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Minutes for May 17, 1963

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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Friday, May 17, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Brill, Adviser, Division of Research and Statistics
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Solomon, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Adviser, Division of International Finance
Mr. Katz, Associate Adviser, Division of International Finance
Mr. Landry, Assistant to the Secretary
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Miss Dingle, Senior Economist, Division of Research and Statistics
Mr. Fisher, Senior Economist, Division of Research and Statistics
Mr. Bernard, Economist, Division of Research and Statistics
Mr. Gemmill, Economist, Division of International Finance

Money market review. There were distributed tables relating to dealer awards of Treasury bills in recent years and bank liquidity ratios, together with a summary of monetary developments in the preceding four weeks. Mr. Bernard reported on the Government securities market, following which Mr. Eckert discussed changes in bank reserves, bank credit, and the money supply. Mr. Gemmill then reported on foreign exchange developments.

Following these presentations all members of the staff withdrew except Messrs. Sherman, Young, Cardon, Fauver, Noyes, Landry, Partee, and Fisher and the following entered the room:

Mr. Hackley, General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Young, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on May 16, 1963, 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.

Distributed items. The following items, copies of which are attached hereto under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to Planters Bank and Trust Company, Hopkinsville, Kentucky, approving the establishment of a branch (conversion of its existing facility) within the military reservation of Fort Campbell.	1
Letter to Chase International Investment Corporation, New York, New York, granting consent to the purchase of shares of National Investment Bank for Industrial Development, S.A., Athens, Greece.	2

With reference to Item No. 2, Governor Mills noted that National Investment Bank for Industrial Development was empowered to accept deposits. In view of this fact, he wondered whether the institution should properly be viewed as a banking rather than a financing corporation for purposes of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act. Discussion of this point brought out that, as mentioned in a letter dated April 19, 1963, from Counsel for Chase International Investment Corporation, National Investment Bank, which was not authorized to accept demand deposits, could not under Greek law fulfill its purpose of making loans and otherwise extending credit unless it qualified as a bank with authority to accept at least some deposits. However, the bank's authority in this respect would be limited to acceptance of time deposits having a maturity of at least one year and in amounts of not less than 100,000 drachmae (U.S. $3,333 equivalent) per deposit, which might properly be regarded as a means of borrowing money subject to a minimum term and amount, rather than a power to engage in ordinary depositary banking.

The letter, as sent, reflected the Board's decision not to incorporate an additional paragraph that would have imposed a condition that National Investment Bank not engage in a deposit type of business.

Proposed revision of Regulation K. In the course of discussion of the preceding item, reference was made to a proposed revision of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act, that had been published in the Federal Register, and to a suggestion that representatives from the institutions that had submitted comments thereon and from other affected institutions be afforded an opportunity to present their views informally to the Board. It was understood that further consideration would be given to these requests at an early meeting of the Board.

Draft bill to amend section 24 of the Federal Reserve Act (Item No. 3). There had been distributed under date of May 15, 1963, copies of a memorandum from the Legal Division relating to a request from the Bureau of the Budget for a report on a Treasury draft bill to amend section 24 of the Federal Reserve Act to permit national banks to make amortized conventional real estate loans on both residential and non-residential property up to 80 per cent of the appraised value of the real estate and for a term up to 30 years. By comparison, under present law national banks are permitted to make such loans up to 75 per cent of appraised value for a term no longer than 20 years. Attached to the memorandum was a draft of letter report to the Budget Bureau that would question whether national banks were, as a practical matter, operating under a serious competitive handicap because of more liberal laws applicable to certain competing institutions. The letter would note in this connection that commercial banks, both national and State-chartered, had recently added record amounts to their mortgage holdings, and in fact over the past year national banks increased their conventional real estate loan portfolios in somewhat greater proportion than did State-chartered commercial banks. Following reference to the record pace at which total mortgage credit had risen, the substantial liberalization of statutory limits upon mortgage lending in recent years, both for national banks and other lenders, and the current surplus of funds seeking mortgages, as well as higher delinquencies and foreclosures on existing mortgage loans, the view would be expressed in the letter to the Budget Bureau that the Board believed it inadvisable at this time further to relax statutory restrictions.

In discussion, the Board members present indicated a favorable disposition toward transmitting to the Budget Bureau the letter essentially as drafted.

Governor Mitchell noted, however, that although he did not feel strongly about the matter, he thought it slightly preferable to leave limitations such as those under discussion, regarding maximum percentage of appraised value and maximum permissible term of real estate loans, within the discretion of the supervisory agency rather than to have them written into the law.

Governor Mills stated his belief that the Board as an agency responsible for sound banking practices was obligated to take a firm position on the issue presented. To his mind there were serious questions regarding the quality of many real estate loans currently being made. He was concerned, furthermore, with the specific proposal in the draft legislation to permit national banks to extend credit on conventional real estate loans up to 80 per cent of appraised value for longer periods than now permitted by law, not only because it would intensify the loan-deposit ratio problem but also, among other things, because the outstanding authorization for banks to invest in subsidiaries of Edge Act corporations and in bank computer centers served to reduce the amount of "free capital" at the banks affected. For these reasons, he thought the position taken in the draft letter was correct.

After further discussion, the letter to the Bureau of the Budget was approved unanimously in the form attached as Item No. 3.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board the following items:

Letters to the Federal Reserve Bank of Chicago (attached Items 4 and 5) approving the appointment of Thomas E. McKiernan and Thomas H. Walsh as assistant examiners.

Memorandum from the Division of Personnel Administration recommending the appointment of Catherine Marie Cole as Clerk-Stenographer in that Division, with basic annual salary at the rate of $4,110, effective the date of entrance upon duty.

Governor Shepardson today noted on behalf of the Board the following items:

Death in active service

Harold F. Stone, Analyst in the Division of Bank Operations, on May 9, 1963.

Retirements

Charles R. Nichols, Guard, Division of Administrative Services, effective June 1, 1963.

Charles R. Norris, Head, Mail and Messenger Service Unit, Division of Administrative Services, effective June 1, 1963.

Secretary

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

Item No. 1
5/17/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1963

Board of Directors,
Planters Bank and Trust Company,
Hopkinsville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Planters Bank and Trust Company, Hopkinsville, Kentucky, of a branch (a conversion of its existing facility) within the military reservation of Fort Campbell, Kentucky, 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.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 2
5/17/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1963

Chase International Investment Corporation,
1 Chase Manhattan Plaza,
New York 5, New York.

Gentlemen:

In accordance with the request contained in your letter of April 9, 1963, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Chase International Investment Corporation ("CIIC") to purchase and hold shares of National Investment Bank for Industrial Development S.A. ("NIBID"), Athens, Greece, at a cost of approximately US$500,000 (equivalent), provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that CIIC shall dispose of its holding of stock of NIBID, as promptly as practicable, in the event NIBID should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by CIIC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

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. 3
5/17/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1963.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your request of April 17, 1963, for a report on a Treasury draft bill, "To amend section 24 of the Federal Reserve Act (12 U.S.C. 371) relating to certain limitations on real estate loans by national banks."

The proposed amendment would increase the maximum percentage of appraised value that a national bank may advance on "conventional" real estate loans from 75 per cent to 80 per cent and would increase the maximum permissible maturity from 20 years to 30 years. The purpose of the proposed amendment, as stated by the Treasury Department, is to encourage national banks to compete for mortgage loans with other institutions such as savings and loan associations, insurance companies, and certain State-chartered banks, which may operate under laws that either provide no restrictions or may be less restrictive than those applicable to national banks.

Whether national banks are, as a practical matter, operating under a serious competitive handicap because of more liberal laws applicable to certain competing institutions, is open to question. Commercial banks, both national and State-chartered, have recently added record amounts to their mortgage holdings. Moreover, during the past year, national banks increased their conventional real estate loan portfolios somewhat more, proportionately, than did State-chartered commercial banks.

A monthly survey released by the Federal Home Loan Bank Board on May 10, 1963, showed that for home mortgage lending in March, conventional loans originated by savings and loan associations, life insurance companies, mortgage companies, mutual savings banks, and commercial banks carried average contract maturities and average price-to-value ratios considerably lower than would be permitted national banks under the proposed amendment. For commercial banks alone, the average terms on such loans were even less than the present statutory restrictions on national banks.

While some State laws are less restrictive in the above regard than section 24 of the Federal Reserve Act which governs national banks, it is understood that in other States the laws are more restrictive than would apply to national banks under the proposed legislation.

If consideration were given only to the competitive aspects of this question, there might be some basis for relaxing the limitations on the terms of conventional real estate loans made by national banks. But total mortgage credit has recently been rising at a record pace, and statutory limits upon mortgage lending have been liberalized substantially in recent years, both for national banks and for other lenders. In view of current conditions in the mortgage market characterized by a surplus of funds seeking mortgages and by higher delinquencies and foreclosures on existing mortgage loans, the Board believes that it would be inadvisable at this time to relax statutory restrictions further.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 4
5/17/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1963

AIR MAIL

CONFIDENTIAL (FR)

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of May 10, 1963, the Board approves the appointment of Thomas E. McKiernan as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

It is noted that Mr. McKiernan is the beneficiary of a trust estate which owns 23 shares of stock of, and is administered by, Fort Wayne National Bank, Fort Wayne, Indiana. Accordingly, the Board's approval of Mr. McKiernan's appointment is given with the understanding that he will not participate in any examination of that bank so long as he has an interest in any trust administered by that institution, or of any bank the stock of which is held in a trust of which he is a beneficiary.

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. 5
5/17/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1963

AIR MAIL

CONFIDENTIAL (FR)

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of May 10, 1963, the Board approves the appointment of Thomas H. Walsh as an assistant examiner for the Federal Reserve Bank of Chicago, effective June 17, 1963.

It is noted that Mr. Walsh owns one share of stock of National Bank of Monticello, Monticello, Illinois, of which bank his father is Chairman of the Board. Accordingly, the Board's approval of the appointment of Mr. Walsh is given with the understanding that he will not participate in any examination of that bank so long as he owns stock of, or is related to an officer or director of that institution.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.