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Minutes for January 18, 1962

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

mw

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, January 18, 1962. 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. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, 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. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Young, Senior Attorney
Mr. Veret, Attorney
Mr. Wood, Senior Economist, Division of
Research and Statistics
Mr. Troup, Supervisory Review Examiner,
Division of Examinations

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

Letter to Peoples and Union Bank, Lewisburg,
Tennessee, approving the establishment of a
branch at 422 East Commerce Street.

Item No.

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Item No.

Letter to the Federal Reserve Bank of Dallas advising of a stay of the Board's order directing the divestment of certain bank shares by C. B. Investment Corporation, Houston, Texas.

2

Letter to all Federal Reserve Banks inviting comments with respect to Regulation K.

3

Report on competitive factors (Pottsville-Orwigsburg, Pennsylvania).

There had been distributed to the Board a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Pennsylvania National Bank and Trust Company of Pottsville, Pottsville, Pennsylvania, and The First National Bank and Trust Company of Orwigsburg, Orwigsburg, Pennsylvania.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

Competition between The Pennsylvania National Bank and Trust Company of Pottsville and The First National Bank and Trust Company of Orwigsburg is minor. It does not appear that the proposal will have adverse competitive effects on other banks in the area.

Examiners' Conference. Pursuant to the recommendation contained in a memorandum from Mr. Benner dated January 15, 1962, which had been distributed, unanimous approval was given to the holding of a Conference of Representatives of Bank Examination Departments of Federal Reserve Banks at the Federal Reserve Building on March 26-27, 1962. The memorandum noted that it was planned to arrange a dinner at a local

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hotel for Reserve Bank representatives and designated Board personnel in connection with the conference.

Messrs. O'Connell and Benner then withdrew from the meeting.

Report on S. 2528 (Item No. 4). There had been distributed a memorandum from the Legal Division dated January 12, 1962, submitting a draft of letter to the Senate Banking and Currency Committee with regard to S. 2528, a bill to authorize the establishment of Federal mutual savings banks. As noted in the memorandum, this bill was a revision of bill S. 3796, on which the Board reported to the Senate Banking and Currency Committee in its letter of December 9, 1960. However, it was felt that the points made by the Board in its report on S. 3796 continued to be applicable. Accordingly, the proposed letter would consist essentially of a quotation from the Board's letter of December 9, 1960. In that letter the Board raised certain broad questions regarding the effects of such legislation, along with questions on specific provisions of the bill.

In discussion, Mr. Cardon suggested that instead of including the quoted material in the proposed letter, it might be preferable to include the summary of points raised in the 1960 letter that appeared in the memorandum from the Legal Division. General agreement was expressed with this suggestion. However, Governor Mills raised the question whether the Board would also want to comment in its report on S. 2528 regarding the provision in that bill whereby Federally chartered mutual savings banks would be insured banks under the

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Federal Deposit Insurance Corporation, particularly in view of the differences between the functions of such banks and those of insured commercial banks. A related point mentioned by Governor Mills was that, despite the insurance arrangement, the mutual savings banks would fall under the supervision of the Federal Home Loan Bank Board. After some discussion of those points, Mr. Cardon observed that there were many questions involved in this proposed legislation into which one might go as an academic matter. However, there did not appear to be enough support for the bill to indicate much possibility that it would be passed. In its 1960 letter on S. 3796, the Board had refrained from taking a definite position, and in the present circumstances it was Mr. Cardon's thought that the Board might wish simply to indicate, in effect, that the new bill did not resolve the questions raised previously by the Board.

At the conclusion of the discussion, unanimous approval was given to a letter to the Chairman of the Senate Banking and Currency Committee in the form attached as Item No. 4.

Messrs. Cardon and Young (Senior Attorney) then withdrew from the meeting.

Application of Columbus Junction State Bank. There had been distributed to the Board a memorandum from the Division of Examinations dated January 3, 1962, recommending favorably on an application by Columbus Junction State Bank, Columbus Junction, Iowa, for consent

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to purchase the assets and assume the liabilities of The Louisa County National Bank of Columbus Junction.

At the Board's request, Mr. Leavitt made a statement concerning the facts of the case and the reasons underlying the recommendation of the Division of Examinations, his comments being based substantially on the information presented in the January 3 memorandum.

In the ensuing discussion, all of the members of the Board indicated that they would favor approval of the proposed transaction. Governor Robertson commented, in this connection, that the size of the community and of the smaller of the two banks concerned apparently was not sufficient to enable that bank (Louisa County National Bank) to obtain capable management. In his judgment, this outweighed an adverse factor, namely, that banking competition in the town would be eliminated by consummation of the proposed transaction.

Accordingly, the application was approved unanimously, with the understanding that the Legal Division would prepare drafts of an order and supporting statement for the Board's consideration.

Messrs. Leavitt, Troup, and Veret then withdrew from the meeting.

Collection of data on mortgage interest rates (Item No. 5).

In a letter to Mr. Noyes dated January 10, 1962, the Chief of the Division of Research and Statistics of the Federal Deposit Insurance Corporation submitted a draft of letter proposed to be sent to banks in connection with the Corporation's proposal to collect information

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on conventional mortgage interest rates and related items. These data, when collected, would be combined with information to be collected by the Federal Home Loan Bank Board from other lenders. In its proposed letter to reporting banks, the Corporation intended to state that the "arrangement has the approval of the Office of the Comptroller of the Currency and of the Board of Governors of the Federal Reserve System". In the letter to Mr. Noyes, assurance was requested that the use of such language was agreeable to the Board.

A memorandum from Mr. Noyes dated January 16, 1962, which had been distributed, recommended that the Board agree to the inclusion of the proposed language in the letter from the Federal Deposit Insurance Corporation to reporting banks. In view of the desirability of having better information on mortgage interest rates, it was believed that the effort was a desirable one and should have the Board's support.

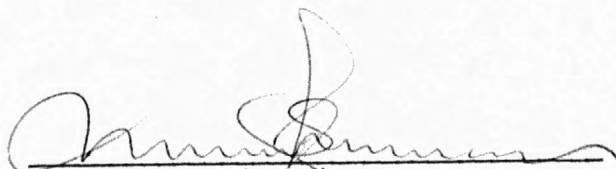
Following comments by Mr. Noyes, unanimous agreement was expressed with the recommendation in his memorandum. A copy of the letter sent to the Federal Deposit Insurance Corporation regarding this matter is attached as Item No. 5.

There followed informal comments by Mr. Young on his recent trip to Paris to attend a meeting of a working party of the Organization for Economic Cooperation and Development, after which the meeting adjourned.

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Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board an increase in the basic annual salary of Polly Ann Mulville, Statistical Clerk in that Division, from \$3,865 to \$4,040, effective January 21, 1962.


Secretary

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

Item No. 1
1/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1962

Board of Directors,
Peoples and Union Bank,
Lewisburg, Tennessee.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 422 East Commerce Street in Lewisburg, Tennessee, by Peoples and Union Bank, 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 2
1/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1962

Mr. L. G. Pondrom,
Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

This refers to your letter of January 12, 1962, enclosing copies of a Petition For Stay of Directive, Reconsideration and Argument, together with related affidavits and brief, submitted by C. B. Investment Corporation, Houston, Texas ("CB"), relating to the Board's actions of February 3 and September 19, 1961, directing CB to divest itself of specified numbers of shares in the First National Bank of La Porte and the First National Bank of Port Arthur.

The several matters contained in CB's Petition and the accompanying affidavits and brief will be presented to the Board as soon as practicable. Pending the Board's consideration of CB's Petition, and at CB's request, the date by which divestment of the shares in question was to have been accomplished, namely, January 18, 1962, has been extended by the Board until such date as the Board may hereafter set.

Kindly transmit the substance of this letter to counsel for CB.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
1/18/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

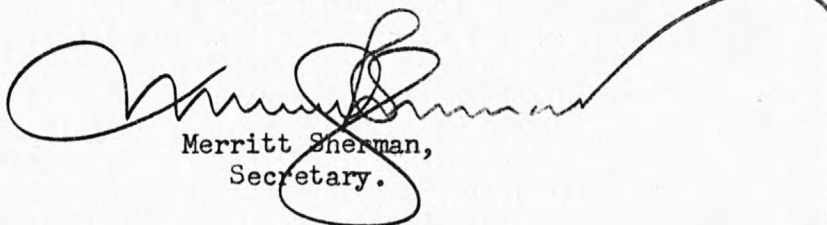
January 18, 1962.

Dear Sir:

The Board recently addressed a letter to foreign banking and financing corporations operating under sections 25 and 25(a) of the Federal Reserve Act soliciting suggestions from the supervised institutions as to modifications of Regulation K that they believe would enable them to carry out their functions more effectively. A copy of the letter used for this purpose is enclosed, from which you will note that comments are to be forwarded to the Board through the respective Federal Reserve Banks by February 15, 1962.

The Board will, of course, also be glad to receive comments that your Bank may wish to submit with respect to the regulation. While it is not necessary to do so, there is no objection to your discussing the regulation with interested member banks or others in your district who might have views that should be considered in connection with a comprehensive review of its provisions at this time.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
1/18/62

OFFICE OF THE CHAIRMAN

January 19, 1962

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 September 19, 1961, for the Board's views on the bill S.2528 "To authorize the establishment of Federal mutual savings banks."

The Board reported on S.3796 to your Committee by letter dated December 9, 1960, and the views expressed at that time appear to be equally applicable to S.2528.

In summary, the Board's report of December 9, 1960, raised certain broad questions as to whether this legislation would actually increase the flow of savings within the economy as a whole and whether a system of Federally chartered mutuals would result in a rearrangement of the present pattern of relationships among financial institutions that would best serve the public interest. The Board also referred to specific provisions of the bill and suggested that the investment powers of Federal mutuals appear to be more liberal than those currently possessed by other thrift institutions and commercial banks. In this connection the report mentioned that Federal mutuals would be permitted to invest in stocks in an amount equal to 5 per cent of their assets or 100 per cent of their reserve funds and undivided profits, whichever is greater. The Board also questioned the wisdom of permitting investment in 30-year 90 per cent of appraised value conventional mortgages and the inclusion of authority to invest in 75 per cent of appraised value conventional mortgages on unimproved land. Finally the Board pointed out that the merger and consolidation provisions of the bill are subject to none of the standards provided in the Federal bank merger act.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.


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

Item No. 5
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1962.



Mr. Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cocke:

In a letter to Mr. Noyes dated January 10, 1962, Mr. Cramer outlined plans for the Federal Deposit Insurance Corporation to collect information from banks on conventional mortgage interest rates and related items. Enclosed with his letter were drafts of two statements regarding the series which would indicate that the arrangement proposed had the approval of the Board of Governors of the Federal Reserve System.

As your office has been advised by telephone, the Board has no objection to the inclusion of statements indicating its support of the proposal.

Very truly yours,

(signed) Merritt Sherman

Merritt Sherman,
Secretary.