

Minutes for August 25, 1965

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

(M)

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

SSP

Gov. Mitchell

M

Gov. Daane

D

Gov. Maisel

SGZ

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, August 25, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
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. Brill, Director, Division of Research
and Statistics
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Holland, Associate Director, Division
of Research and Statistics
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Shull, Senior Economist, Division of
Research and Statistics
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations

Direct verification (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated August 20, 1965, relating to a letter of June 18, 1965, in which President Irons of the Federal Reserve Bank of Dallas referred to the Board's letter S-1960 of June 11, 1965, asking that examiners in each Federal Reserve District place renewed emphasis on direct verification. The examiners were requested to make appropriate comments in each examination report concerning the extent of the verification program in force at the bank under

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examination or to urge adoption of such a program if none was in effect. President Irons expressed apprehension that such efforts would produce only token results and presented the view that the Federal Reserve should move overtly and adopt direct verification as a part of the examination procedure.

The Division of Examinations suggested permitting the Dallas Reserve Bank to inaugurate such a program provided the State banking departments involved did not object, and a draft of letter to the Reserve Bank containing such an authorization was submitted with the memorandum. The proposed letter would also mention the desirability of sight posting items in incoming cash letters and local clearings as an effective method of uncovering irregularities in deposit accounts. The letter would ask the Dallas Bank to inform the Board of its experience after a period of six months.

In discussion Governor Shepardson raised the question why, if direct verification was considered desirable as part of the examination procedure, the authorization to inaugurate such a program should be made contingent on lack of objection by the State banking departments in the Dallas District. Mr. Leavitt indicated that this proviso had been included in the draft letter primarily in consideration of the close relationships existing between the Reserve Banks and the respective State banking departments.

Governor Robertson said he believed direct verification should be a part of the examination procedure in all Federal Reserve Districts.

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However, the program was most likely to be successful if approached on the basis suggested, that is, by trial in one District. Then, if it could be shown through experience that direct verification was feasible without creating adverse psychological reactions, it would be easier to broaden the practice in cooperation with the respective State departments throughout the country.

Question was raised whether there was any indication that the Dallas Reserve Bank had secured the agreement of the State banking departments in its area, and Mr. Leavitt indicated that this point had not been checked. He supposed that the Dallas Bank might not have wanted to discuss the matter with the respective States until it obtained an authorization from the Board.

Governor Robertson commented that President Irons probably would not have presented the question unless he was fairly sure that the Reserve Bank could get the concurrence of the State banking departments. On this assumption, he would be willing to delete from the letter of authorization the words "provided the banking departments of States in that District do not object."

Governor Mitchell expressed the view that the Federal Reserve should not refrain from going ahead with progressive programs by reason of waiting for the concurrence of the State banking authorities. He agreed that the Dallas Reserve Bank should be authorized to proceed, and he would be prepared to pursue the direct verification procedure

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generally, even in the face of any objections that might develop from State banking departments.

Mr. Leavitt noted that the Division of Examinations was considering the possibility of discussing the subject of direct verification by Reserve Banks at its meeting with representatives of the bank examination departments of the Reserve Banks on October 1, 1965. Also, the Dallas Reserve Bank would be asked to inform the Board how the procedure was working out in its District after a period of six months. If it was working out well, the Division of Examinations probably would recommend to the Board that a similar program be placed in effect at all Federal Reserve Banks.

Unanimous approval then was given to a letter to the Federal Reserve Bank of Dallas in the form attached as Item No. 1.

Endorsement requirements (Items 2 and 3). A distributed memorandum dated August 23, 1965, from Mr. Cardon (Legislative Counsel) and Mr. Holland brought out that three leading commercial bankers had recently addressed letters either to the Board or to Senator Robertson, Chairman of the Banking and Currency Committee, urging consideration of a liberalized procedure for endorsement of customer notes presented by member banks for discount or as collateral in borrowing from Federal Reserve Banks. The memorandum noted that some differences in Reserve Bank endorsement requirements were made necessary or at least prudent by differing laws and case precedents prevailing in the various States. Furthermore,

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differences in endorsement procedure could exist as between notes presented for discount, as collateral for advances, and as collateral for Treasury tax and loan accounts. However, there was some possibility of tailoring endorsement procedures to suit the convenience of member banks while still preserving a businesslike protection of the creditor interest of the Reserve Bank.

One of the letters was from Mr. Gaylord A. Freeman, Jr., Vice Chairman of the Board of The First National Bank of Chicago, and there was attached to the Cardon-Holland memorandum a proposed reply to Senator Robertson--drafted in consultation with the Federal Reserve Bank of Chicago--indicating what had been done in respect to endorsement procedures by that Reserve Bank.

The memorandum expressed the view that substantial differences in endorsement procedures probably existed among the Reserve Banks and suggested asking the Banks to review their requirements in order to insure that such differences as continued to exist were supported by good legal or other reasons. A draft of letter to the Reserve Bank Presidents requesting such a review was submitted for consideration.

In discussion, Governor Robertson asked why the fact that customer notes had been discounted or used for collateral should not be apparent on the notes. He was not unaware of the assertion on the part of Mr. Freeman and other bankers that under certain conditions knowledge by corporate depositors that their notes had been discounted might be harmful to the general reputation of the bank concerned. However, he felt

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that the System should strive for a procedure that was not only sufficient from a legal point of view but also forthright. In fact, the System might be benefited if the public came to realize that it was serving a real purpose in providing liquidity for the banking system through the discount window.

Mr. Holland verified that the arguments that had been made for a liberalized procedure seemed to rest largely on the question of possible adverse attitudes on the part of bank customers who did not understand the situation.

Governor Maisel suggested that if rigid endorsement procedures were maintained member banks might go to some trouble to screen out paper presented for discount or as collateral. In other words, they might try to screen out paper of customers that they felt did not understand the discount process. This would amount to work being done for no particularly good banking reason.

Along the same line, Mr. Holland suggested that banks might try to shift eligible paper into tax and loan accounts and use Government securities as collateral for advances at the discount window.

After further discussion, Governor Robertson inquired whether it was intended that the replies to the proposed letter to the Reserve Banks would be analyzed by the Board's staff so that the Board might consider what policies should be followed. As the proposed letter was drafted, it seemed to contain a suggestion that the Reserve Banks should

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try to avoid showing on customer notes the fact that such notes had been used in borrowing from a Reserve Bank.

There was general agreement with Governor Robertson that the letter should be phrased in a more neutral fashion for the purpose of obtaining the views of the Reserve Bank Presidents.

There followed suggestions for clarifying changes in the two draft letters, after which unanimous approval was given to letters to Senator Robertson and to the Federal Reserve Bank Presidents in the form attached as Items 2 and 3, respectively.

Messrs. Holland and Shull then withdrew from the meeting.

Question concerning Mercantile Trust (Item No. 4). There had been distributed a memorandum from Mr. O'Connell dated August 23, 1965, relating to a letter to Chairman Martin of August 16 in which William Kester, Financial Editor of the St. Louis Post-Dispatch, referred to a statement reportedly contained in the advisory opinion of the Federal Deposit Insurance Corporation on the merger of Mercantile Trust Company National Association, St. Louis, Missouri, and the Security Trust Company, also of St. Louis. The statement was that Mercantile Trust Company "converted to a National Association on December 24, 1964 apparently because the Federal Reserve System would not countenance continued membership and operation of Mercantile Mortgage Company, Clayton and St. Louis, Missouri. This firm was activated in June, 1963 as a loan and loan servicing business and reportedly operates a number of offices, including

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some in other states. The Federal Reserve System reportedly viewed this as a violation of the state law prohibiting branch banking." Mr. Kester stated that he would appreciate learning if this statement was an accurate representation of the Board's views and would appreciate learning whether the Board took action along the lines indicated in such statement. He added that it would seem to him that where State laws were concerned, the Board's actions in this matter were of public interest.

Mr. O'Connell's memorandum summarized the correspondence and discussions that had occurred beginning in April 1963 when Mercantile Trust Company advised the St. Louis Reserve Bank of a plan whereby a wholly-owned subsidiary corporation would purchase the assets (including the stock of four insurance companies) and business of a mortgage company that was engaged in the origination and servicing of mortgages through a number of offices within and beyond the State of Missouri. The correspondence culminated in a letter of October 6, 1964, a copy of which was attached to the memorandum, in which the Board, after reviewing the operations of the mortgage company in the light of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes, concluded that the mortgage company's continued operation (as described in the Board's letter) would violate governing Federal law and, accordingly, that the mortgage company must terminate the proscribed activities or Mercantile Trust must sever the affiliation between itself and the mortgage company. Mercantile Trust acknowledged the Board's letter,

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stating that it was shocked at the conclusion reached and that in due course the Board would hear from the bank further. However, the Board's records failed to reflect any further communication from the trust company preceding Mercantile's conversion to a national bank on December 24, 1964.

Submitted with Mr. O'Connell's memorandum were drafts of alternative letters that might be sent to Mr. Kester. The first draft would advise that sometime preceding Mercantile Trust Company's conversion to a national bank the Board had occasion to advise the trust company of its view that the continued operation of the mortgage company, as then being conducted, would violate governing Federal law relating to branch banking. It would also indicate that the Board was unable to state what effect, if any, the Board's views as expressed to Mercantile Trust Company might have had on the decision by the bank to convert to a national bank. The second draft letter would state that under the Board's rules regarding information, the Board was precluded from making public disclosure of the type of information sought by Mr. Kester and, accordingly, any communication that may have occurred between the Board and Mercantile Trust Company on the matters raised by Mr. Kester would not be subject to disclosure.

After Mr. O'Connell had commented on the Kester inquiry, he was asked by Governor Robertson whether the statement presented in Mr. Kester's letter was an accurate quotation from an advisory opinion rendered by the Federal Deposit Insurance Corporation. Mr. O'Connell replied that it was

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not. However, according to a representative of the Corporation, the substance of the quotation was contained in a communication from the Corporation's supervising examiner in St. Louis regarding the then proposed merger of Mercantile Trust Company National Association and Security Trust Company.

Governor Balderston stated that Chairman Martin had advised him that his preference would be for a letter to Mr. Kester along the lines of the first alternative draft, that is, the draft providing certain information to Mr. Kester.

Governor Robertson then suggested a possible revision of the proposed letter that would focus primarily on the question of accuracy of the statement quoted by Mr. Kester.

Mr. Hexter inquired at this point whether the indication that the Board favored providing information to Mr. Kester should be taken to reflect a general attitude that whenever a journalist asked about the circumstances that had led a State member bank to convert to a national bank the Board proposed to respond.

Governor Robertson replied in the negative, stating that it was for this reason that he would want to limit the reply to commenting on the action that the Board had taken, which consisted of rendering an opinion to Mercantile Trust Company on the question whether the operations of the mortgage company violated governing Federal law relating to branch banking. He would want to avoid any statement that would seem

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to indicate why the bank converted to national status because, as a matter of fact, the Board had not been informed of the reason.

Governor Maisel suggested that on this account it might be well for the letter to state positively that the Board did not know why the bank had made the decision to convert. He suggested that the reply might begin with such a statement. Then, with respect to Mr. Kester's other question, that is, whether the Board had expressed an opinion to Mercantile Trust Company on the operations of the mortgage company, an answer could be given that the Board had expressed such an opinion.

After further discussion, Governor Robertson indicated that he would be agreeable to a reply along the lines Governor Maisel had suggested, and Governor Mitchell also indicated that he would favor such a reply. There followed discussion, at the instance of Governor Shepardson, concerning the points of law involved in the mortgage company's operations from the standpoint of the branch banking statutes. During this discussion Mr. Hexter pointed out that the subject had required lengthy correspondence between Mercantile Trust Company and the Board because it involved an exceptionally complex area of banking law. This raised the question of the extent to which the Board wanted to explain the details of the controversy. There was general agreement that a detailed explanation should not be attempted in replying to Mr. Kester, and certain summary language was suggested.

At the conclusion of the discussion unanimous approval was given to a letter to Mr. Kester in the form attached as Item No. 4, reflecting

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Governor Maisel's suggestion as to the framework of the reply. It was understood that copies would be sent to Mercantile Trust Company National Association, for its information, and to the President of the Federal Reserve Bank of St. Louis.

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

Southern Arizona Bank and Trust Company. At its meeting on August 19, 1965, the Board was informed by Mr. Solomon, Director of the Division of Examinations, that an economist for Southern Arizona Bank and Trust Company, Tucson, Arizona, had written to the Federal Reserve Bank of Dallas asking for information on the differences between national banks, State member banks, and nonmember banks in light of advantages and disadvantages. Vice President Sullivan of the Dallas Bank had prepared a proposed reply to the inquiry and had sent a copy thereof to Mr. Solomon for consideration prior to mailing. It was suggested at the August 19 meeting that the members of the Board be furnished copies of the proposed reply, and this had now been done.

In discussion Governor Robertson suggested that there might be sent to Vice President Sullivan, for transmittal of the substance to the State member bank if Mr. Sullivan so desired, a copy of a paper that had been prepared and updated by members of the Board's staff relating to the meaning of membership in the Federal Reserve System to a bank.

Mr. Hexter indicated that he had detected in Mr. Sullivan's proposed reply a number of statements that might be considered inaccurate

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or misleading. Upon inquiry, Mr. Hexter reviewed examples of statements such as he had in mind. He stated reasons why the subject was complex and why it would necessitate considerable work to prepare a completely sound detailed document.

The suggestion then was made that Mr. Hexter prepare a memorandum of comment on the proposed reply by Vice President Sullivan, such memorandum to be forwarded to Mr. Sullivan for use in considering revisions in the draft of proposed reply.

There was general agreement with this suggestion. It was understood that there would also be sent to Mr. Sullivan a copy of the staff paper to which Governor Robertson had referred.

Salary of officer at Richmond Bank (Item No. 5). Pursuant to the recommendation contained in the pertinent file, which had been circulated to the Board, unanimous approval was given to a letter to the Federal Reserve Bank of Richmond approving the payment of salary at the annual rate of \$17,500 to Joseph F. Viverette (currently Assistant Vice President) as Vice President of the Bank for the period September 1 to December 31, 1965. A copy of the letter is attached as Item No. 5.

Leave of absence for officer of New York Bank (Item No. 6). At the Board meeting on August 19, 1965, preliminary consideration was given to a draft of letter to the Federal Reserve Bank of New York indicating that the Board would have no objection to the Bank's granting Frank W. Schiff, Assistant Vice President, an additional year's leave of absence

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without pay, until September 1966, in order that he might continue to serve on the staff of the Council of Economic Advisers. Action on the matter was deferred at the suggestion of Governor Daane in order that certain additional information might be obtained.

Governor Balderston reported having been advised by Governor Daane that the latter now saw no objection to the transmittal of the proposed letter to the New York Reserve Bank.

Governor Shepardson commented that he believed Governor Daane's present position reflected an understanding on his part, with which Governor Shepardson agreed, that the approving of an additional year's leave of absence for Mr. Schiff did not necessarily involve a commitment such as to preclude the possibility of considering Mr. Schiff's return to the Federal Reserve System prior to the expiration of the extended period of leave.

The letter to the New York Reserve Bank, a copy of which is attached as Item No. 6, was then approved unanimously.

Study of foreign operations of U.S. banks. At the Board meeting on August 18, 1965, it was agreed that a committee consisting of Governor Mitchell, as Chairman, and Governors Shepardson and Maisel would explore and recommend an organizational framework for the conduct of a proposed study of the foreign operations of U.S. banks.

At this meeting Governor Mitchell presented on behalf of the committee a memorandum dated August 25, 1965, as follows:

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(1) We recommend that more specific research plans for the project be drawn up (a) indicating clearly the project's objectives as they relate to specific responsibilities of the Board in the examinations and supervisory field and to broader problems associated with the U.S. payments position, and (b) identifying needed information and deficiencies in presently available data. In specifying these two areas of major concern and responsibility we recognize the possibility that upon further consideration some other objectives will be appropriately included.

(2) We recommend that the project be expanded to cover all foreign operations of member banks, thus including direct foreign lending and investment as well as the activities of foreign branches and Edge and agreement corporations.

The detailed plan, when completed and concurred in by the Director of the Division of International Finance, will be reviewed by our committee and then referred to the Board for its consideration. Thereafter we would expect to submit it to qualified outside consultants called in for this specific purpose. The project would become operational when consultants' views had been assimilated and the revised plan approved by the committee and the Board. We would hope to accomplish this phase of the work in a period of two months or less.

(3) We recommend that Mr. Frederick R. Dahl be given the responsibility for the direction and execution of the project under the general supervision of the Director of the Division of International Finance, and that he be authorized by the Board to draw upon such personnel, records, and materials within the Board or the System as will assist in the further planning and implementation of the project.

The approval of the Board to proceed on the basis of these recommendations is requested.

After comments by Governor Mitchell in supplementation of the memorandum, the recommendations therein were approved unanimously as a basis of procedure, with the understanding that the committee would come back to the Board after the detailed plan for the project, as referred

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to in the memorandum, had been prepared and had been reviewed by the committee.

The meeting then adjourned.

Secretary's Notes: On August 24, 1965, there was sent to First National City Bank, New York, New York, a letter extending to March 1, 1966, the time for establishment of a branch in Cartagena, Colombia. (A letter of July 30, 1964, had acknowledged the bank's notice of intent to establish this branch.)

On August 23, 1965, Governor Shepardson approved on behalf of the Board a memorandum from the Division of Data Processing recommending the reemployment of James E. Miller, Operator, Tabulating Equipment, with basic annual salary at the rate of \$4,630, effective August 23, 1965. (Military leave had previously been granted to Mr. Miller, but he had failed to pass the Armed Forces physical examination.)

On August 24, 1965, Governor Shepardson approved on behalf of the Board the following items:

Memorandum from the Legal Division recommending the appointment of Pauline B. Heller as Senior Attorney, effective September 1, 1965, with basic annual salary at the rate of \$17,030.

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 7) approving the designation of Henry G. Glover and Kenneth G. Reece as special assistant examiners.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Appointment

John Thomas Gaskins as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,385, effective the date of entrance upon duty.

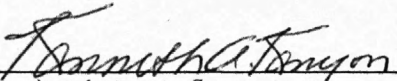
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Acceptance of resignations

Larry Jay Promisel, Research Assistant (Summer), Division of International Finance, effective at the close of business September 8, 1965.

Edward A. Hackett, Laborer, Division of Administrative Services, effective at the close of business September 1, 1965.


Assistant Secretary

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
8/25/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1965.



Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Irons:

In your letter of June 18, 1965, you referred to the Board's letter S-1960 dated June 11, 1965, in which examiners for each Federal Reserve District are directed to place renewed emphasis on direct verification and make appropriate comments in the examination reports concerning the extent of the verification program in force or urge adoption of one if none is in effect. You strongly support this position, but feel that the time is now here for the System to move overtly and adopt direct verification as a part of the examination procedure.

The Board is agreeable to having direct verification inaugurated on a test basis by the Federal Reserve Bank of Dallas.

In a letter dated June 22, 1962, from Mr. Frederic Solomon to Vice Presidents in Charge of Examinations, a memorandum entitled "Examination Procedures Useful in Investigating Possible Irregularities in Small Banks" was sent to all Reserve Banks. Among other practices this memorandum mentioned sight posting as an effective method of uncovering irregularities in deposit accounts. If the Federal Reserve Bank of Dallas adopts direct verification as a regular part of the examination procedure, it would also seem desirable in all examinations to sight post incoming items from cash letters and local clearings.

The Board is most interested in both programs and would appreciate very much being informed of your experience after these programs have been in effect for six months.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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Item No. 2
8/25/65

OFFICE OF THE CHAIRMAN

August 31, 1965

The Honorable A. Willis Robertson,
Chairman, Committee on Banking
and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in reply to your letter of August 2 requesting views on Gaylord Freeman's suggestion concerning endorsements of collateral used as security for borrowing from a Federal Reserve Bank.

I understand the Federal Reserve Bank of Chicago has worked out an endorsement arrangement that goes at least part way toward accomplishing his objective. The Reserve Bank does not now require, as it once did, that the borrowing bank write on the back of the paper the type of an endorsement that shows that the paper was pledged to the Reserve Bank as collateral for an advance. Unless there is actually no room on the instrument itself, however, endorsement on a separate piece of paper would not be acceptable to the Reserve Bank. This limitation in respect to an "allonge" (referred to in Mr. Freeman's letter) is applicable in some States, including Illinois. But the new procedures adopted by the Federal Reserve Bank of Chicago at least permit the borrowing bank simply to stamp the collateral with an endorsement in blank or to its own order, and this does not reveal that the paper was used to borrow from the Reserve Bank. Member banks that have used this new procedure tell us it has been helpful in dealing with the problem of customer attitude referred to by Mr. Freeman.

In view of your interest in this question, I am sending copies of this correspondence to the Reserve Banks.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 3
8/25/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1965.



Dear Sir:

In recent days three leading bankers have addressed correspondence to the Board or to Senator Robertson, Chairman of the Senate Banking and Currency Committee, urging that the Federal Reserve Banks give consideration to accepting endorsement by allonge on customer notes submitted by the member banks for discount or for collateral. Attached for your reference are copies of the pertinent correspondence, including a Board reply to Senator Robertson that is addressed mainly to the Chicago banker's inquiry and was drafted in consultation with the Federal Reserve Bank of Chicago.

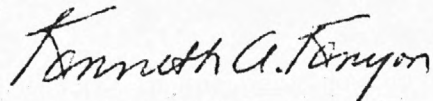
These coincident expressions of banker interest in endorsement techniques are coming at a time when a variety of legislative proposals affecting the Federal Reserve System are under consideration by the Congress, and raise the possibility that more widespread interest in Federal Reserve endorsement procedures will develop among both bankers and legislators. In these circumstances, it seems prudent for each Federal Reserve Bank to review carefully its current requirements concerning endorsement of paper presented by member banks in the light of any recent developments in relevant State statutes and court decisions. It would be appreciated if, in connection with a review of this matter, each Reserve Bank would forward to the Board and to the other Reserve Banks a brief description of the current endorsement requirements at its head office and branches.

It is recognized that legal considerations can make it advisable to establish different endorsement requirements at different Federal Reserve Banks and branch offices, and also as between notes presented for discount, as collateral for advances, and as collateral for Treasury Tax and Loan deposits; but the nonuniformities in practice that are maintained ought to be such as can reasonably be justified.

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Endorsement procedures, of course, need to be such as to preserve a businesslike protection of the creditor interest of the Reserve Bank. Within this limit, however, there is some room for choice between adapting procedures to the wishes of the member banks, as indicated in the attached correspondence, and preserving Federal Reserve Bank identification in endorsements in the interest of full disclosure and good public relations with the community assisted. The Board would appreciate the views of the Federal Reserve Banks as to the appropriate degree of emphasis that should be placed upon these alternative objectives.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
8/25/65

OFFICE OF THE CHAIRMAN

August 26, 1965.

Mr. William Kester, Financial Editor,
News Department,
St. Louis Post-Dispatch,
St. Louis, Missouri.

Dear Mr. Kester:

In your letter of August 16, 1965, with respect to the action of Mercantile Trust Company National Association in converting to a national bank, you inquire regarding views and actions of the Board that may have preceded Mercantile Trust Company's conversion action.

The Board has not been informed of the reasons that motivated Mercantile Trust Company's conversion to a national bank.

You inquire whether the Board expressed the view that the operation of Mercantile Mortgage Company was in violation of law pertaining to branch banking. Prior to Mercantile Trust Company's conversion to a national bank, the Board did advise the bank that, in the Board's opinion, the conduct of mortgage loan activities, in the manner and of the nature then being conducted by Mercantile Mortgage Company, would violate governing Federal law relating to branch banking.

A copy of this letter is being sent to Mercantile Trust Company National Association for its information.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 5
8/25/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1965

CONFIDENTIAL (FR)

Mr. Edwin Hyde,
Chairman of the Board,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Hyde:

The Board of Governors approves the payment of salary to Mr. Joseph F. Viverette as Vice President of the Federal Reserve Bank of Richmond at the rate of \$17,500 per annum for the period September 1 through December 31, 1965. This is the rate fixed by your Board of Directors as reported in your letter of August 12.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
8/25/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1965.

Mr. Thomas M. Timlen, Jr., Secretary,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Timlen:

Reference is made to your letter of August 2, 1965, regarding the extension for one year of the leave of absence granted to Mr. Frank W. Schiff so that he may continue to serve on the staff of the Council of Economic Advisers. Mr. Schiff's leave will terminate in September 1966.

The Board will interpose no objection to this arrangement as approved by your Board of Directors.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

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Item No. 7
8/25/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1965

Mr. George W. Sheffer, Jr.,
Assistant Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Sheffer:

In accordance with the request contained in your letter of August 20, 1965, the Board approves the designation of Henry G. Glover and Kenneth G. Reece as special assistant examiners for the Federal Reserve Bank of Atlanta.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.