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Minutes for December 8, 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

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Friday, December 8, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Bass, Assistant Controller
Mr. Yager, Economist, Government Finance Section, Division of Research and Statistics

Money market review. Mr. Yager reviewed developments in the Government securities market, following which Mr. Thomas summarized the bank credit situation.

Messrs. Thomas, Koch, and Yager then withdrew and the following entered the room:

Mr. Hackley, General Counsel
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. Hunter, Supervisory Review Examiner, Division of Examinations

Mr. Troup, Supervisory Review Examiner, Division of Examinations
Miss Stockwell, Economist, Capital Markets Section, Division of Research and Statistics
Mr. Fuerth, Attorney

Discount rates. The establishment without change by the Federal Reserve Bank of Kansas City on December 6, 1961, and the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Dallas, and San Francisco on December 7, 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.

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

	Item No.
Letter to Lincoln Rochester Trust Company, Rochester, New York, approving the establishment of a branch at 875 South Avenue.	1
Letter to First State Bank of Decatur, Decatur, Michigan, interposing no objection to two dividends previously declared in 1961 and approving a dividend to be declared in December 1961.	2
Letter to Senator Clark in reply to his letter of September 27, 1961, requesting further comments regarding the position taken by the Board with respect to S. 1212.	3
Letter to the Presidents of all Federal Reserve Banks inviting nominations for attendance at the 1962 annual training program of the Center for Latin American Monetary Studies. (With the understanding that appropriate steps would be taken to obtain nominations for attendance by members of the Board's staff)	4

Report on competitive factors (Chicago, Illinois). Under date of December 5, 1961, there had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Central National Bank in Chicago, Chicago, Illinois, and Merchants National Bank in Chicago, Chicago, Illinois.

After a brief discussion, during which Governor Mitchell commented on the area and the banks involved in the proposal, the report was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

> Direct competition between the two banks involved in the proposed consolidation will be reduced when the location of Central National Bank is changed. It would appear that the consolidation would strengthen the resulting bank's competitive position in the Loop area without serious adverse effects on other banks.

Report on competitive factors (Detroit and Carleton, Michigan). Under date of December 6, 1961, there had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Manufacturers National Bank of Detroit, Detroit, Michigan, and State Savings Bank of Carleton, Carleton, Michigan.

In discussion a number of changes in the wording of the conclusion were suggested by Governors Mills and Mitchell, after which it was agreed that the wording would be revised for further consideration at a later meeting of the Board.

Application to organize a national bank in Deming, New Mexico. There had been circulated a file relating to an application to organize a national bank to be located in Deming, New Mexico. The Federal Reserve Bank of Dallas had suggested an unfavorable recommendation to the Comptroller of the Currency and the Division of Examinations had suggested a favorable recommendation.

Governor Mills commented that the area in which it was proposed to establish the bank was sparsely populated, and one bank was already serving in the area. He questioned whether the community could support an additional bank.

Mr. Solomon noted that the proposal to establish the national bank was a renewal of an application made in 1960. At that time it had been felt that, while there was no strong need for a new bank, the community could probably support it, and the existing bank was not serving the area satisfactorily. On the other hand, there was a question of securing competent management for the proposed bank and, on that basis, the Board had recommended unfavorably on the application, which was subsequently denied by the Comptroller of the Currency. Since that time arrangements had been made to assure satisfactory management for the proposed bank. While this was not an open and shut case, Mr. Solomon said that he and others in the Division of Examinations believed the community would be well served by the proposed national bank and that it would be desirable to afford the proponents an opportunity to establish it.

It was noted that during the meeting on December 6, 1961, Governor King had indicated that he would be disposed to recommend favorably to the Comptroller of the Currency on this application.

After other members of the Board had indicated that they would agree with the favorable recommendation proposed by the Division of Examinations, it was understood that the Dallas Reserve Bank would be advised that the Board was disposed to recommend favorably. It was further understood that the matter would be brought back to the Board if the Reserve Bank had strong views or wished to present additional information.

Bank ratings. Governor Mills inquired whether the Division of Examinations had made a recent summary tabulation showing the trend in bank ratings. Mr. Benner replied in the negative but indicated that such a tabulation would be prepared for the information of the Board.

Messrs. Young and Molony and Miss Stockwell then withdrew from the meeting.

Application of The Elyria Savings & Trust Company. There had been distributed a memorandum from the Division of Examinations dated November 24, 1961, recommending, as had the Federal Reserve Bank of Cleveland, approval of an application of The Elyria Savings & Trust Company, Elyria, Ohio, to consolidate with The First Wellington Bank, Wellington, Ohio, and to operate a branch at the location of The First Wellington Bank. In reports to the Board, the Comptroller of the

Currency and the Federal Deposit Insurance Corporation expressed the view that the proposed transaction would not have an adverse effect on competition; the Department of Justice had taken the opposite position.

In commenting on the application, Mr. Solomon noted that the two banks involved were relatively small, one with deposits of about $34 million and the other with deposits of about $6 million. By means of the consolidation it would be possible for the resulting bank to offer improved services to the community.

During the discussion that followed, Mr. Solomon pointed out that in its analysis of the competitive factors relating to this application the Department of Justice had not taken into account banks in Lorain, Ohio, and its report to the Board indicated a judgment that the merger would reduce competition. The Division of Examinations regarded all banks in Lorain County, including those in the town of Lorain, as part of the competition in this instance. Mr. Solomon said that he believed it was more realistic to include those banks in the competitive area. On that basis, the merger would, of course, result in less concentration of banking resources than the Department of Justice indicated. Mr. Solomon did not regard this as a particularly close case for decision, and in his judgment approval of the application would be appropriate.

After discussion, the application of The Elyria Savings & Trust Company was approved unanimously, and it was understood that the Legal

Division would prepare for the Board's consideration an order and statement reflecting this decision.

Messrs. Noyes, Hooff, Benner, Troup, Hunter, and Fuerth then withdrew from the meeting.

Self insurance plan at San Francisco Reserve Bank and Los Angeles Branch (Item No. 5). There had been distributed a memorandum from the Division of Personnel Administration dated December 4, 1961, regarding an extension of the unemployment compensation program at the Federal Reserve Bank of San Francisco.

On September 13, 1960, the President of the United States had signed a bill known as the "Social Security Amendments of 1960," which, among other provisions, extended the Federal-State unemployment compensation program to cover employees of certain Federal instrumentalities not heretofore covered by the program, including Federal Reserve Bank employees. Such coverage would become effective for services performed after 1961.

It was pointed out in the memorandum that the State of California had now included in its unemployment insurance program provision both for continuation of salary and for benefits while hospitalized for employees at offices in that State with nonoccupational illnesses or injuries. Costs of this program would be covered by employee contributions, which would total about $60,000 for the year 1962.

The Reserve Bank was of the opinion that, in view of the substantial sick leave allowances acquired by its employees under the Bank's existing program, participation in the State program would provide virtually no benefit to its employees and therefore the Bank should not require those located at its San Francisco and Los Angeles offices to contribute since an alternative was available. This alternative to participation in the State administered program was available because the State of California permitted employers to self insure for equivalent benefits. Thus, the Federal Reserve Bank of San Francisco had requested the Board's approval of a self-insurance plan that would include retaining the present sick leave schedule and supplementing it where necessary to provide the minimums required by the State. The total costs to the Reserve Bank for this self insurance would be about $14,000 or $15,000 per year, in comparison with employee contributions for 1962 of about $60,000 if they were required to enter the State plan.

The proposed self-insurance program and form of notice to employees had been approved informally by the State of California and, if approved by the Board, the Reserve Bank would then proceed to circulate the proposal to its Head Office and Los Angeles Branch employees for their approval.

Attached to the memorandum was a draft of letter to the Federal Reserve Bank of San Francisco that would approve self insurance by that Bank for unemployment compensation disability benefits for its Head Office and Los Angeles Branch employees to the extent required by the State of California, providing this plan were approved by the employees affected and by the State.

After Mr. Sprecher outlined the proposal, as covered in the December 4 memorandum, the letter was approved unanimously. A copy is attached as Item No. 5.

Miss Carmichael then withdrew from the meeting.

Retirement allowance contract between St. Louis Reserve Bank and Mr. Johns (Item No. 6). In a letter dated November 30, 1961, Mr. McBride, Chairman of the Federal Reserve Bank of St. Louis, stated that D. C. Johns had expressed a desire to retire shortly as President of the St. Louis Reserve Bank. Mr. McBride indicated that he wished to propose to the Bank's Board of Directors that the St. Louis Reserve Bank supplement Mr. Johns' retirement benefits so as to bring the total up to 40 per cent of his final annual salary, reduced by the application of the pension reduction factors of the Bank Plan of the Retirement System of the Federal Reserve Banks in the event of his retirement prior to age 65. The proposal outlined in Mr. ~~Johns'~~ McBride's letter was in line with the procedure agreed upon by the Board on November 18, 1959.

There had been prepared and circulated a draft of reply that would indicate that the Board of Governors was prepared to approve the proposal outlined if it was first approved by the St. Louis Reserve Bank's Board of Directors. The letter would enclose copies of an agreement that had been used in similar circumstances by other Reserve

Banks and which, upon advice that the St. Louis Reserve Bank had given its formal approval and after that Bank as well as Mr. Johns had executed the agreement, would be executed by the Secretary of the Board on behalf of the Board of Governors.

During discussion Governor Robertson said that, as he had indicated when the question of retirement allowance contracts for Reserve Bank Presidents was discussed on November 18, 1959, and on several occasions since then, he continued to oppose agreements of the type proposed. However, inasmuch as the Board had approved similar contracts for other Reserve Bank Presidents, he saw no purpose in voting against the agreement for the President of the Federal Reserve Bank of St. Louis.

The letter to Mr. McBride was then approved unanimously. A copy is attached as Item No. 6.

Mr. Sprecher then withdrew from the meeting.

Proposed study group (Item No. 7). Pursuant to the understanding at the Board meeting on December 4, 1961, Governor Robertson reported that he had discussed with Comptroller of the Currency Saxon his proposal for the appointment of a group to study (1) the statutes, (2) the rules and regulations, and (3) the interpretations thereof, pertaining to commercial bank supervision, growth, and development, and to submit a report by April 1, 1962. Mr. Saxon contemplated that the group would be asked to recommend changes in the law, the regulations, or the interpretations relating to such diverse matters as real estate loans under section 24 of the Federal Reserve Act, trust powers and Regulation F, interest rates and Regulation Q, reserve requirements and Regulation D, and any other laws or regulations under which the growth and development of banking might be impeded by supervisory authorities. The only area specifically excluded from the scope of the study was the field of competition which was to be the subject of study by another group.

Governor Robertson pointed out that Mr. Saxon was exploring the possibility of the Board's joining with him in sponsoring and designating the composition of the study group as well as in preparing information and background data to be presented to the group regarding the laws, regulations, and interpretations.

Governor Robertson had indicated to Mr. Saxon that he would submit the matter to the Board for consideration. At the same time he said it was his own personal view that this type of study group would produce very little of value, first, because of the difficulty in finding competent men who were able to devote sufficient time to the project and, secondly, because the people serving would at best have a superficial knowledge of the whole range of subjects to be considered. Governor Robertson also informed the Comptroller that he felt it would be more valuable to establish an advisory council to which specific matters could be submitted from time to time for brief study sessions.

Governor Robertson recommended that the Board not participate in the study group proposal and suggested a letter to the Comptroller that would question the efficacy of the proposed broad study in such a short period of time but would indicate that, if the study group should be established, the Board and its staff would be glad to assist in any way possible.

There being agreement with the views expressed by Governor Robertson, the letter to the Comptroller of the Currency was approved unanimously. A copy is attached as Item No. 7.

Proposed consolidation in Kansas City, Kansas (Item No. 8). There had been distributed a memorandum from Mr. Solomon dated December 6, 1961, regarding a letter that had been received from President Blanchard of The Commercial National Bank, Kansas City, Kansas, with reference to the proposed consolidation of Security National Bank and Riverview State Bank, both of Kansas City, Kansas. According to the letter, interests that controlled Riverview State Bank had acquired substantial stock holdings in Commercial National with a view toward merging the two institutions; this merger had not been consummated; the proposed consolidation of Riverview State Bank into Security National Bank would give the controlling interests of Riverview State Bank substantial voice in the business of Security National; and, with their holdings in the stock of Commercial National, those interests would be in a position to impair the ability of that bank to compete. President Blanchard stated that his bank had no objection to the proposed consolidation as such but suggested that a condition be attached to any approval so that the holders of stock in Riverview State Bank (and subsequently in Security National) would be required to dispose of their stock in Commercial National. The letter went on to say that Commercial National Bank would appreciate an opportunity of a personal hearing.

Mr. Solomon pointed out that in conversation Mr. Blanchard had said that the letter to the Board was simply a duplicate of the one filed with the Comptroller of the Currency and there was no intention to request a hearing before the Board. His purpose in writing was apparently to influence whatever report the Board might file with the Comptroller of the Currency on the competitive factors involved in the proposed consolidation.

Attached to the memorandum was a draft of reply to Mr. Blanchard that would state that the Board's report on the competitive factors in the proposed consolidation had already been furnished the Comptroller and that, following consideration of the information contained in his letter, the Board would decide what further report, if any, would be made to the Comptroller.

In discussion, Governor Robertson suggested that there be no reference in the letter to a possible supplementary report. It was his view that the letter should merely indicate that the Board's responsibility in the matter was limited to furnishing a report on competitive factors to the Comptroller, which had already been done. Copies of

Mr. Blanchard's letter and the Board's reply could then be sent to the Comptroller for his information.

There was general agreement with Governor Robertson's suggestion, and it was understood that the letter would be redrafted along those lines. A copy of the letter as sent is attached as Item No. 8.

All members of the staff except Messrs. Sherman and Fauver then withdrew and the Board went into executive session.

Director appointment. Chairman Martin stated that at the time the Board authorized him on November 29, 1961, to discuss with Ethan A. H. Shepley whether he would accept appointment, if tendered, as Class C director of the Federal Reserve Bank of St. Louis for the three-year term ending December 31, 1964, he was under the impression that Deputy Chairman Longwell was not eligible for reappointment as Class C director for another term. However, before approaching Dr. Shepley he had learned that Dr. Longwell was eligible for reappointment. Accordingly, Chairman Martin said that he would prefer to reappoint Dr. Longwell as a Class C director for the three-year term and as Deputy Chairman for the calendar year 1962.

There being agreement, J. H. Longwell, Director, Special Studies and Programs, College of Agriculture, University of Missouri, Columbia, Missouri, was reappointed as Class C director of the Federal Reserve Bank of St. Louis for the three-year term ending December 31, 1964, and as Deputy Chairman for the year 1962.

The meeting then adjourned.

Secretary's Notes: Pursuant to the action of the Board on November 29, 1961, a telegram was sent to Dolph Simons on December 7, 1961, advising him of his appointment as a Class C director of the Federal Reserve Bank of Kansas City.

Pursuant to the action of the Board on November 29, 1961, telegrams were sent today to the following persons advising them of their appointments as directors of the Federal Reserve Bank branches indicated:

Barney Alden Tucker (Cincinnati)
Fletcher Lauman Byrom (Pittsburgh)
James W. Miller (Detroit)
John T. Harris (Omaha)

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved today on behalf of the Board the following actions relating to the Board's staff:

Appointment

Suzanne Courtright as Statistical Clerk in the Division of Research and Statistics, with basic annual salary at the rate of $3,865 per annum, effective January 29, 1962.

Salary increase with change in title

Edna L. Stoll, from $4,670 to $4,840 per annum, with a change in title from Records Clerk to Senior Records Clerk, Office of the Secretary, effective December 10, 1961.

Transfer

Barbara Passell, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of International Finance, with no change in basic annual salary at the rate of $4,040, effective December 10, 1961.

Advance of sick leave

M. Callie Wickline, Nurse, Division of Personnel Administration, an additional advance of sick leave for a sufficient number of days (about six) to enable her, with the use of her remaining annual leave, to remain on a pay basis through the end of the calendar year 1961.

Acceptance of resignation

Irene Butter, Economist, Division of Research and Statistics, effective at the close of business December 8, 1961.

Payment of per diem while on sick leave

G. H. Bockman, Assistant Federal Reserve Examiner, Division of Examinations, allowed per diem for the period November 1-30, 1961, while on sick leave.

Secretary

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

Item No. 1
12/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1961

Board of Directors,
Lincoln Rochester Trust Company,
Rochester, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of an in-town branch at 875 South Avenue, Rochester, Monroe County, New York, by Lincoln Rochester Trust Company, provided the branch is established within six months from the date of this letter.

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
12/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1961

Board of Directors,
First State Bank of Decatur,
Decatur, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System has received a copy of a letter dated October 26, 1961, from Mr. E. E. Copley, President, First State Bank of Decatur, addressed to Mr. Hugh J. Helmer, Vice President of the Federal Reserve Bank of Chicago, requesting approval of dividends of $16,000 each paid on March 2 and August 2, 1961, or a total of $32,000. These dividends were declared in contravention of Section 9, paragraph 6, Federal Reserve Act, and Section 5199(b), United States Revised Statutes, since the approval of the Board of Governors should have been obtained before their declaration. Mr. Copley's letter also requests approval of another dividend to be declared in December 1961 in the amount of $8,000.

After giving careful consideration to the facts related to this matter, the Board of Governors will make no objection to the two dividends previously declared in 1961 and approves the dividend of $8,000 to be declared in December 1961. This letter covers only the declaration of the above dividends and does not authorize any other declaration of dividends for 1961 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
12/8/61

OFFICE OF THE CHAIRMAN

December 11, 1961

The Honorable Joseph S. Clark,
United States Senate,
Washington 25, D. C.

Dear Senator Clark:

In your letter of September 27, you requested that the Board of Governors reconsider the position it took with respect to S.1212.

Your letter and the transcript of the hearings on the bill indicate that mortgages have been a common form of industrial financing by lenders in redevelopment areas in Pennsylvania, and that these lenders are now faced with serious liquidity problems. The Board agrees that purchase of some of these industrial mortgages by an agency of the Federal Government could alleviate the liquidity problems of these lenders. Nevertheless we question whether the program would at the same time, as the preamble to the Bill states, "promote the redevelopment of economically depressed areas" or "provide a secondary market for industrial mortgages covering properties in those areas." I shall try, in the pages that follow, to answer the questions raised in your letter and to spell out the reasoning that underlies the Board's adverse reaction to S.1212.

At the outset, I should like to point out that the Board's original appraisal of S.1212 took account of nationwide financing practices, and our statements would not necessarily apply to particular borrowers or lenders. Thus our statement on the importance of industrial mortgage financing referred to the country as a whole, and the redevelopment areas in Pennsylvania may well be different. Statistics included in the flow-of-funds accounts show that mortgage financing represented, on the average, less than 10 per cent of the outlays on fixed assets of all nonfinancial, nonfarm businesses in the country, during the five years 1955-60. Our staff tells me that the ratio would undoubtedly be much lower if it were possible to exclude mortgaged properties not of an industrial nature but included in the total, such as apartment houses, office buildings, shopping centers, and other commercial properties which are generally financed extensively with mortgages.

Also, the Board's original report viewed the proposed legislation in terms of its probable effect on the supply of private long-term credit for industrial expansion. Your letter, on the other hand, states that your concern is not primarily with the supply of credit but with the liquidity of lending institutions, and we have considered the bill from this point of view.

The proposed legislation could improve the liquidity of lenders by enabling them to reduce the proportion of long-term investments, and increase the proportion of shorter term loans, in their portfolios. A number of witnesses indicated that the lenders they represented are presently unable to meet demands for short-term commercial and consumer instalment loans because so much of their lending capacity is tied up in industrial mortgages. To the extent that proceeds from sale of such mortgages to the Association were not reinvested in new industrial mortgages but were channeled into shorter term business and consumer loans, the liquidity of lenders would be improved but the availability of private long-term credit for industrial expansion would not be increased. Rather, unless the Association were successful in selling to other private investors the mortgages it purchased, the Federal Government would simply be taking over the industrial financing role now played by private institutions.

Liquidity of lenders may also be improved by increasing the marketability of their long-term investments. There are, however, a number of obstacles to accomplishing this in the case of industrial mortgages. The creation of a secondary market in industrial mortgages by a Federal agency organized to buy and sell such mortgages involves problems that neither the Government nor private lenders are required to face in the case of FNMA operations. FNMA was established to deal in, and has dealt only in, Government-underwritten mortgages made under fairly uniform standards that relate as much to the marketability of the property as to the creditworthiness of the borrower.

Every loan that the RAIMA would purchase, on the other hand, would be a conventional mortgage on industrial facilities, often built to fit the needs of one company. The value of such industrial property given as security for a loan often depends to a large extent on the operating success of the business involved. The primary lender who accepts such property as security has examined and judged the business operation and is prepared to keep watch over it. For a secondary purchaser of an industrial mortgage, whether the Federal Government or another private investor, to make a similar appraisal and to watch over the borrower can be quite expensive.

Furthermore, in case of default, later sale of specialized industrial facilities could prove exceedingly difficult and could involve substantial price concessions.

Thus the Association would often need to base its appraisals of mortgages it was taking over, not primarily on the marketability of the property, but on the prospects for continuing good earnings, competent management, and satisfactory credit performance of the borrower. This individualized type of analysis would represent a marked departure from the standardized basis on which FNMA purchases mortgages and would, as noted, hamper the later sale of such mortgages to private investors such as insurance companies, commercial and mutual savings banks, and savings and loan associations.

It may be noted that a secondary market of the type envisioned in S.1212 is not well developed even for residential mortgages despite existence of FNMA and the fact that houses are more readily marketable than industrial facilities. Secondary investors in Government-underwritten mortgages buy them to a large extent on the strength of the Government's insurance or guarantee. Secondary purchases of conventional mortgages are ordinarily made in conformity with the purchaser's specifications, which are often quite detailed, and relatively few residential mortgages are sold more than once. Thus, experience with secondary marketing of residential mortgages does not suggest that the Association would have much success in finding private investors that were willing to take over the mortgages it purchased from primary lenders.

In this connection, we did not mean to imply that "establishment of the proposed Association would result in the impairment of the judgment of existing financial institutions in regard to the soundness of industrial mortgages" but, rather, that neither the Federal Government nor private investors who would be expected to participate as purchasers in the secondary market have the means of judging such investments as they do in the case of Government-underwritten mortgages. Again, none of the comments in our original report should be interpreted as applying specifically to lending institutions in northeastern Pennsylvania, some of whom have had considerable experience in investigating, making, and servicing industrial mortgages.

The paragraph in our letter that seemed contradictory to you (section III of your letter) could perhaps have been stated more clearly. Our point related to the flow of private long-term credit into industrial mortgages. What we had in mind was the possibility that some lenders might simply turn their low-interest industrial mortgages over to the Association in order, not to reinvest the proceeds in similar new mortgages, but rather to meet loan demands, or take advantage of attractive loan opportunities, in other credit areas--i.e., short-term loans or long-term financing of nonindustrial or highly speculative projects. Or, in order to assure that long-term advances to industrial concerns would be eligible for later sale to the Association, they might take a mortgage from businesses that they would otherwise have financed on an equity or unsecured loan basis. Neither of these shifts would increase the flow of private long-term credit for sound industrial expansion projects.

You asked if the Board does not agree that the effects of the legislation, even if not extensive, "would be beneficial and could hardly be detrimental." So far as depressed areas alone are concerned, we would agree that, even if private institutions reinvested in new industrial mortgages only a very small part of the funds obtained by selling existing mortgages to the Association, that very small additional credit would probably be beneficial to the area, and the shift of a large proportion of industrial mortgage credit from private hands to the Federal Government would not act to the detriment of the area.

From a broad national point of view, however, we would question the feasibility and appropriateness of the legislation, even if private institutions reinvested in new industrial mortgages the full amount of the proceeds obtained from selling outstanding mortgages to the Association. As already noted, the proposed legislation does not provide for simply a FNMA for industrial mortgages. It is questionable whether it would be feasible for the Federal Government to establish a secondary market for conventional mortgages on industrial properties. Aside from the specialized nature of these properties, the sharp differences of opinion as to the importance of mortgages in industrial financing suggest that the Federal Government should not make the attempt to provide a nation-wide secondary market in such investments without first obtaining more information on the primary market for them, both in redevelopment areas and in the country as a whole. Furthermore, from the point of view of national policy, we question the appropriateness of the Federal Government providing assistance to lenders by taking over low-interest mortgage loans to companies with as ready access to the usual credit markets as some of those mentioned in the hearings (for example, RCA, Foster Wheeler or Mergenthaler Linotype). Finally, before a new program is established, it might be preferable to allow other recently-enacted Federal business assistance programs involving long-term industrial credit to prove themselves.

You also asked us to comment on the CED proposal for the establishment of Federal Reserve Development Corporations. Our views on this proposal were given in my letter of April 5, 1961 to Mr. Neal and I am enclosing a copy of that letter.

This, also, is a very long letter--considerably longer than your letter to me. I have taken this much space, however, in the hope that I could clarify the points in my original letter that you found contradictory, and to indicate the results of our further thinking about S.1212.

The Board is sympathetic with the objectives and good work of organizations like the Northeast Pennsylvania Industrial Development Council. I have been in touch with representatives of the Council and have indicated my willingness to meet with them. We are supplying you with extra copies of this letter in case you would like to pass them on to the Council or to others who are interested in the provisions of S.1212.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

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

Item No. 4
12/8/61

Z-5362(On office copies only)

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

December 8, 1961.

Dear Sir:

The Board has received a letter dated November 29, 1961, (copy attached) from the Center for Latin American Monetary Studies inviting the System to designate one or more persons to participate in its Tenth Annual Training program to be held from April 23 through August 10, 1962. Your Bank was advised of this program in letters from the Board dated January 13, 1958 and April 30, 1957, and the System has had at least one participant in each of the last several years.

If your Bank would like to nominate someone to participate in the 1962 program, please submit the nomination not later than the end of January. Each nomination should be accompanied by a brief resumé of the candidate's training and experience. As previously indicated, nominees should have a sufficient command of Spanish to be able to participate effectively in the program of the Center, both in the formal meetings and in the informal contacts with other trainees. While some of the courses are at a relatively elementary level, System participation is felt to be helpful both in terms of increasing the participant's knowledge of the financial and economic problems of Latin America and in indicating our active interest in the personnel and operations of Latin American central banks.

The blank forms to be filled out, mentioned in the third paragraph in the letter from CEMLA, will be supplied at a later date to those candidates who are nominated and whose attendance is approved by the Board of Governors.

Very truly yours,

Merritt Sherman,
Secretary

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

CENTRO DE ESTUDIOS MONETARIOS LATINOAMERICANOS

SAN JUAN DE LETRAN No. 2 - PISO 32

MEXICO 1, D. F.

4131

DIRECCION CABLEGRAFICA
CEMLA

November 29, 1961

Mr. William McC Martin
Chairman of the
Board Reserve System
Washington 25, D.C.
U.S.A.

Dear Chairman Martin:

In approving CEMLA's programme of activities for the year 1961-1962, our Governing Board authorized us to organize the Tenth Technical Training Programme, along similar lines of its predecessors. For your guidance, we are enclosing herewith a copy of our brochure containing the Eighth (1960) Program.

This time, however, the course will last 16 weeks, from Monday 23rd April to Friday 10th August, 1962, both dates inclusive.

We are specially pleased to extend a cordial invitation to the Board of Governors of the Federal Reserve System to nominate one or more members of its staff to participate in next year's programme. For this purpose we are attaching four copies of our Letter of Introduction and Personal History form to be filled in by the Board's appropriate authority, and by the nominee.

Looking forward to a favourable decision so that we shall have at least one participant from your organization please accept, Sir, the assurances of our kind consideration.

Yours sincerely

F. Martinez

Fernando Rivera
Assistant Director

FR/mtr.

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

Item No. 5
12/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1961

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

Dear Mr. Swan:

In reply to your letter of November 20, 1961, the Board approves self insurance for unemployment compensation disability benefits for employees at your Head Office and Los Angeles Branch to the extent required by the State of California, providing this plan is approved by the employees affected and by the State.

The Board would appreciate being advised at the time that this self-insurance program becomes effective.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 6
12/8/61

December 8, 1961.

Confidential (FR)

Mr. Pierre B. McBride,
Chairman of the Board,
Federal Reserve Bank of St. Louis,
c/o Porcelain Metals Corporation,
1400 South 13th Street,
Louisville 10, Kentucky.

Dear Mr. McBride:

The Board of Governors is prepared to approve your proposal concerning the supplementing of Mr. D. C. Johns' retirement benefits in the manner expressed in your letter of November 30, 1961, if such action is taken by your Board of Directors.

For the purpose of placing this proposal in effect, there are enclosed three copies of an Agreement, which has been used for this purpose with certain other Federal Reserve Banks, which may be executed by the Federal Reserve Bank of St. Louis and Mr. D. C. Johns.

If you and Mr. Johns will execute such an Agreement in triplicate, the Secretary of the Board of Governors will affix his signature and will return the original and one copy to you for your records and that of Mr. Johns.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

Note: Agreement signed by Secretary on behalf of Board of Governors on December 21, 1961.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
12/8/61

OFFICE OF THE CHAIRMAN

December 8, 1961

Dear Jim:

Your proposal to establish a group of people outside of government to study the statutes, rules and regulations, and interpretations thereof, pertaining to commercial bank regulation and supervision has been the subject of discussion by the Board.

While we question the efficacy of such a broad study in such a short period, we believe that studies of carefully delineated areas and problems in the field of bank supervision and regulation by competent groups always have the potential of bringing forth new and good ideas. If you establish a study group of the kind you propose, you may be assured that the Board and its staff will be only too glad to counsel with you or the group on matters of mutual interest, where we feel we can be of some assistance, and otherwise to be as helpful as possible.

Sincerely,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Honorable James J. Saxon
Comptroller of the Currency
Room 3120 Main Treasury Building
Washington 25, D. C.

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

Item No. 8
12/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1961.

Mr. Henry G. Blanchard, President,
The Commercial National Bank,
Kansas City, Kansas.

Dear Mr. Blanchard:

This will acknowledge receipt of your letter of December 5, 1961, regarding the proposed consolidation of Security National Bank and Riverview State Bank, both of Kansas City, Kansas.

While your letter referred to the possibility of a hearing, you have subsequently stated that you did not wish to request a hearing by the Board. As you know, under section 18(c) of the Federal Deposit Insurance Act, the decision to approve or disapprove the proposed consolidation lies within the jurisdiction of the Comptroller of the Currency; the Board's responsibility in the matter is limited to the furnishing to the Comptroller of the Currency of a report on the competitive factors involved in the proposal, which has already been done. However, a copy of your letter and of this reply are being furnished to the Comptroller of the Currency for his information.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.