Bank of America.

"6. <u>Would Bank of America plan to operate BAI as a separate institution permanently, or ultimately to establish Bank of America's own branches in the Italian cities now served by BAI?</u>

"Bank of America would plan to operate BAI as a separate institution permanently. However, it is conceivable that the number of offices of BAI would be reduced so as to concentrate business in the major branches which also handle most of the bank's international business, as this type of business is the major consideration for the contemplated acquisition.

"In this connection, it may be of interest to you that the Milan head office and the five principal branches at Genoa, Milan, Naples, Rome, and Turin represent about 75% of total deposits which is an indication of their relative importance."

With respect to question 5, it would be appreciated if you would advise the Board as to the extent you have been able to carry out your expectations and the current practices followed.

With regard to question 6, what consideration is being given currently to reducing the number of offices of BAI and concentrating business in the major branches "which also handle most of the bank's international business, as this type business is the major consideration for the contemplated acquisition."? How do the eight new offices proposed fit into your over-all program for BAI?

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It would also be appreciated if you would advise the Board as to the volume and nature of business the proposed agencies and the branch in Catania may be expected to develop.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
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WASHINGTON 25, D. C.

Item No. 8
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960.

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

Dear Mr. Hughes:

The Bureau of the Budget has asked for the Board's views on H.R. 12153, the proposed "Home Financing Act of 1960." This 61-paged draft bill contains five titles: FHA insurance programs, expansion of Federal National Mortgage Association support operations, secondary market for conventional mortgages, FHA insurance for site preparation and development, and department of housing and urban affairs.

In view of the numerous changes in provisions concerning FHA insurance programs authorized in the Housing Act of 1959, the Board believes that it would be preferable to observe the effect of these measures before determining whether additional legislation, such as proposed in Title I of H.R. 12153, might be needed. To cite only one example, minimum statutory downpayment requirements on homes with Sec. 203 (b) FHA-insured mortgages were reduced not only in 1959 but also in 1958 and 1957. The reductions authorized in the Housing Act of 1959 were administratively implemented only last month. Title I of H.R. 12153, however, would go still further by eliminating the present 3 per cent statutory minimum downpayment on homes valued at $13,500 or less, and by sharply cutting downpayments on higher priced homes. Thus the statutory minimum downpayment on a $14,000 home would be reduced to $50 from the present level of $455, and on a $20,000 home it would be reduced to $650 from the present level of $1,455. Related provisions would extend the present 30-year maximum maturity on these FHA-insured mortgages generally to 35 years and to 40 years in certain cases, and would further increase the maximum permissible loan amount on a 1-family house to $25,000 from the present $22,500. The Board feels strongly that these proposed changes are unwarranted, particularly at a time when measures are needed to stimulate more saving rather than additional borrowing in a sector where credit growth has already been spectacular.

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Title II of H.R. 12153 would expand FNMA operations in an effort to "help assure the even and adequate flow of mortgage credit for Government-insured and guaranteed loans so vital to a healthy and expanding home construction and real estate industry." Under its secondary market operations, FNMA would be authorized to make 90 per cent one-year loans against Federally underwritten mortgages as collateral and at interest rates "consistent with general loan policies established from time to time by the Association's board of directors..." The aggregate amount of such loans outstanding at any one time could not exceed 10 per cent of FNMA's total secondary market borrowing authority, which would be increased to 15 times its capital, surplus, reserves, and undistributed earnings from the present limit of 10 times.

Certain other provisions of Title II, however, would tend to restrict the range of FNMA's discretionary operations by requiring FNMA, with few exceptions, to buy any mortgage offered to it under its secondary market program; by reducing the maximum capital contribution paid by mortgage sellers and by limiting certain other fees and charges; and by requiring FNMA to buy mortgages at par under its special assistance functions. Still other provisions would call for an unspecified increase in FNMA's special assistance commitment and purchase authority, and for new special assistance authority, of an unspecified amount, to acquire FHA-insured loans on nursing homes.

If the aim of Title II is to "help assure the even and adequate flow of mortgage credit" on Federally underwritten loans, the Board believes that removal of interest rate ceilings on these loans would be a preferable approach. Moreover, it seems difficult to reconcile certain provisions of Title II which seek to expand FNMA operations with others, mentioned in the first sentence of the preceding paragraph, which restrict the freedom of discretion desirable to maintaining a basic secondary mortgage market facility.

Title III of H.R. 12153 would create the Home Mortgage Corporation under the direction of the Federal Home Loan Bank Board. According to the wording of the draft bill, "The Board shall provide for the issuance of nonvoting capital stock of the Corporation in shares of $100 par value each. Upon the call of the Board, from time to time, the Federal Home Loan Banks shall subscribe to such stock in an aggregate amount not exceeding $100 million.....In addition to the capital stock to be issued to the Federal Home Loan Banks, each member of a Federal Home Loan Bank shall be eligible to participate in the activities of the Corporation, and each such participant shall purchase an amount of the capital stock of the Corporation equivalent to two percent of the face amount of home mortgages which it may sell to the Corporation..."

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Although the language of the draft bill is somewhat ambiguous, it appears that the intention is to grant tax exempt status to the Home Mortgage Corporation and its obligations while preserving the nonexemption provisions of the Public Debt Act of 1941 applicable to the United States or any agency or instrumentality thereof, except the agencies and instrumentalities enumerated in the Act and the Corporation. If so, the Home Mortgage Corporation would have the authority to issue tax-exempt obligations in amounts not exceeding ten times the sum of its capital, surplus, and reserves. These obligations would be legal investments for Federally chartered savings and loan associations. The Corporation would be authorized to "buy or sell and otherwise deal in its discretion with home mortgages issued by any member of a Federal Home Loan Bank on residential property containing not more than four family units, and secured by a first lien on such property..."

The Board is particularly concerned by the provisions of Title III which would apparently permit a substantial increase in the outstanding amount of tax-exempt obligations. The exemption of any large volume of new obligations, as the bill contemplates, "both as to principal and interest, from all taxation (except estate, inheritance, and gift taxes) now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority," would complicate fiscal and debt management problems.

Apart from the problems of debt management and fiscal policy and the complex issues related to the propriety of tax exemption of preferred classes of fixed interest obligations, the Board questions that the Federal Government should add to the substantial subsidies already present in the field of home financing by extending any special benefits to a central mortgage facility of this kind, which would be accessible solely to members of a Federal Home Loan Bank.

Moreover, the Board believes that the creation of another Federal secondary mortgage facility, authorized to "buy or sell and otherwise deal" in both Federally underwritten and conventional mortgage loans, might needlessly duplicate certain functions presently performed by the Federal National Mortgage Association. In addition, serious problems might arise in the event the Corporation attempted to sell or otherwise dispose of its holdings of conventional loans which, unlike Federally underwritten mortgages, are not based on properties subject to Federally specified minimum property standards and are, of course, not backed by any Federal insurance or guaranty feature providing for their ultimate liquidity.

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Title IV of H.R. 12153 would set up a new program of FHA mortgage insurance on development loans for "the installations and improvements necessary to convert raw land in an urban or suburban community into building sites suitable for the construction thereof of structures designed primarily for residential use..." The Board continues to believe that the Federal Government should not assume the responsibility for underwriting possible losses on operations of this nature which generally involve a much greater element of risk and, on occasion, much larger profits, than are related to the financing of completed residential developments.

In the limited time available, the Board has not had an opportunity to examine all the detailed provisions of the draft bill and it may be that after further study the Board may wish to make further comments.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
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WASHINGTON 25, D. C.

Item No. 9
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Allen:

This refers to Mr. Paul C. Hodge's letter of March 22, 1960, submitting a request of The Marine Corporation, a bank holding company, for an interpretation of section 4(a)(2) of the Bank Holding Company Act of 1956.

The Board has given consideration to the facts as presented by counsel for The Marine Corporation in his letter of March 18, 1960, to Mr. Hodge. The following are the material facts. Marine proposes to enter into an agreement with a Wisconsin insurance agency whose ownership and control are completely independent of Marine. Under the agreement the insurance agency would place an employee in each of Marine's subsidiary banks. These employees would sell all lines of insurance except life, other than credit life, to customers of the banks and to the banks themselves. The agency will pay its own expenses and, in addition, retain a portion of the commissions on policies written by its employees in the banks. The balance of the commissions will be paid to Marine except those covering insurance for the banks.

Section 4(a)(2) of the Act provides that no bank holding company shall "engage in any business" other than that of banking or of managing or controlling banks or of furnishing services to or performing services for its subsidiary banks. Consequently, the first question to be determined here is whether the proposed agreement between Marine and the insurance agency would cause Marine to be "engaged in any business" within the meaning of the statute. Although the execution of that agreement by Marine would constitute a single act, it would nevertheless result in a continuing arrangement under which insurance would be provided by employees of the insurance agency on the premises of subsidiary banks for customers of such banks and

for the banks themselves and under which Marine would regularly receive a portion of the commissions covering insurance written for customers of the banks. It is the view of the Board that such an arrangement would cause Marine to be "engaged" in the "business" of providing insurance for its subsidiary banks and their customers.

The arrangement would obviously not cause Marine to be engaged in the business of banking or of managing or controlling banks. Moreover, consistent with the position heretofore taken by the Board that furnishing of insurance may not be regarded as the providing of "services" within the meaning of the Act (1958 Federal Reserve Bulletin, page 1280), the Board is of the view that the agreement would not cause Marine to be engaged in the business of "furnishing services to or performing services for" its subsidiary banks within the meaning of section 4(a)(2) of the Act.

For the reasons indicated, it is the Board's conclusion that the proposed agreement would cause Marine to be engaged in a business not permissible under the law and that therefore it would fall within the prohibitions of section 4(a)(2) of the Act.

It will be appreciated if you will transmit the substance of this letter to Mr. Richard H. Norris, III, counsel for The Marine Corporation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
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Item No. 10
5/20/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 20, 1960

Mr. William R. King,
Assistant Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. King:

In accordance with the request contained in your letter of May 16, 1960, the Board approves the appointment of Whitfield Painter, Jr., as an assistant examiner for the Federal Reserve Bank of Boston. Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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