

Minutes for September 14, 1964

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

me

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, September 14, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations

Ratification of actions. Actions taken by the available members of the Board at the meetings held on September 9 and 11, 1964, as recorded in the minutes of those meetings, were ratified by unanimous vote.

Condition of membership (Item No. 1). There had been distributed memoranda dated September 4, 1964, from the Legal Division and the Division of Examinations relating to the proposal of Fidelity Bank, Beverly Hills, California, to acquire the business of McMillan Mortgage Company, Los Angeles, engaged in originating and servicing mortgage loans.

The Legal Division's memorandum dealt with the question of the necessity for obtaining the Board's approval of the acquisition. Fidelity

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Bank had joined the System in 1952, subject to the usual condition that "except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership."

The question was presented whether the bank must obtain the Board's permission under this condition of membership before acquiring McMillan Mortgage Company, which, on the basis of fairly recent figures, held over 33,000 mortgage servicing contracts covering approximately \$420 million in mortgages. Attorneys for the member bank had submitted a memorandum taking the position that such permission was not necessary. They contended that, since Fidelity Bank was already engaged substantially in real estate loan servicing, there would be no change in the general character of its business, but simply an expansion of certain elements of its present banking business and a shift or redistribution in emphasis among the various components that made up the operations of modern commercial banks. They believed that the Board's permission would be required only if the bank entered an entirely new field of banking - a fundamental change in its business. Other aspects of the bases for the position of the member bank's counsel were explained in the memorandum, after which the Legal Division presented reasoning and background facts in support of its opinion that a rapid increase of the mortgage servicing

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business by Fidelity Bank, through acquisition of such business now being conducted by McMillan Mortgage Company, would result in a substantial change in the general character of the bank's business and, therefore, would require the Board's permission under the condition of membership. The Legal Division had also explored the question whether the Board had the right to impose the condition and had reached an affirmative conclusion on this question.

The memorandum from the Division of Examinations proceeded from the Legal Division's positive finding as to the Board's jurisdiction to the question whether or not the particular acquisition proposed should be approved. On the basis of various facts relating to the nature of the bank's business, conditions disclosed by recent examinations of the bank, and competitive considerations, the Division recommended that the Board grant permission for the proposed acquisition.

Attached to the two memoranda was a draft of letter that would inform the member bank of such action by the Board.

During discussion, Governor Mitchell raised a question as to whether certain passages in the draft letter that would express the view that the proposed acquisition would require the Board's approval were unnecessarily strong. In response, staff comments reviewed the steps taken by the member bank leading to submission of a contrary view by its counsel, which had seemed to call for more than a brief reference to the point.

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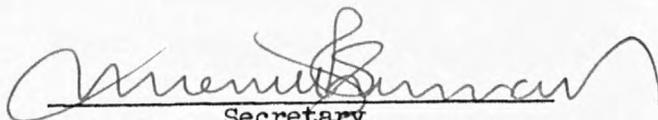
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The letter was then approved unanimously. A copy is attached as Item No. 1.

Nonbank money orders (Item No. 2). There had been distributed a memorandum dated September 11, 1964, from Mr. Bakke, Assistant Secretary, regarding a request dated September 3, 1964, from Senator Albert Gore for information relating to regulation of the sale of money orders. In letters of June 12, 1964, the Board had responded to inquiries from Chairman Robertson of the Senate Banking and Currency Committee and Senator Russell B. Long by furnishing a compilation of information submitted by the Federal Reserve Banks regarding the activities of nonbank money order issuers and State legislation regulating such activity. Since the compilation fell within the purview of "unpublished information of the Board" under section 261.2 of the Board's Rules Regarding Information, and certain factual details fell within the proviso of paragraph (b)(2) of that section precluding disclosure without Board authorization, Senator Gore's request was submitted for the Board's disposition. It was believed that there was no reason to deny the request.

After discussion, it was agreed that Senator Gore would be furnished information similar to that sent to Senators Robertson and Long. A copy of the letter subsequently transmitted to Senator Gore is attached as Item No. 2.

The meeting then adjourned.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
9/14/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 14, 1964.



Board of Directors,
Fidelity Bank,
Beverly Hills, California.

Gentlemen:

The Board has been advised that Fidelity Bank proposes to acquire the mortgage servicing business of McMillan Mortgage Company. Fidelity Bank became a member of the Federal Reserve System, subject to a condition of membership that "except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership."

Although Fidelity Bank is presently engaged to some extent in the mortgage servicing business, the amount of such business to be acquired from McMillan Mortgage Company will greatly expand the bank's operations in this field. The aforementioned condition of membership is particularly applicable to the bank's entering a new field of activity, but this condition is also applicable in instances where a bank's operations are to be suddenly and sizably expanded when related to an existing volume of business and to the size of the bank. Therefore, the Board is of the opinion that its permission is necessary before Fidelity Bank may acquire this large block of mortgage servicing business.

Since Fidelity Bank is already engaged in the mortgage servicing business and is qualified to conduct such business, and it appears that the expansion of this business would not adversely affect the condition of the bank, the Board grants permission for Fidelity Bank to acquire the mortgage servicing business of McMillan Mortgage Company, provided that such acquisition is consummated within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
9/14/64

OFFICE OF THE CHAIRMAN

September 16, 1964.

The Honorable Albert Gore,
United States Senate,
Washington, D. C. 20510

Dear Senator Gore:

Your letter of September 3, 1964, requested any material or reports that the Board might have available on the subject of money order sales by nonbanking concerns.

Several months ago the Board was requested by Senator A. Willis Robertson, in his capacity as Chairman of the Senate Banking and Currency Committee, to furnish information regarding the extent of private money order business in the United States. At that time the Board, with the assistance of the Federal Reserve Banks, compiled a considerable amount of information dealing with this subject, a digest of which is enclosed.

According to the information supplied by the Federal Reserve Banks the "private" money order business appears to be quite extensive. The issuers of these instruments range from a number of concerns doing business, either directly or through agents, on a multi-State basis (e.g., American Express Company, Republic Money Orders, Inc., Travelers' Express Company, Inc., U. S. Navigation Co., Inc., Nation-Wide Check Corporation, Western Union Telegraph Company, etc.) to what would appear to be literally thousands of local "currency exchanges" and individual merchants (particularly drugstores, markets, and department or variety stores) that sell money orders, as principal, for the accommodation of their customers.

Eight States (Florida, Kansas, Kentucky, Nebraska, Rhode Island, South Dakota, Vermont, and Wyoming) prohibit this activity, either by statute or administrative ruling; in addition, the question whether existing banking laws of West Virginia preclude issuance of money orders by organizations other than banks is now before the Attorney General of that State.

Where the practice is not prohibited, State statutes providing for the regulation of money order issuers vary from those that are quite detailed, such as in California and Illinois, to those that provide for only nominal regulation. A number of States have neither legislation nor administrative rulings on the subject.

Senator Gore

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I trust the foregoing comments, together with the enclosed compilation, will adequately serve your interest in this matter.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Wm. McC. Martin, Jr.", with a long, sweeping flourish extending to the right.

Wm. McC. Martin, Jr.

Enclosure