Minutes for April 19, 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

Wednesday, April 19, 1961. 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. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Masters, Associate Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on April 17, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Items circulated 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:
Letter to The Union Bank and Savings Company, Bellevue, Ohio, approving an extension of time to establish a branch at 114 North Sandusky Street.

Letter to The Cleveland Trust Company, Cleveland, Ohio, approving an extension of time to establish a branch at 14461 Cedar Road, South Euclid.

Letter to The Elyria Savings and Trust Company, Elyria, Ohio, approving an extension of time to establish a branch on West Street.

Letter to The Commonwealth Mutual Savings Bank, Milwaukee, Wisconsin, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

Letter to Gateway National Bank of Fort Worth, Fort Worth, Texas, granting permission to maintain reduced reserves.

Letter to Bank of Huntington, Huntington, New York, approving the establishment of a branch in East Northport.

Letter to The Oystermen's Bank and Trust Company, Sayville, New York, approving the establishment of a branch in Bayport.

Letter to the Federal Deposit Insurance Corporation regarding a proposal by Banco Popular de Puerto Rico, San Juan, Puerto Rico, to offer for sale certificates of participation in pools of FHA insured real estate mortgages.

During discussion with reference to Item No. 8, Mr. Chase pointed out that a rather detailed reply to the Federal Deposit Insurance Corporation had been prepared with the thought that the Board might use this
letter to inform the Federal Reserve Banks of its views, particularly since it appeared that somewhat similar proposals were coming to the attention of the Reserve Banks from time to time. Agreement having been expressed, it was understood that copies of the letter would be sent to all Federal Reserve Banks.


In the memorandum from the Division of Examinations that accompanied the proposed report, it was indicated that Vice President Helmer of the Chicago Reserve Bank had concluded that "...the proposed consolidation would result in a substantial lessening of banking competition in the City of Peoria, and the Peoria Metropolitan Area, and that the consolidated bank would so dominate the bank business of Peoria's central business district, the City of Peoria, and the Peoria Metropolitan Area, that consummation of the proposed transaction would constitute a tendency toward monopoly."

In a letter dated March 31, 1961, President Allen of the Chicago Reserve Bank advised the Board that he disagreed with the foregoing conclusions. Mr. Allen noted that during the period 1950-1960 the deposits
of Central National Bank, as a percentage of deposits of all banks in the
city of Peoria and as a percentage of all deposits in the Peoria metro-
Politan area, had declined. It was his opinion that Central's competitive
Position would probably deteriorate further in the future, one reason being
that the bank was unable, due to its location, to provide drive-in and
parking facilities. He believed, therefore, that the proposed consolidation
would not substantially lessen competition. Rather, he was of the opinion
that the consolidation would bring to the Peoria area a banking service
superior to that now rendered by the two separate institutions.

Attached to the April 13 memorandum was a table showing the relative
Positions of the banks in Peoria and its metropolitan area. It was noted
that, while the relative percentage of deposits of Central National Bank
had declined 3 per cent in the city of Peoria and 3.1 per cent in Peoria
and its metropolitan area during the 10-year period beginning with 1950,
Commercial National showed decreases of 3.9 per cent and 4.6 per cent,
respectively. This would seem to indicate that Central had been able to
retain its position somewhat better than Commercial.

It was the view of the Division of Examinations, as outlined in
the draft of report to the Comptroller of the Currency, that the proposed
consolidation would result in a substantial lessening of competition,
increase the already dominant position of Commercial National Bank, and
Governors Mills and Robertson indicated that they concurred in the position taken in the proposed report.

Governor Shepardson inquired regarding the staff reaction to the points raised by President Allen, to which Mr. Leavitt replied that the situation in Peoria appeared to be similar to that in other large cities in States where branch banking is not permitted. In such cities, large downtown banks were gradually losing deposits to banks in surrounding areas. In an effort to protect itself to some degree, Commercial National Bank had established two affiliated banks. Mr. Leavitt indicated that the Division of Examinations was of the opinion that the points raised by President Allen would not seem to justify a favorable report with respect to the proposed consolidation.

During the ensuing discussion, Governor Robertson commented on the high quality of the management of the applicant bank, which indicated that the consolidated bank would render a real service to the community. Commercial National, he noted, had exerted leadership in meeting the credit needs of the community, including the needs of small business, over a period of time. On the basis of the over-all banking picture, however, he thought that the proposed consolidation of the largest and
the fourth largest banks in the city of Peoria would lessen competition in the area.

The report was then approved unanimously for transmittal to the Comptroller of the Currency. The conclusion read as follows:

The proposed consolidation of the first and fourth largest banks in the area would substantially lessen both existing and potential competition. The Commercial National Bank of Peoria which is now approximately twice the size of each of its three principal competitors would be increased to approximately three times the size of each of the remaining two banks thereby enhancing its already dominant position. This would further a tendency toward monopoly, and render the preservation of effective competition in the area more difficult.

Application to organize a national bank at Riviera Beach, Florida (Item No. 9). There had been circulated to the members of the Board a memorandum from the Division of Examinations dated April 5, 1961, proposing a favorable recommendation to the Comptroller of the Currency on an application to organize a national bank at Riviera Beach, Florida, provided satisfactory arrangements were made for executive management. The Federal Reserve Bank of Atlanta had recommended unfavorably with respect to the application on the grounds that the earnings prospects of the bank were unsatisfactory, the management factor was marginal, and there was no urgent need for the bank in the community.

Governor Mills indicated that although this appeared to be a very close case, he was inclined to concur in the position taken by the Atlanta Reserve Bank. There were, he felt, reasonable prospects for a bank in
this area, and the organizers of the bank, although of relatively moderate means, appeared to be men of good standing. However, the Atlanta Reserve Bank had expressed doubt and recommended unfavorably on the establishment of this bank. Having in mind also the general economic situation in Florida at the present time, he would, on balance, favor supporting the position taken by the Reserve Bank. Governor Mills then raised a question as to whether the stock of the proposed bank would be taken up largely by the directors and organizers or whether most of the stock would be sold throughout the community. In this connection, he observed that he would think more favorably of the application if stock ownership was to be concentrated in a small group that was willing to risk its capital.

Mr. Leavitt stated that, according to the information submitted by the Atlanta Reserve Bank, it did not appear that stock ownership would be concentrated in the hands of a small group. He added that he had talked with Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, who expressed the opinion that the application involved a borderline case. Therefore, although the Reserve Bank was recommending unfavorably on the application, it thought the bank had reasonably good prospects and it would not be particularly disturbed if the Board should arrive at a favorable recommendation.

Governor Mills said that the fact that apparently there was not to be a concentration of risk strengthened his feeling that the Board would be justified in recommending unfavorably on the application.
Governor Robertson stated that, while this appeared to be a close case, he believed the Board should recommend favorably on the application. There was, he thought, a reasonable likelihood that the bank might succeed, and he saw no particularly unfavorable factors. If the necessary funds could be obtained, he thought the sponsors should be permitted to establish the bank. He did not attach too much significance to the fact that ownership of the stock of the proposed bank apparently would not be concentrated.

Governor Shepardson said he recognized that this was a questionable case. However, since there were sufficient indications that the bank might succeed, he agreed with Governor Robertson that the sponsors should be permitted to establish the bank.

Governors King, Szymczak, and Balderston then indicated that they would be inclined to recommend unfavorably on the application. Accordingly, approval was given to a letter to the Comptroller of the Currency recommending that the application be disapproved, Governors Robertson and Shepardson dissenting. A copy of the letter sent pursuant to this action is attached as Item No. 9.

Messrs. Thomas, Molony, Fauver, Hackley, Farrell, Solomon, Hexter, Chase, Hooff, Masters, Benner, and Leavitt then withdrew.

Officers' salary structure at San Francisco (Item No. 10). A draft of letter to the Federal Reserve Bank of San Francisco had been distributed to the members of the Board that would approve a proposed revised salary structure for officer positions, effective May 1, 1961.
After discussion, the letter was approved unanimously. A copy is attached as Item No. 10.

Salaries of officers at San Francisco (Item No. 11). There had been distributed to the members of the Board a draft of letter to the Federal Reserve Bank of San Francisco that would approve the payment of salaries to certain officers of the Bank at the rates indicated for the period May 1 through December 31, 1961.

After discussion, the letter was approved unanimously. A copy is attached as Item No. 11.

The meeting then adjourned.

[Signature]
Secretary
Board of Directors,
The Union Bank and Savings Company,
Bellevue, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors has approved an extension of time until July 8, 1961, in which The Union Bank and Savings Company may establish a branch at 114 North Sandusky Street, Bellevue, Ohio. The establishment of this branch was authorized in a letter dated July 8, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
The Cleveland Trust Company,
Cleveland, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors has approved an extension of time until June 9, 1961, in which The Cleveland Trust Company may establish a branch at 14481 Cedar Road, South Euclid, Ohio. The establishment of this branch was authorized in a letter dated July 8, 1960, to be located at 14539 Cedar Road. However, the correct address is noted to be 14481 Cedar Road.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
The Elyria Savings and Trust Company,
Elyria, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors has approved an extension of time until November 1, 1961, in which The Elyria Savings and Trust Company may establish a branch on West Street just west of the intersection of Huron and Woodland Streets, Elyria, Ohio. The establishment of this branch was authorized in a letter dated September 29, 1959.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
The Commonwealth Mutual Savings Bank,
Milwaukee, Wisconsin.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to
the Board of Governors your letter dated March 31, 1961, together
with the accompanying resolution signifying your intention to
withdraw from membership in the Federal Reserve System and re-
questing waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors
waives the requirement of six months' notice of withdrawal. Upon
surrender to the Federal Reserve Bank of Chicago of the Federal
Reserve Bank stock issued to your institution, such stock will be
canceled and appropriate refund will be made thereon. Under the
provisions of Section 10(c) of the Board's Regulation H, your
institution may accomplish termination of its membership at any
time within eight months from the date the notice of intention
to withdraw from membership was given.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
Gateway National Bank of Fort Worth,
Fort Worth, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Gateway National Bank of Fort Worth to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,  
Bank of Huntington,  
Huntington, 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 by Bank of Huntington, Huntington, New York, at 385 Larkfield Road, East Northport (Unincorporated Area), Town of Huntington, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.
Board of Directors,
The Oystermen's Bank and Trust Company,
Sayville, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by The Oystermen's Bank and Trust Company, Sayville, New York, of a branch on the north side of Montauk Highway, approximately 138 feet west of Gillette Avenue, Bayport (Unincorporated Area), Town of Islip, Suffolk County, New York, provided the branch is established within twelve months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. Royal L. Coburn, General Counsel,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Coburn:

Reference is made to your letter of March 17, 1961, regarding a proposal by the Banco Popular de Puerto Rico to offer for sale certificates of participation in pools of FHA insured real estate mortgages. You state that the Board of Directors of the Federal Deposit Insurance Corporation has informally considered the proposal and has recommended that you discuss the proposal with the other two Federal supervisory agencies, to the end that a single statement could be presented to the bank which expressed the views of the three supervisory agencies on this type of transaction by an insured bank. With your letter there was enclosed for comment a proposed statement of policy of your Corporation, which states that there is doubt whether this operation would be in accordance with sound banking principles, but that certainty as to a violation of Federal law or existing regulations of the Federal supervisory agencies has not been established, and that therefore the bank is to be advised that no objection to the transaction will be interposed at this time, although other or different action may be taken in the future if deemed justified.

In view of the differences in the statutory and regulatory provisions applicable to national banks, State banks which are members of the Federal Reserve System, and all banks insured by the Federal Deposit Insurance Corporation, the Board of Governors would prefer to confine any statement of its views to a statement applicable to State banks which are members of the Federal Reserve System.

The plan which is proposed by the Banco Popular can be used as a basis for the comments of the Board of Governors. It contemplates, apparently, that the bank will make a loan from its commercial department to its trust department. With the proceeds of this loan (which might be in a round sum such as $1 million), the trust department would purchase a number of mortgages insured by the Federal Housing Administration and place such mortgages under a trust agreement, of which the bank would be trustee. Certificates of participation in
denominations of $500 and $1,000 would be offered by the bank for
sale to the public as investments. Presumably when the amount of
the first trust was sold, that particular trust would be closed and
a second trust of the same sort would be set up, to be followed by
a third, etc., consecutively.

Since such certificates of participation might very well
be regarded as "securities" within the meaning of several statutory
provisions (cf. 1934 Federal Reserve Bulletin p. 485), the proposed
operation would present a number of questions as to possible noncom-
pliance with law. For example:

(1) Section 5136 of the Revised Statutes (U. S. Code,
Title 12, section 24; made applicable to State member banks of the
Federal Reserve System by paragraph 20 of section 9 of the Federal
Reserve Act, U. S. Code, Title 12, section 335) makes it unlawful
for a member bank to engage in the business of dealing in securities,
with certain exceptions not here pertinent.

(2) Section 32 of the Banking Act of 1933 (U. S. Code,
Title 12, section 78) makes it unlawful for an officer, director, or
employee of a member bank to be an officer, director, employee, or
partner in an organization primarily engaged in selling securities.

(3) Section 20 (U. S. Code, Title 12, section 377) of the
Banking Act of 1933 makes it unlawful for a member bank to be affiliated
with an organization engaged principally in the issue, public sale, or
distribution of securities. (Section 20 and section 32 apparently would
not be applicable to an arrangement of the kind proposed by the Banco
Popular even if it were a member bank of the Federal Reserve System,
but they are mentioned because they would be applicable in some other
cases which have come to the attention of the Board of Governors.)

(4) The sale of the participation certificates might violate
section 21(a)(1) of the Banking Act of 1933 (U. S. Code, Title 12,
section 378) which makes it unlawful for any corporation engaged in
the business of receiving deposits to engage in the business of selling
securities. This is a criminal statute, and the Board of Governors
believes that it would not be appropriate for it to undertake to ex-
press an opinion as to whether a particular transaction would violate
it. The question of a violation would be for determination by the
Department of Justice.

It should be noted that an exception at the end of
section 21(a)(1) exempts the sale, "without recourse or agreement to
repurchase, of obligations evidencing loans on real estate". It is
doubtful whether this exemption would apply to obligations such as those described above which are secured, not by real estate, but by pools of mortgages, and which apparently are to be sold subject to an agreement to repurchase.

Apart from questions as to compliance with the statutory provisions referred to above, the proposed operation would appear to be objectionable for other reasons.

Footnote 6 in Regulation H of the Board of Governors, "Membership of State Banking Institutions in the Federal Reserve System", provides:

"For many years, the Board prescribed, as standard conditions of membership, a condition which, in general, prohibited banks from engaging as a business in the sale of real estate loans to the public and certain conditions relating to the exercise of trust powers, including one which prohibited self-dealing in the investment of trust funds. The elimination of these conditions as standard conditions of membership does not reflect any change in the Board's position as to the undesirability of the practices formerly prohibited by such conditions; and attention is called to the fact that engaging as a business in the sale of real estate loans to the public or failing to conduct trust business in accordance with the applicable State laws and sound principles of trust administration may constitute unsafe or unsound practices and violate the condition set forth in section 208.7(a)(1) of Regulation H.

The proposed operation would seem to involve a form of "self-dealing" because, until all the participations in a particular pool have been sold, or if any participations were repurchased, the bank would be acting as trustee and at the same time would have an interest in the pool to the extent that it held unsold participations. In this respect, therefore, the operation might be inconsistent with sound trust principles.

The plan proposed by Banco Popular suggests the possibility that another bank might adopt a similar plan for the sale of participations in pools of uninsured mortgages or other interests in real estate. In such a case, the bank might find it necessary to stand behind the participations and in effect guarantee them in order to protect its own reputation. Such a plan, therefore, would seem to constitute an unsafe and unsound banking practice."
In view of the foregoing considerations, the Board would regard the adoption by a State member bank of a plan like that proposed by the Banco Popular as being seriously questionable from the standpoint of proper trust administration and sound banking practice; and the Board might feel compelled to report such an operation to the Department of Justice as involving a possible violation of section 21 of the Banking Act of 1933.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
April 19, 1961

Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention: Mr. W. M. Taylor,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter received from your office dated June 14, 1960, enclosing copies of an application to organize a national bank at Riviera Beach, Florida, and requesting a recommendation as to whether or not the application should be approved.

The report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta indicates that the proposed capital structure for the bank would be adequate. Although the proposed directors appear to be successful businessmen and representative of the community, the proposed chief executive officer is neither aggressive, nor an outstanding executive. Future earnings prospects of the bank are only fair at best, and there appears to be no urgent need for a bank at this location although it would provide more convenient facilities for those living or working in the immediate area. In the circumstances, the Board of Governors does not feel justified in recommending favorable consideration of the application.

The Board’s Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.
CONFIDENTIAL (FR)

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

The Board of Governors has approved, effective May 1, 1961, the ranges for the officers' salary structure at the Federal Reserve Bank of San Francisco, proposed in your letter of April 7, as follows:

<table>
<thead>
<tr>
<th>Group</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$16,000</td>
<td>$22,500</td>
</tr>
<tr>
<td>B</td>
<td>$14,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>C</td>
<td>$12,000</td>
<td>$17,000</td>
</tr>
<tr>
<td>D</td>
<td>$10,000</td>
<td>$14,500</td>
</tr>
</tbody>
</table>

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
April 19, 1961

CONFIDENTIAL (PR)

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

Dear Mr. Whitman:

The Board of Governors approves the payment of salaries to the following named officers of the Federal Reserve Bank of San Francisco for the period May 1 through December 31, 1961, at the rates indicated, which are the rates fixed by your Board of Directors as reported in your letter of April 6:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. B. Merritt</td>
<td>Vice President</td>
<td>$20,000</td>
</tr>
<tr>
<td>J. B. Williams</td>
<td>Assistant Cashier</td>
<td>10,000</td>
</tr>
<tr>
<td>Los Angeles Branch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M. A. Jones</td>
<td>Assistant Manager</td>
<td>10,000</td>
</tr>
<tr>
<td>Salt Lake City Branch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. L. Price</td>
<td>Vice President and Manager</td>
<td>15,000</td>
</tr>
<tr>
<td>T. M. Simmons</td>
<td>Assistant Manager</td>
<td>12,000</td>
</tr>
<tr>
<td>R. C. Dunn</td>
<td>Assistant Manager</td>
<td>9,000</td>
</tr>
<tr>
<td>Seattle Branch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. R. Barglebaugh</td>
<td>Vice President and Manager</td>
<td>18,000</td>
</tr>
</tbody>
</table>

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.