Minutes for August 3, 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. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System
on Thursday, August 3, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hooff, Assistant General Counsel
Mr. Benner, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Young, Assistant Counsel
Mr. Thompson, Supervisory Review Examiner, Division of Examinations

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:

Item No.

1. Letter to Chemical Bank New York Trust Company, New York, New York, approving an extension of time in which to establish a branch at 1900 Ralph Avenue, Brooklyn.

2. Letter to Farmers and Merchants' Bank, Salisbury, Maryland, approving an investment in bank premises.
Letter to the President of Miami National Bank, Miami, Florida, reaffirming the previous disapproval of the bank's trust power applications. 1/

Letter to the Federal Reserve Bank of Atlanta approving certain adjustments in the employees' salary structures at the head office and branches.

Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch at 2 Lafayette Street, Borough of Manhattan.

Letter to Chemical Bank New York Trust Company, New York, New York, approving the establishment of a branch at 277 Park Avenue to replace an existing branch at 300 Park Avenue.

Letter to The Commercial Bank and Savings Company, Fostoria, Ohio, approving the establishment of a branch in the Village of Bascom, Seneca County.

Letter to Wachovia Bank and Trust Company, Winston-Salem, North Carolina, approving the establishment of a branch at Park Road and Montford Drive, Charlotte.

Letter to United Bank of Farmington, Farmington, Missouri, approving the establishment of a branch at Washington and Liberty Streets.

Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in the vicinity of Olympic Boulevard and Purdue Avenue.

In discussion of this item, Governor Mills raised the question whether it seemed necessary to send any letter. Mr. Solomon stated that the thought was to avoid any possibility of a charge by the individual that he had written to the Board and received no acknowledgment. Governor Mills expressed some apprehension, however, that the sending of a reply might serve to keep the case alive and lead to further correspondence.
Mr. Sprecher then withdrew from the meeting.

Report on competitive factors (Kennett Square-West Grove, Pennsylvania). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of National Bank and Trust Company of Kennett Square, Kennett Square, Pennsylvania, and National Bank and Trust Company of West Grove, West Grove, Pennsylvania, had been distributed under date of July 31, 1961. The report concluded as follows:

The proposed consolidation of National Bank and Trust Company of Kennett Square, Kennett Square, Pennsylvania, and National Bank and Trust Company of West Grove, West Grove, Pennsylvania, would eliminate only a small amount of competition. It seems probable that the consolidated bank would stimulate competition in the southern Chester County area.

After a brief discussion, during which Governor Balderston commented on the competitive situation in the area concerned, the report was approved unanimously for transmittal to the Comptroller.

Report on competitive factors (Orrick, Missouri). A draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Citizens Exchange Bank, Orrick, Missouri, with The Bank of Orrick, Orrick, Missouri, had been distributed under date of July 26, 1961. The report concluded as follows:

Combining Citizens Exchange Bank and The Bank of Orrick would eliminate little competition as there is little competition between two banks which have common ownership and management. The continuing bank would be able to compete more effectively with the larger banks in Excelsior Springs, Richmond, and Kansas City.
There being no objection, the report was approved unanimously for transmittal to the Corporation.

Messrs. Hooff and Benner then withdrew from the meeting.

Request of Marine Corporation (Items 11 and 12). There had been distributed to the members of the Board a memorandum from the Legal Division dated August 2, 1961, regarding a "petition for rehearing" received from The Marine Corporation, Milwaukee, Wisconsin, in connection with the Board's denial on June 29, 1961, of the Corporation's application to acquire stock of Wisconsin State Bank, Milwaukee, Wisconsin. The memorandum pointed out that since no hearing had been held in the case, the petition should be regarded as a petition for "reconsideration" rather than "rehearing."

It was requested by the applicant (1) that the petition be granted or denied on or before August 28, the last date on which an appeal could be taken from the Board's order of June 29, or, in the alternative, that the Board stay the effectiveness of the June 29 order until a determination had been made on the petition for rehearing; (2) that if the petition should be granted, the Board stay the effective date of the June 29 order; and (3) that a hearing before the Board be permitted and that counsel for Marine be allowed to present oral argument.

It was noted in the memorandum from the Legal Division that no new material or arguments had been presented by Marine Corporation.
and that the Board could, if it so desired, deny the petition for reconsideration on those grounds. However, in view of the Board's recent decision to follow the practice of affording a merger or holding company applicant an opportunity to present further views in any case in which a majority of the Board was not prepared to approve the application, it was the opinion of the Legal Division that it would be logical to afford Marine Corporation an opportunity to present oral views before the Board.

With regard to the request for a stay of the effective date of the Board's order of June 29, 1961, it was noted the 60-day appeal period allowed by the statute ran from the date of entry of that order and could not be extended by the Board. However, if the Board should grant the petition for reconsideration, this would obviously mean that the order of June 29 would be subject to review. Following reconsideration, the Board would make a further determination of the matter by the issuance of a new order either affirming or reversing its original order. In the event that the new order should affirm the June 29 order, it was the view of the Legal Division that Marine Corporation would have 60 days from the date of the new order in which to seek judicial review. Accordingly, it would seem unnecessary, even if legally feasible, to stay the effective date of the Board's June 29 order. Determination as to whether the appeal period would begin to run from the date of the new order would be for the courts to determine.
In any event, however, Marine Corporation could save its right of judicial review by noting an appeal prior to August 28, even though the Board might not be in a position to make a further determination by that date.

Attached to the memorandum was a draft of a proposed order granting Marine Corporation's petition for reconsideration, granting the Corporation permission to present its views before the Board, and denying the request that the Board stay the effective date of its June 29 order.

At the Board's request, Mr. Hackley reviewed the facts of the case, his comments being based substantially on the August 2 memorandum. He suggested that not only from a public relations standpoint but also for legal reasons it would appear desirable to afford Marine Corporation an opportunity for oral presentation of its views. In the event of litigation, which was anticipated unless the Board's June 29 order should be reversed, the granting of such an opportunity would prevent the Board from being charged with having acted arbitrarily by not permitting the applicant to present its views.

A discussion followed as to a possible date for oral presentation, and it was agreed that either August 9 or 17 would be satisfactory to the Board.

Secretary's Note: Following the meeting, it was agreed with Marine Corporation that the oral presentation would be made on August 9, 1961.
The issuance of an order in the form attached as Item No. 11 was then approved unanimously, along with a letter to The Marine Corporation in the form attached as Item No. 12.

Mr. Thompson then withdrew from the meeting.

Report on S. 2301 (Item No. 13). There had been distributed a draft of letter to Chairman Robertson of the Senate Banking and Currency Committee replying to a request for the Board's views on S. 2301, a bill "To amend section 2 of the Federal Deposit Insurance Act with respect to the membership of the Board of Directors of the Federal Deposit Insurance Corporation." The proposed reply would state that the Board had no objection to that provision of the bill that would in effect forbid a member of the Board of Directors of the Federal Deposit Insurance Corporation from being a member of the Board of Governors of the Federal Reserve System or from holding any office or position in the Federal Reserve System. It would also indicate why the Board would prefer not to comment on whether it would be desirable, as provided by the bill, to discontinue the service of the Comptroller of the Currency as a member of the Corporation's Board of Directors. Under dates of May 5 and June 14, 1961, respectively, the Board sent similar replies on similar bills to the House and Senate Banking and Currency Committees.

After a brief discussion, the letter was approved unanimously. A copy is attached as Item No. 13.
Report on S. 2302 (Item No. 14). There had been distributed to the members of the Board a draft of letter to Chairman Robertson of the Senate Committee on Banking and Currency replying to a request for the Board's views on S. 2302, a bill "To amend section 9 of the Federal Reserve Act, section 18(d) of the Federal Deposit Insurance Act, and section 5155 of the Revised Statutes." This bill would give the Federal Deposit Insurance Corporation final authority over the establishment of branches by national banks and would transfer from the Board of Governors to the Corporation the authority to approve the establishment of branches by State member banks.

The proposed reply would express the view that the legislation was unnecessary and that consideration of applications to establish branch banks should be the function of the Federal agency having responsibility for examination and supervision of the applicants. On May 19 and June 14, 1961, respectively, similar replies were sent by the Board to the House and Senate Banking and Currency Committees with respect to similar bills.

After a brief discussion, the letter was approved unanimously. A copy is attached as Item No. 14.

Taxation of mutual savings banks and savings and loan associations (Item No. 15). A draft of letter to Chairman Mills of the House Ways and Means Committee in reply to a request for the Board's views on the Treasury Department's recent report on the taxation of
mutual savings banks and savings and loan associations had been distributed to the members of the Board. The letter would state that the Treasury report appeared to summarize accurately the various considerations bearing on the problem. It would also refer to the Board's comments of March 30, 1961, on H.R. 2899 and H.R. 2900, bills to repeal the provision of the Internal Revenue Code permitting savings and loan associations and mutual savings banks to accumulate tax-deductible bad debt reserves as long as the sum of such reserves, surplus, and undivided profits does not exceed 12 per cent of deposits or shares. In the March 30 letter the Board expressed the view that there was a serious question whether existing arrangements with respect to taxation were equitable as among various types of financial institutions, and also that the size of tax-free bad debt allowances should be determined in the same way for the other institutions as for commercial banks. The proposed letter would state that the Board was still of the view that determination of the maximum amount of tax-free additions to reserves for savings and loan associations and for mutual savings banks should be decided administratively by the Secretary of the Treasury, as in the case of commercial banks.

In discussion, Governor Mills suggested, for reasons which he stated, that the final paragraph of the proposed letter be changed to express the opinion that, subject to expressly defined statutory authority, determination of the maximum amount of tax-free additions
8/3/61

-10-

to reserves should be decided administratively by the Secretary of the Treasury. He also suggested deletion of the reference to a transitional period for equalizing the tax position of the several types of financial institutions. It was his thought that this would be implicit if discretionary authority were given to the Treasury by statute.

The letter was then approved unanimously in a form reflecting the changes suggested by Governor Mills. A copy of the letter, as sent, is attached as Item No. 15. It was understood that the Board would not object to the letter being made public by the Committee.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of New York (attached Item No. 16) approving the reappointment of John F. Allen as assistant examiner.

Tannett A. Tenny
Assistant Secretary
Board of Directors,
Chemical Bank New York Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 16, 1962, the time within which Chemical Bank New York Trust Company, New York, New York, may establish a branch at 1900 Ralph Avenue, Brooklyn, New York.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Farmers and Merchants' Bank,
Salisbury, Maryland.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment by Farmers and Merchants' Bank, Salisbury, Maryland, of $102,085.47 in bank premises.

This approval includes $62,000 estimated cost of the new building and $10,000 additional cost of land which is to be acquired by exchange of the present drive-in office plus $10,000 cash. This approval also includes $45,085.47 presently capitalized as "remodeling costs," less $15,000 representing that portion of remodeling costs which is chargeable to furniture and fixtures.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Lou Poller, President,
Miami National Bank,
Miami, Florida.

Dear Mr. Poller:

The Board of Governors has considered your letter of July 5, 1961, regarding the trust power applications of the Miami National Bank disapproved by the Board in its letter of June 29, 1961. After a careful review of your letter in the light of all the information available to the Board, the Board has found no reason to alter its earlier decisions in this matter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
CONFIDENTIAL (FR)

Mr. Harold T. Patterson,
First Vice President
and General Counsel,
Federal Reserve Bank
of Atlanta.
Atlanta 3, Georgia.

Dear Mr. Patterson:

Reference is made to your letter of July 18, 1961, in which Your Bank requests approval of upward adjustments in the salary structures applicable to the employees of your Bank and its branches.

The Board approves the following minimum and maximum salaries for the respective grades of the following structures, effective September 1, 1961.

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CONFIDENTIAL (FR)

Mr. Harold T. Patterson

The Board also approves increases to $2,400 in the minimum range for Grades 1 and 2 at Jacksonville, and for Grades 1, 2, and 3 at Nashville, without change in the maximum range of these grades.

Payment of salaries may be made to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is understood that all employees whose salaries are below the $2,400 minimum will be brought to that amount by September 3, and that salaries of other employees below the minimum of their grades as a result of the structure increase will be brought within the appropriate ranges by December 1, 1961.

The Board understands that provision will be made in the 1962 budget to cover the cost of increases arising from these changes in salary structures.

Very truly yours

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Bankers Trust Company, New York, New York, at 2 Lafayette Street, Borough of Manhattan, New York, provided the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Chemical Bank New York Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Chemical Bank New York Trust Company, New York, New York, at 277 Park Avenue, Borough of Manhattan, New York, New York, provided the branch is established within two years from the date of this letter. It is understood that operations of the branch at 300 Park Avenue in Manhattan will be discontinued simultaneously with the opening of the branch at 277 Park Avenue.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
The Commercial Bank and Savings Company,
Fostoria, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment of a branch in the Village of Bascom, Seneca County, Ohio, by The Commercial Bank and Savings Company, Fostoria, Ohio. This approval is given provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Wachovia Bank and Trust Company,
Winston-Salem, North Carolina.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves the establishment by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, of a branch at the intersection of Park Road and Montford Drive, Charlotte, North Carolina, provided the branch is established within 12 months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
United Bank of Farmington,
Farmington, Missouri.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment by United Bank of Farmington, Farmington, Missouri, of a branch at the southeastern corner of the intersection of Washington and Liberty Streets, Farmington, Missouri, provided the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of an in-town branch in the West Los Angeles Fashion Center in the vicinity of the intersection of Olympic Boulevard and Purdue Avenue, by United California Bank, 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.
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In the Matter of the Application of

THE MARINE CORPORATION

for prior approval of acquisition of
voting shares of Wisconsin State Bank,
Milwaukee, Wisconsin.

ORDER GRANTING PETITION FOR RECONSIDERATION

Whereas, the Board of Governors on June 29, 1961, entered
an Order denying the application of The Marine Corporation ("Marine")
pursuant to the Bank Holding Company Act of 1956 for prior approval
of the acquisition of stock of Wisconsin State Bank, Milwaukee,
Wisconsin;

Whereas, on July 25, 1961, Marine filed with the Board a
"Petition for Rehearing" in this matter, which Petition, in the absence
of any previous hearing, is herein regarded as a "Petition for
Reconsideration";

Whereas, in connection with such Petition, Marine has re-
quested that the Board stay the effective date of its Order of
June 29, 1961, and, further, that counsel for Marine be granted
the privilege of presenting oral argument before the Board;
IT IS HEREBY ORDERED, (1) that the Petition for Reconsideration is granted; (2) that Marine may present its views before the Board of Governors in a non-public proceeding at the Offices of the Board in Washington, D. C., on August 9, 1961, at 10 a.m.; and (3) that Marine's request that the Board stay the effective date of its Order of June 29, 1961, is denied.

Dated at Washington, D. C., this 3rd day of August 1961,
By order of the Board of Governors.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Eliot G. Fitch, President,
The Marine Corporation,
633 North Water Street,
Milwaukee 1, Wisconsin.

Dear Mr. Fitch:

The Board of Governors has granted your Corporation's Petition for Rehearing in the matter of the application of The Marine Corporation for acquisition of stock of Wisconsin State Bank, Milwaukee, Wisconsin, which was denied by the Board's Order of June 29, 1961. A copy of the Board's Order granting the Petition is enclosed. Since no hearing was held on this application, the Petition is regarded as a Petition for Reconsideration.

As indicated in the enclosed Order, opportunity will be afforded representatives of your Corporation to present oral views before the Board on August 9, 1961, commencing at 10 a.m. It is requested that the presentation be limited to one hour. Arrangements will be made for the presence of a court reporter in order to provide a transcript of the proceeding. The proceeding will not be open to the public.

The Board believes that it would not be appropriate to grant The Marine Corporation's request for a stay of the effective date of the Board's Order of June 29, 1961. It is the Board's opinion that, following reconsideration of this matter, the further order of the Board determining the matter will be subject to judicial review within 60 days from the date of its entry.

In accordance with your request, every effort will be made by the Board to determine the matter prior to August 28, 1961, but you will understand that a determination prior to that date may not be practicable.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
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 July 26, 1961, for a report on the bill, S. 2301, "To amend section 2 of the Federal Deposit Insurance Corporation Act with respect to the membership of the Board of Directors of the Federal Deposit Insurance Corporation."

The Board would have no objection to that provision of the bill that would in effect forbid a member of the Board of Directors of the Federal Deposit Insurance Corporation from being a member of the Board of Governors of the Federal Reserve System or from holding any office or position in the Federal Reserve System. The question whether it would be desirable, as provided by the bill, to discontinue the service of the Comptroller of the Currency as a member of the Corporation's Board of Directors is one with respect to which the Corporation and the Comptroller have intimate knowledge based upon their day-to-day working experience. However, because this Board of Governors does not possess such knowledge, it prefers not to comment on this provision of the bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
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 July 26, 1961, for a report on the bill, S. 2302, "To amend section 9 of the Federal Reserve Act, section 18(d) of the Federal Deposit Insurance Act, and section 5155 of the Revised Statutes."

The effect of this legislation would be to require State member banks to secure the approval of the Federal Deposit Insurance Corporation rather than the Board of Governors, as under existing law, for the establishment of branches, and to require national banks not only to secure the approval of the Comptroller of the Currency but that of the FDIC as well for the establishment of domestic branches. As to foreign branches of national banks, the bill might be regarded as requiring the approval of the FDIC in addition to the approval of the Board.

In the absence of any sound reason for this legislation, the Board does not recommend its favorable consideration. In the Board's view the legislation is unnecessary, and consideration of branch applications should be the function of the Federal agency which has responsibility for examination and supervision of applicants. Interchange of reports of examination and related data among supervisory agencies, while useful, cannot be an adequate substitute for information derived from continuing bank examination and supervisory contacts with the banks concerned.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
The Honorable Wilbur D. Mills,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in reply to your letter of July 28, 1961, requesting the Board's comments on a report from the Treasury Department on the taxation of mutual savings banks and savings and loan associations.

The report appears to summarize accurately the various considerations bearing on the problem, both with respect to taxation and national housing policy.

In response to your request for the Board's comments on H. R. 2899 and H. R. 2900, we indicated in our letter of March 30, 1961, that we felt there was serious question as to whether the existing arrangements with respect to taxation are wholly equitable as among various types of financial institutions. Certainly, there is little logic in a uniform bad debt reserve of 12 per cent of deposits (or share accounts), regardless of the nature and extent of the risk assets held by an individual institution.

The Board is of the view that, subject to expressly defined statutory authority, determination of the maximum amount of tax-free additions to reserves should be decided administratively by the Secretary of the Treasury. This would permit allowance for technical considerations related to the varying needs and experience of different types of financial institutions.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.
Mr. John F. Pierce, Chief Examiner,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Pierce:

In accordance with the request contained in your letter of August 1, 1961, the Board approves the reappointment of John F. Allen as an assistant examiner for the Federal Reserve Bank of New York, effective August 21, 1961.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.