

Minutes for April 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

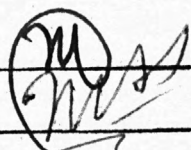
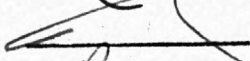
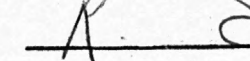
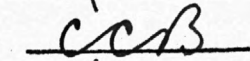
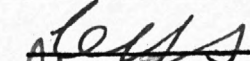
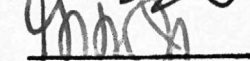

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on
 Tuesday, April 4, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Miss Carmichael, Assistant Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Noyes, Director, Division of
 Research and Statistics
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Solomon, Director, Division of
 Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Conkling, Assistant Director, Division
 of Bank Operations
 Mr. Daniels, Assistant Director, Division of
 Bank Operations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Young, Assistant Counsel
 Mr. Eckert, Chief, Banking Section, Division
 of Research and Statistics
 Mr. Wood, Senior Economist, Division of
 Research and Statistics

Discount rates. The establishment without change by the Federal
 Reserve Banks of Boston and Atlanta on April 3, 1961, 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.

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Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to The Bank of Georgia, Atlanta, Georgia, approving an extension of time to establish a branch at Moreland and Custer Avenues, S. E.	1
Letter to Cherokee State Bank, Cherokee, Iowa, approving an investment in bank premises.	2
Letter to the Presidents of all Federal Reserve Banks requesting information with regard to overdrafts in member bank reserve accounts.	3
Letter to Peoples Trust Company of Bergen County, Hackensack, New Jersey, approving the establishment of a branch at Route 46 and Hollister Road, Teterboro.	4
Letter to the Federal Reserve Bank of San Francisco approving the appointment of Tom S. Carson as Alternate Assistant Federal Reserve Agent.	5

Mr. Leavitt then withdrew from the meeting.

Report on S. 726 (Item No. 6). Pursuant to the discussion at the meeting on March 29, 1961, there had been distributed to the members of the Board a revised draft of reply to Chairman Robertson of the Senate Committee on Banking and Currency on S. 726, cited as the "Community Facilities Act of 1961."

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After a brief discussion, during which certain changes in wording were suggested and agreed upon, the letter was approved unanimously in the form attached as Item No. 6.

During the foregoing discussion Messrs. Young, Adviser to the Board and Director of the Division of International Finance, and Molony, Assistant to the Board, entered the room.

Report on S. 1127 and S. 1249. There had been distributed to the members of the Board a draft of reply to Chairman Robertson of the Senate Committee on Banking and Currency on S. 1127 and S. 1249.

Both bills would (1) authorize the Secretary of Agriculture to extend financial assistance under Title V of the Housing Act of 1949 to domestic farm laborers "to enable them to provide decent, safe, and sanitary dwellings for themselves and their families"; (2) extend the cases in which loans and grants may be made for repairs and improvements to farm buildings; (3) create a new program, administered by the Secretary of Agriculture, of insurance of loans "to any person for the purpose of providing housing and related facilities for domestic farm labor" up to \$35 million per fiscal year; (4) authorize the Secretary of Agriculture to make direct loans for provision of new housing suitable for dwelling use by domestic farm labor or rehabilitation of housing suitable for use by migratory farm labor, and authorize appropriation of \$25 million to a revolving fund for this purpose; and (5) remove

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from the restrictions of section 24 of the Federal Reserve Act real estate loans under Title V of the Housing Act of 1949 (including those made under the new programs proposed in these bills). The bills were identical except that S. 1127 would permit the Secretary of Agriculture, under the proposed direct loan program, to pass on the suitability of single or multi-family construction, and to require that occupants be given an opportunity to purchase the housing.

In response to a question raised by Governor Shepardson, Mr. Wood described his understanding of the intent of certain provisions of the proposed legislation.

Governor Shepardson then expressed the view that these provisions might open up a situation that would be disadvantageous to communities and susceptible to abuse. Accordingly, he suggested that the Board might want to raise a question regarding them.

Governor Mills observed that the Department of Labor and the Department of Agriculture reportedly were not in agreement on the approach to the problem of housing for migratory farm labor and, accordingly, it might not be desirable for the Board to become involved. Along the same line, Governor Robertson suggested that in the circumstances it might be desirable to restrict the Board's comments to the fiscal aspects and monetary implications of the bills. With this approach in mind, certain suggestions were made for revisions in the proposed letter.

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It was then agreed that the letter would be redrafted for consideration at a later meeting of the Board.

Report on Federal Home Loan Bank Board bill (Item No. 7). A memorandum dated April 3, 1961, from Mr. Noyes had been distributed to the Board regarding a request from the Bureau of the Budget for the Board's views on a draft bill submitted by the Federal Home Loan Bank Board "to amend the Federal Home Loan Bank Act and title IV of the National Housing Act, and for other purposes."

The draft bill would implement recommendations in the January 1961 Budget Message for increasing the insurance reserves of the Federal Savings and Loan Insurance Corporation and reducing the required stock investment that member savings and loan associations hold in the Federal Home Loan Banks. Proposed legislation having similar objectives but differing in approach was cleared early in 1960, but was not introduced in the Congress.

According to the draft bill, the required investment that member savings and loan associations must make in stock of the Federal Home Loan Banks would be reduced from 2 per cent to 1 per cent of the unpaid principal of member holdings of home mortgage loans and similar obligations. Existing stock in excess of 1 per cent would not be retired (although that in excess of 2 per cent could be), but no further subscriptions would be required until a member's ratio

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declined to 1 per cent through growth in its mortgage holdings. The Federal Savings and Loan Insurance Corporation would be required to establish a Primary and a Secondary Reserve. The Primary Reserve would consist of the existing general reserves of the Corporation plus future accretions out of regular premium payments of insured associations. The Secondary Reserve would be accumulated out of required prepayments by insured associations of future regular insurance premiums approximately equal to the amount of the reduced Home Loan Bank stock subscriptions, plus annual credits to allow a return on these reserves equal to the average yield to the Corporation on its holdings of U. S. Government obligations. The statutory insurance reserve goal of the Corporation would be reduced from 5 per cent to 2 per cent of the share accounts and borrowings of insured associations. As the Corporation's insurance reserves rose toward the revised 2 per cent statutory goal, the prepayment requirement would be eliminated. Later, when the goal was reached, regular premium payments also would cease.

Attached to the memorandum was a draft of letter to the Bureau of the Budget that would endorse the objectives of the proposed legislation but suggest that the provisions for accomplishing such objectives be studied further.

At the Board's request, Mr. Eckert commented in some detail on the provisions of the draft bill, his remarks being based largely on

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the analytical memorandum that had been submitted for the Board's information in connection with the proposed letter to the Budget Bureau.

There followed questions by members of the Board, to which Mr. Eckert responded, concerning the manner in which certain of the provisions of the proposed legislation would operate.

Suggestions were made for changes in the final paragraph of the proposed letter with a view to clarification and altering somewhat the tone of the language, following which unanimous approval was given to a letter to the Bureau of the Budget in the form attached as Item No. 7.

Messrs. Young (Assistant Counsel), Eckert, and Wood then withdrew.

Absorption of exchange charges (Item No. 8). On the basis of action taken at the Board meeting on November 8, 1960, a letter was sent to the Presidents of all Federal Reserve Banks requesting them to initiate a survey, in cooperation with local representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, to obtain additional information on various aspects of the relation between exchange charges and payment of interest on deposits.

In a memorandum from Mr. Conkling dated March 27, 1961, the results of this survey were outlined. Significant findings of the survey, which included 111 banks (65 national, 33 State member, and 13 insured nonmember), were summarized as follows:

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1. Under the present \$2.00 rule, survey banks may absorb 4.5 per cent of the total applicable exchange (\$33,000 of \$731,000 reported by these banks). This rule permits 80 per cent of the accounts to go free of charge (84 per cent of the nonbank accounts). However, the number of items affected by this rule is not available, and presumably all items must be scanned or recorded in some way, or at least all items deposited by certain customers, to see whether the total charge against an account exceeds \$2.00.
2. If banks were permitted to absorb the exchange charge on all items on which the charge is under 5 cents per item, they could absorb 8 per cent of the total applicable exchange; 44 per cent of the nonpar items (3.3 million of 7.6 million handled by the survey banks) could be free of charge and exempt from record keeping; and 42 per cent of the depositors' accounts could be exempt from charge.
3. If banks were permitted to absorb exchange on all items of \$25 or less, they could absorb 22 per cent of the amount; 62 per cent of the nonpar items could be free of charge and exempt from record keeping; and 44 per cent of the depositors' accounts could be exempt of charge. If the face amount figure were raised from \$25 to \$50, this would increase the foregoing figures to 31 per cent of the amount, 76 per cent of the items, and 57 per cent of the accounts.
4. Although bank depositors represented only 13 per cent of the customer accounts affected by nonpar items, 63 per cent of the exchange charges were applicable to these accounts and 66 per cent of the items were deposited by banks.
5. Costs varied widely among the reporting banks, but the median figure for banks that handled the bulk of the nonpar items was around 2 cents per item for recording, and 12 cents per customer's account for preparing the monthly debit ticket, debiting the account, and mailing the advice. Costs were higher at most banks in the survey.

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6. The survey disclosed a wide variation in practices regarding the charging of exchange. Some of the banks that handle a large volume of nonpar items apply a flat rate per \$1,000 of face amount, ranging from \$1.00 to \$2.50 per \$1,000. Other banks have schedules of, for example, 5 cents per item on items up to \$10, 10 cents per item on items up to and including another dollar figure, etc. Similar variations in practices on the part of nonpar banks were reported.

Attached to the memorandum was a draft of a proposed letter to the Presidents of all Federal Reserve Banks that would enclose information on the results of the survey. Mr. Conkling's memorandum raised certain questions for the Board's consideration concerning the distribution of such information to parties outside the System, including the organizations and banking institutions that had cooperated in the survey.

In commenting on the survey, Mr. Conkling pointed out that two summary memoranda had been prepared. One, which was somewhat longer than the other, contained district data and indicated the source of various comments received in the survey. He believed that the Board would probably want to furnish the Reserve Banks the complete results of the survey as outlined in the longer memorandum. He also felt that it might be appropriate to furnish the shorter memorandum to the commercial banks and banking organizations that had cooperated.

Governor Robertson expressed the view that both memoranda should be sent to the Reserve Banks and that a sentence should be included in

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the letter transmitting copies to the effect that the shorter memorandum could be sent to the reporting banks that had cooperated in the survey. He also felt that both memoranda should be sent to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation, with the information that only the shorter memorandum was being distributed outside the System.

With respect to the purpose of the proposed distribution of the results of the survey, Governor Robertson commented that it would be to obtain as many views as possible, analyze those views, and then come to some conclusion.

Governor Mills commented favorably on the analysis presented by the Division of Bank Operations. With regard to the proposed distribution of the survey results to the participating banks, he noted that it should be borne in mind that the distribution might be interpreted as in the nature of a request from the Federal Reserve for suggestions as to which of several possible alternatives the banks might consider most acceptable. Then, if an alternative was chosen by the banks that the Board found unacceptable, opposition and comment on the part of the banks might be engendered. Representations might be made to the Board, particularly by the larger banks, concerning the formula that they concluded would best serve their interests.

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There followed further discussion of the survey and its implications, after which the question of procedure again was raised. It was the consensus, having in mind the various considerations that had been mentioned, that a distribution along the lines suggested by Governor Robertson would be appropriate, and it was understood that steps to effect such a distribution would be taken.

A copy of the letter subsequently sent to the Presidents of all Federal Reserve Banks is attached as Item No. 8. In addition, letters reflecting the understanding as to the manner of distribution of the survey results were sent to the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, the President of the Association of Reserve City Bankers, the Chairman of the Bank Management Commission of the American Bankers Association, and the President of NABAC, The Association for Bank Audit, Control, and Operations.

Messrs. Thomas, Young (Adviser to the Board), Molony, Noyes, and Conkling then withdrew.

Request of Internal Revenue Service. Mr. Farrell reported that the Federal Reserve Banks of New York, Philadelphia, and St. Louis had received requests from agents of the Internal Revenue Service for information, to be used in connection with a pending tax case, as to the serial numbers of \$50 and \$100 Federal Reserve notes issued by the

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Federal Reserve Agents to the respective Banks between 1940 and 1960. Mr. Johns, President of the St. Louis Reserve Bank, had advised the Board that the staff of that Bank had devoted a considerable amount of time to compilation of this information for the St. Louis District, and that he thought that it would be possible to forward a report to the Internal Revenue Service later today. However, because of the volume of work involved, the Federal Reserve Banks of New York and Philadelphia were hopeful that it might not be necessary for them to furnish this information. The New York Bank had stated that it would not undertake the work in the absence of a letter from the Commissioner of Internal Revenue or some authorized alternate.

There was a question, Mr. Farrell noted, as to whether the St. Louis Reserve Bank should submit its report to the Internal Revenue Service in view of the feeling at the New York and Philadelphia Reserve Banks. It was not known, he added, whether any of the other Reserve Banks had received similar requests. It had not yet been possible to get in touch with the appropriate party at the local offices of the Internal Revenue Service, but it was hoped that some alternate procedure could be worked out to furnish any needed information without involving a large volume of work on the part of the Reserve Banks.

During the discussion that followed, it was the consensus that the Federal Reserve Bank of St. Louis should not be precluded from

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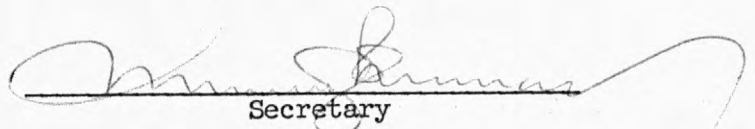
transmitting to the Internal Revenue Service the information it had compiled. However, it was agreed that an effort should be made to work out with the Internal Revenue Service, if possible, a procedure for furnishing such information as might be necessary in the easiest way possible.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Travel by Mr. Dahl. On the recommendation of Governor King the Board authorized Frederick R. Dahl, Economist in the Division of International Finance, to accompany Governor King to the annual meeting of the Bank for International Settlements to be held in Basle, Switzerland, in June 1961, and on visits to certain European central banks.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Peter N. More, Statistical Clerk-Typist in that Division, effective at the close of business April 7, 1961.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 1
WASHINGTON 25, D. C. 4/4/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1961

Board of Directors,
The Bank of Georgia,
Atlanta, Georgia.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System further extends the time within which The Bank of Georgia may establish a branch at the corner of Moreland and Custer Avenues, S. E., Atlanta, Georgia, to August 15, 1961, under the authorization contained in the Board's letter dated September 14, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 2
4/4/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1961

Board of Directors,
Cherokee State Bank,
Cherokee, Iowa.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises by Cherokee State Bank of \$180,000, for the purpose of erecting a new bank building.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM Item No. 3
WASHINGTON 25, D. C. 4/4/61



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1961.

Dear Sir:

The Board has noted that at the December 12, 1960 Presidents Conference there was some discussion of overdrafts in member bank reserve accounts. The discussion indicated that the situation might be aggravated by the recent vault cash amendment to Regulation D, and that the Reserve Banks were giving current attention to the matter.

In the light of this discussion, the Board would appreciate receiving information indicating the recent experience of your Bank with respect to overdrafts and measures employed or contemplated to deal with them, along with any other comments your Bank may care to make on the subject.

Very truly yours,

A large, stylized cursive signature of Merritt Sherman is written over the typed name and title.

Merritt Sherman,
Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



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

Item No. 4
4/4/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1961

Board of Directors,
Peoples Trust Company of Bergen County,
Hackensack, 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 approves the establishment of a branch by Peoples Trust Company of Bergen County, Hackensack, New Jersey, at the intersection of Route 46 and Hollister Road, Teterboro, New Jersey, provided the branch is established within six months from the date of this letter.

While the capital structure of the bank has failed to keep pace with the bank's growth and is believed to be below the desired level, establishment of this branch is being approved in view of the limited investment involved and the apparent convenience and needs of the area to be served. The Board wishes to emphasize the need for continued efforts to strengthen the bank's capital structure.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

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Item No. 5
4/4/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 4, 1961

AIR MAIL

Mr. F. B. Whitman, 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 March 17, 1961, the Board of Governors approves the appointment of Mr. Tom S. Carson as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco to succeed Mr. Richard G. Retallick.

This approval is given with the understanding that Mr. Carson 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 Alternate Assistant Federal Reserve Agent Mr. Carson may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

It will be appreciated if Mr. Carson 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. Carson's appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board of Governors together with advice as to the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
4/4/61

OFFICE OF THE CHAIRMAN

April 7, 1961

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 February 1, 1961 for the Board's views on S. 726, cited as the "Community Facilities Act of 1961."

This bill, as explained in the Senate at the time of its introduction, would make five principal changes in existing law relating to the public facility loan program of the Community Facilities Administration of the Housing and Home Finance Agency. It would (1) remove restrictions which have caused the rejection of loan applications filed by communities with a population in excess of 10,000; (2) remove language from existing law which in practice has limited loans primarily to projects for water and sewer systems; (3) increase the loan fund from \$150 million to \$1 billion and permit \$400 million to continue on a revolving basis; (4) provide an interest rate formula requiring a charge to borrowers of one-quarter per cent added to the current average yields on all outstanding marketable obligations of the United States; and (5) raise the maximum loan term from 40 to 50 years, with provisions for a two-year postponement of principal and interest payments where circumstances warrant such action.

The desirability of improved public services of the types traditionally provided by State and local governments is unquestionable, and needs of this kind will continue to grow as population grows. S. 726 is designed to help in meeting these needs.

The broad question of how responsibility for providing expanded community facilities (particularly in metropolitan areas) ought to be shared among Federal, State, and local governments is a matter for decision by Congress and the Executive. The interest of the Board of Governors of the Federal Reserve System in legislation in this field lies in the financial aspects and monetary implications, particularly such questions as what proportion of the total cost of these services ought to be paid for out of current taxation, what proportion ought to be borrowed, and what methods of borrowing ought to be employed. A related question is to what extent provision of physical works and facilities can and should be related to policies designed to moderate economic instability.

The Honorable A. Willis Robertson -2-

On these latter questions, it has seemed to the Board that funds made available for direct loans by the Federal Government should be appropriated. This not only permits a regular review of the necessity or desirability of the program, but also provides an occasion to consider whether it would be possible and desirable to accelerate or slow down the program in the light of general economic conditions. It has also seemed to the Board that the interest rate provided should be related to the current cost of borrowing by the Treasury for funds of a term comparable to the term of the loan, rather than to some average or historical rate.

Finally, it must be remembered that the value to local authorities of the privilege of borrowing through the U. S. Treasury, rather than directly in the market, depends on the limitation of its use. It must be borne in mind that every addition to the outstanding debt of the United States increases the debt management problems and the associated problems of monetary management, not only at the time of the initial borrowing, but at the subsequent refundings. If the borrowing which the Federal Government is required to undertake by legislation of this kind, together with that arising from other needs, is increased substantially, any favorable differential in the rate provided could well disappear.

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
4/4/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 5, 1961.



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

Dear Mr. Hughes:

The Bureau of the Budget has asked in its referral memorandum dated March 21, 1961, for the Board's views on the Federal Home Loan Bank Board draft bill, dated March 13, 1961, "To amend the Federal Home Loan Bank Act and title IV of the National Housing Act, and for other purposes."

As stated in its letter to the Bureau of the Budget dated January 18, 1960 on draft legislation having somewhat comparable objectives, the Board believes that an increase in insurance premiums payable by insured savings and loan associations would be in accord with sound financial principles in view of the rapid recent growth in the amount of shares subject to insurance by the Federal Savings and Loan Insurance Corporation. However, in the absence of special considerations of which the Board is unaware, a more simple and direct approach to raising premium payments than proposed in this draft would be preferable. An example of the hazards in drafting a complex piece of legislation of this character is the fact that while provision has been made in the draft bill for credits against regular premium payments presumably out of pre-paid premiums of insured associations after the insurance reserves reach prescribed over-all goals, there is no comparable provision for transfers from Secondary to Primary Reserves on the books of the Corporation at that time as might appear to be intended.

The proposed reduction in the required acquisition of Home Loan Bank capital stock by member associations from 2 per cent to 1 per cent, combined with a reallocation of the difference to the Federal Savings and Loan Insurance Corporation in the form of premium prepayments, does not appear objectionable. However, the Board questions the advisability of

Mr. Phillip S. Hughes

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reducing both this capital requirement and the Corporation's longer run insurance goal from 5 per cent to 2 per cent of the total amount of all accounts of insured members and creditor obligations of insured institutions. In this connection, the Board feels that establishment of any fixed goal for the Corporation's insurance reserve is questionable and should be resorted to only after the most careful consideration of all the factors involved. In any event, as stated in the Board's letter of January 18, 1960 referred to above, "there would seem to be no urgency in this matter; consideration of any liberalization in the Corporation's statutory reserve limit might well await a later date when its reserves are relatively larger and when we have had further experience with respect to its contingent liabilities."

The Board endorses the objectives of this legislation in providing for an increase in Federal Savings and Loan Insurance Corporation reserves, but feels that the proposed provisions for accomplishing these objectives are in need of further study. For example, the Board questions the advisability of the provisions which might result in the ratio of aggregate reserves to share accounts and borrowings of insured institutions fluctuating between 1-1/2 and 2 per cent rather than being maintained at 2 per cent once that level had been reached.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

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Item No. 8
4/4/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 5, 1961.

Dear Sir:

Enclosed are two copies of a staff memorandum summarizing the results of the nonpar survey requested in the Board's letter of November 8, 1960. Additional copies are being mailed you under separate cover, and it is suggested that copies be furnished to the representatives of the American Bankers Association, the Association of Reserve City Bankers, and NABAC, who cooperated with your Bank in this survey, with a request for their views with respect to the problem and its solution. Copies should also be furnished to the Chief National Bank Examiner and the Federal Deposit Insurance Corporation Supervising Examiner in your District, and copies may be furnished to the reporting banks that cooperated in the survey.

The Board is very appreciative of the tremendous effort on the part of the 111 banks that made the compilation of the statistical data possible, and of the cooperation of the representatives of the other agencies.

The memorandum discusses some of the wide variations in volume, practices, and costs with respect to nonpar items among districts and among individual banks. In your distribution of the data, it might be well to point out any major differences that exist between your District data and national totals.

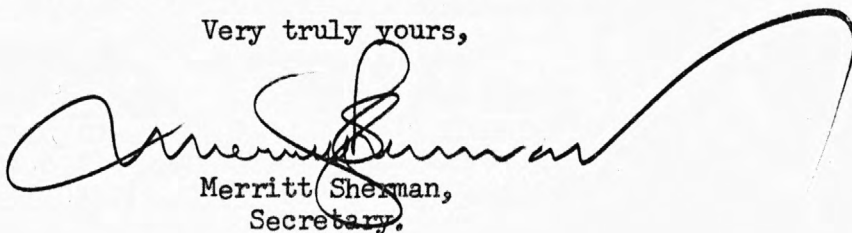
Pending receipt of the additional views requested, the Board has not modified its rule adopted November 8, 1960. As set forth in the survey summary, mixed views have been expressed regarding the present and alternative rules. It is hoped that further consideration of the problem by interested bankers and agencies will result in a generally acceptable rule that will be

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simple and clear, relatively easy to enforce, equitable to all banks and their depositors, and will hold the record keeping burden of banks within reasonable limits.

Two copies of a more detailed memorandum, containing individual district data, are also enclosed. Additional copies of both memoranda are available upon request. The more detailed memorandum is not being distributed outside the System except for copies being sent to the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation.

Very truly yours,

A large, stylized handwritten signature in dark ink, appearing to read 'Merritt Sherman', is written over the typed name and title.

Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS