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Minutes for July 31, 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	<u>W</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System  
on Monday, July 31, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/  
Mr. Balderston, Vice Chairman  
Mr. Mills  
Mr. Shepardson

Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Landry, Assistant to the Secretary

Messrs. Noyes, Holland, Dembitz, Williams,  
Eckert, Allen, Peret, Trueblood, Wood, and  
Yager, and Misses Dingle and Stockwell of  
the Division of Research and Statistics

Messrs. Wood, Irvine, Reynolds, Anderson, Dahl,  
Elrod, Gemmill, and Maroni of the Division  
of International Finance

Mr. Holmes, Manager, Securities Department,  
Federal Reserve Bank of New York

Economic review. Representatives of the Divisions of International  
Finance and Research and Statistics presented a review of recent foreign  
and domestic economic and financial developments, at the conclusion of  
which all members of the staff except Messrs. Kenyon, Shay, Molony, Noyes,  
Landry, and Ramsay Wood withdrew and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Young, Assistant Counsel

Chairman Martin was called from the room at this point.

1/ Withdrew from meeting at point indicated in minutes.

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Report on S. 1212 (Item No. 1). Copies had been distributed of a memorandum from the Legal Division dated July 28, 1961, concerning a request from the Senate Banking and Currency Committee for a report on S. 1212, a bill to establish a Government corporation to be known as the Redevelopment Area Industrial Mortgage Association. The purpose of the bill, as stated in its title, was "to promote the redevelopment of economically depressed areas by establishing a Government corporation which will provide a secondary market for industrial mortgages covering property in those areas."

Two alternative draft replies were attached to the memorandum, each of which would point out that the underlying purpose of the bill was much the same as that of the Area Redevelopment Act, approved on May 1, 1961. Without analyzing the provisions of S. 1212, the first draft of reply would point out that urgent demands were now being made on the nation's resources for essential programs both at home and abroad and would question the wisdom of embarking at this time on another program for depressed areas involving the use of Government funds. It would suggest that consideration of additional depressed area legislation be postponed until such time as the results of the Area Redevelopment Act could be adequately assessed. The second draft would take the same general position. However, it also would question certain basic assumptions underlying the proposed legislation and state reasons why enactment of the bill might not bring about the desired results.

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In commenting on the bill, Mr. Wood noted that the proposed Association was modeled after the Federal National Mortgage Association, but that its operations would relate to industrial mortgages in depressed areas rather than residential mortgages. However, the practices commonly followed in the financing of industrial facilities were different from those followed in financing residential properties. Thus, the type of operation contemplated seemed likely to be ineffective. It could even be harmful if it encouraged speculative construction of industrial plant without due regard to earnings prospects.

There followed a rather extended discussion of the features of the bill and of the methods generally utilized in the financing of industrial facilities, during which Mr. Wood and other members of the staff expanded on the reasons why it was felt that the proposed legislation might fail to accomplish its objectives.

Comments made by members of the Board in the course of this discussion indicated a preference for the longer alternative draft of reply, it being felt that such a reply would be helpful in establishing more clearly the reasons for an expression of opinion adverse to the enactment of the proposed legislation. Governors Mills and Balderston suggested certain changes in the alternative draft, for reasons that they stated, and agreement was expressed with those suggestions.

Accordingly, it was agreed that the alternative draft of reply, amended to the extent indicated at this meeting, would be sent if concurred in by the Chairman.

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Secretary's Note: Later in the day the letter was signed by Chairman Martin and sent to the Chairman of the Senate Banking and Currency Committee. A copy is attached hereto as Item No. 1.

Continental Bank and Trust Company (Item No. 2). On June 27, 1961, the United States District Court for the District of Columbia dismissed the suit brought against the Board by The Continental Bank and Trust Company, Salt Lake City, Utah. In consequence of this decision, the Board on June 28, 1961, ordered a hearing to be held on September 6, 1961, at which the bank would be required to show cause why the Board should not order forfeiture of its membership in the Federal Reserve System for noncompliance with the July 18, 1960, order of the Board requiring that the bank's capital be increased by not less than \$1,500,000 by the sale of common stock. On July 6, Continental filed in the District Court a motion to alter, amend, or vacate the Court's judgment of June 27, and on July 11 the Board received from Counsel for Continental a motion for a stay of the show cause hearing. On July 20, Counsel for the Board filed a motion asking the Board to extend the time within which Board Counsel might respond to the bank's motion of July 11. On July 25, a letter was sent to Counsel for Continental advising that any comment or brief with respect to the motion for extension of time would be considered by the Board if received not later than July 31, 1961. On July 27, Continental filed with the Board an opposition to Board Counsel's motion for an extension

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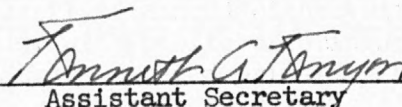
of time and, in the alternative, a motion to vacate the Board's June 28 order for a hearing.

A memorandum from Mr. Hackley dated July 28, 1961, suggested that it would appear reasonable to allow Board Counsel ten days within which to comment on Continental's latest motion and to advise Counsel for Continental accordingly.

After discussion, the procedure recommended by Mr. Hackley was approved. A copy of the letter sent to Counsel for Continental is attached hereto as Item No. 2.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Examinations, Governor Shepardson today approved on behalf of the Board an additional advance of sick leave for Herbert H. Hagler, Review Examiner in that Division, from August 1 through September 15, 1961, or until such earlier date as he may be able to return to duty.

  
Assistant Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
7/31/61

OFFICE OF THE CHAIRMAN

July 31, 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 March 9, 1961 for a report on the bill, S. 1212, "To promote the redevelopment of economically depressed areas by establishing a Government corporation which will provide a secondary market for industrial mortgages covering property in those areas."

The underlying purpose of S. 1212 appears to be to supplement the Area Redevelopment Act which was approved on May 1, 1961. The Board of Governors does not believe, however, that establishment of the Redevelopment Area Industrial Mortgage Association, as provided in S. 1212, would be effective in promoting the redevelopment of economically depressed areas, or that such legislation is necessary at this time.

Basic assumptions underlying S. 1212 are that industrial facilities are commonly financed through mortgage borrowing, much as houses are, that an effective market for such mortgages already exists, and that the supply of private credit for worthwhile industrial projects in depressed areas would be significantly increased if the Government were to stand ready to purchase industrial mortgages. All of these assumptions are subject to question.

Industrial facilities are ordinarily financed either with the operating company's own internal funds, with public offerings or private placements of bonds and notes that are secured primarily by the general credit standing of the borrower, or with term loans at banks. Mortgages may be given as supplemental security, but industrial facilities are usually too specialized to provide adequate security for mortgage borrowing alone.

Under these conditions, mortgages on industrial properties are not generally bought and sold widely enough to provide the market guidance to the Board of Directors of the proposed Association

The Honorable A. Willis Robertson -2-

contemplated in S. 1212. Neither is there a way, in most cases, of judging the risk in an investment in industrial facilities apart from the competence and prospects of the operating concern.

While existence of the Association might stimulate increased use of mortgages in financing industrial facilities, such a shift in the form of long-term credit would not necessarily result in a significant increase in the supply of long-term credit or in the volume of industrial capital outlays in economically depressed areas. Rather, particularly in view of the limitation in the bill on the Association's discretion to classify mortgages, it might encourage lenders to sell loans on industrial properties to the Association in order to make other more attractive loans within or outside the area. Moreover, in view of the absence of adequate criteria for judging the soundness and productiveness of individual proposals, the bill might also stimulate speculative construction of industrial facilities to the further detriment of depressed areas.

In view of the fact that basic legislation in aid of depressed areas was enacted only very recently, the Board believes that consideration of additional legislation along the lines of the proposed bill should be deferred until the adequacy of the enacted program has been tested.

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. 2  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1961



Barron K. Grier, Esq.,  
Miller & Chevalier,  
1001 Connecticut Avenue, N. W.,  
Washington 6, D. C.

Dear Mr. Grier:

This is to acknowledge receipt of your letter of July 27, 1961, in connection with the matter before the Board of Governors involving The Continental Bank and Trust Company of Salt Lake City, Utah, enclosing Respondent's opposition to Board Counsel's motion of July 20, 1961, for an extension of time and, in the alternative, Respondent's motion to vacate the Board's Order of June 28, 1961, to show cause and for hearing thereon. Inasmuch as this motion differs from Respondent's motion of July 11 for a stay of proceedings, the Board is allowing Counsel for the Board an opportunity to file a reply thereto on or before August 7, 1961.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

cc: Messrs. O'Connell, Chase and Powell