FR 609
Rev. 10/59

Minutes for May 25, 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 Wednesday, May 25, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Furth, Associate Adviser, Division of International Finance
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Fisher, Economist, Division of Research and Statistics
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on May 24, 1960, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 Federal Reserve Bank of Boston regarding the reporting of apparent violations of section 709 of the United States Criminal Code.	1

	Item No.
Letter to The State Bank and Trust Company, Defiance, Ohio, approving the establishment of an in-town branch and an investment in bank premises.	2
Letter to the Federal Reserve Bank of San Francisco expressing the opinion that operations which Wells Fargo Bank American Trust Company, San Francisco, California, proposes to conduct at 50-60 First Street, San Francisco, would not constitute the establishment of a branch requiring approval of the Board of Governors.	3
Letter to the Bank of Commerce, Milton-Freewater, Oregon, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	4
Telegram to the Federal Reserve Bank of New York authorizing it to open accounts for the Inter-American Development Bank.	5

Mr. Furth then withdrew from the meeting.

Application of California Bank to establish a branch. There had been circulated a letter to the California Bank, Los Angeles, California, disapproving its application to establish a branch in the City of Industry, California, in accordance with the recommendation of the Division of Examinations. The Federal Reserve Bank of San Francisco had recommended approval of the application.

Mr. Solomon said that the proposed office was to be located approximately 20 miles southeast of the applicant's head office in the incorporated industrial area known as City of Industry, population 800. No further residential construction is permitted within the city limits but considerable land is available for industrial expansion. A 53-acre tract of land is to be developed as livestock yards, and a marketing

center is to be established, to be owned and operated by the Los Angeles Livestock Marketing Company. However, this company is still in the process of organization and no definite date has been given for the commencement of its operations. So far as the proposed branch bank was concerned, the company had extended to the applicant an exclusive claim to establish branch facilities in the yards. Although the nearest office of the applicant is located 2-1/2 miles northwest of the proposed yards, competition would be provided by a branch of Bank of America National Trust and Savings Association now established near that location and by an office of Citizens National Bank, the latter being approximately 1/5 of a mile from the site of the proposed branch. There would be a fair indication of need for another banking office if the stockyards were established. Should the yards not be established, the applicant proposed to withdraw its application. Mr. Solomon went on to say that the recommendation for disapproval by the Division of Examinations was in accord with the usual policy of the Board in such cases where the application seemed premature. He noted that the draft letter to California Bank indicated the Board would be willing to consider another application when more definite assurance could be given that the branch would be established promptly.

It appearing that the Board was inclined to disapprove the application, it was understood that, pursuant to the usual procedure in such cases, the San Francisco Reserve Bank be given an opportunity to comment further on the application before the Board acted upon it.

At this point Mr. Noyes, Director, Division of Research and Statistics, joined the meeting.

Report on S. 3541 (Item No. 6). There had been distributed a memorandum dated May 24, 1960, from Mr. Noyes attaching for the Board's consideration a draft letter to Senator Robertson, Chairman of the Senate Banking and Currency Committee, reporting on S. 3541, a bill "To provide additional financial facilities in the Federal National Mortgage Association...and for other purposes," introduced by Senator Sparkman, it being noted that Mr. Rains had introduced an identical bill in the House.

Mr. Noyes said that, according to a statement made by Senator Sparkman on the floor of the Senate, S. 3541 was introduced "in order to promote study" and so "serve as a basis from which a satisfactory central mortgage program may be evolved." He noted that the proposed reply to Senator Robertson would question the desirability of the changes proposed in Title I of the bill relating to short-term warehousing-type loans, since that could lead to ultimate recourse to the United States Treasury. The draft reply would also question the desirability of establishing Federal mortgage investment companies as proposed in Title II, in part because the provision would appear to discourage a conservative dividend and reserve policy by such companies.

There was general agreement with the form of the proposed letter to Senator Robertson. However, Governor Mills thought that it would be

well to include in the letter a reference to the fact that the proposed bill would create a new group of Federal financial intermediaries, raising the whole unresolved question of the impact of existing financial intermediaries as they relate to the conduct of monetary policy. Consequently, he thought it desirable to state in the letter that the Board favored delaying the establishment of such new organizations until the larger problem was resolved.

There being agreement with Governor Mills' suggestion, the letter was approved in the form of attached Item No. 6.

Request of Eastern Trust and Banking Company for prior approval to acquire voting shares. Two memoranda from the Division of Examinations dated May 12, 1960, and a memorandum from the Legal Division dated May 20, 1960, had been distributed regarding the request of Eastern Trust and Banking Company, Bangor, Maine, for prior approval, pursuant to section 3(a)(2) of the Bank Holding Company Act for the acquisition of 1,020 to 1,400 of the 2,000 outstanding voting shares of Guilford Trust Company, Guilford, Maine.

Mr. Solomon said that the recommendation of the Division of Examinations and the Legal Division was that this request be approved and that a Notice of Tentative Decision granting the application be issued. This recommendation was based upon the fact that the case was quite similar to others previously approved by the Board in that a bank holding company would be acquiring a bank outside its immediate area but not achieving monopoly power and not appreciably affecting the competitive

picture one way or another. He cited, in this connection, recent Board approval of similar applications by The First Virginia Corporation to acquire The Purcellville National Bank; of New Hampshire Bankshares to acquire control of The Peoples National Bank of Claremont; and of the application by The Marine Corporation to acquire control of Peoples Trust and Savings Bank, Green Bay, Wisconsin.

There being no objection, unanimous approval was given to the preparation by the Legal Division of a Notice of Tentative Decision and Tentative Statement granting the application of Eastern Trust and Banking Company, with the understanding that such Notice and Statement would be returned to the Board for its subsequent consideration.

Mr. Noyes then withdrew and Messrs. John Farrell, Director, Division of Bank Operations, Chase, Assistant General Counsel, and Donald Farrell, Assistant Counsel, entered the meeting.

Draft letter to Citizens and Southern Holding Company regarding acquisition of shares of American National Bank. Two memoranda from the Division of Examinations dated March 23, 1960, and a memorandum from the Legal Division dated May 20, 1960, had been distributed regarding requests by Citizens and Southern Holding Company and Citizens and Southern National Bank, Savannah, Georgia, for prior approval by the Board of acquisition of 500 shares of American National Bank, Brunswick, Georgia, pursuant to section 3(a)(2) of the Bank Holding Company Act. Attached to the Legal Division's memorandum was a draft letter to Citizens

and Southern Holding Company, stating that prior approval as requested could not be given because an agent of the holding company had exercised its rights to purchase the stock in question. The memorandum from the Legal Division stated that the Comptroller of the Currency recommended approval of the two requests, as did the Division of Examinations, subject to an opinion of the Legal Division as to whether the applicants had already "acquired" the 500 shares of American stock in violation of the Bank Holding Company Act of 1956 and, accordingly, whether "prior" approval of the acquisition would now be in order. This memorandum also said that if the applicants were not determined to have already "acquired" the specified shares of American, approval of the applications would increase Citizens and Southern's ownership of American's 25,000 outstanding shares from 10-1/2 per cent to a 12-1/2 per cent interest, the percentage of control approved by the Board in its Order dated July 23, 1959. It was also stated that the Comptroller's understanding was that the purpose of the applications was to permit Citizen to exercise its pre-emptive rights to purchase a proportionate 12-1/2 per cent of the 4,000 new shares authorized by the shareholders of American at its annual meeting on January 12, 1960, rights to which were required to be exercised and paid for by February 2, 1960. The Legal Division's memorandum stated that General Counsel Patterson of the Atlanta Reserve Bank considered the applications to be "to acquire 500 additional shares of the stock of American...by the exercise of

pre-emptive rights to its share of a new stock issue." However, the Reserve Bank had informed the applicants on January 13, 1960, upon inquiry, that it would not be possible to get Board approval prior to the expiration of rights to purchase the additional stock. Thereupon, the applicants exercised their rights in the name of an individual as agent rather than let the rights expire or sell them.

Mr. Hackley said that at the time the Atlanta Reserve Bank was approached in January, enactment of a Georgia statute appeared imminent prohibiting a bank holding company from acquiring or holding more than 5 per cent of the voting shares of any bank following date of enactment of such law. The law was enacted February 9, 1960. Thus, the applicants probably felt in January that they would be caught between this statute and the Bank Holding Company Act. If they had not proceeded to exercise their pre-emptive rights before the statute was enacted, they would have been barred from acquiring the 500 shares of American under the State statute. He noted that, following the discussion with the Atlanta Reserve Bank on January 13, the chronology of the applications was as follows: (1) they were dated February 1, 1960; (2) they were received at the Board's offices on February 5, 1960; (3) pursuant to section 3(b) of the Act, notification of the applications was forwarded to the Comptroller of the Currency on February 9, 1960; and (4) the Comptroller's reply was dated February 14, 1960. In view of this chronology, it was not possible for the Board to act on the applications prior to the expiration on February 2, 1960, of the rights to purchase

additional stock of American. In the opinion of the Legal Division, Mr. Hackley said, the applicants had violated the Bank Holding Company Act by not obtaining prior approval from the Board for the acquisition through an agent on February 2, 1960, of the 500 shares of American referred to. In framing a draft letter of reply to the applicants, the Division had tried to arrive at a happy solution to the dilemma presented by the fact that, should Citizens and Southern be forced to dispose of the additional 500 shares of American, the holding company would lose its proportionate control of that bank due to the State law prohibiting acquisition of more than 5 per cent of such bank stock after February 9, 1960. Under the circumstances, the Legal Division did not feel that it was necessary to advise the Justice Department of the technical violation of the Bank Holding Company Act in this case. Mr. Hackley suggested the possibility of adding to the draft letter a sentence to the effect that the Board would have granted its prior approval to the acquisition of the additional shares of American, provided the applications had been submitted in time.

A discussion followed relating to the chronology involved in the applications and the timing of the original discussion between the Atlanta Reserve Bank and the applicants on January 13, 1960. During this discussion, Mr. Hackley said that the Legal Division believed it would be in order to adopt procedures for expediting the handling of urgent requests of this type in the future, and so to advise the Reserve

Banks in order that no applicant hereafter would be advised that in similar circumstances an application could not be processed in time to permit an applicant to protect its interests.

Governor Mills said that he took a position opposite that of the Legal Division on this question. He then read a prepared statement as follows:

In considering the application of the Citizens and Southern National Bank and Citizens and Southern Holding Company to acquire 500 shares of American National Bank of Brunswick, Brunswick, Georgia, the steps taken by "Citizens" to consummate this transaction prior to approval by the Federal Reserve Board should be bypassed as a technical infraction of the Bank Holding Company Act of 1956 and the application decided upon its merits and net effects.

In net result, the capital structure of the American National Bank of Brunswick has been strengthened by consummation of the transaction, which is commendable. In effect, the acquisition by Citizens of 500 shares of American National Bank of Brunswick is believed to be consistent with Federal Reserve Board rulings and decisions under the Bank Holding Company Act of 1956 as regards the acquisition by a bank holding company of additional shares of a subsidiary bank by way of the exercise of pre-emptive rights to purchase new shares and where completion of such purchase does not alter the bank holding company's percentage of ownership of shares in the subsidiary bank. It is also believed that the completion of the transaction is in harmony with a statute of the State of Georgia that became law on February 9, 1960.

Viewed from these angles and applying a rule of reasonableness to the application requires its approval despite the technical infraction of the Bank Holding Company Act of 1956, which occurred because of an unusual combination of circumstances which cannot be repeated and without any attempt by Citizens to hide its actions. A finding by the Federal Reserve Board against the applicants and on the strength of a strict interpretation of the Bank Holding Company Act of 1956 would be harsh in the extreme and would deny the authority of a governmental agency to administer with reasonable flexibility the statutes for which it is responsible. An example of the Federal Reserve Board's approach to flexibility in administering a statute can be found in its willingness to waive penalties on deficiencies in the reserves of a member bank where held to be justified by extenuating circumstances.

All factors considered, the application should be approved.

In the ensuing discussion, Governor Robertson said that, because he believed a violation of the Bank Holding Company Act was involved in the present case, it would be appropriate that the Justice Department be so advised. However, Justice should be informed that the Board was approving the application ex post facto, despite the questionableness of the Board's authority, in view of the circumstances. He also suggested that the Comptroller's Office be informed of the situation and the Board's action.

The view was expressed by Governor King that, since the applicants had consulted with the Atlanta Reserve Bank on January 13 as to whether their applications could be processed in time to exercise their stock rights by February 2 and had received a negative answer, applicants had not violated the law by subsequently invoking these rights through the use of an agent without Board approval. He believed the Board should find some way of approving the acquisition by the applicants of the 500 shares of American.

A suggestion was then made that, since acquisition by means of an agent was "indirect acquisition" under the statute, the proposed letter to the applicants not approve the application. To meet a point raised during the discussion, Chairman Martin suggested including in the letter to the applicants reference to the fact that the Board expected to receive prompt notice regarding the exercise of stock rights in all similar applications.

Governor Mills observed that there was the danger that the holding company and American National Bank would be exposed to the dissent of minority stockholders of the bank should the Board not formally approve the application.

Following further discussion the Legal Division was requested to prepare a revised draft of letter to Citizens and Southern Holding Company, along with a letter to the Reserve Banks, for consideration by the Board at a later meeting.

Mr. Hostrup and Miss Hart then withdrew from the meeting and Mr. Thomas, Adviser to the Board, entered the room.

Draft letter to the Comptroller of the Currency concerning classification of "time deposits" under Regulation D. There had been distributed copies of a draft letter to the Comptroller of the Currency regarding a question whether dealers' reserve or differential accounts might be classified as "time deposits" for the purpose of computing reserves under Regulation D, Reserves of Member Banks. The draft letter would reply to the Comptroller's letter of March 14, 1960, regarding the circumstances under which accounts of the type referred to might be classified as "time deposits," concerning which the Board published an interpretation (1960 Federal Reserve Bulletin 265) considering the broader question whether such accounts should be classified as deposits against which reserves are required under Regulation D. The draft letter took the position that of the two ways in which dealers' reserve or differential accounts ordinarily are set up, only the second type of situation appeared

to be one in which dealers' reserve accounts might qualify as time deposits. In this case, the whole account is set up at the time that the dealer's loan is granted and as instalment payments are received an identical proportion is released from the dealer's reserve account. If the instalment payments are on 30-day basis, the nature of the account would preclude withdrawals within 30 days, with the possible exception of the initial withdrawal permitted at the time the first instalment payment is received. It was concluded in the draft letter that to this extent, reserve accounts of the type described would appear to comply with the regulatory requirement with respect to 30 days maturity for notice of withdrawal, although the written agreement between the bank and the dealer might not specifically provide for a "30-day maturity" or a "30-day prior written notice of withdrawal." It was stated that such an agreement could be regarded as complying with the regulatory requirement in this respect if the agreement in effect would result in establishing a 30-day maturity or withdrawal limitation on the account.

Governor Mills said that he was fearful that the position taken in the draft letter was on "shaky ground." He believed it opened a wide area of abuse by banks to interpret dealers' reserve accounts as time deposits, open account, since the interpretation could be made to apply to almost any account that would not be disturbed in less than 30 days so long as there was a written understanding between the bank and the depositor. Not only would such an account be eligible for

payment of interest, but it would also be eligible for a lower reserve requirement. He was concerned because of the fluidity of dealer reserve accounts, which were quite active, so that what was involved was a "pool" of funds and not a single deposit.

Mr. Hackley replied that the Legal Division had recognized these aspects of the matter but had been influenced by the fact that dealers' reserve accounts are required to be maintained by the lending banks as security for the loans. Many banks in fact thought they were not deposit liabilities. He pointed out that the draft letter took the position that if the accounts were really fluid--that is, were so-called "market accounts," where the dealers' reserve account is not set up until after the paper is purchased from the dealer, and the proportionate amount of the instalment payments received is not proportionately paid over to the dealer, the reserve account would be constantly turning over and the bank could not determine that the account would be restricted for at least 30 days in order to comply with the regulatory definition of a time deposit.

Governor Robertson asked how it would be possible to differentiate between dealer reserves of the type indicated and compensating balances required by banks to be maintained by borrowers. Mr. Hexter replied that if the compensating balance was held in a demand deposit account it would not come under the definition of "time deposit, open account." He added that there was a further distinction in that compensating balances

were required to be maintained as an average balance so that they could be utilized, permitting fluctuations in the amounts in the account during the time period concerned.

Governor Balderston said that he shared Governor Mills' concern on this question. He was apprehensive that should the draft letter be sent to the Comptroller of the Currency it would "muddy the waters" regarding the Board's definition of time and savings accounts. It was up to bankers to interpret the outstanding definitions. Governor Robertson agreed.

Mr. Hackley replied that it was possible the Comptroller of the Currency might feel that the Board was not being responsive to the question presented to it in the Comptroller's letter of March 14.

Commenting on this point, Governor Mills said that it might be advisable to expose the Comptroller's Office, the Federal Deposit Insurance Corporation, and State bank examiners to the perplexities of this question by means of a joint meeting between representatives of these agencies and the Board. The Board could withhold its decision on this question until such a meeting had been held. He referred to the fact that any relaxation by the Board on its definitions of savings and time deposits in the past had promoted successive problems.

Governor Robertson concurred, observing that the more exceptions that were made, the more that had to be made.

It was then agreed that the Legal Division would revise the draft letter to the Comptroller of the Currency for the Board's consideration

indicating that whether dealers' reserve or differential accounts were treated as "time deposits" in the computation of reserves was a question of whether they conformed to the definition of such time deposits in the Board's regulations.

Messrs. Noyes, Director, Koch, Adviser, and Dembitz, Associate Adviser, Division of Research and Statistics, and Collier, Chief, Current Series Section, Division of Bank Operations, joined the meeting during the preceding discussion and Messrs. Hexter, Chase, and Donald Farrell withdrew at its conclusion.

Possible further release of vault cash to be counted in meeting reserve requirements of member banks. A question had been raised as to the timing for an additional release of vault cash to permit such funds to be counted in meeting reserve requirements of member banks, pursuant to the authority given to the Board for such release in Public Law 86-114 enacted July 28, 1959. At Chairman Martin's request, Mr. Thomas commented on the outlook for bank reserves during the next several weeks and on various possible arrangements that might be considered for authorizing additional amounts of vault cash to be counted in meeting reserve requirements. There followed a general discussion, at the conclusion of which it was understood that the staff would prepare a memorandum regarding this subject for consideration by the Board.

Thereupon the meeting adjourned.

Secretary's Notes: Pursuant to the authorization at the meeting of the Board on May 4, 1960, a letter was sent today to the Federal Reserve Bank of New York interposing no objection to a foreign travel assignment of Messrs. Holmes and Klopstock of the Bank's staff. A copy of the letter is attached to these minutes as Item No. 7.

On May 24, 1960, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

Appointments

Katharine Brown as Statistical Assistant, Division of Research and Statistics, with basic annual salary at the rate of $4,940, effective the date she assumes her duties.

Lora S. Collins as Research Assistant, Division of Research and Statistics, from about June 20, 1960, to about September 15, 1960, with basic annual salary at the rate of $4,980, effective the date she assumes her duties.

Salary increase

Robert B. Hamilton, Personnel Technician, Division of Personnel Administration, from $5,430 to $5,620 per annum, effective May 29, 1960.

Letter to the Federal Reserve Bank of Boston (attached Item No. 8) approving the appointment of John Nye Field as assistant examiner.

Letters to the Federal Reserve Bank of Philadelphia (attached Items 9 and 10) approving the appointment of James H. Butler and Leon L. Hearter as assistant examiners.

Letters to the Federal Reserve Bank of Chicago (attached Items 11 and 12) approving the appointment of Richard G. Mickel and Edward A. Rusin as examiners.

Secretary

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

Item No. 1
5/25/60

May 25, 1960

Mr. Benjamin F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

This is in response to your letter of May 3, 1960, concerning reports to the United States Attorney of apparent violations of section 709 of the United States Criminal Code, which prohibits the use of certain words as a part of a business or firm name. This section of the Code is included in the Board's compilation of laws relating to the Federal Reserve System and, for reporting purposes, should be treated as are other criminal provisions of the banking laws.

The offense described in section 709 is a misdemeanor and, in determining whether to report violations to the United States Attorney, the Reserve Banks should be governed by the instructions contained in the Board's letter of August 19, 1948 (F.R.L.S. #6503). However, since the case you have referred to involves the use of the word "national" you may wish to call the matter to the attention of the District Chief National Bank Examiner for such action as he chooses to take.

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
5/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 25, 1960

Board of Directors,
The State Bank and Trust Company,
Defiance, Ohio.

Gentlemen:

Pursuant to your requests submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves (1) the establishment of a branch at the northwest corner of Third and Wayne Streets, Defiance, Ohio, and (2) under the provisions of Section 24A of the Federal Reserve Act, an additional investment of $142,270 in bank premises for the purpose of constructing the branch building, by The State Bank and Trust Company, Defiance, Ohio. This approval is given provided the branch is established within one year 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. 3
5/25/60

May 25, 1960

Mr. E. H. Galvin, Assistant Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Galvin:

This will acknowledge receipt of your letter of May 11, 1960, and enclosure relative to certain operations which Wells Fargo Bank American Trust Company, San Francisco, California, proposes to conduct at 50-60 First Street in the City of San Francisco, California.

It is noted that the activities at this location will be confined principally to the Computer and Tabulating, Clearing and Transit, Commercial Bookkeeping, and Multilith Departments. An additional activity will be the loading and unloading of armored cars used to transport cash to and from the bank's branches. It is stated that the public will have no direct access to these buildings, and no direct service to the public will be provided.

On the basis of the information furnished, it would appear that the operations at this location would not constitute the establishment of a branch requiring approval of the Board of Governors.

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. 4
5/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 25, 1960

Board of Directors,
Bank of Commerce,
Milton-Freewater, Oregon.

Gentlemen:

The Federal Reserve Bank of San Francisco has forwarded to the Board of Governors your letter dated May 6, 1960, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of San Francisco of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of San Francisco.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TELEGRAM

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 5
5/25/60

May 25, 1960

COOMBS - NEW YORK

In response to your letter of May 19 relating to opening of accounts for Inter-American Development Bank the Board of Governors authorizes you to open the accounts referred to in the letter.

(Signed) Merritt Sherman
SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
5/25/60

OFFICE OF THE CHAIRMAN

MAY 26 1960

The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D.C.

Dear Mr. Chairman:

This is in response to your request of May 18, 1960, for a report from the Board of Governors on S. 3541, a bill now pending before your Committee: "To provide additional financial facilities in the Federal National Mortgage Association, to provide for the incorporation of Federal mortgage investment companies, and for other purposes."

Title I of S. 3541 would abolish FNMA's present board of directors, consisting of five members, one of whom is the Administrator of the Housing and Home Finance Agency, who serves as chairman and appoints the other four members. In its place, the bill would establish a board of directors consisting of three men, appointed for staggered six-year terms by the President of the United States by and with the advice and consent of the Senate. The bill would authorize this board of directors to establish one or more advisory committees, and a twelve-man advisory council.

In addition, Title I would expand FNMA's secondary market borrowing authority from the present limit of ten times its capital, surplus, reserves, and undistributed earnings to fifteen times.

Title I would also expand FNMA's powers by authorizing it to make loans, secured by FHA-insured or VA-guaranteed mortgages, at terms not exceeding one year and at an interest rate "consistent with general loan policies established from time to time by the Association's board of directors..." Such loans could not exceed 90 per cent of the unpaid principal balance of the mortgage collateral. The bill provides that the volume of the Association's short-term lending activities, among other things, "should be consistent with the objectives that the lending activities should be conducted on such terms as will reasonably prevent excessive use of the Association's

facilities, and that the operations of the Association under this section should be within its income derived from such operations and that such operations should be fully self-supporting." Each borrower would be required to make a nonrefundable capital contribution to FNMA equal to not more than 1/2 of 1 per cent of the amount loaned. This short-term lending program would become part of FNMA's secondary market functions, although it would involve mortgage warehousing, rather than secondary market, activities.

At this time, the Board questions the desirability of the changes proposed in Title I of the bill relating to short-term warehousing-type loans. If made effective, these changes could result in a marked expansion of FNMA's secondary market operations accompanied by a substantial increase in the sale of its stock as well as in its borrowings from the public, with ultimate recourse to the United States Treasury of up to the current limit of $2.25 billion, subject as at present to the approval of the Secretary of the Treasury. Whether or not the consolidation of warehousing and secondary market functions in one agency, as this bill proposes, would create serious potential conflicts with fiscal and monetary policy is a matter that deserves further study.

Title II of S. 3541 would provide for the newly constituted FNMA board of directors to charter, regulate, examine, and supervise a new type of Federal financial intermediary, which would be known as Federal mortgage investment companies. These companies would be capitalized at not less than $1 million each in the form of cash, Government securities, or first mortgages. They would be authorized to originate, purchase, sell, service, borrow on the security of, and otherwise deal in any FHA-insured or VA-guaranteed mortgage, and in any first mortgage loan (or similar first lien) representing not more than 75 per cent of the value of the underlying property.

The Federal mortgage investment companies would be authorized to borrow money by issuing obligations in an aggregate amount not exceeding twenty times the amount of their paid-up capital and surplus. The companies would be required to accumulate and maintain minimum reserves as specified by rules and regulations of the FNMA board of directors. To the extent that the companies set aside not more than 10 per cent of their taxable income in a reserve for losses, a deduction of the same amount would be authorized from their taxable income. In addition, for companies which distributed at least 90 per cent of their taxable income in dividends or interest, a deduction of the same amount would be permitted from taxable income.

The Board questions the desirability of establishing Federal mortgage investment companies as proposed in Title II. These companies would apparently have unlimited exemption from Federal income taxation as long as they set aside 10 per cent of their taxable income in a reserve for losses and distributed the remaining 90 per cent as dividends or interest, or as long as all taxable income was distributed as dividends or interest. This would place such companies in a highly favored tax position as against other types of competing institutionalized mortgage lenders, whose tax benefits are limited in varying degrees. Moreover, serious problems might arise in the event the Federal mortgage investment companies, in order to honor their obligations, attempted to sell or otherwise dispose of their holdings of conventional loans. Unlike Federally underwritten mortgages, these loans might not be highly marketable. In any event, the provision granting an equivalent tax deduction only if at least 90 per cent of taxable income were distributed in interest or dividends would appear to discourage a conservative dividend and reserve policy.

Special studies by private organizations, especially the University of California at Los Angeles, as well as by public agencies are now under way with regard to the appropriate role and functions of central mortgage facilities in the private secondary mortgage market. A number of other studies are also in process concerning the role of Federally chartered and other financial intermediaries in our economy and the problems raised by the large volume of liquid claims resulting from their rapid growth in the postwar period. In the absence of the results of such studies and in the limited time available, the Board has restricted its comments to some aspects of S. 3541 which seem questionable at this time.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 7
5/25/60

May 25, 1960

Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

With reference to your letter of May 24, 1960, the Board has no objection to the assignment of Messrs. Holmes and Klopstock for a period of approximately three weeks, commencing on or about May 31, plus travel time, to enable them to obtain information from leading commercial banks in Europe with regard to the susceptibility of foreign held dollar balances to short-term interest rate movements, and also to investigate the continental dollar market. It is understood that at least some of the results of this study project would be used in the preparation of a report for the Commission on Money and Credit.

Very truly yours,

Merritt Sherman,
Secretary.

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

Item No. 8
5/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 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 17, 1960, the Board approves the appointment of John Nye Field 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) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 9
5/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1960

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of May 19, 1960, the Board approves the appointment of James H. Butler as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise as to the date on which the appointment is made effective.

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. 10
5/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1960

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of May 18, 1960, the Board approves the appointment of Leon L. Heartter as an assistant examiner for the Federal Reserve Bank of Philadelphia.

It is noted that Mr. Heartter is indebted to Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, a State member bank, in the amount of $700. Accordingly, the Board's approval is given with the understanding that Mr. Heartter will not participate in any examination of Provident Tradesmens Bank and Trust Company until his indebtedness has been liquidated.

Please advise as to the date on which the appointment is made effective.

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. 11
5/25/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1960

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

Dear Mr. Diercks:

In accordance with the request contained in your letter of May 17, 1960, the Board approves the appointment of Richard G. Mickel, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago, effective June 22, 1960.

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. 12
5/25/60

May 24, 1960

CONFIDENTIAL (FR)

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

Dear Mr. Diercks:

In accordance with the request contained in your letter of May 17, 1960, the Board approves the appointment of Edward A. Rusin, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago, effective June 22, 1960.

It is noted that Mr. Rusin is indebted to The Wayne Oakland Bank, Royal Oak, Michigan, a nonmember bank in the amount of $970.20. Accordingly, the Board's approval is given with the understanding that Mr. Rusin will not participate in any examination of The Wayne Oakland Bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.