

Minutes for January 4, 1961

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

The image shows handwritten initials and signatures on lines next to the names of the board members. The initials are: a circled 'M' for Martin, 'SS' for Szymczak, a long horizontal line for Mills, 'CRB' for Robertson, 'SWS' for Shepardson, and 'King' for King.

Minutes of the Board of Governors of the Federal Reserve System on
Wednesday, January 4, 1961. 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. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
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. Smith, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Young, Assistant Counsel
Mr. Wood, Senior Economist, Division of
Research and Statistics

Call for reports of condition. The Secretary reported that a letter had been received under date of January 3, 1961, from the Comptroller of the Currency advising that a call would be made upon all national banks on January 6, 1961, for reports of condition of the banks and certain affiliates as of the close of business Saturday, December 31, 1960; and that, in accordance with the usual practice, a telegram had been sent by the Secretary to the Presidents of all Federal Reserve Banks on January 3 requesting that a similar call be made upon State member banks.

The action taken in sending the telegram was ratified by unanimous vote.

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Draft bill to create a Federal Mortgage Marketing Corporation.

Under date of December 29, 1960, there had been received from the Bureau of the Budget a request for the Board's views on a draft bill proposed by the Federal Home Loan Bank Board "to create a Federal Mortgage Marketing Corporation, and for other purposes," with an indication that a reply would be appreciated by January 4, 1961. Pursuant to this request, there had been prepared and distributed before the meeting a proposed letter to the Bureau of the Budget reporting on the draft bill.

The proposed reply expressed the view that the development of an effective secondary mortgage market would be a highly desirable improvement of the country's financial organization; that to be effective, however, such a market should reduce rather than increase the impediments to sale and purchase of mortgages, and should respond promptly to developments over the broadest range of real estate markets possible; and that the proposed legislation would seem to operate in the opposite direction. The proposed corporation would be empowered to buy mortgages only from members of the Federal Home Loan Bank System; it would, at the same time, enjoy certain of the privileges and immunities reserved to Federal instrumentalities in borrowing in capital markets; and both of these elements would not only seem to add to the compartmentalization of the mortgage market, but also might constitute serious obstacles to the formation of a more general and constructive secondary mortgage market in the future.

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At the request of the Board, Mr. Wood outlined the principal provisions of the draft legislation, which would create a Federal Mortgage Marketing Corporation essentially within the Federal Home Loan Bank System, noting in his remarks that the proposed corporation would be empowered to sell residential mortgages without restriction as to type of buyer, but, as stated in the draft of letter to the Budget Bureau, would be limited in its purchase of such mortgages to members of the Home Loan Bank System.

In the course of a general discussion that followed, questions were raised concerning various aspects of the mortgage market and reasons were stated in support of the view that organization of the proposed corporation might tend to obstruct the subsequent creation of a more general secondary mortgage market. In this connection, it was pointed out that although facilities were available through the Federal National Mortgage Association for a secondary distribution of Government-guaranteed residential mortgages, no comparable mechanism to facilitate the distribution of conventional home mortgages had been provided. While it had been thought that the establishment of the Federal Home Loan Bank System would provide a better secondary distribution of home mortgages, that System had never achieved this objective, at least on an interregional basis.

Members of the staff reported that certain private studies had been in process for some time, and were continuing, with a view to

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determining the degree of need for a secondary mortgage market and the techniques that might be appropriate for its development. This suggested that it might be premature to establish an organization of the type contemplated by the draft legislation pending the completion of the studies of this kind.

It was stated that the draft legislation had been submitted by the Home Loan Bank Board as the result of hearings conducted by the Senate Housing Subcommittee, which asked the Home Loan Bank Board whether there was a need for a secondary market for conventional mortgages within the Home Loan Bank System, and, if so, what type of legislation would be required. The Budget Bureau therefore was endeavoring to determine an Administration position on the legislation drafted in response to the Subcommittee's request.

In the light of the background information developed during the discussion, several suggestions were made with regard to the scope and tone of the reply to the Budget Bureau. As to timing, although the Budget Bureau had requested a report by today, it was suggested that the Bureau might be advised informally that the Board had the matter under consideration and expected to submit a report within the next day or so.

Accordingly, it was understood that the letter to the Bureau of the Budget reporting on the draft legislation would be revised for consideration at a subsequent meeting of the Board.

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All of the members of the staff except Messrs. Sherman, Kenyon, and Smith withdrew at this point.

Report of examination - Federal Reserve Bank of Richmond. Mr. Smith commented on the examination of the Federal Reserve Bank of Richmond made as of August 29, 1960, the report on which had completed circulation to the members of the Board. On the basis of his comments, it was agreed that there were no matters disclosed by the examination which required action on the part of the Board.

All members of the staff then withdrew and the Board went into executive session.

Appointment of Mr. Holland. The Secretary was informed later by Governor Shepardson that during the executive session the Board approved the recommendation contained in a memorandum dated December 30, 1960, from Mr. Noyes, Director, Division of Research and Statistics, that Robert C. Holland be appointed Adviser in that Division, with salary at the rate of \$18,000 per annum, effective as of a date to be agreed upon with Mr. Holland and the Federal Reserve Bank of Chicago, probably about March 1, 1961. It was agreed that Mr. Holland would be reimbursed for expenses incident to moving his family and household effects from Chicago, Illinois, to Washington, D. C., and that he would be paid a cost-of-living allowance for any necessary period of temporary residence in Washington up to 30 days.

The meeting then adjourned.

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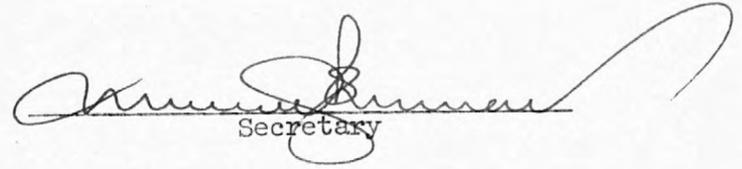
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Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated January 3, 1961, from Mr. Harris, Coordinator, Office of Defense Planning, recommending that the basic annual salary of Gordon B. Grimwood, Chief, Liaison Office, Office of Defense Planning, be increased from \$12,730 to \$13,730, effective January 8, 1961.

Memorandum dated December 30, 1960, from Messrs. Koch and Kern, Adviser, Division of Research and Statistics, and Assistant Director, Division of Administrative Services, respectively, recommending that (1) the publication, "Industrial Production Chart Book", be priced at \$1.75 a copy (in quantities of 10 or more for single shipment, \$1.50 each); (2) complimentary copies be initially distributed to Federal Reserve Banks and to a limited number of addressees specified by the Division of Research and Statistics; and (3) complimentary copies be furnished, upon request, to Government departments, agencies and establishments (excluding State and local), foreign central banks and governments; libraries of colleges and universities; public libraries, and the press. The memorandum stated that provision for the cost of the Chart Book, now expected to be issued in early 1961, was made in the 1960 budget of the Division of Administrative Services.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 1) approving the appointment of Russell D. Boyer as assistant examiner.


Secretary



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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 4, 1961

Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in your letter of December 28, 1960, the Board approves the appointment of Russell D. Boyer as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise us of the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.