

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, January 14, 1964. 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. Daane

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Young, Adviser to the Board and Director,
 Division of International Finance
 Mr. Noyes, Adviser to the Board
 Mr. Molony, Assistant to the Board
 Mr. Cardon, Legislative Counsel
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Brill, Director, Division of Research
 and Statistics
 Mr. Farrell, Director, Division of Bank
 Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Partee, Adviser, Division of Research
 and Statistics
 Mr. Conkling, Assistant Director, Division of
 Bank Operations
 Mr. Leavitt, Assistant Director, Division of
 Examinations
 Mr. Mattras, General Assistant, Office of the
 Secretary
 Mr. Young, Senior Attorney, Legal Division

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Letter to Lafayette Trust Company, Easton, Pennsylvania, approving an investment in bank premises.

Item No.

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	<u>Item No.</u>
Letter to Walker Bank & Trust Company, Salt Lake City, Utah, approving the establishment of a branch in the vicinity of 3900 South Street and Highland Drive.	2
Telegram to the Federal Reserve Agent at Kansas City authorizing the issuance of a limited permit to First Colorado Bankshares, Inc., Englewood, Colorado, to vote the stock it owns or controls of Security National Bank, Denver, Colorado.	3

Federal mutual savings bank charters (Item No. 4). There had been distributed a memorandum from the Legal Division dated January 10, 1964, with regard to a request from the Bureau of the Budget for a report on a suggested revised version of H. R. 258, a bill to authorize the establishment of Federal mutual savings banks. In reports to the Senate and House Banking and Currency Committees on similar legislation on April 4, 1963, the Board indicated that it had no objection in principle to the establishment of Federal mutual savings banks, but it was critical of certain provisions of the then pending legislation. The revised bill met most of the Board's earlier criticisms, but some objectionable features remained. As revised, the bill would continue to provide liberal investment powers with respect to mortgages and corporate common stock, provisions over which the Board expressed concern in its earlier reports. However, the Federal Home Loan Bank Board would be given broad regulatory authority over these and other investment powers. New provisions in the bill would permit loans for property alteration, repair, or

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improvement, or for the furnishing and equipping of property designed for residential purposes; and would grant specific authorization for the purchase of revenue obligations or other special obligations of political entities. An explanatory letter from the Chairman of the Federal Home Loan Bank Board to the Budget Bureau indicated that the revised bill was intended to eliminate a provision in the original bill that would have permitted branches to be established only in the State in which the principal office of the mutual savings bank was located. Apparently through oversight, the draft bill received by the Board did not implement this intent.

Attached to the memorandum from the Legal Division was a draft of letter to the Bureau of the Budget that reviewed briefly the position taken by the Board on the earlier version of the bill and expressed concern regarding the liberal investment powers that would be granted in the area of real estate mortgages and corporate stock. With respect to the question of branching across State lines, the draft letter questioned the desirability of providing branch powers to mutual savings banks different from those presently existing for other financial institutions.

Following comments by Mr. Young (Legal Division) on the revised bill and the proposed letter, Governor Mills raised a question concerning the provisions of the bill with regard to the ownership of corporate stock by a mutual savings bank. The objective of the bill apparently was to

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permit Federal charters for mutual savings banks under a formula according to which the savings banks would retain their present general style of operations. In many States, mutual savings banks owned corporate stocks in considerable quantity. This raised the question how far the Board should go in saying that a practice that had existed for many years should be cut off.

Mr. Partee noted that the present bill, like the earlier version, would permit mutuals to hold up to 100 per cent of reserves and undivided profits or up to 5 per cent of the assets of the bank, whichever was greater, in common stocks. Another 50 per cent of reserve funds could be invested in buildings and property that was part of the business. In regard to the earlier bill the Board had suggested that the 100 per cent figure be cut at least to 50 per cent.

Governor Mills then commented that in a sense the Board would be counting on the Budget Bureau to go back and review the Board's earlier comments. He felt that the pertinent sentence in the letter perhaps should be revised along the lines Mr. Partee had mentioned.

Governor Mitchell then suggested language that might be included in the pertinent sentence, and there was general agreement that this change should be made.

Governor Balderston referred to the fact that in a State like Massachusetts mutual savings banks owned a great deal of stock of commercial banks, which seemed to him undesirable. He wondered whether

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one of the objectives of the proposed legislation might be to permit mutuals operating with Federal charters to acquire bank stocks in somewhat the same manner as holding companies. Mr. Partee replied that one of the recommendations the Board had made before was that the amount of stock of any one concern that a mutual savings bank could acquire should be limited and the present bill contained a restriction in that regard that took into account the Board's suggestion.

Governor Daane raised a question with respect to the provisions of the bill concerning the acceptance of corporate deposits and the payment of interest on deposits. From the discussion that followed, it appeared that no distinction was made in the bill between corporate and other deposits, but that the Home Loan Bank Board would be given authority to establish maximum rates of interest. Mr. Noyes observed that most States have limits on the size of accounts that may be held by mutual savings banks, and Mr. Young expressed the view that the authority given to the Home Loan Bank Board by the present bill would be sufficient to allow it to control the size of deposits. Governor Daane indicated, however, that he had some question whether this should not be made specific in the legislation.

Governor Mills then raised the question whether, in view of the recommendations already made by the Board in regard to the earlier bill, it would be desirable for the Board to raise new objections going beyond its earlier comments. He suggested that the only change in the draft

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letter be the one previously agreed upon to make more specific the views expressed with respect to the ownership of corporate stock.

Governor Robertson turned to the position of the Home Loan Bank Board, which apparently through inadvertence was not reflected in the draft bill, that branching across State lines should be permitted, especially in large metropolitan areas that include portions of more than one State. The proposed report simply questioned the desirability of providing branch powers different from those presently existing for other financial institutions. He suggested that the report be strengthened in that regard.

Mr. Noyes pointed out that within certain limitations savings and loan associations are permitted to branch across State lines. The Home Loan Bank Board evidently did not want to do something that would make it impossible for savings and loan associations to convert into mutual savings banks. Mr. Partee noted that the provisions of the proposed legislation would allow any mutual savings bank converting to a Federal charter to maintain whatever offices it already had.

Governor Robertson repeated that he felt the Board ought to be on record in opposition to allowing Federal mutual savings banks to branch across State lines, but Governor Mitchell said he would not be keen about preventing such institutions from operating across adjacent State lines. He did not envisage mutual savings bank systems extending from coast to coast, but he saw no reason why New York mutuals, for

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example, should not be allowed to operate also in Connecticut. Governor Daane indicated that he had some sympathy for Governor Mitchell's point of view. Mr. Noyes brought out that the Home Loan Bank Board had administered the authority with regard to savings and loan associations quite conservatively.

Governor Daane reverted to the question of corporate deposits at mutual savings banks and said that he regarded this as more important than the provisions regarding purchase of corporate stocks. If there was no effective limitation in the legislation on the acceptance of corporate deposits, he was inclined to feel that the Board should say something about it.

In further discussion of this point, Governor Mills observed that considerable importance was placed in the bill and the letter on the fact that the Home Loan Bank Board would be given broad regulatory powers. Assuming that these would extend to the size and character of deposits that could be accepted by mutual savings banks, he felt that the Board might want to be cautious about introducing anything in its letter that would amount to telling the regulatory authority how it should discharge its responsibilities. Mr. Young brought out that the present bill contained a sentence, in the section on deposits, that stated that the exercise by savings banks of the powers provided by the provisions of that section was subject to such limitations as the Home Loan Bank Board might prescribe. Governor Daane then commented that if an assumption

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were made that the Home Loan Bank Board would exercise appropriate supervision, it might be concluded that the provision mentioned by Mr. Young was satisfactory. Mr. Noyes mentioned that it would be hard to proceed on any other assumption in commenting to the Budget Bureau.

Governor Balderston expressed concern about the provisions of the bill providing authority to invest in unamortized mortgages and inquired about the comments the Board had made earlier in this regard. Mr. Young replied that the Board had objected to the investment provisions of the earlier bill without any specific emphasis on unamortized mortgages. Governor Shepardson noted that the proposed letter indicated that the Board thought the bill should be more restrictive in the area of investment powers, which would include unamortized mortgages. Mr. Partee expressed the view that the present bill probably suffered from some drafting oversights and that if matters of this kind were merely mentioned the bill probably would be amended. Governor Balderston indicated, however, that he would have some preference for making a more specific objection with respect to unamortized mortgages, perhaps going so far as to recommend that the provisions of the bill permitting investment in unamortized mortgages be stricken.

Governor Mills then commented that, as he read the proposed letter, it gave general approval to the proposed legislation in principle. However, it raised certain points. The very fact that they were mentioned in the letter implied that there was a question or criticism concerning them.

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Chairman Martin indicated that he was inclined to agree with Governor Mills and that he doubted whether the Board would want to go further at this stage than to indicate skepticism about certain provisions of the bill.

Governor Mitchell expressed agreement with Governor Balderston about the undesirability of unamortized mortgages. He went on to say, however, that he was generally satisfied with the proposed letter except that he would want to make the one change in regard to corporate stocks, as previously discussed.

There followed further discussion of the bill and the proposed letter, including the matter of branching across State lines, and Chairman Martin then suggested that perhaps the Board could not do much better than to send the letter as drafted, subject to the change that had been agreed upon earlier. While various approaches might be followed, he doubted that it was worth spending a great deal more effort on the letter, which certainly would not make or break the bill.

Accordingly, approval was given to a letter to the Budget Bureau in the form attached as Item No. 4.

Mr. Partee then withdrew from the meeting.

Hearings on Federal Reserve System. Mr. Cardon reported as a matter of information on recent developments with respect to the plans of the Subcommittee on Domestic Finance of the House Banking and Currency Committee to hold hearings on the Federal Reserve System, such hearings

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now being scheduled to begin on Tuesday, January 21. He noted that Chairman Patman had introduced certain bills relating to the System on which members of the Board and the Reserve Bank Presidents would be invited to testify at the hearings, and that he had sent a memorandum to the members of the Board on these matters. As soon as copies of the bills were available, they would also be sent to the Board members.

Chairman Martin said he could see no reason why the Board should endeavor to have the hearings deferred, and he inquired whether there was any view to the contrary. No such view was indicated.

Chairman Martin then turned to the provisions of a bill introduced by Chairman Patman that would have the effect of eliminating Treasury tax and loan accounts. It was noted that the Board had taken no position on this subject, and at Chairman Martin's request Mr. Farrell made certain comments in which he referred to the complexity of the subject and to a study made by the Treasury some time ago that did not appear entirely satisfactory.

While Mr. Cardon indicated that he had been informed by the Committee staff that Board members might not be asked to comment or take a position on this particular bill, members of the Board observed that in any event they should be prepared at the time of the hearings.

In further discussion, Chairman Martin noted that he was on record to the effect that if banks were permitted to pay interest on demand deposits, the large banks would be the principal beneficiaries.

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As to the tax and loan accounts, he felt the Board could probably agree that this was essentially the Treasury's problem. The Board had made no intensive study, so it was not in a position to say that a change in the current practice would or would not result in substantial savings to the Treasury.

Governor Daane referred to the money market aspects of the matter, however, and raised the question whether from that standpoint the Board did not have an interest that could hardly be overlooked. There followed some discussion of this phase of the matter, after which Chairman Martin suggested that the Board not try to reach any conclusions at this time, but that the members continue to give thought to the subject.

Window dressing (Item No. 5). Mr. Sherman noted that there had been distributed to the Board copies of a letter from the Mid-Continent Banker, St. Louis, Missouri, to President Wayne of the Federal Reserve Bank of Richmond inquiring as to the results, in terms of the year-end published statements of condition, of the program of the Federal Reserve System and the Federal Deposit Insurance Corporation to persuade banks to end the practice of window dressing. It appeared, Mr. Sherman said, that similar letters had been sent by the magazine to all of the Reserve Bank Presidents, and there had been some inquiries as to whether the Board desired a uniform Federal Reserve reply or, if not, how it would suggest that the matter be handled. He went on to say that most Reserve Banks had now sent communications to the Board on the progress of the

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program to persuade banks in their districts to terminate the window-dressing practice.

Mr. Farrell outlined reasons why any statement at the present time on the results of the program would appear premature, but he felt that after further study it would be appropriate for the Federal Reserve to make a public report on the program.

Mr. Molony suggested indicating to the Mid-Continent Banker that the Federal Reserve, as pointed out by the magazine, had embarked on a continuing campaign to bring about a termination of the window-dressing practice, but that it would be premature at this stage to assess the results of the campaign. The magazine might be told also that its interest in the matter was appreciated and that the Board would be glad to see that it received information promptly when such information was released by the Board.

It was agreed that such a letter would be appropriate, and that copies should be sent to the Reserve Bank Presidents for their guidance. A copy of the letter subsequently sent to the Mid-Continent Banker is attached as Item No. 5.

Appointment of First Vice President and other appointments at Cleveland Bank (Item No. 6). There had been distributed copies of a letter dated January 9, 1964, from Chairman Hall of the Federal Reserve Bank of Cleveland advising that, subject to the approval of the Board of Governors, the Board of Directors of the Bank had appointed Edward A. Fink,

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now Vice President, as First Vice President effective April 1, 1964, for the unexpired portion of the five-year term ending February 28, 1966, with annual salary at the rate of \$25,000. Mr. Fink would succeed Donald S. Thompson, who was retiring at the end of March.

The letter also requested approval of the payment of salaries at specified rates, effective April 1, 1964, to three other officers, two of them new appointees to the officer staff of the Bank.

The matter of the proposed appointment of Mr. Fink as First Vice President had previously been discussed informally by the Board, and it was noted that the information contained in Chairman Hall's letter was in accord with the Board's previous understanding of the situation.

Accordingly, unanimous approval was given to a letter to Chairman Hall in the form attached as Item No. 6.

The members of the staff then withdrew and the Board went into executive session.

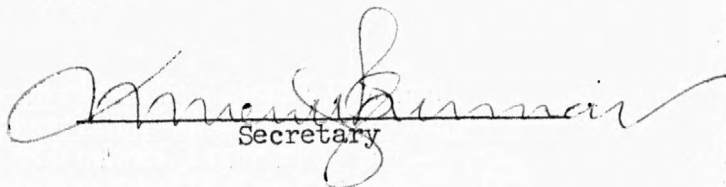
Land acquisition. Following the meeting, Governor Shepardson informed the Secretary that during the executive session the Board authorized the Legal and Administrative Services Divisions to enter into negotiations for the possible acquisition of the triangular property bounded by 20th Street, Virginia Avenue, and C Street, in northwest Washington, D. C., with a view to acquiring that space for the development of surface parking and underground extension of the garage facilities in the annex proposed to be built for the Board's use on its lot on the

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north side of C Street. This action was taken with the understanding that if and when a definite proposal for such acquisition was developed the matter would be brought back to the Board for its further consideration.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Bank Operations, Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Helen K. Black, Statistical Clerk in that Division, effective at the close of business January 31, 1964.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1

1/14/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1964.

Board of Directors,
Lafayette Trust Company,
Easton, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$73,000 in bank premises by the Lafayette Trust Company, Easton, Pennsylvania.

This amount represents an addition to the investment of \$125,000 in bank premises, which was approved by the Board on August 21, 1963, for the purpose of purchasing land and constructing quarters for a new branch.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
1/14/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1964.



Board of Directors,
Walker Bank & Trust Company,
Salt Lake City, Utah.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Walker Bank & Trust Company, Salt Lake City, Utah, in the vicinity of the intersection of 3900 South Street and Highland Drive, an unincorporated area in Salt Lake County, Utah, 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.

(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.)

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

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Item No. 3
1/14/64

January 14, 1964.

SCOTT -- KANSAS CITY

KECEA

- A. First Colorado Bankshares, Inc., Englewood, Colorado.
- B. Security National Bank, Denver, Colorado.
- C. None.
- D. At any time prior to April 1, 1964, at the annual meeting of shareholders of such bank, or any adjournments thereof, (1) to elect directors for the ensuing year and act thereat upon such matters of a routine nature as would ordinarily be acted upon at the annual meetings of such bank; (2) to approve a pension plan and other fringe benefits for such bank's officers and employees; and (3) to amend the Articles of Association of such bank to remove the designation of a date of annual meeting of shareholders, provided all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency. STOP. Ratification of actions of officers and directors is deemed a routine matter.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
1/14/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1964.



Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

This is in response to your letter of December 31, 1963, requesting the views of the Board on a Federal Home Loan Bank Board revision of H.R. 258, which provides for the Federal chartering of mutual savings banks.

The Board last year in its reports to the Banking and Currency Committees of the House and Senate on an earlier version of this bill stated that it had no objection, in principle, to the proposed legislation but raised serious questions regarding a number of specific provisions. The Board notes that the suggested revision resolves satisfactorily many of these questions and the Board feels that the present revision represents considerable improvement over the bill as originally introduced.

Under the terms of the revised bill, however, the indicated investment powers of the savings banks with respect to mortgages and corporate stocks remain essentially unchanged. Specifically, there is authority to invest in unamortized mortgages on 1- to 4-family properties for periods up to 30 years and for amounts up to 90 per cent of appraised value. Further investment would be permitted, on an unamortized basis and up to 75 per cent of appraised value, in mortgages on any other property, presumably including unimproved real estate, with no maturity limitation specified. Also, corporate stock could be purchased in an amount equal to 5 per cent of assets or 100 per cent of reserve funds and undivided profits, whichever is greater. While the Federal Home Loan Bank Board would be given broad regulatory power to prohibit, restrict, and limit these powers, it is our view that the minimum

Mr. Phillip S. Hughes

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standards prescribed in the bill itself should be made more restrictive in these particular areas. In the case of corporate stock, for example, the Board believes that the upper limit for investment should be set at 50 per cent of accumulated reserves and undivided profits, so that the combined investment in stock and in bank property may not exceed 100 per cent of the reserve fund of the institution.

It is noted that the explanatory letter of the Chairman of the Federal Home Loan Bank Board to the Bureau of the Budget mentions that the suggested revision would eliminate a previous provision which would permit branches to be established only in the State in which the principal office of the savings bank is located. While this change was not actually made in the revised draft that was submitted for the Board's comments, the Board questions the desirability of providing branching powers broader than those presently applicable to other financial institutions.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

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Item No. 5
1/14/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1964.

Miss Rosemary McKelvey,
Associate Editor,
Mid-Continent Banker,
406 Olive Street,
St. Louis 2, Missouri.

Dear Miss McKelvey:

Several of the Federal Reserve Banks have supplied the Board with a copy of your letter of January 8, 1964, asking for certain information and for comments on such discussions as they so far have had in their respective Districts regarding "window dressing" in year-end condition statements of member banks.

The Federal Reserve Banks embarked recently on a continuing effort to persuade all member banks to forego window dressing, as indicated in the enclosed copy of a letter sent by the Board to those Banks on November 21. It would be premature at so early a stage to attempt to assess initial results of this effort. However, we appreciate the interest that your publication has shown in this subject and will be glad to see that you receive promptly whatever information the System may develop for release later on.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
1/14/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 14, 1964.

CONFIDENTIAL (FR)

Mr. Joseph B. Hall, Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Hall:

As requested in your letter of January 9, 1964, the Board of Governors approves the appointment of Mr. Edward A. Fink as First Vice President of the Federal Reserve Bank of Cleveland, effective April 1, 1964, for the unexpired portion of the five-year term that began March 1, 1961. The Board also approves the payment of salary to Mr. Fink at the rate of \$25,000 per annum for the period April 1 through December 31, 1964.

Additionally, the Board approves the payment of salaries, at rates indicated, to the following officers of the Federal Reserve Bank of Cleveland, effective April 1:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
John J. Hoy	Vice President	\$16,000
Robert D. Duggan	Assistant Cashier	11,000
John T. Hackett	Assistant Vice President and Economist	15,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.