Minutes for January 5, 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
Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 5, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, 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. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Nelson, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Young, Assistant Counsel
Mr. Smith, Legal Assistant
Mr. Potter, Legal Assistant
Mr. Wood, Senior Economist, Division of Research and Statistics
Mr. Langham, Chief, Call Report Section, Division of Bank Operations
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations
Mr. Thompson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

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:

Letter to Nassau Trust Company, Glen Cove, New York, approving an extension of time to establish a branch at 97 Forest Avenue.

Letter to Bank of Smithtown, Smithtown, New York, approving the establishment of a branch in the Town of Islip.

Letter to State Bank of Plainfield, Plainfield, New Jersey, granting an extension of time to accomplish membership in the Federal Reserve System.

Letter to The Louisville Trust Company, Louisville, Kentucky, approving an extension of time to establish a branch at 4000 Frankfort Avenue.

Letter to the Federal Deposit Insurance Corporation regarding the application of Peoples State Bank of Gillespie, Gillespie, Illinois, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

Letter to The Michigan Bank, Detroit, Michigan, granting its request for permission to exercise fiduciary powers.

Letter to the Presidents of all Federal Reserve Banks regarding the tabulation of mid-year and end-of-year member bank earnings reports.


Letter to Keefe, Schlafly, Griesedieck & Ferrell, St. Louis, Missouri, regarding the status as a holding company affiliate of a corporation to be organized to acquire shares of stock of a national bank presently owned by Mr. James R. James, Jr.
Letter to The Oregon Bank, Portland, Oregon, consenting to its merger with the Rogue Valley State Bank, Medford, Oregon, and approving the operation of certain branches by The Oregon Bank.

Letter to the Federal Reserve Bank of Minneapolis concurring in the opinion that shares of Northwestern Mortgage Company may be retained by Northwest Bancorporation, if the mortgage company engages solely in business as a bank building company.

Item No. 8 involved an application by Bankers International Corporation, a foreign banking corporation organized under the provisions of section 25(a) of the Federal Reserve Act and a wholly-owned subsidiary of Bankers Trust Company, New York, for permission to acquire 40 per cent of the capital stock of The Liberian Trading and Development Company, Ltd., a wholly-owned subsidiary of Mediobanca, Milan, Italy, a medium-term credit institution controlled jointly by three Italian financial institutions. The Liberian company was authorized by its certificate of incorporation to engage in a wide range of activities connected with the development of the resources of that country, but it was actually engaged only in banking, trading and shipping activities, and insurance (on an agency basis). Bankers International Corporation had stated that the Liberian company's trading and shipping activities were essentially ancillary parts of the organization designed to facilitate the development of business for the banking department. The applicant also stated that the objectives of the proposed investment were to provide better service
to customers and prospective customers of Bankers Trust Company by the
development of business contacts on a wider international basis; to
become associated with a high-caliber European institution in doing
business in a relatively undeveloped area; and to create additional
deposits and business for Bankers Trust Company with a relatively small
initial investment.

Governor Mills expressed the view that a broad problem might
grow out of this kind of investment; that is, where an Edge corporation
invests jointly with foreign interests in a banking organization operating
in another foreign country. With international affairs so unsettled, he
wondered whether at some point a relationship of this kind might not
result in some embarrassment, perhaps not only to the Federal Reserve but
to the United States Government. In the present case, for example, if
Liberia should become involved in a dispute with Italy and an Edge
corporation was a partner with an Italian corporation operating in
Liberia, it might be supposed that some taint would be thrown on the
operations of the Edge corporation.

Governor Szymczak then commented that, granting the validity of
what Governor Mills had said, he nevertheless had difficulty in seeing
how the application could be disapproved. The investment would be
permissible under the provisions of Regulation K, the Board had approved
similar investments in other cases, denial of this application would
establish a precedent for handling similar applications in the future,
and there would then be the problem of the investments already approved.
Governor Robertson suggested that this application illustrated the need for a review, such as requested by the Board on December 28, 1960, concerning the investments of Edge corporations and their subsidiaries. This particular case, he thought, was eligible for approval under the Board's present policies, but there was a need to review the whole picture to appraise the possible complications and dangers.

Governor Shepardson indicated that his views were similar to those expressed by Governor Robertson.

Mr. Furth raised the question whether the Board would want to inquire of the applicant whether it had an agreement with Mediobanca to the effect that the result of this undertaking would not be to develop trade between Italy and Liberia at the expense of trade between the United States and Liberia. However, after a discussion during which reference was made, among other things, to the statement of the applicant regarding the purposes of the proposed investment, it was agreed that no such inquiry should be made in connection with the consideration of the application.

The information presented to the Board in connection with Item No. 9 included a chart and other material showing the interests of Mr. James R. James, Jr. These included direct and indirect interests in real estate and insurance companies, four commercial banks, and companies providing services to three of those banks. Control of the fourth bank was to be transferred to a corporation, and it was in that
connection that a determination was sought to the effect that the corpora-
ration would be exempt from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act.

Governor Mills commented to the effect that he had found it difficult to review the complicated series of relationships without thinking that their purpose was to circumvent the bank holding company legislation. He noted that if a bank holding company were in the picture, the retention of the companies providing services to three of the banks might be in violation of provisions of the law. By this complex of relationships, the Board was prevented from having a comprehensive and satisfactory supervisory relationship to the various banks and other companies, but he gathered that there was nothing to be done about the situation. This kind of case suggested, however, that the Board might want to renew previous recommendations to the Congress with a view to bringing about a tightening of the present legislation.

Governor Robertson commented that he thought this case fell within the so-called one-bank rule that the Board had followed for several years in considering requests of this kind. He had always felt that the Board's general policy was wrong, and this case afforded a good illustration of why he thought it was wrong.

Governor Shepardson commented on the loopholes in the legislation relating to bank holding companies and holding company affiliates. Turning to the Board's general policy on one-bank cases, and with the
facts of the James case in mind, he inquired as to the circumstances that might be deemed to warrant an exception to the general policy.

There followed comments on circumstances in which the Board might not want to make a requested determination, following which Mr. Hackley pointed out that the root of the difficulty was in the fact that the holding company affiliate definition and the bank holding company definition relate only to corporate organizations and not to chain banking. He recalled that the Board had recommended in 1958 that the definition of a bank holding company in the Bank Holding Company Act be broadened to cover a one-bank situation. Mr. Hackley added that the Board might or might not want to renew that recommendation in its Annual Report for 1960; the broadening of the definition would, of course, increase the administrative burden, but if it were in effect a case such as the one now before the Board would be covered. Mr. Solomon recalled that the Board also had recommended repeal of the provisions of the law relating to holding company affiliates.

Messrs. O'Connell, Hooff, Furth, Nelson, Walter Young, Potter, Smith, Thompson, Langham, Leavitt, and Poundstone then withdrew from the meeting.

Proposed "Federal Mortgage Marketing Corporation Act" (Item No. 12). At its meeting on January 4, 1961, the Board had considered a draft of letter to the Bureau of the Budget commenting on a draft of
a proposed "Federal Mortgage Marketing Corporation Act" submitted by the Chairman of the Federal Home Loan Bank Board. Pursuant to the understanding at that meeting, a revised draft of letter had been distributed.

After a brief discussion, the letter was approved unanimously for transmission to the Bureau of the Budget. A copy is attached as Item No. 12.

Study of residential construction. A report entitled "Study of Mortgage Credit" made to the Senate Committee on Banking and Currency by its Subcommittee on Housing on April 15, 1960, had included the following recommendation:

The subcommittee believes that the instability of residential construction, which is partially attributable to monetary policy, should be minimized. Consequently, the subcommittee recommends that the Board of Governors of the Federal Reserve System be requested to submit a report, not later than January 1, 1961, which report shall, among other things, include the following:

1. An analysis of residential construction activity during the period 1946 through 1959, and a comparison of this activity with general economic activity over the same period.

2. An explanation of the factors which have contributed to instability in residential construction during this period.

3. Recommendations for minimizing this instability during the 10-year period beginning in January 1961, recognizing the need for a minimum construction of 16 million permanent non-farm units and recognizing the need for general economic growth and stability.

A memorandum from Mr. Noyes dated December 30, 1960, which had been distributed, submitted a draft of a study prepared by Mr. Wood in compliance with the Subcommittee's request.
Mr. Noyes commented that there appeared to be no substantial problem in regard to the first two parts of the study, in which Mr. Wood had analyzed developments in residential construction during the post-war period. With regard to the third part, however, in which the Board was asked for recommendations for minimizing instability of residential construction activity during the next ten-year period, the staff would appreciate guidance as to what approach the Board would like to take. The difficulty, in essence, was in relating monetary policy to the problem presented. It was felt that something should be said, since the Subcommittee had expressed the belief that instability of residential construction was partially attributable to monetary policy, but the staff was not sure how the Board would prefer to handle the matter.

There followed a general discussion of the subject matter of the study during which the staff responded to various questions raised by members of the Board. Attention was directed particularly to the concluding portion of the study, in the light of the question presented by Mr. Noyes, and a number of suggestions were made with regard to the treatment that might be appropriate.

At the end of the discussion, it was agreed that the report would be revised on the basis of comments made and that it would then be considered further by the Board.

Messrs. Young, Molony, Shay, Farrell, and Wood then withdrew from the meeting.
Request for examination reports. A memorandum dated January 4, 1961, from Mr. Solomon had been distributed in connection with a telephone inquiry from the Department of Justice indicating that the United States District Attorney in Miami, Florida, would like to review the reports of examination of North Shore Bank, Miami Beach, from June 11, 1947, through May 9, 1960, including both the open and the confidential sections. The memorandum pointed out that in 1957 and again in 1960, in connection with indictments against certain officers of North Shore Bank, the Board had made the open sections of the examination reports available to the United States District Attorney for the purpose of obtaining information, but not for use in evidence; however, the Board had refused to make the confidential sections of the reports available. The indictments were dismissed without prejudice in November 1960, at which time the Department of Justice indicated that efforts would be made to obtain new indictments as soon as possible. The present request for the reports contemplated that they would be placed in the custody of an examiner for the Federal Deposit Insurance Corporation who was assisting the United States District Attorney in connection with the case. Mr. Solomon had informed the Department of Justice that the request should be made in a letter addressed to the Board, and it was expected that such a letter would be received shortly.

Governor Mills stated that he stood by the position he had taken when similar requests were made previously by the Department of
Justice; namely, that making the reports available would be a breach of confidentiality. In this connection, he referred to a recent case in which a United States District Court refused to repeal a lower court decision that upheld the right of the Census Bureau to withhold certain information from the Department of Justice.

Governor Mills expressed the view that the fact that the Department of Justice was seeking to review the examination reports in order to obtain new indictments clearly portended that the information in the reports would be used in evidence. If that did happen, he felt that the Board should refuse to supply the information except under subpoena, but it would be in a position of having supplied the information through the back door already by permitting the Department of Justice to review even the open sections of the reports.

Governor Mills also questioned whether the Board should release the examination reports into the custody of a Federal Deposit Insurance Corporation examiner for such a purpose as the request contemplated. The law was clear that the Corporation was entitled to obtain and review examination reports of a member bank in the conduct of its supervisory duties, but it seemed to Governor Mills that placing the reports in the hands of the examiner for the Corporation would be an undesirable departure from the intent of the law, and certainly undesirable from the standpoint of the purposes for which the reports were sought.
Governor Robertson stated that in his opinion all of the reports, excluding the confidential sections, should be made available on a confidential basis to the Department of Justice, pursuant to a long-established custom, for the purpose of developing leads but not to be used in evidence. He believed that the confidential sections should be released only under subpoena, and that even then the Board should resist compliance with the subpoena. The procedure of making the reports available through a Federal Deposit Insurance Corporation examiner seemed to him justifiable, since that examiner represented the public interest in the same manner as Federal Reserve Bank examiners. This was one more way in which the three bank supervisory agencies could cooperate, and in this case it would obviate the necessity for detailing a Federal Reserve Bank examiner to hold the reports in custody.

Question was raised, by Governor King, regarding the possibility of asking the North Shore Bank, or its officers, whether there would be objection to the use of the reports in the manner proposed, but it was brought out, among other things, that on two previous occasions the same reports had been made available to the United States District Attorney for review.

Mr. Hackley observed that the Board's Rules of Organization contemplate that reports of examination may be made available to other Government agencies, in performing their duties, for the purpose of developing leads. In a criminal action, particularly, it seemed to him
that it would be appropriate to cooperate with the Department of Justice. Whether the reports should be used in evidence was a question that could be faced later, if necessary, but in such event the Board might wish to refuse to respond even to a subpoena. If the Board should refuse to respond to a subpoena, the court might, of course, strike all evidence based on the unpublished information.

After further discussion, it was agreed, Governor Mills dissenting, that if a written request was received from the Department of Justice, the Federal Reserve Bank of Atlanta should be instructed to make the open sections of the specified examination reports of North Shore Bank, Miami, Florida, available to the United States District Attorney for review through the examiner for the Federal Deposit Insurance Corporation.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the recommendation contained in a memorandum dated January 3, 1961, from Mr. Johnson, the Board's Security Officer, that a full field investigation be initiated for Charles R. Petersen, Economist, Federal Reserve Bank of San Francisco, who will be on loan to the Office of the Secretary beginning on or about January 16, 1961.
January 5, 1961

Board of Directors,
Nassau Trust Company,
Glen Cove, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System extends to July 13, 1961, the time within which Nassau Trust Company, Glen Cove, New York, may establish a branch at 97 Forest Avenue, Glen Cove, New York.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
January 5, 1961

Board of Directors,
Bank of Smithtown,
Smithtown, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch at Store No. 7, Kimbrig Shopping Center, in the unincorporated area of Hauppauge, Town of Islip, New York, by Bank of Smithtown, Smithtown, New York, 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.
January 5, 1961

Organization Committee,
State Bank of Plainfield,
Plainfield, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System extends to June 28, 1961, the time within which State Bank of Plainfield, Plainfield, New Jersey, may accomplish admission to membership in the Federal Reserve System as outlined in the Board's letter of June 26, 1959.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
January 5, 1961

Board of Directors,
The Louisville Trust Company,
Louisville, Kentucky.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System extends to June 20, 1961, the time within which The Louisville Trust Company may, under the authority granted in the Board's letter of July 8, 1960, establish a branch at 4000 Frankfort Avenue, Louisville, Kentucky.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
The Honorable Jesse P. Wolcott, Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of December 20, 1960, concerning the application of Peoples State Bank of Gillespie, Gillespie, Illinois, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs that the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.
January 5, 1961

Board of Directors,
The Michigan Bank,
Detroit, Michigan.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership number 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The Michigan Bank to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Michigan. While the present capital position of the bank is not satisfactory, permission is granted for the exercise of fiduciary powers in view of the expected small volume of trust business involved and convenience afforded the bank's customers. The Board wishes to stress the need for strengthening the capital structure of the bank as rapidly as possible.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
January 5, 1961.

Dear Sir:

This refers to that portion of the Board's letter of September 8, 1959 (S-1710, F.R.L.S. #3649), which stated that preliminary tabulations of earnings reports of member banks should be continued but that they might eventually be discontinued.

The Board's Division of Bank Operations has arranged with a number of Federal Reserve Banks for the receipt of key punched earnings reports of all member banks within 30 to 35 days after the end of the year. From such reports operating ratios would be computed at the Board's offices.

Reserve Banks that plan to have their earnings data available in punched cards at the Board's offices within 35 days after the end of the year may discontinue the preliminary tabulations of calendar year earnings reports. However, no plans have been made for the decentralized key punching or computer processing of midyear earnings figures, and the preliminary tabulations of these figures should be continued.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
Mr. J. P. Dreibelbis,
Senior Vice President,
Bankers International Corporation,
16 Wall Street,

Dear Mr. Dreibelbis:

January 5, 1961

In accordance with the request contained in your letter of September 27, 1960, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished therein and in letters dated October 4 and 14, 1960, and December 7, 1960, the Board of Governors grants its consent for Bankers International Corporation ("BIC") to purchase and hold 800 shares, par value US$100 each, of the capital stock of The Liberian Trading and Development Company, Ltd., ("Tradevco") Monrovia, Liberia, at a cost of approximately US$101,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that BIC shall dispose of its holdings of stock in Tradevco as promptly as practicable, in the event that the Company should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

It is understood that Tradevco's trading, shipping, and insurance activities will remain ancillary to its banking business.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
January 5, 1961

Mr. Robert F. Schlafly,
Keefe, Schlafly, Griesedieck & Ferrell,
Attorneys at Law,
314 North Broadway,
St. Louis 2, Missouri.

Dear Mr. Schlafly:

This refers to the request contained in your letter of October 10, 1960, submitted through the Federal Reserve Bank of St. Louis, for a determination by the Board of Governors of the Federal Reserve System as to the status as a holding company affiliate of a corporation to be organized to acquire shares of stock of a national bank presently owned by Mr. James R. James, Jr.

From the information submitted, the Board understands that the principal asset of the proposed corporation will be the capital stock of The First National Bank of O'Fallon, O'Fallon, Illinois; that the corporation will acquire such stock in an amount which is more than 50 per cent of the number of shares voted at the last election of directors of the bank; and that such corporation will not, directly or indirectly, own or control any stock of, or manage or control, any banking institution other than The First National Bank of O'Fallon.

In view of these facts, the Board has determined that the proposed corporation will not be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, such corporation will not be deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and will not need a voting permit from the Board of Governors in order to vote the bank stock which it proposes to acquire.
If, however, the facts should at any time differ from those set out above to an extent which would indicate that the proposed corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all factors set forth in section 18(c) of the Federal Deposit Insurance Act, as amended by the Act of May 13, 1960, and finding the transaction to be in the public interest, hereby consents to the merger of the Rogue Valley State Bank, Medford, Oregon, into The Oregon Bank, Portland, Oregon, under the charter and title of the latter bank.

The Board of Governors also approves the operation of branches by The Oregon Bank at the following locations:

Rogue Valley Branch, 1109 Court Street, Medford, Oregon

East Medford Branch, 701 East Jackson Blvd., Medford, Oregon

This approval is given provided the transactions are consummated within six months from the date of this letter and shares of stock acquired from dissenting shareholders are disposed of within six months of acquisition.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. H. G. McConnell, Vice President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis 2, Minnesota.

Dear Mr. McConnell:

Reference is made to your letter of December 19, 1960,  
enclosing copies of a request of Northwest Bancorporation,  
Minneapolis, Minnesota, for the Board's concurrence in its  
opinion that reactivation of its subsidiary, Northwestern Mortgage  
Company, Minneapolis, as a bank building company, will permit,  
under the exemption of section 4(c)(1) of the Bank Holding Company  
Act, Northwest Bancorporation's continued retention of shares in  
that Company.

On the basis of the statements by Northwest Bancorporation  
that Northwestern Mortgage Company will be engaged solely in the  
business of acquiring and holding title to or operating properties  
used wholly or substantially by one or more of Northwest  
Bancorporation's banking subsidiaries, the Board concurs in the  
opinion that the shares of the Company may be retained by Northwest  
Bancorporation, pursuant to the exemption provisions of sec-  
tion 4(c)(1) of the Bank Holding Company Act.

The Board's concurrence, as herein stated, is not to be  
construed as a determination that the properties that may be held  
or operated by Northwestern Mortgage Company will, in fact, be  
used "wholly or substantially" by any of Northwest Bancorporation's  
banks. Such determinations must turn, of course, on the circum-  
stances of actual occupancy or use made of such properties.

It will be appreciated if you will transmit the substance  
of this letter to Northwest Bancorporation.

Very truly yours,

(Signed) Merritt Sherman

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

Dear Mr. Hughes:

This is in response to your request of December 29, 1960, for the views of the Board of Governors on the draft of a proposed "Federal Mortgage Marketing Corporation Act" submitted by the Chairman of the Federal Home Loan Bank Board.

As you may know, studies are being made, by several groups, of the operation of the existing secondary market for mortgages and the obstacles to effective working of that market. In addition, a few private organizations have been set up to engage in secondary distribution of mortgages.

Until the results of these studies and practical market experiences are known and can be evaluated, setting up the proposed Federal Mortgage Marketing Corporation would seem to be premature. This is particularly true since the establishment of a corporation empowered to buy mortgages from only a limited group of mortgage originators, namely, members of the Federal Home Loan Bank System, might interfere with subsequent efforts to set up a facility designed to serve a broader segment of the market.

The Board of Governors therefore questions the desirability of the proposed legislation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.