FR 609
Rev. 10/59

Minutes for October 7, 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, October 7, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics

Money market review. After Mr. Keir reported on the Government securities market and expected Treasury financing, Mr. Thomas commented on bank credit developments and the supply of bank reserves. Mr. Noyes then presented information regarding several segments of the general economy that had become available in the past few days.

Following a discussion of the lack of current data on banking developments at member and nonmember banks outside centers included in weekly reports, Messrs. Thomas, Young, Molony, Fauver, Noyes, Koch, and Keir withdrew from the meeting and Messrs. Hackley, General Counsel, Solomon, Director, Division of Examinations, Hooff, Assistant General Counsel, and Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

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Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco on October 6, 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.

Appointment of Federal Reserve Agent's Representative (Item No. 1). In a letter dated October 3, 1960, the Federal Reserve Bank of San Francisco requested approval of the appointment of Don W. Sheets, an employee of the Salt Lake City Branch, as a Federal Reserve Agent's Representative at the Branch. The appointment was considered necessary because of the scope of the program for emergency storage at the Branch of unissued Federal Reserve notes. A draft of letter to Mr. Whitman, Chairman of the Federal Reserve Bank of San Francisco, approving the appointment of Mr. Sheets had been distributed.

The letter, of which a copy is attached to these minutes as Item No. 1, was approved unanimously.

Protest relative to proposed merger (Item No. 2). A memorandum dated October 6, 1960, from the Division of Examinations had been distributed in connection with a protest received through the Federal Reserve Bank of San Francisco regarding the proposed merger of Northern Counties Bank, Marysville, California, and Wells Fargo Bank American Trust Company, San Francisco. (The application for Board approval of the merger was pending

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in the Board's offices.) The protest was made by Mr. J. E. Morrison of Yuba City, California, a former director of Northern Counties Bank but still one of three trustees under a voting trust agreement that controlled over 70 per cent of the stock of that bank. Mr. Morrison stated that he favored a merger of Northern Counties Bank but claimed that the shareholders and other interested persons were not given full information with respect to bids for the bank made by three different banking institutions. He requested a thorough, on-the-ground investigation of the proposed merger.

Counsel for the Federal Reserve Bank of San Francisco had informed Mr. Morrison that, since Northern Counties Bank is a nonmember bank, he might wish to discuss the matter with the State Superintendent of Banks, and that the Reserve Bank's authority with respect to his complaint related only to a statement that he was entitled to file under the Bank Merger Act. Mr. Morrison then filed such a statement, which had been transmitted to the Board by the Reserve Bank. The Reserve Bank asked to be informed by wire (1) what, if any, action should be taken with respect to Mr. Morrison's request for an on-the-ground investigation and (2) whether the Reserve Bank was authorized to furnish copies of the statement to the banks concerned.

The memorandum from the Division of Examinations was accompanied by a draft of telegram to the Federal Reserve Bank of San Francisco expressing the view that the matter should be handled by the State Superintendent of Banks, with whatever cooperation by the Reserve Bank was requested, and that it would seem appropriate to avoid furnishing copies of Mr. Morrison's statement to the banks concerned.

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Following comments by Mr. Hackley, the telegram was approved unanimously. A copy is attached as Item No. 2.

Report on competitive factors (Springfield Gardens, New York City, West Hempstead, New York). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Queens National Bank of New York, Springfield Gardens, New York, and Colonial Trust Company, New York, New York, with The Meadow Brook National Bank of Nassau County, West Hempstead, New York. The conclusion of the report read as follows:

> The proposed consolidation represents the first attempt by either a Nassau or Westchester County bank to enter into the New York City banking picture. This consolidation will result in two relatively small New York City banks becoming branches of the larger Meadow Brook National which then plans to become a New York City bank. The entry of this larger bank into New York City should stimulate competition as it will be able to compete on more effective terms with the large New York City branch banking organizations. Insofar as Nassau County is concerned little change in the competitive picture will result. The number of banking offices in both Nassau County and New York City will remain unchanged. Should Queens National Bank not become a party to this consolidation, the net result would not be materially different. Should such be the case the significant factor would be that Meadow Brook National would merely obtain a slightly smaller percentage of New York City offices and deposits.

After a brief discussion, the report was approved unanimously.

Report on competitive factors (Gastonia-Charlotte, North Carolina). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of National Bank of Commerce of Gastonia, Gastonia, North Carolina, with and

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into First Union National Bank of North Carolina, Charlotte, North Carolina. During a discussion, several suggestions were made and accepted for changes in the wording of the conclusion, after which the report was approved unanimously. The conclusion in the report, as approved, read as follows:

> The proposed transaction is a continuation of a State-wide trend toward concentration of deposits in a few large banks and therefore is considered a reduction of multiple bank competition State-wide. First Union operates in six reasonably distinct service areas. National Bank of Commerce operates in only one of First Union's general service areas. The five areas geographically removed from the service area of National Bank of Commerce should not be affected significantly by the proposed transaction. In the service area which is common to constituent banks there would be an indicated lessening of competition as First Union solidifies its area penetration.

Sale of insured mortgages by State member banks. A recent amendment to the regulations of the Federal Housing Administration had the effect of permitting the sale to individuals of mortgage loans insured by that Administration. In the circumstances, Southern Arizona Bank & Trust Company of Tucson, Arizona, inquired of the Federal Reserve Bank of Dallas by letter dated August 15, 1960, as to the effect of the recent amendment in permitting it to sell such loans to the general public and to trust accounts administered by the bank. In transmitting the inquiry to the Board by letter dated August 25, 1960, the Reserve Bank pointed out that a decision in the negative with respect to sale of insured mortgages to the public would seem to countermand to some degree the apparent objective of the Federal Housing Administration to create a wider

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market for insured loans. However, it was the Reserve Bank's view that the inclination on the part of the general public to look to the selling bank for protection would not be removed, since the bank would be required to service the mortgages after sale. As to the sale by a bank of insured mortgages to trust accounts administered by the bank, the Reserve Bank indicated that it would be hesitant to weaken to any measurable degree the principle of trust administration that self-dealing should not be countenanced.

A memorandum from Mr. Hooff dated September 23, 1960, which had been circulated to the Board, pointed out that for a number of years, beginning in 1933, the Board prescribed a standard condition of membership prohibiting banks from engaging as a business in selling mortgages or other evidences of indebtedness representing real estate loans or participations therein, either with or without guarantee, endorsement, or other commitment of such bank. This reflected the practice of some banks of selling real estate mortgages or participations therein to the general public, with a guarantee, express or implied, or in other circumstances that caused the purchasers to assume that such mortgages would be repurchased upon request. Also, although such obligations often were sold without an express guarantee or even with the provision that they were sold without recourse, issuing or selling banks had freely repurchased them upon demand over so long a time that the holders had been led to believe that they were in fact obligations of the bank payable on demand. As stated in a ruling of the

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Board published at page 695 of the Federal Reserve Bulletin for 1947, in prescribing the condition of membership the Board had in mind particularly that the general public was not in a position to evaluate real estate loans and might consider the selling bank at least morally obligated to make good any loss sustained. The condition was eliminated in 1948, as it was decided that the Federal Reserve Banks, through the supervisory function, could control this activity. However, footnote 6, which was added at that time to Regulation H, Membership of State Banking Institutions in the Federal Reserve System, stated that elimination of the condition of membership did not reflect any change in the Board's position as to the undesirability of the practice. The footnote pointed out that the engaging as a business in the sale of real estate loans to the public might involve unsafe or unsound practices, and thus violate the standard condition of membership which provides that a bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors.

Mr. Hooff's memorandum expressed the point of view that the hazards present in 1933 incident to the sale of conventional mortgages were not present in the sale of FHA-insured mortgage loans to such an extent as to cause the Board to prohibit their sale to the general public. Therefore, it was recommended that the Board advise the Dallas Bank that it would have no objection to a State member bank selling FHA-insured mortgage loans to individuals, provided no guarantee, express or implied,

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was assumed by the bank and the bank made no commitment to repurchase such loans.

As to the question of the sale of insured loans by a bank to trust accounts administered by the bank it was pointed out that at one time a standard condition of membership prohibited a bank from investing funds held as fiduciary in stock or obligations of, or property acquired from, the bank. While this condition also was eliminated in 1948, footnote 6 to Regulation H states that failure to conduct trust business in accordance with sound principles of trust administration may involve unsafe or unsound practices. The view was expressed in the memorandum that the protection afforded holders of FHA-insured mortgages by the Federal Government was not a sufficient basis for deviating from the fundamental trust principle that a bank shall not engage in so-called self-dealing transactions. Therefore, it was recommended that Southern Arizona Bank & Trust Company be advised that FHA-insured mortgage loans owned by the bank should not be sold to trust accounts administered by the bank.

According to the memorandum, a member of the legal staff of the Comptroller of the Currency had indicated informally that the Comptroller did not object to such sales by national banks to individuals, but the staff member agreed that sales of mortgages owned by a bank to trust accounts administered by it should be prohibited.

Submitted with Mr. Hooff's memorandum was a draft of reply to the Federal Reserve Bank of Dallas reflecting the recommendations contained in the memorandum.

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In discussion of the matter, Mr. Hooff commented that when the file was in circulation to the Board, Governor Mills had suggested that the reply to the Dallas Reserve Bank be revised to state that the sale of FHA-insured mortgages by a bank to its trust accounts would constitute an undesirable or improper practice, rather than an unsafe or unsound practice. With respect to the sale of insured loans to individuals, Governor Mills had raised the question whether the Board should specify that a bank should sell them only out of a special account and not out of its own portfolio.

In further comments, Mr. Hooff brought out that the statutes of Pennsylvania and Virginia authorize trust companies to segregate certain loans they have made and securities they have bought to be sold to trust estates and that the Virginia statute specifically authorizes banks to sell mortgages to trust estates. This raised the question whether the proposed Board letter should make any reference to State law.

Mr. Benner reported having talked to the New York, Philadelphia, and Richmond Reserve Banks, as well as Deputy Comptroller of the Currency Taylor and a representative of the Federal Deposit Insurance Corporation. In general, although the Reserve Banks were not enthusiastic about the idea of a State member bank selling mortgages to customers, they would not be opposed to permitting such sales if no guarantee was given by the bank and the bank made no commitment to repurchase such loans. Mr. Taylor indicated that the Comptroller of the Currency would go along if the Board

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issued a ruling to such effect; Mr. Taylor felt that it might be rather difficult to enforce a ruling that national banks could sell mortgages only from a special account. The staff member of the Federal Deposit Insurance Corporation was lukewarm about the idea of selling FHA-insured mortgages to the public, pointing out among other things that in the case of foreclosure the Federal Housing Administration is extremely strict. Thus, it was felt that the practice might bring about bad public relations between banks and their customers. It was indicated, however, that the Corporation might go along with a ruling of the Board interposing no objection, provided no guarantee was given by the bank and the bank made no commitment to repurchase such loans. It was felt that there might be difficulty in enforcing a rule that no sales of a bank's own mortgages could be made to customers.

There ensued a discussion during which a number of suggestions were made with regard to the manner in which any Board letter might most appropriately be worded, in light of the various considerations bearing upon the questions that had been raised by the State member bank. It was brought out that these questions had thus far been raised by only one bank, and that the inquiring bank had indicated that it did not contemplate entering at this time into either the sale of insured mortgages to individuals or the sale of such mortgages to trust accounts. In the circumstances, the suggestion was made that it would not seem necessary for the Board to publish an interpretation, distribute an interpretation

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to the Federal Reserve Banks, or advise the other Federal bank supervisory agencies. After additional discussion, the further suggestion was made that the reply to the Federal Reserve Bank of Dallas be on an informal basis and that no letter be sent. This suggestion contemplated expressing to the Dallas Bank the view of the Board that the sale by a State member bank of FHA-insured mortgages to trust accounts administered by the bank should be avoided as an undesirable or improper practice and that, although the Board was not issuing a formal ruling at this time, it hoped that such a practice would not occur. As to the sale of insured mortgages by a bank to its customers, the view would be stated that the Board had some question about the desirability of such a practice and hoped that it would not develop, but that it doubted whether objection could be interposed if no guarantee, express or implied, was assumed by the selling bank and the bank made no commitment to repurchase such loans.

At the conclusion of the discussion, it was agreed that the matter would be handled on the informal basis that had been suggested.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective October 16, 1960:

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Name and title	Division	Basic annual salary From	To
	Office of the Secretary		
Ruth W. Eschmeyer, Records Clerk		$4,460	$4,565
	Research and Statistics		
Bernard N. Freedman, Economist		9,735	9,995
Lucile R. MacLean, Librarian		6,765	6,930
	Bank Operations		
John J. Hurley, Analyst		7,755	7,920
James A. McIntosh, Data Processing Analyst		6,600	6,765
	Examinations		
Richard B. Friedman, Assistant Federal Reserve Examiner		6,015	6,180
	Administrative Services		
Ruth A. Brown, Charwoman		3,710	3,815
Ray M. Reeder, Operator, Tabulating Equipment		3,500	3,760

Governor Shepardson also approved on behalf of the Board a letter to the Federal Reserve Bank of Cleveland (attached Item No. 3) approving the designation of Harold Thoma and George Copas as special assistant examiners.

Secretary

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

Item No. 1
10/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1960

Mr. F. B. Whitman,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Whitman:

In accordance with the request contained in your letter of October 3, 1960, the Board of Governors approves the appointment of Mr. Don W. Sheets as a Federal Reserve Agent's Representative at the Salt Lake City Branch.

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

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

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

It is noted from your letter that with the approval of Mr. Sheets' appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board of Governors.

It is understood that an additional Federal Reserve Agent's Representative at the Branch is considered necessary because of the scope of the program which will get under way shortly for the emergency storage at the Branch of unissued Federal Reserve notes of several other Reserve Banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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TELEGRAM
LEASED WIRE SERVICE

Item No. 2
10/7/60

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

October 7, 1960

MANGELS - SAN FRANCISCO

Reurlet September 28, 1960, concerning proposed merger of Northern Counties Bank, Marysville, California, into Wells Fargo Bank American Trust Company. In view of the nature of the complaint, that would seem to be principally of concern to State Superintendent of Banks, it is suggested that your bank work closely with his office and that if any "on the ground investigation" is made, it be made by that office. There would be no objection to your joining in such an investigation if he invited you to do so. It would also seem appropriate to avoid furnishing copies of the objections to the banks concerned at this time, particularly since such information might be furnished to them by State Superintendent.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 3
10/7/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1960

Mr. G. T. Quast, Chief Examiner,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Quast:

In accordance with the request contained in your letter of October 3, 1960, the Board approves the designation of the following named individuals as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of banks except the banks listed immediately above their names:

The Peoples-Liberty Bank and Trust Company,
Covington, Kentucky

The Provident Bank,
Cincinnati, Ohio

Harold Thoma

The First National Bank of Cincinnati,
Cincinnati, Ohio

George Copas

The authorizations heretofore given your Bank to designate these employees as special assistant examiners are hereby canceled. Also, the name of Janet Leppelmeier has been deleted from the list of special assistant examiners for your Bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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