

William McChesney Martin, Jr., Papers

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Hearings, February-April 1958

COMMENTS BY BOARD OF GOVERNORS ON REPRESENTATIVE PATMAN'S
TESTIMONY OF FEBRUARY 7, 1958 BEFORE HOUSE BANKING & CURRENCY COMMITTEE

Section 4 of the Act provides that "every Federal reserve bank shall be conducted under the supervision and control of a board of directors," and sets forth both the composition and manner of election or appointment of such boards. It further specifies that "the board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law."

Section 11 authorizes the Board to exercise general supervision over the Federal Reserve Banks; other fundamental powers which the Act confers on the Board include the authority to liquidate or reorganize a Federal Reserve Bank (Section 11), and to readjust or create new districts--not to exceed twelve in all (Section 2).

Congress provided for an accounting by the Board of Governors of its stewardship over the Federal Reserve System by requiring (Section 10) that the Board "shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress."

The responsibilities placed upon the Boards of Directors of the individual Reserve Banks, and the Board of Governors, must be taken into account when considering expenditures and practices upon which Mr. Patman has commented.

Section 21 of the Federal Reserve Act provides that the Board shall at least once a year order an examination of each Federal Reserve Bank. With regard to the scope of the examinations, the Board's instructions to its examiners contain the following general provisions:

"The examination of a Federal Reserve Bank shall determine (a) its financial condition through appraisal of its assets and verification of its assets and liabilities, including liabilities as custodian, without undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit procedure; (b) proper discharge of its responsibilities as Fiscal Agent of the United States; and (c) compliance by the management with applicable provisions of law, regulations of the Board of Governors, and any other applicable requirements. Also the Board's examiners shall develop pertinent facts and opinions which will enable the Board of Governors to appraise the condition, operations, and administration of each Reserve Bank."

Pursuant to these instructions, the examination reports contain-- along with detailed schedules of assets, liabilities, and reserves--a wide variety of information and comments. Some of these comments are of a critical nature; others are in the form of suggestions as to operating procedures; and still others pertain to matters which the examiners feel may be of interest to the Board or should be made a matter of record.

Upon the conclusion of each examination, the examiner presents his report to the President, and the Chairman of the Board of Directors of the Reserve Bank, at which time the examiner's suggestions and criticisms are fully discussed. The report is then reviewed by the Board of Governors, and advice is requested from the Bank concerning matters that seem to warrant further attention. Copies of these reports covering years as far back as 1949 have on previous occasions been furnished to the House Banking and Currency Committee.

Last August Mr. Patman requested copies of the reports of examinations made by the Board's examiners during the five-year period 1952-1956. That portion of Mr. Patman's statement of February 7 which concerns expenditures and operations of the Federal Reserve Banks was based on these reports.

Insurance

On Page 1549 Mr. Patman stated that during the year 1956 the Federal Reserve Banks spent \$1,821,429 for insurance (as shown on Page 1666, this total should be \$1,128,429), and asked: "Why should the Federal Reserve banks buy insurance?" His statement continued: "This insurance is unneeded . . . with all the money and resources of the Federal Reserve System, if it can not carry the risk of its own insurance, then certainly there is no private insurance company that can carry this risk."

The Federal Reserve Banks have discontinued purchasing substantial amounts of insurance. About 15 years ago the Banks, with the encouragement of the Board, entered into a loss-sharing agreement under which they discontinued the purchase of registered mail insurance for their own account and reduced the Bankers' Blanket Bond coverage at each Bank to \$500,000. Each year the Reserve Banks set aside a portion of their earnings (at the rate of two cents per thousand dollars of value of shipments covered) as a reserve for registered mail losses. At the end of 1956 this reserve totaled approximately \$10 million.

The question of purchased insurance has been considered from time to time, particularly the possible desirability of extending the coverage of the loss-sharing program of the Reserve Banks. For various reasons, extensions of this program to risks other than mentioned above were considered undesirable or impracticable. For example, a program of loss-sharing in lieu of Workmen's Compensation insurance would necessarily have to comply with the laws of each of the States in which the Federal Reserve Banks have employees. Administration of such a program would require expert technical

knowledge on personal injury and insurance matters, such as investigation and settlement of claims, with respect to which Federal Reserve personnel have had little or no experience.

A breakdown of the \$1,128,429 which the Federal Reserve Banks spent for insurance in 1956 is shown in the table on Pages 1665-1666. As this table indicates, about \$750,000 of the total represented the Banks' portion of premiums paid for hospital and medical service insurance, and about \$150,000 was for Workmen's Compensation insurance.

"Unusual Expenses"

Mr. Patman's statement mentioned (pages 1562-1584) numerous items under the heading "Unusual Expenses." These items include expenditures for the following purposes: Personnel activities including training, recreation, loan funds, and employee insurance; Membership dues; Charitable activities; Meetings and entertainment; and Buildings and land.

Except for the "Buildings and land" category, all of the above reflect operating policy decisions at the individual Reserve Banks. The Board has taken the position that the responsibility for determining whether expenditures of this nature are necessary expenses within the meaning of Section 7 of the Federal Reserve Act rests primarily with the officers and directors of the individual Banks. This position is consistent with the provisions in Section 4 of the Federal Reserve Act that "every Federal reserve bank shall be conducted under the supervision and control of a board of directors" and that the "directors shall perform the duties usually appertaining to the office of directors of banking associations."

The Board of Governors relies upon its examiners to review all such expenditures and bring those about which there may be any question to the attention of the Bank's management and to the attention of the Board.

More specific comments with regard to these matters are given below:

Personnel activities

The fact that employees of the Federal Reserve Banks are not Government employees is particularly important when considering personnel programs. The Reserve Banks must compete in the local labor market and, if they are to compete successfully, their personnel programs must be in line with those of the community.

The Federal Reserve Clubs, which Mr. Patman referred to on several occasions, are employee organizations which sponsor social, recreational, and educational programs. Allotments to them are part of the per capita cost which the Reserve Banks budget for their personnel activities.

To a large extent the efficiency of the operations of a Reserve Bank depends upon the experience and stability of its staff. In this light, the real measure of personnel activities is their effect on reduced turnover and greater efficiency, rather than the direct cost of the various activities.

Membership dues

Mr. Patman commented (page 1564) that the Federal Reserve Banks "pay dues and assessments to the American Bankers Association, the American Institute of Banking, the private clearing houses, the chambers of commerce, and others, and pay officers' and employees' fees and expenses for attending meetings of such organizations."

Among the organizations mentioned were, "private clearing houses." Memberships in local Clearing House Associations greatly expedite the presentation by the Federal Reserve Banks of checks drawn on local banks. Membership dues are levied by these associations to pay their operating and administrative expenses. In some cases, the Reserve Banks pay such dues; in other cases they provide the Clearing House with operating space in the Reserve Bank building and are accordingly relieved from the payment of dues. One advantage of the latter arrangement is that it eliminates the need to transport through the streets each day the great volume of local checks received by the Reserve Banks.

Memberships in such organizations as the American Bankers Association, chambers of commerce, etc., reflect--like personnel activities--operating policy decisions at the individual Reserve Banks. The over-all guiding principle in connection with such memberships is that they should be confined to organizations falling within one or more of the following

categories:

1. Organizations whose activities are directly related to the work of the Reserve Bank, such as national and State bankers' associations.
2. Organizations in which the Reserve Bank feels it should be represented, such as chambers of commerce and appropriate financial and agricultural associations.
3. Organizations in which membership is desirable in order to obtain publications and other services, such as economic and other professional associations.

Memberships in the first two categories permit regional soundings and a blending of views that constitute one of the most important strengths of the Federal Reserve System. They form a means of economic intelligence that enables the Reserve Banks to obtain and transmit to appropriate authorities in the System information concerning rapidly occurring changes in our economy, and are directly relevant to the timely formulation of credit policy.

Although it feels that individual decisions with respect to memberships should be determined at the local level, the Board has devoted considerable attention over the years to the general question of expenditures for membership dues. The most recent review of this matter, begun in the latter part of 1956, resulted in discontinuance of certain memberships carried at Bank expense.

Meetings and entertainment

In this category Mr. Patman cited from the examination reports comments concerning the following matters:

Cleveland 1952

Expenditures of \$295 for stateroom for two officers in connection with annual lake cruise sponsored by the

Cleveland Chamber of Commerce.

Expenses of \$5,417 for joint meeting of Boards of Directors of the main office and the Pittsburgh and Cincinnati Branches at Cincinnati, including \$165 for favors, \$184 for a river trip, and \$190 for entertainers.

Boston 1953

Reimbursement of expenses (\$158) incurred by officers as a result of attendance of their wives at meetings of State bankers associations.

Minneapolis 1953

Entertainment expenses of \$50 in connection with Annual Conference of Personnel Officers of Federal Reserve Banks; and entertainment expenses of \$150 in connection with a conference of Ninth District Bank Examiners.

Kansas City 1953

Expenses totaling \$1,773.70 incurred in connection with a Conference of Bank Supervisors and Examiners, including \$325 for entertainers.

St. Louis 1954

Expenditure of \$419.68 for 86 theater tickets purchased for entertainment in connection with November 12, 1953 joint meeting of Boards of Directors of the head office and the three branches.

Expenditures of \$157.25 for 85 baseball tickets; and of \$99.75 for 57 theater tickets purchased for entertainment in connection with June 10, 1954 joint meetings of Boards of Directors of the head office and the three branches.

These tickets were for the use of the directors and officers of the Reserve Bank and their wives.

Minneapolis 1955

Expenses of (a) \$100 for entertainers in connection with an Examiners' Conference; (b) \$62.40 for basketball tickets and \$60 for Ice Follies tickets purchased for entertainment in connection with various sessions of the "Short Course in Central Banking" during the period January 1 - July 1, 1955; (c) \$72 for dinner music entertainment for April 1955 "Directors and Officers Assembly"; and (d) \$76.40 for 21 football tickets in connection with the October 1955 Directors' meeting.

Dallas 1956

Expenditure of \$100 for entertainment during dinner given to delegates from all Federal Reserve Banks attending National Convention of American Institute of Banking.

The above expenditures were in connection with business meetings of direct interest or benefit to the Reserve Banks. They were considered by the management of the individual Bank concerned to be reasonable and appropriate for the occasion. In each case, however, after the matter was made a subject of comment in the examination report, the Bank reviewed its policy and subsequently discontinued incurring expenses of the type questioned.

Buildings and land

On page 1571 the following statement by Mr. Patman appears:

"These banks (the Reserve Banks) are supposed to be limited by law in their spending for bank premises. They

are expressly forbidden to build or enter into any contract to erect any building to cost in excess of \$250,000 without coming to Congress for the authorization."

This statement is incorrect in two respects. First, the limitation in the law applies to branch buildings, not to head office buildings. Secondly, the limitation cited is that originally enacted June 3, 1922, and ignores subsequent amendments.

The full text of the limitation is found in paragraph 9 of Section 10 of the Federal Reserve Act, which reads as follows:

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of \$250,000: Provided, That nothing herein shall apply to any building under construction prior to June 3, 1922: Provided further, That the cost as above specified shall not be so limited as long as the aggregate of such costs which are incurred by all Federal Reserve banks for branch bank buildings with the approval of the Board of Governors after the date of enactment of this proviso does not exceed \$30,000,000."

Mr. Patman's statement continued: "But the Federal Reserve System has invented a new accounting system which seems to eliminate much of the normal inconvenience of any restraint on capital outlays. By this new system, they simply charge capital outlays to current expense."

The examples cited with respect to the charge of construction costs to current expense (page 1575) refer to repairs and alterations at head office buildings. The basic principle followed in such charges is to capitalize those which add to the intrinsic value of the property, and to charge to expenses the costs of repairs and alterations which keep the properties in repair and make for efficient utilization of space and operations but do not add new intrinsic values to the building. This is in accordance with standard accounting practice.

Much of the material concerning Bank premises which is contained in Mr. Patman's statement represents merely comments by the Board's examiners with respect to the progress of building projects at various Federal Reserve Banks and branches. Mr. Patman cited several instances of parking arrangements provided for Bank employees. These arrangements are similar to those provided here in Washington for employees of Government departments.

Losses and Discrepancies

On page 1575, Mr. Patman stated:

"Some of the losses and the discrepancies in the accounts of the Federal Reserve Banks are truly amazing. All of these banks experience tremendous losses of registered mail containing deposits, securities and other things of value. They charge off or set up reserves amounting to millions of dollars for such losses."

The implied criticism of the practice of setting up reserves against possible registered mail losses seems to conflict with the earlier assertion (page 1549) that the Federal Reserve System should carry its own insurance. As mentioned previously, the Federal Reserve Banks do have a registered mail loss-sharing agreement, and--as part of this program--set aside a portion of their earnings each year as a reserve against possible losses.

The record does not support the assertion regarding losses and discrepancies at the Reserve Banks. In the light of the tremendous volume of money, checks and securities handled by the Reserve Banks--losses and discrepancies have been exceedingly small and infrequent.

The following data indicating the volume of currency, checks and securities which the Federal Reserve Banks handle in one year were taken from the table on page 79 of the Board's 1956 Annual Report.

<u>1956 volume of--</u>	<u>Millions of pieces</u>	<u>Billions of dollars</u>
Currency received and counted ^{1/}	4,467	29
Checks handled--		
Government	539	114
All other	2,822	1,005
Issues, redemptions and exchanges of U. S. Government securities	199	422

^{1/} Does not include new money received from Washington.

In contrast to the above amounts which are in billions of dollars, the following figures showing net losses at all Reserve Banks due to differences and registered mail losses, during the years covered by Mr. Patman's statement, are in actual dollars.

	<u>Net Losses charged to</u>	
	<u>Profit and Loss-- Difference account</u>	<u>Reserve for registered mail losses</u>
1952	\$16,239	\$1,150
1953	11,907	1,140
1954	9,325	150
1955	9,097	965
1956	7,112	100

Note--The total of about \$3,500 charged to the Reserve for Registered Mail Losses during the five years 1952-56 resulted from the loss-sharing agreement of the Federal Reserve Banks. It may be of interest to mention that during the same period this agreement also resulted in a savings of more than \$2 million in premiums that the Reserve Banks would have paid if, in lieu of the loss-sharing program, they had purchased insurance to cover their shipments of currency, coin and securities.

In several cases, the losses which Mr. Patman cited were beyond the responsibility of the Reserve Banks and were included in the examination report only as a matter of information. For instance, on page 1578, Mr. Patman commented on an \$85,000 currency shipment by the Federal Reserve Bank of New York which was embezzled by a Post Office employee.

The quotation from the examination report clearly indicates that the embezzler was an employee of the Post Office Department, and that most of the money was recovered. In the light of these facts it is obvious that there was no negligence or culpability on the part of the Reserve Bank in connection with the incident.

Moreover, certain of the larger items which Mr. Patman listed under the general heading "Losses and Discrepancies" do not belong in such a category. They pertain to Deferred Accounts, Reserves for Contingencies, and other such schedules which are necessary in the examination report to show the detail of the Bank's assets, liabilities and reserves. They do not represent, or indicate, losses or discrepancies.

For example, on page 1576 there is listed from the 1954 Examination Report of the Federal Reserve Bank of San Francisco an amount of \$51,883,221.62 which is shown under Deferred Accounts as "Uncollected cash items--Due from member and nonmember banks." This amount, of course, represents checks and other cash items which the Reserve Bank forwarded for collection and for which, in the normal course of business, payment had not yet been received as of the date of the examination. It is in no sense a loss or a discrepancy.

Cafeteria Subsidy

On page 1584, Mr. Patman's statement includes the following remarks:

"They make generous subsidies to the employees' cafeterias and dining rooms. The Board has authorized the banks to pay up to one-half of the costs. As previously pointed out, the total cost of all the cafeterias in 1956, according to the bank's method of computing these costs, came to \$2,549,099, and of this amount the banks paid \$1,196,814, while the cafeterias receipts took care of \$1.3 million. (See pt. I, p. 569, of the hearings.)

"I do not object to a fair subsidy for restaurants and cafeterias in connection with a business. I think it is pretty well accepted practice. But I think it is very unusual for the Government to have to pay 50 per cent of such expenses, and even more. Furthermore, these audit reports disclose that even the theoretical maximum of 50 per cent is an understatement."

He adds (on page 1585) that "it would appear that the cost of overhead--bank space, lights, water, all the expensive equipment and the dining room furnishings and perhaps even the personnel--are furnished free by the banks and are not counted against the 50 per cent subsidy which the banks have been authorized to make to the cafeterias."

In most of the cities in which the Reserve Banks or branches are located, it is well-established practice for business and industrial firms to provide low-cost meal service. In some areas, many of the large banks and insurance companies provide free meals to employees. This is a competitive factor in local labor markets where the Reserve Banks must recruit their employees. A first-class cafeteria serving low-cost, balanced meals is an internal economy factor as it minimizes absenteeism, increases productivity, and reduces turnover. The Reserve Banks' average cost of \$67 per employee during the year 1957 for the subsidized food service is small in comparison to the advantages derived.

The Board has authorized the absorption by a Reserve Bank of up to one-half of the cost of operating its cafeteria, based upon the following expense items:

Salaries and retirement contributions of employees assigned to the cafeteria operation.

Cost of food, and cafeteria supplies (including ordinary day-to-day replacements of small utensils, dishes, glassware, etc.)

Cost of licenses, permits, and outside laundry and cleaning..

As Mr. Patman notes, the cost of operating Federal Reserve Bank cafeterias does not include allocations of overhead and space charges. Exclusion of these items from cafeteria and dining room costs is in line with commercial accounting practices.

Retirement System

On page 1585, Mr. Patman states: ". . . the Retirement System of the Federal Reserve is clear out of line with that of other Government employees. I believe in a good liberal retirement system, but I don't believe they should have a better system than the other Government employees because they work for the Government."

This statement with regard to the Federal Reserve Retirement System has been reviewed by the actuarial firm of George B. Buck. Mr. Buck is the Actuary of the Retirement System of the Federal Reserve Banks and is also Chairman of the Board of Actuaries of the Civil Service Retirement System. Mr. Buck's firm noted that--

1. Benefits to which employees of the Board of Governors are entitled under the Federal Reserve Retirement System are identical to those provided for Civil Service employees other than Members of Congress.

2. Under the Federal Reserve Retirement System, a Federal Reserve Bank employee is not eligible for full service retirement benefits until he has attained age 65 regardless of the number of years of his service; whereas, under the Civil Service System an employee may become eligible for full benefits at age 60 after 30 years of service or at age 62 after 5 years of service.

3. The cost to the employer of the total benefits (including Social Security) provided for Bank employees versus Civil Service employees is quite close to being the same.

The following figures compare the total service retirement benefits under the Bank Plan and Civil Service Plan for employees having a "final average salary" of \$3,000 and \$25,000 with 30 years of future service rendered after the effective date of the changes in the Bank Plan on September 1, 1957.

	Retirement benefits as a per cent of salary	
	Bank Plan (including Social Security)	Civil Service Plan
30 years service and "final average salary" of \$3,000	55.8	58.3
30 years service and "final average salary" of \$25,000	56.3	56.25

While some benefits of the Bank Plan, when compared with the Civil Service Plan, would be more favorable in certain cases and less favorable in others, the figures given above as well as those that apply at other salary levels show on the average closely comparable benefits between the plans. On the twenty-two salaries that exceed \$25,000, the maximum retirement benefits

for 30 years' service would amount to 57.0 per cent of final average salary. In this latter group there are only two salaries that exceed \$35,000--one at \$50,000 and one at \$60,000.

Deficiencies in Reserves

Mr. Patman stated (pages 1586-1587) that "there are all kinds of irregularities about the use of bank reserves," and that "they assess or waive penalties for deficiencies in member bank reserves on the basis of erroneous computations, or without authority."

All member banks are required to submit reports of deposits for reserve purposes--central reserve and reserve city banks on a weekly basis, and country banks on a semi-monthly basis. These reports, numbering over 162,000 a year, are compared at the Reserve Bank offices with the member banks' reserve accounts.

The Board delegates to the Reserve Banks discretion as to whether penalties are assessed or not in specified types of cases--for example, when the penalty is less than a certain amount, and when the deficiency is less than a stated percentage of required reserves and is offset by excess reserves during the immediately following reserve computation period. In all other cases, penalties incurred shall be assessed unless the Board, after a review of the facts of the case and the recommendation of the Federal Reserve Bank, authorizes the Reserve Bank not to make the assessment. Detailed instructions regarding these waivers were furnished to Mr. Patman, at his request, with the Board's letter of September 4, 1957.

From October 10, 1949 through August 15, 1957, during which about 1.3 million reports were reviewed for reserve purposes, only 76 cases were referred by the Reserve Banks to the Board, and in these cases the Banks were authorized not to make the assessment. Experience in this matter indicates that member banks conscientiously attempt to maintain adequate reserves, and

that deficiencies arise largely through inadvertence, clerical error, delay in mail, and absence of key employees of the member banks.

The Board believes there is no justification for the charge that there are all kinds of irregularities about the use of bank reserves.

Examination Procedures

In connection with the examinations of Federal Reserve Banks, which are conducted by the Board's examiners pursuant to the requirement of Section 21 of the Federal Reserve Act, Mr. Patman made the following comments (page 1588):

"The Federal Reserve System, as I have pointed out, has never had a Government audit. It has never had any audit by independent auditors from outside the system itself. There are internal audits, made by personnel of the system, and even these audits--taking them for what they are, internal audits--show on their face to be subject to serious inadequacies and limitations. The audit teams are supposed to be made up so that the employees of one bank audit another bank, but even this principle is rarely followed 100 per cent. In practice the employees of a particular bank are on the team to help audit their own banks."

Since 1952 the Board has employed public accounting firms to audit its accounts. The certifications submitted in connection with these audits have been included in the Board's Annual Reports to Congress.

Beginning in 1953 the Board has also engaged the same public accountants to accompany the Board's examiners on one examination of a Reserve Bank each year for the purpose of obtaining an independent judgment as to the adequacy of the examination procedures and as to whether the procedures are being carried out properly. The reports submitted to the Board in this connection by the public accountants have consistently indicated the effectiveness of examinations made by the Board's examiners; for example, in a report dated June 13, 1957, the public accountants made the following statement:

"We believe that the examination conducted at the Federal Reserve Bank of San Francisco, including its four branches, conformed to the standards expected from an examination conducted by independent public accountants. The detailed audit procedures manuals set forth clearly an adequate examination procedure related specifically to the operations of the Banks. The audit assignments were carried out by the examiners in accordance with such audit procedures."

The Board's field staff of examiners comprises a group of approximately 35 examiners and assistant examiners who are employees of the Board. They work throughout the year under the active direction of the Chief Federal Reserve Examiner, who is an officer of the Board's Division of Examinations, responsible to the Director of that Division and through him to the Board of Governors.

Within each Federal Reserve Bank there is a General Auditor who has a staff which is engaged throughout the year in conducting internal audits of the affairs of the Bank and any branches of that Bank. The General Auditor and his staff are independent of the operating management and operating staff of the Bank and do not participate in operations. The General Auditor is responsible directly to the Board of Directors of the Bank, and he reports the results of the internal audits to the Directors.

During the first part of each examination of a Federal Reserve Bank conducted by the Board's field staff, there is necessity for verification of a very substantial volume of currency and securities which must be accomplished quickly in order not to interfere unduly with the Bank in the conduct of its day-to-day business. Moreover, in making simultaneous entry into all offices of a Bank which has several Branches, there is a temporary need for additional personnel to provide adequate coverage. It would be wasteful for the Board to maintain a field staff of examiners of sufficient size in itself to perform expeditiously all

the detailed work concerned with the opening phases of these examinations. Therefore, the Board's field staff utilizes the temporary assistance of men (a) from other Federal Reserve Banks--chiefly from the internal audit staffs of the other Banks; and (b) from the internal audit staff of the Bank under examination. The men borrowed temporarily from other Banks and from the Bank under examination are not conducting the examination; rather, they are assisting the Board's examiners and in so doing they are at all times under the active supervision of members of the Board's field examining staff. The temporary assistance received from within the Bank under examination is restricted entirely to members of the internal audit staff of the Bank who, as stated above, are independent of the operating personnel of the Bank.

Member-bank examinations

Mr. Patman cited on Pages 1603-1608 a number of factual reports by Board's examiners concerning the frequency of member-bank examinations made by the examining staffs of the Reserve Banks. He prefaced these citations by stating:

"The Federal Reserve banks have set certain policies with respect to member-bank examinations. However, they make frequent exceptions to these policies throughout the Federal Reserve System.

"As an example, at the San Francisco Bank it was the policy to examine 4 of the 5 holding company affiliates within the district biennially, and the fifth, Trans-america Corp., on a triennial basis. However, the bank failed to make examinations of this holding company for 6 years. They make frequent exceptions to the policy of examining banks once a year and to their policy of making examinations jointly with State examiners.

"They do not always examine branches simultaneously with head offices, nor do they examine the commercial departments of banks concurrently with trust departments.

"On many occasions they defer examinations when mergers are pending, when banks are making alterations on the premises, and when examining personnel is not available, and fail to examine new banks."

State member banks are subject to examinations made by direction of the Board of Governors or of the Federal Reserve Banks by examiners selected or approved by the Board. The established policy is to conduct at least one regular examination of each State member bank, including its trust department, during each calendar year, by examiners from the Federal Reserve Bank of the district in which the member bank is situated, with additional examinations if considered desirable.

In carrying out this policy, the Board has not required that all examinations of trust departments or all examinations of branches of State member banks be made simultaneously or concurrently with examinations of their head offices, nor has the Board required that all examinations of the commercial or trust departments of State member banks be made jointly with State examiners.

The programs for examination of State member banks have been substantially completed in all recent years. Deviations from the general policy have been largely due to a shortage of qualified examiners, and almost without exception have involved State member banks in sound condition and under capable management. A large majority of the banks not examined in a specific calendar year were examined during the latter part of the previous year and, as a general rule, during the early months of the following year. In no case was there a deferment involving a bank considered to be in unsatisfactory condition. During the period 1952-1956, all newly organized banks were examined within one year by either the

State banking department or the Federal Reserve Bank, and in a majority of cases by both authorities.

The approach to the examination of branches of State member banks is governed almost without exception by the aggregate number, size and location of the branches of the institution under examination. At banks with a small or medium number of branches, it is customary to examine all offices simultaneously with the head office, but it is not possible to follow this policy consistently when a large number of branches is involved. However, in every case, statements of all branches are obtained as of the date of examination of the head office and are reconciled to the books of the head office as of that date.

Due to the specialized character of fiduciary activities and the required separation from commercial banking activities of fiduciary responsibilities and related functions, records and assets, it is the judgment of supervisory authorities that the examination of the commercial and trust departments of State member banks other than on a simultaneous basis does not represent a departure from sound examination principles.

The examination of Transamerica Corporation which would ordinarily have been made on a triennial basis in 1949 was omitted because of the Clayton Act proceedings with respect to the Corporation which were in process at that time. The Board's order in these proceedings was issued March 27, 1952 and an examination of the Corporation was commenced on April 21, 1952.

Verification and Destruction of Currency

With regard to the work which the Federal Reserve Banks are performing in connection with the verification and destruction of unfit

Treasury currency, Mr. Patman suggested (page 1591) that it is a disgrace for Congress to permit "people to have complete control of United States currency who do not consider themselves obligated to the Government. . ."

His statement continued:

"They have charge of destroying the worn and mutilated currency. And, of all the irregularities and seemingly dishonest dealings in connection with it, you will find plenty of eye openers in these reports that even their own auditors made about the irregularities in handling the tremendous amount of money that is destroyed every year, and the loose fashion in which it is handled.

"Up at Pittsburgh, a cyclone or a heavy wind hit the City while currency was being destroyed in the Municipal incinerator and scattered money all over Pittsburgh, Pa. The only reason we found out about it through the newspapers and they had to redeem a lot of that currency because it wasn't burned and under certain conditions it is redeemable."

Mr. Patman's statement then quoted certain criticisms and other comments concerning individual Reserve Banks, as shown in the reports of examinations made by the Board's examiners.

Under date of June 24, 1953, the Secretary of the Treasury directed the Federal Reserve Banks and branches as fiscal agents of the United States, under the provisions of Section 15 of the Federal Reserve Act, to verify and destroy unfit United States paper currency. The proposed change in procedure was discussed by Treasury representatives with appropriate Congressional committees during the hearings on the Treasury appropriation for the fiscal year 1954. In this connection Secretary Humphrey's letter of May 22, 1953 to Chairman Canfield of the Treasury-Post Office Subcommittee of the House Committee on Appropriations concluded: "Since the net savings resulting from this change of procedure will be substantial, it is assumed that your Committee would concur in the

Department's proposal to proceed along the lines indicated."

From the time the Reserve Banks began this work on July 1, 1953, it has been performed under regulations issued by the Treasury Department. A copy of these regulations was forwarded to the House Banking and Currency Committee with the Board's letter of December 16, 1957. As stated on page 1801, the Treasury Department has advised the Board that it is their practice to visit the Reserve Banks which destroy currency at least once a year for the purpose of observing the verification and destruction operations. One purpose of these visits is to ascertain that the operation is being conducted in a manner satisfactory to the Treasury.

Certain safeguards and other controls covering this operation are described on pages 1742-1750 and 1780-1792. In many respects the safeguards in effect at the Reserve Banks go beyond Treasury regulations. In some cases the additional safeguards were the result of suggestions by the Board's examiners, such as shown on pages 1592-1595 of Mr. Patman's statement. However, in considering the matter of suggested additional precautions over and above the requirements of the Treasury regulations, the Reserve Banks must balance the added protection against its cost, and in this light some of the examiners' suggestions were not deemed feasible.

The Pittsburgh incident mentioned by Mr. Patman on page 1591 occurred when an unknown quantity of cancelled currency escaped incineration because of completely unforeseeable malfunctioning of the incineration facility of the City of Pittsburgh. The City incinerator was used in July of 1953 to destroy the first batch of currency at the Pittsburgh Branch because at that time the Branch had no facility of its own. This incinerator was then also used by local offices of the United States District Court, the

Federal Bureau of Investigation, the Internal Revenue and other departments of the Federal Government to destroy confidential records. Before its use for the destruction of currency, the facility was thoroughly tested, and its use was approved by the Treasury Department. Nevertheless, before the cancelled currency was completely destroyed an unknown amount passed through the grates into the water tanks provided for receiving the ashes. A complete account of this incident appears on pages 1794-1799.

When it occurred, the matter was reported immediately to the Secret Service, the Federal Bureau of Investigation, the Pittsburgh Police Department, the Treasury Department, and the Board. Contrary to the statement on page 1591 that "they had to redeem a lot of that currency," all of the money was cancelled and valueless before it was taken to the incinerator. There has been no loss to the Treasury as a result of this incident or of any of the others which have occurred (described on pages 1793-1794 and 1799-1800.) All of the cancelled money which has been presented to the Federal Reserve Banks for redemption has been confiscated, and in all but a very few cases the Reserve Banks have refused to give credit or value for it.

The exceptions to this last statement constitute three \$5 bills and five \$1 bills which were accepted at face value and charged to profit and loss by the Reserve Banks because of operating circumstances, such as the fact that the notes were partially burned and discovered to have been cancelled too late in the sorting process at the Reserve Bank to permit identifying the bank which deposited them. From the time the Reserve Banks undertook the currency destruction work on July 1, 1953 to the present time, their loss as a result of this operation has totaled \$20.

* * * *



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

Z-4592 (On office
copies only)

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 25, 1958.

Dear Sir:

Enclosed is a preliminary copy (page proof) of Representative Patman's statement during the hearings before the House Banking and Currency Committee on the pending Financial Institutions bills (H.R. 7026 and S. 1451). Also enclosed is an outline, rather hastily put together by the Board's staff, of the general nature of the contents of Mr. Patman's statement.

The Board has advised Chairman Spence of the House Banking and Currency Committee that it would like to furnish to the Committee in writing such information and comments as may be necessary to prevent any misunderstanding with regard to the various items on which Mr. Patman has commented. Accordingly, after there has been an opportunity to study Mr. Patman's criticisms of Federal Reserve expenditures in the light of the records at your Bank, we would like to have such comments as you may consider appropriate for the purpose of making clear to the House Banking and Currency Committee the reasons for the expenditures cited by Mr. Patman.

A copy of this letter, and additional copies of its enclosures, are being furnished the President of your Bank.

Sincerely,

A handwritten signature in cursive script that reads "C. Canby Balderston".

C. Canby Balderston.

Enclosures

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS
(COPY TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS)

OUTLINE OF SUBJECT MATTER CONTENT OF REPRESENTATIVE PATMAN'S
STATEMENT OF FEBRUARY 7 BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
(Prepared by Division of Bank Operations)

	<u>Page Number</u>
General remarks on pending bill	MJ 2-5
Ownership of Federal Reserve Banks	MJ 6
Open Market procedure	MJ 6-10
Discount rates	MJ 10-11
Small Business Bank	MJ 11-12
Federal Reserve insurance	MJ 12
Federal Reserve audits	MJ 12
Open Market Committee procedures and implications	MJ 13-15
Audit of Office of Comptroller of Currency	MJ 16-19
Interest on demand deposits	MJ 20
Federal usury law	MJ 20-22
General criticism of Federal Reserve	MJ 23-24
Unusual Federal Reserve expenditures	MJ 25 - FBO 3
Outlays for Federal Reserve Bank premises	FBO 3-7
Federal Reserve Bank losses and discrepancies	FBO 7-14
Cafeteria subsidy and Retirement System	FBO 14-15
Member bank reserve deficiencies	FBO 15-16
Federal Reserve Bank examination and audit procedures	FBO 16 - XQ 2
Currency verification and destruction, including examiners' criticism of other matters	XQ 2-9
Fiscal Agency procedures	XQ 9-13
Member bank examination procedures	XQ 13-19
New York's foreign operations	XQ 19-22
Open Market account dealers	XQ 22-44
Business affiliations of Federal Reserve Bank Directors, Members of Federal Advisory Committee, and others	XQ 44-50
FDIC reserves	XQ 50-51
General remarks and colloquy	XQ 51-54
Questions previously submitted to Board	XQ 54-62
Breakdown of Federal Reserve Bank expenses for 1956	XQ 63-72

2 MJ
MONO. SECTION

**STATEMENT OF WRIGHT PATMAN, REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS**

Mr. PATMAN. Mr. Chairman, I realize this is a day of very unfavorable circumstances, but probably I could not hope for any better, and I am not complaining. I just want time to go into this bill and explain some amendments I want to offer.

Of course, it is traditional in the Congress that during the week of Lincoln's Birthday no business is transacted in the House and the Members feel privileged to go home or any place they want to go. That announcement was made a couple of days ago, and therefore most of the Members are going, including the members of this committee.

They have gone to their homes or elsewhere and they are not here in Washington now, or in their offices, and certainly they are not attending committee meetings. But I am not complaining about that.

The CHAIRMAN. I suppose they have all been notified.

Mr. PATMAN. I ask permission, Mr. Chairman, to revise and extend the remarks I intend to make and include therein statements and excerpts and related matter in connection with my testimony.

The CHAIRMAN. Anything that is pertinent and relevant. I do not want to encumber the record with a great mass of stuff, but anything that is pertinent and relevant.

Mr. PATMAN. That is right, anything that is relevant and pertinent in connection with the statements I make and that are in connection with this bill or related to it.

The CHAIRMAN. That will be allowed.

Mr. PATMAN. All right.

Mr. Chairman, these bills, S. 1451 and H. R. 7026, are each approximately 250 pages. They were presented originally as recodification bills.

What arouses my curiosity and makes me wonder is why it is the bankers should be allowed the privilege of coming to Congress and saying, "Now, we want our laws recodified, and we will write the bill," and then we stop everything else and take up the bankers' recodification of laws, when the laws they have selected for recodification amount to only a small percentage of the financial institutions. The bill purports to be a complete "Financial Institutions Act."

I have a statement here prepared by the Library of Congress containing a list of the principal financial institutions; there are about 15 or 20 financial institutions not included in the bill, such as the Export-Import Bank, Small Business Administration, Veterans' Administration, Housing and Home Finance, Agriculture Department, Commerce Department, Defense Department, Interior Department, International Cooperation Administration, and many others.

In other words, it looks as though the bankers selected the laws that are of particular concern to them, which they want changed, and have taken those up and said, "We want these laws recodified."

(The document referred to is as follows:)

3 MJ MONO. SECTION

Institution	Type of function		
	Charter or register	Super- vise or examine	Owns or operates
			N
			N
			N
			N
			N
			N

List of principal financial institutions

Institution	Type of function		
	Charter or register	Super- vise or examine	Owns or operates
<i>A. Financial institutions included in H. R. 7026</i>			
1. National banks.....	X	X	
2. Federal Reserve banks and member banks, national and State banks.....	(1)	X	
3. Federal Deposit Insurance Corporation members (includes national, State banks, members of Federal Reserve System, other State and Territorial banks, and mutual savings banks).....	(1)	X	
4. Federal home loan banks.....	X	X	
5. Federal savings and loan associations.....	X	X	
6. Federal credit unions.....	X	X	
7. Federal intermediate credit banks.....	X	X	
<i>B. Financial institutions not included in H. R. 7026</i>			
Export-Import Bank of Washington.....			X
Small Business Administration.....			X
Veterans' Administration.....			X
Housing and Home Finance Agency (includes FNMA, FHA, PHA, Office of Administrator).....			X
Agriculture Department: CCC, Farmers' Home Administration, REA.....			X
Commerce Department: Inland Waterways Corporation; maritime activities.....			X
Defense Department: Defense production loan guarantees.....			X
Interior Department: Bureau of Indian Affairs, Bureau of Commercial Fisheries, Office of Territories, expansion of defense production.....			X
Treasury Department: RFC in liquidation, SWPC in liquidation, civil defense loans, expansion of defense production, loan to U. K.....			X
International Cooperation Administration.....			X
General Services Administration: PWA in liquidation.....			X
HEW, Office of Education.....			X
Farm Credit Administration: Banks for cooperatives, Federal intermediate credit banks, Federal land banks, national farm loan associations, and production credit associations.....	X	X	X
Federal Deposit Insurance Corporation.....			X
Justice Department: Federal Prison System.....			X
Investment companies, advisers, bankers.....	X	X	
Over-the-counter securities markets.....		X	
Organized securities exchanges.....		X	
<i>C. Financial institutions not included in H. R. 7026 and not regulated by Federal Government</i>			
Commercial-paper houses.....			
Factors.....			
Finance companies.....			
Small-loan companies.....			
Development credit corporations.....			
Insurance companies.....			
Investment clubs.....			
Mortgage houses.....			
Trade creditors.....			
Pension funds.....			

1 National.
2 In part.

Prepared by: Library of Congress, Legislative Reference Service.

Mr. PATMAN. Another reason I think this is unusual, is that we have an official recodification committee that works all the time. Mr. Zinn who was here with Mr. Celler yesterday, works full-time at codifying the laws. He is on the staff of the Subcommittee on Revision and Codification of the Statutes of the United States.

Under the Reorganization Act of 1946, that subcommittee was set up to take the place of a division known as "Revision of Laws."

That subcommittee is set up with a staff, provided with money and the best experts to work at this job full time, to codify the laws passed by Congress. Why should we allow the bankers or anybody else—and I say that respectfully, because I know there is no intent on the part of any Member just to serve the bankers—but why should we let the bankers come in here and convince us that we should take the recodification away from the committee established for this purpose and which is now functioning?

4 MJ MONO. SECTION

Why should we take this job away from them and attempt to do the job ourselves, when we are not equipped to do it.

Our staff is not able to do it. We do not have the staff to do it. The staff has all that they can do.

I am not complaining about anything that our staff has failed to do. I am simply pointing out that we do not have a sufficient staff to recodify even the 6 or 7 laws covered by these bills. Yet these laws represent but a few of the financial institutions of the United States.

As evidence of that fact, take the section about the bank selling insurance. I know this staff would not have put that in the bill. The staff on the Senate Committee would not have put that in. The bankers put that in, because they wanted it in. And this staff took their word for it that it was already in the law.

I cannot believe that our staff would agree to put that in when it was not a part of the organic law of the United States. This bill to that extent is sailing under—

The CHAIRMAN. Mr. Patman, I might say they did not take their word for it at all. The staff made an independent investigation and came to the conclusion the law was still in effect.

Mr. PATMAN. They could not have done that, Mr. Chairman, when the code itself shows it is not.

The CHAIRMAN. It would be presumed to be repealed, you say 40 years ago—

Mr. PATMAN. That is right.

The CHAIRMAN. But for 40 years, all the agencies have recognized that it was in effect. Seven administrations, national administrations have followed that same procedure, and there have been courts—it hasn't anything to do with the ultimate result whether we have insurance in the banks or not, but there have been courts that have upheld that after it was appealed. It was in the Supreme Court of Virginia.

Mr. PATMAN. I would like to see that case, Mr. Chairman. You are mistaken about that.

The CHAIRMAN. What?

Mr. PATMAN. You are mistaken about that.

The CHAIRMAN. It went to the Supreme Court of Virginia, and they said that was still in effect.

Mr. PATMAN. I know that the bankers, the Cravens committee, said that, but they are not giving us the truth on that. It is not the truth, Mr. Chairman. I say that respectfully.

No one can make me believe that our staff knew that this was not in the code of 1952 and did not call it to our attention. I know they would have called it to our attention if they had known it was not in the code.

If they were going to take issue with the code and say that the code is wrong, they would have called it to our attention when they got up the statement for us to consider in connection with this bill.

The CHAIRMAN. Is that a matter of any importance?

Mr. PATMAN. It certainly is a matter of importance.

The CHAIRMAN. We have the authority to pass upon that question as we please. We can repeal it if it is in, we can treat it as not being in.

Mr. PATMAN. The bill is sailing under false colors.

The CHAIRMAN. It does not shackle anybody.

5 MJ MONO. SECTION

Mr. PATMAN. Yes, it does. We are told by this bill that a certain thing is the law when it is not the law. That is a bill sailing under false colors. We are not given the correct information about it.

I am not going to say this staff or any staff knew it and did not call it to our attention.

The CHAIRMAN. The staff says they knew that was not in the code.

Mr. PATMAN. And did not call it to our attention?

The CHAIRMAN. They still thought it was in effect. Is it a material point?

Mr. PATMAN. To try to put something into the law that has been repealed for 40 years?

The CHAIRMAN. In the consideration of this bill it does not limit our action at all. We can consider that matter anyway we please.

Mr. PATMAN. I will put that in the record. I have said all about that that I want to, and I will extend my remarks on it.

This whole bill goes toward concentration of banking, fewer banks, and giving fewer people a grip upon the banking system of our country. Absentee ownership. I think it is wrong, and I think that we should encourage the establishment of new banks where they are needed, in the towns and local communities.

Mr. BETTS. I do not want to keep harping on this insurance section, but did I understand you to say that you denied what the Chairman said that the Supreme Court of Virginia held?

Mr. PATMAN. I deny that the Supreme Court held that the statute was valid. That is the point involved here: Is it a valid statute? I respectfully state to the gentleman that he cannot show me a decision, notwithstanding what the Chairman and others have said, nobody can show me a decision—

The CHAIRMAN. The decision itself will decide that question. I will refer you to the decision. I will get you that decision.

Mr. PATMAN. The point was not raised.

The CHAIRMAN. I am not making any argument.

Mr. PATMAN. There is no decision holding that the statute was valid.

The CHAIRMAN. I want you to understand I am not making any arguments that the banks should go into the insurance business. That has nothing to do with it.

Mr. PATMAN. You are supporting this bill; that insurance section is not in the law, and you are trying to put it in. You are trying to put the banks in the insurance business, Mr. Chairman. You cannot get around that.

The CHAIRMAN. I am only thinking about what, considered to what, was in the law. It only applied to towns of less than 5,000 people.

Mr. PATMAN. My time is limited and I do not care to go into that point any further. The Chairman will never be able to show a decision where the courts have passed upon the validity of the statute.

That question has not been raised. The court is not going to raise it if the litigants do not raise it. The case the gentleman talks about is one where the question was not raised at all.

The court had no reason to pass on it, as it was not an issue before the court.

6 MJ MONO. SECTION

PUBLIC INTEREST AMENDMENTS SHOULD BE CONSIDERED

Mr. Chairman, these so-called recodification bills contain a great many substantive changes in law. Some of these changes would have tremendous practical effects on all segments of our economic system and on all groups of people. Many of these proposed changes in the law are bad, and I will object to them at the proper time.

While we are considering substantive changes in the 6 or 7 laws covered by these bills, we should, however, consider several other changes in the public interest that are badly needed. In other words, we should not confine our consideration to those changes which the bankers have said they want, but we should consider also changes that are clearly needed to improve these laws. My purpose today is to call the attention of the committee to several amendments which we should consider.

Now as to the Federal Reserve System:

PAY OFF THE SO-CALLED STOCK OF THE FEDERAL RESERVE BANKS

Now some of the bankers who have appeared before our committee here revealed that they have been under an impression that the Federal Reserve banks are owned by the commercial banks, the member banks.

Yesterday, I made a speech on the floor, in which I referred to this erroneous impression, and in which I showed conclusively that the Federal Reserve banks are owned by the Government of the United States. There is no valid, legal stock held by commercial banks in the Federal Reserve banks. That so-called stock that the member banks own is not stock at all; "stock" is a misnomer. It has no stock value; it cannot be voted as stock; it cannot be sold; it cannot be hypothecated; it is just held as an investment or a loan upon which they draw 6 percent. The banks do not own the Federal Reserve System.

This 6 percent interest—which amounts to about \$20 million a year—should certainly be saved by the Government, by canceling that stock and paying it off. It could easily be paid out of the Federal Reserve surplus funds, now, without any inconvenience.

MAKE THE FEDERAL RESERVE BOARD THE OPEN MARKET COMMITTEE

I am going to offer an amendment, Mr. Chairman, to increase the Federal Reserve Board to 12 members, and make it the Open Market Committee.

I have had a bill of this kind pending for a number of years. We have never had a hearing on the bill, but I am going to offer it as an amendment to these bills.

We know that operations of the Open Market Committee are in the New York bank alone. The Open Market Committee delegates to one man, who is in charge of the open market account, responsibility for carrying on trading with private brokers, amounting to tens of billions of dollars worth of securities. There are dozens of people who know about the operations of this important committee. With knowledge of what their account is going to do, a person can make millions overnight. We ought to look into that and find out what is going on.

7 MJ MONO. SECTION

I asked the gentleman who was president of the New York Reserve Bank just before Mr. Hayes, Mr. Sproul if it had any rules against bank officials or employees playing the market. He said no, except they couldn't buy on margin.

Now, imagine that. Here is a bank that is run by private bankers in New York, handling Government bonds and other securities aggregating tens of billions of dollars a year, and we have never inquired into the procedures that they use. We have never attempted to determine whether or not it was being honestly conducted. Although I am not charging corruption because I don't know, there are opportunities for corruption there. And ordinary, normal human beings sometimes cannot resist temptation. There is certainly an opportunity there for many, many people to enrich themselves every day with inside knowledge and information.

There are 17 dealers that trade with the open market account. I wouldn't say that they are handpicked but there are very few; usually about 12. In 1956, only 5 of these accounted for over 50 percent of all the transactions of the open market account.

To show you something about the size of the operations, in 1956 the open market account purchased \$11.9 billion worth of Government securities and sold \$9.3 billion worth. Total transactions, \$21.2 billion during that 1 year alone. So it is not a small matter; this is not small potatoes. Twenty-two billion dollars worth of securities bought and sold in 1 year. I wouldn't consider that an extraordinary year; they do about that much almost every year. And yet we have never looked into their operations; they have never been audited by the General Accounting Office; and we know almost nothing about them.

But I can tell you this much, because I have made inquiries; this so-called Open Market Committee operates the biggest market in the world; and while it is called an "open market," it is the most closed market that was ever invented. The people who operate this account do the buying and selling of Government securities, using Government money, and decide for themselves what price they will take or pay, in each trade; they decide which one of their little select group of dealers they will sell to or buy from; and there is never any public announcement of the prices this account pays or receives; there is never any public record of how much securities they sell to or buy from any one of their select group of dealers; and the people who carry on this under-the-counter trading in tens of billions of dollars each year of Government-owned securities are not even Government employees.

More than that, Chairman Martin refuses to tell the public, or even to tell this committee in confidence, anything about these dealers who are privileged to carry on this fabulous and hidden trading with the open market account. Chairman Martin has told us their names, and that is about all. He has refused to tell us what their net worth is and what percentage of the Government securities they hold at any one time, and he has refused any information about how much trading in Government securities these dealers do with their customers.

I will insert a table showing the monthly volume of purchases and sales in 1954, which was a \$11.6 billion year. This table shows that the open market account outright sales of securities amounts to \$3.3 billion. We can assume that most of these outright sales were made to dealers, as contrasted to foreign control banks. At the same time the open market account made loans, that is, repurchase agreements, with the dealers amounting to \$2.4 billion.

8 MJ MONO. SECTION

*Gross transactions in Government securities by the Federal Open Market Committee,
January-December 1954*

[In millions of dollars]

	Net change in Federal Reserve holdings	Market transactions (gross)						Special certificates purchased directly from Treasury (largest amount outstanding in month)	Exchange of maturing certificates, and notes, and maturing and called bonds
		Total		Outright transactions ¹		Repurchase agreements with dealers			
		Purchases	Sales	Purchases	Sales	Purchases	Sales		
1954									
January	-1,276.2	271.0	1,547.2		678.3	271.0	868.9	424.0	
February	-130.2	386.0	516.2	172.1	302.3	213.9	213.9		3,922.2
March	+123.2	428.2	305.0	228.2	105.0	200.0	200.0	190.0	
April		50.0	50.0			50.0	50.0		
May	+180.0	327.0	147.0	180.0		147.0	147.0		1,686.4
June	+225.1	952.6	727.5	503.9	278.8	448.7	448.7		
July	-712.3	70.0	782.3		712.3	70.0	70.0		
August	-302.0	659.6	961.6	160.0	590.6	499.6	371.0		991.2
September	+247.5	650.0	402.5	650.0	273.9		128.6		
October	+110.7	438.2	327.5	310.0	199.3	128.2	128.2		
November	+507.0	758.5	251.5	699.0	192.0	59.5	59.5		
December	+44.0	325.5	281.5			325.5	281.5		7,282.6
Total (January-December)	-983.2	5,316.6	6,299.8	2,903.2	3,332.5	2,413.4	2,967.3		13,882.4

¹ Includes runoff of Treasury bills at maturity, but excludes exchanges of maturing bills for new bills.

You see, the Open Market Committee conceives of this little group of dealers as being "the makers of primary markets" for Government securities. In plain words, the open market account conceives of itself as adjusting from day to day the amount of money in the private banking system of the country. When there is too much money, according to the account's opinion, they buy some money in from these dealers and pay the dealers a profit on it; and when they think there is too little money, they sell some to these dealers and, of course, the dealers get their wholesaler's margin on this as they resell the securities to the banks, the corporations, or anyone else who may want to buy them.

Hundreds of member banks all over the country buy and sell Government securities, but they must go to the dealers for these. For mysterious reasons which have never been explained, they never trade directly with the open market account.

The open market account does trade with foreign central banks, they buy and sell billions of dollars worth of United States Government securities, all over Europe, all over South America, and everywhere else that there is a foreign bank that wants to trade with the open market account.

In contrast, however, the Federal Reserve banks themselves cannot trade with the open market account. These banks act as agents for the member banks and others in buying and selling billions of dollars worth of Government securities but the Federal Reserve banks must also go to the dealers to trade, or go to some subsidiary dealers who in turn trade with the top dealers that the open market account trades with. Considering the vast amount of trading that is going on at almost all times, it is inevitable that there are many times when the Federal Reserve banks are in the market buying securities from private dealers at the very moment the open market account is selling those same securities to private dealers. And of course the sale by the open market account is on behalf of the Federal Reserve banks.

9 MJ
MONO SECTION

Under the 1913 act, each Federal Reserve Bank had its own open market committee, but the 1935 act completely changed the Federal Reserve System. There is now only one Open Market Committee, and the Federal Reserve Bank of New York is the sole agent of that committee. This bank handles the entire account, and although it is supposed to operate according to policy guides laid down by the Open Market Committee, if you will read these policy guides—which are published in the Annual Report of the Board—you will find that they are vague statements which leave the actual decisions up to the New York bank.

If you turn to the Annual Report of the Board of Governors, for instance—say 1956—you will see that the Dallas bank—I happen to be in the Dallas district—that the Dallas bank earned from discounts and advances only \$830,142. That is all that whole bank earned. Of course, it has earnings in its statement of \$23 million. Where did the other come from? It comes directly from New York. None of these other 11 banks touches those Government securities in the open market. They are all right there in the city of New York in the Federal Reserve Bank Building. The coupons are clipped there, the interest is collected there, the taxpayers pay it into the treasury and the treasury sends it up to the Federal Reserve Bank of New York, to pay interest on over \$23 billion of government bonds that have been bought by that open market account and which they now hold. The New York bank then sends to Dallas, Texas, \$22 million, as the Dallas bank's part of the earnings. Did they earn that? They didn't turn their hands to get it.

The open market account bought these bonds on the credit of the Nation, using Federal Reserve notes which are also Government obligations; then the New York bank sends the money to Dallas, to San Francisco, Kansas City, Minneapolis, Chicago, Atlanta, Richmond, Cleveland, Philadelphia, New York, and Boston. Each one their proportionate share, but the banks don't touch these bonds. They render no service for this income, and the bonds were purchased on Government credit.

The Dallas bank, although it only earned \$830,000, it spent more than \$6 million—\$6,686,000.

Now this operation in 1935, on the Federal Reserve banking system, changed it completely, from an autonomous regional system to a central banking system.

We now have a central bank in the United States, and under this central banking system, there is no important power left in the regional banks. There is no important power left. It is all done by the Federal Reserve Board here in Washington or by the Open Market Committee composed of 12 members, 5 of whom are selected by representatives of private banks.

When the Open Market Committee meets, there are 12 members of private banks there at the meeting, presidents of the Reserve banks. Only five of these can vote but the others are there to participate in the meetings and to help evaluate the problems and to help come to decisions. Those 7 public members—the Board members—are surrounded not only by these 12 representatives of the private banks but they have 12 other people with whom they must deal who directly represent the banks, too. These are known as the Federal Advisory Council. So we have our 7 public members surrounded by 24 bankers to help them perform their public services and public duty.

I say that alone should arouse our thinking. We should look into this carefully and make sure that it is being done in the public interest, and in the meantime we know that we should take the bankers off of the Open Market Committee.

MONO SECTION

PROHIBIT REPURCHASE AGREEMENTS

The Open Market Committee is right now doing something which I do not consider to be legal at all. They are permitting dealers in Government securities to borrow money directly from the New York Federal Reserve bank.

Now, I thought Federal Reserve banks were set up to accommodate member banks. But here we find a half dozen dealers—not over 15—in the city of New York who get their money directly from the Federal Reserve to speculate in Government securities. Do you think they don't know anything about what the Government is going to do? They use the Government's money for the purpose of buying and selling Government securities all the time. There is nothing in the Federal Reserve Act, if I read it correctly, that permits them to borrow money from the Federal Reserve for that purpose.

You see, on the repurchase agreements, every Monday the dealers bid on bills that are offered by the Treasury. They bid in a certain amount and they don't have to pay for those bills until Thursday afternoon. During that time they usually have been able to sell them at a profit. They don't have any on hand. They are passing them on to the trade, to people who want them. But when they have bills left over they can carry them through what is known as a repurchase agreement. As I said awhile ago, I don't see anything in the law authorizing this.

Under this practice that has been built up, because nobody has been looking over their shoulder or auditing their books, these Federal Reserve people have been going foot-loose and fancy-free. That practice of lending the dealers money to carry Government securities is one that certainly should receive some attention.

THE DISCOUNT RATE SHOULD BE FIXED BY THE BOARD—NOT PRIVATE BANKERS

I am also going to offer an amendment to require that the Board of Governors and the Board alone fix the discount rates. As we know, when a change in the Federal Reserve discount rate is announced, securities markets shoot up or down, just in a matter of minutes. Values of stocks, Government bonds, and all other securities change by billions of dollars.

Now, Mr. Chairman, we have in our own Federal Reserve System the same procedure for changing the discount rate that they have in the Bank of England. The boards of directors of the Federal Reserve banks recommend a change and these boards are made up of private bankers and men who are also on the boards of the big corporations. This procedure is open to exactly the same problem that has recently come up in connection with the Bank of England. There they have some of the directors of the Bank of England, their central bank, who are also bankers; and they have some who are on the boards of industrial corporations.

They are very quick to point out that not one of the six largest banks in England is allowed to have representation on the board of the Bank of England. None of the big banks is allowed representation on that board. But some of the smaller banks are.

Recently it was shown that when the Bank of England was going to raise the discount rate from 5 to 7 percent, one of the bank's directors who had recommended the change advised his corporation to unload its holdings of "guilt edge" bonds—which the corporation did to the extent of \$2.8 million worth—the day before the change in discount rate was publicly announced. Later, when this matter came to light during an investigation, the director in question, a Mr. Keswick, testified quite frankly that he felt he owed equal loyalties to the bank and to his corporation. A Reuter's dispatch of December 6 reported: "William J. Keswick said that as a director of the bank, he could not betray secrets, and yet he was bound to protect the business interests he legally represented."

11 MJ

MONO SECTION

Now, that same thing can happen right here in our country. We don't know but what it is going on right now. We don't know. Has it happened in the past? I don't know; but if the bankers here feel that they should be loyal to their own institutions like the banks in England felt like they were justified in being loyal to their own institutions and using that inside knowledge and information for their own personal, private, selfish benefit, it could be going on right here now, and I think this committee could very well afford to look into that question.

When we change these boards we should have no bankers on them at all. At least we should have representatives from other groups like agriculture, labor, consumers and the whole population represented on these boards that have to do with the supply of money, and whether the interest rate will be high or low. We should only have public representatives and should not have people in a position to influence monetary policy, who are directly and selfishly interested in high interest, for instance, because the bankers will make more money that way.

I don't think this committee should let go unnoticed this matter that the people who have advance information on changes in interest rates are in a position to make huge profits from the information, and there seems to be no regulation against it. This should be investigated and proper disclosures made of things that actually exist, and we should make sure that corrections are made.

SET UP A SMALL BUSINESS CAPITAL BANK SYSTEM

Another amendment I shall offer is in connection with Section 13 (b). The Federal Reserve is proposing that the Federal Reserve Banks be relieved of the responsibility of making loans to small business under 13 (b); and these Financial Institutions bills, S. 1451 and H. R. 7026, contain amendments which would repeal the present 13 (b) program.

I am going to offer an amendment to that. I am not going to resist the Federal Reserve's trying to throw the small businessman out; but I am going to offer this bill I have introduced, H. R. 10345 [would you give each member a copy of it, please, sir] as an amendment or as a substitute to that provision which calls for the Federal Reserve banks to turn that section 13 (b) money over to the Treasury.

I am going to offer this, which will intercept that money and let it be used as operating expenses for these new small-business capital banks.

I propose that the capital stock of each one of the 12 small business capital banks be \$10 million. The money will not have to be borrowed, and the Government will not have to pay interest on it. It will be gotten from the Federal Reserve banks, out of their surplus funds. Money—remember this, Mr. Chairman—money that is now idle and unused. We would be taking idle money and putting it to use for a good purpose. It wouldn't affect the national debt limit; it wouldn't cost any extra interest, it wouldn't cause the Government to have to borrow any money. It is already there and should be used.

I am not going to resist Reserve banks, efforts to be relieved of the section 13 (b) program, because I know that they are not in sympathy with making loans to small concerns, and there is no use keeping this program in an organization where there is no sympathy for the work that is supposed to be administered; so I will offer an amendment to establish small-business capital banks.

We must have someplace for these little fellows to go. We are kicking them out of the Federal Reserve. We are putting them out in the cold, and they do not have adequate opportunities to get capital.

12 MJ

MONO. SECTION

We had a hearing before the House Small Business Committee in November, and we had four presidents of Federal Reserve banks at this hearing. They were interrogated about this, and not one of them could give a good reason why this should not be done. Not one of them said it would inconvenience the Reserve banks to do it. And, of course, we know it wouldn't, because in the surplus funds of the banks now they have \$800 million, and more; and that money is idle and unused. Part of it should be put to use in this way.

THE FEDERAL RESERVE SYSTEM SHOULD CARRY ITS OWN INSURANCE

Now, the Federal Reserve banks are buying insurance of all kinds. They are spending over \$1 million a year; \$1,821,429 during the year 1956 for insurance.

Why should the Federal Reserve banks buy insurance? Whom do they buy it from? Who gets the commissions? Are they connected with the banks? We don't know. This insurance is unneeded, it is unnecessary. These Reserve banks are part of the Government just as much so as the Capitol. And with all the money and resources of the Federal Reserve System, if it cannot carry the risk of its own insurance, then certainly there is no private insurance company that can carry this risk.

Suppose someone suggested that the Congress should take insurance on the Capitol—storm insurance, hail insurance, rain insurance, cyclone insurance—for which the Government would be charged a fee. We would certainly not like that.

Well, this is a comparable situation. The Federal Reserve banks are doing just that. Why are they allowed to do it? It is because they have never been looked into. Their books are never audited. They are never audited and never have any supervision. That matter should certainly receive the attention of this committee.

THE FEDERAL RESERVE SYSTEM MUST BE SUBJECT TO AUDIT

Another amendment I will offer to the Federal Reserve Act portion of these bills will require that the Federal Reserve Board, the Federal Reserve banks, and the Open Market Committee be audited by the General Accounting Office.

Since its organization in 1913, there has never been an outside audit of the System or any part of it. Now this is shocking, Mr. Chairman. It is bound to be shocking to all American citizens that we would let the Federal Reserve System handle hundreds of billions of dollars of the Government's money—and two-thirds of every board of directors of each Federal Reserve bank is composed of private bankers or people selected by the private bankers—and never have any audit.

The only audit Federal Reserve banks have ever had is an internal audit, where they select the auditors, give the auditors their instructions, and report back to themselves. It is bordering on a disgrace for Congress to permit that situation to continue. It just doesn't make sense, either common, book or horse. There is just no sense to it.

I will come back to this point later, and give the committee some illustrations taken from their own internal audit reports which will, I think, give convincing proof of the need for having the Reserve banks audited.

13 MJ MONO. SECTION

Now one of the provisions (sec. 39 of title II) of these bills would permit the Board of Governors of the Federal Reserve System to make decisions on the basis of a simple majority vote of the members "in office." This is in contrast to the present law which requires an affirmative vote of five members. The result would be that the Board could function with several offices left vacant. And with 3 offices left vacant, the banker members of the Open Market Committee could outvote the Board members. The implications are set out in the following letter I wrote to President Eisenhower in May of 1954.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., May 17, 1954.

HON. DWIGHT D. EISENHOWER,
President of the United States,
The White House,
Washington 25, D. C.

MY DEAR MR. PRESIDENT: This letter is written to you in the belief that the questions raised are in the public interest and consideration of them at this time is of paramount importance. I refer to the Federal Reserve System and to the vacancies on the Board of Governors, also the Open Market Committee.

There are 2 vacancies on the 7-member Board of Governors. One vacancy occurred during the term of your predecessor. It was not filled when it occurred, although the law says, "whenever a vacancy shall occur * * * a successor shall be appointed by the President, by and with the advice and consent of the Senate, to fill such vacancy." The other vacancy occurred January 31, 1954; but the same obligation on the President to fill it does not exist, as it was by an expiration of a term, and the above-quoted law referring to the filling of a vacancy says, "other than by expiration of term."

The Open Market Committee is composed of the 7 members of the Board of Governors and 5 Presidents of Federal Reserve banks. The former are the public members and the latter were selected by the private commercial banks. This committee, exercising the powers delegated to it by the Congress, has complete control over the volume of money and credit; it also controls interest rates, including the carrying charges on the national debt; and otherwise determines whether our country enjoys prosperity or suffers from a devastating depression.

These 5 members of the Board and the one whose term has expired, in protecting the public interest on these important questions, are forced to deal with and give consideration to the views and suggestions of the 12 presidents of the Federal Reserve banks, who were selected by the private banks, and the 12 members of the Federal Advisory Council, who were also selected by the private banks. It is, therefore, very important that the Board composing the public members be fully filled.

It is my suggestion that before recommendations for the filling of these two vacancies on the Board are submitted to the Senate for approval careful consideration be given to the selection of a member who is familiar with the problems of the farmer and one who is familiar with the problems of labor.

It was never intended that the banks should have control of the Federal Reserve System or any controlling influence over it. President Woodrow Wilson, who signed the bill into law on December 25, 1913, and Senator Carter Glass, co-author of the law, often pointed out that such influence would be just as destructive to the public interest as permitting the railroad owners to control or influence the Interstate Commerce Commission in the making of railroad freight rates.

Banker-control of the Federal Reserve System is ruining the solid foundation of a privately owned and profitable commercial banking system of our country. Under such policies, the big banks can doubtless survive and a few of the middle-size banks, but the smaller banks will be doomed. While this is going on, such policies and practices will be ruinous to a prosperous economy.

Under our capitalistic system, which is the best in the world, our money is based on debt. No debt—no money. The 15,000 commercial banks are obligated to serve the public interest by making local loans. They have the power to create and extinguish money. They are manufacturers of money. In the exercise of this privilege, they have the backing and support of the Federal Government and the privilege of using, without charge, the credit of the Nation. They can, with the cooperation of the Board of Governors, create money and make loans up to 14 times the amount of reserves held by them. Such a privilege should only be controlled by a board composed of members selected by the President to serve the people and not one of them selected by those selfishly interested in using the system in a way to make profits—and bigger profits—for themselves.

14 MJ
MONO SECTION

The present abuse of our banking system is forcing the banks—or at least enticing them—out of the real banking business formerly performed by them in the rendering of local service. They are more and more becoming holders of Government bonds, bond brokers, and commercial bookkeepers.

Many banks are so filled up with Government securities, Reconstruction Finance Corporation and Commodity Credit Corporation certificates of interest and obligations issued by the Federal Housing Administration, that they are "loaned up" and cannot take care of local credit needs.

I believe in a privately owned commercial banking system. We must allow it to be profitable or it cannot continue. However, there is no reason to allow a commercial bank to buy Government bonds with created money, except to give them more income in order that they may be induced to render public service in other ways. The banks are so loaded down with riskless securities purchased with created money that they do not have the urge to spend their valuable time discussing the loan application of a small businessman or a farmer. A boy knows better than to feed his hunting dogs before he starts out. Their profits last year—1953—were the highest in history.

This trend in banking poses a serious question in another respect. Our total debts, including both public and private, aggregate about \$640 billion. In order to properly expand our economy to take care of the 1 million new workers and the 1 million displaced by machinery each year, more debts must be created. So we are facing a larger, not a smaller debt burden.

If the debts are not created by local banks to provide for local needs, they must be created elsewhere. If the States, counties, cities, and political subdivisions create them, another problem will be presented, since these debts will be in the form of tax-exempt securities. They could be issued in sufficient quantity to allow the big wealth of the country to escape any tax burden whatsoever. Right now, we need additional school buildings and facilities that will cost \$10 billion. If we require this money to be raised locally, it will enable the investors of \$10 billion to enter a tax storm cellar and pay no income tax whatever to our Government for any purpose—even to defend it in time of war.

If the Federal Government is compelled to create the debts in order to expand our economy, we will certainly have a "new look" in deficit financing.

Decisions of great importance are in the making right now concerning the support of the Government bond market. This is another good reason why the two vacancies on the Board should be filled without further delay. These decisions will be made soon by the Open Market Committee, now top heavy with representatives of the private commercial banks.

Assuring you, Mr. President, that my sole desire in bringing these matters to your attention is to try to be helpful and cooperative, and trusting that they will be given consideration, I am

Sincerely yours,

WRIGHT PATMAN.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., December 9, 1954.

HON. BRENT SPENCE,
House of Representatives,
Washington 25, D. C.

DEAR MR. CHAIRMAN: Hearings recently concluded by the Joint Economic Committee have disclosed certain aspects of Federal Reserve operations that appear to require remedial legislation. Since Banking and Currency is the appropriate Committee to consider such action, I am setting forth the following facts for your consideration.

As you know, Federal Reserve open market policy since the "accord" of 1951 has evolved to the point where today open market transactions in Government bonds cannot be undertaken unless specifically authorized by a majority of the full Open Market Committee. This is a logical result of the decision taken in 1951 to free the Board from responsibility to support the market for Government bonds at their par value.

As a result of the operations of the Board under the new policy, it is generally conceded that Government bonds have diminished in attractiveness and their marketability has been impaired. Long-term Treasury bonds can still be marketed, but only at excessively high interest rates. This is necessary to compensate for the new element of risk that attaches to the ownership of such bonds under the policy of nonsupport.

Apart from the increased cost of marketing long-term bonds, the Secretary of the Treasury has testified that the solvency of trust funds of the Government, which are invested in special issues, may be threatened under conditions requiring emergency withdrawals. Secretary Humphrey testified before the Joint Economic Committee (see attached) that under emergency withdrawal conditions special issues in the trust fund may have to be converted into cash. To convert these issues into cash, the Treasury would have to market them. There is no assurance that in a "free market" the Government bonds in the unemployment trust funds would sell for 100 cents on the dollar. Billions of dollars of the savings of American workingmen and women are being needlessly jeopardized by the present policy of leaving the determination of the price of Government securities to the private unregulated forces of the money market.

15 MJ MONO. SECTION

In view of Secretary Humphrey's affirmative reply to my suggestion that this was "a pretty good reason to consider some support for Government bonds under certain conditions," I believe that this has given us the basis for reopening the question of the responsibility of the Federal Reserve to support the price of Government bonds at their face value.

Apart from this, however, it is essential that solvency of the unemployment and other Government trust funds be guaranteed by enacting legislation requiring the Federal Reserve System to redeem the special issues or any bonds that may be substituted for them at their face value, in the event they have to be converted into cash to meet emergency withdrawal conditions.

Another area that may require remedial legislation relates to the composition of the Board of Governors and the Federal Open Market Committee. During the recent hearings of the joint committee, I again raised the question of the tremendous power that the Open Market Committee has in shaping the course of our entire economy. I did this for the purpose of indicating that while this body vitally influenced the well-being of all groups in the economy, these groups were not all represented in the decisions made by the Open Market Committee.

Prof. Edward Shaw, of Stanford University, now preparing a history of the Federal Reserve for the Brookings Institution, testified briefly on this point and indicated the need for considering changes in the regulations governing representation in the System, in view of the radical change in the concept of the System's functions and responsibilities since its inception 41 years ago. (See attachment.)

I believe that these two areas of weakness in the Federal Reserve System, namely, the lack of assurance that special Government issues in the trust funds can be marketed at 100 cents on the dollar if emergency withdrawal conditions necessitate their conversion into cash, and the failure to change the regulations regarding representation in the System to parallel the radical change in the System's functions and responsibilities merit attention by the Banking and Currency Committee.

Sincerely yours,

WRIGHT PATMAN,

ATTACHMENT A

Excerpt from Secretary Humphrey's testimony before the Joint Economic Committee, December 7, 1954:

"* * * we should never fail to keep in our minds this thought, and that is that the practice (of investing our trust funds in Government bonds) * * * does hold this fear that we might just as well recognize, and that is that if—and this applies particularly to unemployment funds or funds that may not have a regular withdrawal but that may have an emergency withdrawal—in the event of an emergency withdrawal an emergency need for funds, not only private funds will be wanting to sell their bonds in order to turn them into cash to use the cash currently, but the Government funds for the same purposes required for an emergency purpose, would do the same thing. So that we might run into a period where you would have private funds and the Government funds and a number of other people all trying to realize, and private individual holders as well who have laid aside their bonds for their protection, you might have an emergency in which you would have an excess of Government bonds offered on the market which would be—which might present a serious problem for the time being."

ATTACHMENT B

Excerpt from testimony of Edward Shaw, Brookings Institution, before the Joint Economic Committee, December 6, 1954:

"I think it is known in the historical context originally the Federal Reserve was not known at all as we regard it now. In fact, a comparison of the present hearings with the hearings of 1912, 1913, 1914, would indicate very great advances in our understanding of how central banks operate.

"At that time the central bank was supposed to be essentially a passive instrument in the money market, giving accommodation to legitimate business, commerce, and agriculture when it should need it. It was not supposed to be, it was not intended to be, an aggressive agent increasing or decreasing the supply of money for some such goal as stabilizing price levels.

"Since it was felt the central bank was set up to insure there would be adequate credit accommodation for major economic interests in the country, those interests were represented, and since it was a mechanism for bringing the commercial banks together into a tightly knit organization no longer suicidally inclined, it was felt the commercial banks should be represented, all this quite validly, I think, under that original conception of central banking.

"This is no longer the conception of central banking that it should feed credit to certain specific interests, so I think the Congress might well consider some of the stipulations in the Federal Reserve Act regarding the representation of certain specific groups from which are omitted, let's say, labor unions. * * *

"I should review these regulations to see whether something more relevant to the general interest might not be substituted."

16 MJ

MONO SECTION

I have, now, several proposals for amending title I, which is the National Banking Act.

THE OFFICE OF THE COMPTROLLER OF THE CURRENCY SHOULD BE BROUGHT INTO THE GOVERNMENT AND BE MADE SUBJECT TO AUDIT

Another operation which is not subject to an independent audit, and apparently no audit at all, is the handling of Federal Reserve currency by the Office of the Comptroller of the Currency.

It was brought out at the hearings last summer that the Comptroller of the Currency had, through May 31, 1957, handled more than \$154 billion worth of this currency. (See p. 478 of part I of hearings.) The Comptroller had received that much from the Bureau of Printing and Engraving. And, according to a letter to me from Chairman Martin, slightly more than \$147 billion of this had been issued to the Federal Reserve banks by the Comptroller of the Currency; and a little more than \$107 billion in worn and damaged currency had been delivered back to the Comptroller of the Currency for destruction. (See p. 484, part I, of hearings.)

I have looked into the question whether the currency handling in the Comptroller's office is audited twice, as has been said, and it appears not to be audited twice, nor audited even once.

None of the functions of the Office of the Comptroller of the Currency is subject to audit by the General Accounting Office. This is because the Comptroller's Office does not operate on appropriated funds, but operates on fees collected from the banks, and so the Office of the Comptroller of the Currency is considered in the category of those governmental supervisory agencies which go on the theory that they are owned by the banks. Furthermore, to make this theory doubly clear and to cement it into the law, this bill contains a new provision (in sec. 49 (c) of title I) which says that the funds on which the Office of the Comptroller of the Currency operates—which come from assessments on the banks for examinations—"shall not be construed to be Government funds or appropriated moneys."

I arranged to have assigned to me an auditor from the General Accounting Office, and to have this man investigate and review the auditing which is done of the Office of the Comptroller of the Currency. This man, Mr. Edward W. Stepnick, who is an auditor on the staff of the Civil Audit and Accounting Division of the GAO and a licensed CPA in the State of Illinois, has prepared an expert memorandum for me in which he points out some remarkable things.

He points out that the Bureau of Accounts of the Treasury Department makes once a year a *partial* audit of the Comptroller's Office, but this partial audit is not mandatory; it is made only at the request of the Comptroller of the Currency. Furthermore, the Comptroller of the Currency proscribes what parts of his Office are to be audited, and what the scope of the audits shall be.

This memorandum states flatly that "currency functions performed by the Comptroller for account of the Federal Reserve Board relating to the issuance and redemption of currency" are not audited even by the Treasury's own internal auditors. In other words, the handling of billions of dollars in Federal Reserve currency is not subject to an independent audit by the General Accounting Office or by any other independent auditor; it is not even audited by the Treasury's own internal auditors.

Mr. Stepnick's memorandum is as follows:

17 MJ MONO. SECTION

COMMENTS ON REVIEW OF REPORTS RELATING TO AUDITS OF THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

GENERAL COMMENTS AND CONCLUSIONS

A review was made of selected audit reports on the Office of the Comptroller of the Currency prepared by auditors of the Division of Internal Audits, Bureau of Accounts, Treasury Department. A review was made also of various financial and audit reports prepared by the internal auditor of the Office of the Comptroller of the Currency.

These reviews strongly indicate that audits of the Office of the Comptroller of the Currency are not satisfactory, largely because they do not cover all the major functions of the Office. Moreover, under existing audit arrangements between the Comptroller and the Bureau of Accounts, it appears that the auditors of the Bureau of Accounts are not in a position to independently determine the scope of their audits. Also, there are indications that the Office of the Comptroller of the Currency has not been receptive in adopting what appear to be sensible recommendations made by the auditors of the Bureau of Accounts to improve accounting operations in the Office. Further comments on these matters follow.

AUDITS OF THE COMPTROLLER OF THE CURRENCY BY THE BUREAU OF ACCOUNTS

Audits of the Office of the Comptroller of the Currency are made annually by the Division of Internal Audits, Bureau of Accounts, Treasury Department. The annual audits appear adequate from a technical standpoint in the areas covered, and the auditors prepare good reports which carefully explain the scope of the audit and which include opinions and recommendations. However, the annual audits are only partial audits in relation to the total operations of the Comptroller of the Currency because important areas are omitted from the scope of the examination.

The annual audits by the Bureau of Accounts are limited to the accounts and records pertaining to the income and administrative expenses of the Office of the Comptroller of the Currency and to residual funds involving the liquidation of insolvent national banks. Because of this limited scope, the audits do not cover several important matters such as (1) currency functions performed by the Comptroller for account of the Federal Reserve Board relating to the issuance and redemption of currency, except the verification of expenses and assessments relating thereto; and (2) fiscal activities under the control of the chief examiners in district field offices. Also, the audits do not include (1) a review of financial transactions from the standpoint of compliance with legal requirements specifically applicable to the functions of the Comptroller of the Currency; and (2) a verification of supplies and equipment and certain items derived from closed receiverships held for safekeeping. The omission of these matters from the scope of the audit seriously reduces the effectiveness and value of the audit work performed.

Moreover, the audit by the Bureau of Accounts is made on the basis of a request from the Comptroller's office, and its scope is determined through an understanding between representatives of the Comptroller and the Bureau of Accounts. It is clear that the auditors of the Bureau of Accounts are not in a position to independently determine the scope of their audits, and, inasmuch as the audit is made on a request basis, it seems that a mere desire on the part of the Comptroller not to be audited is all that would be necessary to discontinue completely all audit work by the Bureau of Accounts.

It was noted that the audit reports prepared by the Bureau of Accounts' auditors contained a number of recommendations designed to improve the accounting operations of the Comptroller. Only a few of these recommendations appear to have been adopted even though they seem very sensible. For example, the unadopted recommendations include suggestions to (1) deposit with the Treasurer of the United States funds in excess of \$300,000 which are now deposited in a commercial bank, earning no interest or other apparent benefits for the Comptroller; and (2) establish an appropriate payroll lag in lieu of disbursing payrolls on the last working day of the payroll period. It was noted also that the Office of the Comptroller has been slow in adopting fundamental accounting techniques. A general ledger was not installed until 1954, and the accounts are kept on the cash rather than the accrual basis of accounting. It appears that the internal auditor of the Office has opposed rather than supported many of the worthwhile audit suggestions made by the Bureau of Accounts.

18 MJ MONO. SECTION

ACTIVITIES OF THE INTERNAL AUDITOR

Internal audit functions within the Office of the Comptroller of the Currency are performed by the auditor for the Comptroller. The internal audit system of the Office appears to provide a detailed verification of financial transactions, done as an extension of routine bookkeeping operations. Internal auditing in the Office apparently does not include reviews of operations with a view toward appraising the effectiveness of policies, procedures, and internal controls. However, the internal auditor does perform an annual inventory verification of the contents of the unissued Federal Reserve currency vault.

The reports prepared by the internal auditor resemble accounting rather than audit reports, and show detailed financial data as to changes in each account balance with relatively little explanatory comment. The reports contain no conclusions, opinions, or recommendations. They give the impression that the internal auditor is the chief bookkeeper and that internal auditing in the Office of the Comptroller of the Currency is little more than a clerical function.

Mr. Stepnik's memorandum points out many other dangers and weaknesses in the Office of the Comptroller of the Currency. One of the most fantastic ones is that nobody checks to see whether the Comptroller carries out his legal responsibilities. In other words, as it is now, the Comptroller of the Currency is a king. He gets his money from the banks he is supposed to supervise, and how and to what extent he carries out his legal responsibilities, nobody knows and nobody can ask.

A few years ago I had the Library of Congress look into this matter of what Federal agencies collect funds from private sources and which of those can use these funds without congressional authorization. With some very minor exceptions, only the agencies which supervise banking are authorized to spend the money they collect without specific authorization, and without being subject to audit. The memorandum on this subject is as follows:

THE LIBRARY OF CONGRESS

LEGISLATIVE REFERENCE SERVICE, AMERICAN LAW DIVISION

WASHINGTON 25, D. C., February 25, 1954.

To: Hon. Wright Patman.

Subject: Federal agencies having independent sources of income.

In response to your request of February 23, 1954, we submit herewith a revision of the memorandum originally prepared March 6, 1952 on "Federal agencies having independent sources of income" which we have brought up to date. This is a representative list of Federal agencies which have independent sources of income, classified to show whether (a) such income is available for expenditure by the agency without congressional authorization or appropriation, (b) it may be spent by the agency only with the annual authorization of Congress, or (c) it must be turned in to the Treasury and the expenditures of the agency paid by moneys appropriated by Congress.

The following agencies collect certain moneys which they are permitted to use in accordance with law without special congressional authorization or appropriation:

Comptroller of the Currency:

Assessments for bank examinations, 12 U. S. C. 481, 482

Assessments against insolvent banks for expenses of liquidation, 12 U. S. C. 196

Reimbursement by Federal Reserve banks for expenses of note issue and redemption, 12 U. S. C. 420

Federal Deposit Insurance Corporation:

Premiums for deposit insurance, 12 U. S. C. 1817

Interest on investments, 12 U. S. C. 1823

Federal Reserve Board: Assessments against Federal Reserve banks for expenses of Board, 12 U. S. C. 243

19 MJ MONO. SECTION

Home Loan Bank Board: Assessments for examination of financial institutions, 24 C. F. R. 123.20, 12 U. S. C. 1439a
Department of Agriculture: Charges for inspection and certification of certain farm products and license fees, 7 U. S. C. 55, 499e, 585
Department of Health, Education, and Welfare:
Federal Credit Union fees, 12 U. S. C. 1756
Fees for examination of seafood, 21 U. S. C. 372a
General Services Administration: Fees for testing commodities, 5 U. S. C. 630g

The following agencies are, to a large extent, supported from revenues of the enterprises operated or supervised by them, or from the property they administer, but they must obtain special authorization to use monies in their hands for designated purposes, or in some cases, for any purposes.

Federal Housing Administration: 15 U. S. C. 712a, Public Law 176, 83d Congress
Home Loan Bank Board: 15 U. S. C. 712a, Public Law 176, 83d Congress
Office of Alien Property: Public Law 195, 83d Congress
Commodity Credit Corporation: 15 U. S. C. 712a, Public Law 156, 83d Congress
Export-Import Bank of Washington: 15 U. S. C. 712a, Public Law 207, 83d Congress
Federal Crop Insurance Corporation: 7 U. S. C. 1508, 1516, Public Law 156, 83d Congress
Federal Farm Mortgage Corporation: 15 U. S. C. 712a, Public Law 156, 83d Congress
Federal Intermediate Credit Banks: Public Law 156, 83d Congress
Federal National Mortgage Association: Public Law 176, 83d Congress
Federal Prison Industries, Inc.: Public Law 195, 83d Congress
Federal Savings & Loan Insurance Corporation: 15 U. S. C. 712a, Public Law 176, 83d Congress
Inland Waterways Corporation: Public Law 195, 83d Congress
Panama Canal Company: Public Law 153, 83d Congress
Production Credit Corporations: Public Law 156, 83d Congress
Public Housing Administration: Public Law 176, 83d Congress
Reconstruction Finance Corporation: 15 U. S. C. 712a, Public Law 207, 83d Congress
Virgin Islands Corporation: Public Law 172, 83d Congress
Tennessee Valley Authority: 16 U. S. C. 831h-2

The following agencies collect certain moneys which are covered into the Treasury and which can be withdrawn only upon appropriation by Congress:
Attorney General:

Aliens and immigrants
Various receipts, 8 U. S. C. 1356

Department of Agriculture

Farm Credit Administration—assessments for examination and supervision deposited in special fund in Treasury which is authorized to be appropriated for those purposes, 12 U. S. C. 832
Forest Service receipts, 16 U. S. C. 580e
Inspection fees, etc., 7 U. S. C. 78, 149, 161a, 395, 415d, 499n, 511e
Rural Electrification Administration—proceeds of loans, in certain circumstances, 7 U. S. C. 903f

Department of Commerce

China Trade Act Corporation fees, 15 U. S. C. 157
Service and publications, fees and charges, 5 U. S. C. 606
National Bureau of Standards, fees for tests, etc., 15 U. S. C. 276
Patent Office fees, 35 U. S. C. 42

Department of Interior:

Electricity—sales from various power projects, 16 U. S. C. 825s, 825s-1, 832j, 833i
Geological Survey—sale of publications, 43 U. S. C. 41
Grazing fees, 43 U. S. C. 315i

Federal Power Commission: Water power license fees and charges, 16 U. S. C. 810
Secretary of the Department of Health, Education and Welfare: Food inspection fees, 21 U. S. C. 24, 46a

Post Office Department: Postal revenues, 31 U. S. C. 495, 39 U. S. C. 786, cf. 39 U. S. C. 794a

Securities & Exchange Commission: Fees for registration of securities, national securities exchanges and qualification of trust indentures, 15 U. S. C. 77f, 77ggg, 78ec

A complete list of agencies which receive independent income could be made only after a detailed examination of the entire United States Code, which cannot be accomplished in the limited time available. Accordingly, the above list does not purport to be comprehensive, either with respect to the agencies which receive moneys from outside sources or with respect to sources of revenue of the agencies listed.

MARY LOUISE RAMSEY.

20 MJ MONO. SECTION

REQUIRE THE BANKS TO COMPETE FAIRLY FOR DEMAND DEPOSITS

Next, we should consider repealing the provision of the law which forbids the national banks to pay interest on demand deposits. That prohibition was put into the law in 1933, in the depth of the depression. At that time it was considered an emergency measure to help the banks out of the distressed condition they were in. The need for this emergency relief has long since passed; and I think it would be well for us to consider repealing that provision, so that we may have fair competition among the banking institutions of this country.

As it is now, the competition for demand deposits which has sprung up is the under-the-counter, discriminatory kind of competition. The banks are paying some of their depositors—the big depositors—in indirect ways, such as by giving favors and free services in making up company payrolls, keeping company books, and so on, while not paying other depositors anything.

This is a bad situation; and one of the remedies which has been suggested is that we repeal part of the law so as to legalize these indirect payments, but that would not make it a proper solution; it would only expand and perpetuate the discriminatory competition. If we remove the prohibition altogether and let the banks pay interest openly and directly on demand deposits, that will go a long way toward eliminating the backdoor competition, and it will at the same time stimulate fair and wholesome competition. Certainly, demand deposits are the stock-in-trade of the commercial banks. Demand deposits are of value to the bank, and it is a strange kind of law which prohibits the banks from paying for the use of the depositors' money.

If the committee does not recommend repealing the prohibition against paying interest on demand deposits, then I have as a minimum an amendment to the bill which would make it unlawful for the banks to discriminate among depositors in giving favors or providing the so-called "free services" to some depositors and not giving favors or providing "free services" to all other depositors on proportionately equal terms.

Similarly, I have an amendment which would make it unlawful for a national bank to discriminate among its depositors in the matter of charges and fees for services rendered. Since the commercial banks are, in effect, instrumentalities or you might say "wards" of the Federal Government—the Federal Government protects them from competition and grants them all kinds of subsidies—then the Federal Government should see to it that the banks do not discriminate unfairly among the people who have to depend upon the banks for services.

THE FEDERAL USURY LAW SHOULD BE STRENGTHENED, NOT REPEALED

The Federal usury law should be modernized and strengthened by setting maximum rates of interest which national banks may charge without respect to any higher maximums that may be permitted by State law.

There is an amendment in these financial institutions bills that would repeal the principle of *National Bank v. Johnson*, which was decided by the Supreme Court 77 years ago. If one provision in these bills (Title I, section 35) becomes law, it will permit every national bank in the United States to become a loan shark office with no limit on its interest charges.

21 MJ MONO. SECTION

Now the only argument which we have been able to elicit in support of this amendment is that the supporters of the bill think that the Federal Government ought to turn its responsibility over to the States. But we all know that most of these State laws are out-of-date, too, and in practice the method of extending a loan by means of a "conditional sales contract"—which is the method most in use today for consumer installment financing—is not regarded as a "loan" under most of the State laws. But under the Federal law, these conditional sales contracts are deemed to be loans, and the Federal law gives consumers and small-business men, and other borrowers protection. A Federal Court of Appeals ruled in 1955 in *Daniels v. First National Bank of Birmingham* that a conditional sales contract is a "loan" and therefore subject to the maximum interest rate specified in the Federal law. This was after the Supreme Court of Alabama had ruled that a conditional sales contract is not, under the laws of Alabama, a "loan," "discount," etc., or other evidence of indebtedness which is subject to the maximum interest rates of the State.

Now as to the argument that State laws will provide proper protection, we need only to turn to section 51 (Title I) of the bills before us. Here we find a new amendment which would place the national banks beyond the reach of any State law. So what we would have under these bills is a very strange arrangement whereby the Comptroller of the Currency, a Federal officer, and a Federal officer only could police and enforce the laws of the States. And as I have already pointed out, nobody could police or even audit the Comptroller of the Currency.

We have heard an argument, of course, that section 35 of these bills would give the national banks parity with the State banks. Well, even if we could accept the proposition that we should allow immorality to compete with immorality, this would still be an argument for having the tail wag the dog. The national banks account for about 85 percent of the business and the State banks for about 15 percent of the business.

The Federal usury law is now 77 years old, and it is out-of-date and weak. Many new kinds of paper have come into use for extending credit, and these new kinds of paper are evading the usury law. Consumers, small-business men, farmers and all borrowers should have a firm, clear, and positive protection against exorbitant interest charges by the national banks. After all, the national banks are, in effect, instrumentalities of the Federal Government. Agencies of the Federal Government maintain and protect these banks in a quasi-monopoly position. In other words, the Federal Government actively intervenes to prohibit the competition between and among banks which might otherwise protect the public against usurious interest charges, so Federal law must affirmatively give the public that protection. The Federal Government not only acts to limit competition among national banks, but through the FDIC it limits and restrains competition that might arise from State banks.

Clearly it is time—and past time—to modernize this law, to close the loopholes that time has put into it, and to extend it to all of the FDIC-insured banks.

I will offer an amendment to put the Federal usury law in the FDIC Act, so that all insured banks will then be under the same limitations. My proposed prohibition will follow these principles:

22 MJ

MONO. SECTION

(1) No FDIC-insured bank can charge interest, fees, etc., which may result in a cost to the borrower of a sum in excess of 7 percent per annum. This includes both direct loans and paper purchased from another owner.

(2) When an owner of the paper sells it to the bank with recourse, or with a guarantee, then the seller is counted as a borrower, as is the original maker of the paper.

I don't believe the banks should be allowed to charge 10 percent a month. I don't believe they should be allowed to charge 5 percent a month. But if this amendment goes through, it will effectively repeal both the Federal and State usury laws.

I don't think the bankers of this Nation want this. I don't think they are clamoring for it. I think there are only a few who are doing this. But we must stop those few.

The bankers generally would not think of actually taking advantage of this repeal of the usury laws. But a few would take advantage of it and laws are made for the few. Therefore, we should prohibit the few who would take advantage.

Now, if anything would shock people, this amendment would shock them. As much as is being spent for interest and service charges on installment buying today, and to think that this Congress would even consider taking the lid off and letting the national banks collect any amount of interest that they want to collect. I call this the Ebenezer Scrooge amendment, because it is only an Ebenezer Scrooge who would attempt to exact of the people any such extortionate rates and terms as would be permitted under this amendment. Our committee should not hesitate in striking that provision out.

ALL FDIC-INSURED BANKS SHOULD BE PROHIBITED FROM WRITING INSURANCE

There should be a law, and I shall propose an amendment to make it a violation of the law for any bank to write life insurance or any other kind of insurance. Any bank that is insured by the FDIC. That would include State banks as well. There is no reason why banks should be in the insurance business.

It has only recently become clear that the insurance companies are not exempt from the Sherman Antitrust Act, with reference to the practice or coercing or forcing people who borrow from a company to buy their insurance exclusively from that company. The Department of Justice now has on a drive to stop this practice. It has the FBI out making investigations, and it has grand jury investigations going. This was all announced last fall. But when a bank sells insurance, it has an automatic built-in coercion. If these bills were enacted, we would be creating a loophole, a practical by-pass to the Antitrust Laws.

23 MJ

MONO. SECTION

FEDERAL RESERVE BOARD GIVES THE COMMITTEE PARTIAL INFORMATION

Now, Mr. Chairman, I went through the audits of the Federal Reserve banks, or at least the parts of the audits which they would let us see. I asked that those audits be sent up here and they were sent up for 5 years. I guess it is the first time that the audits have ever been gone through. Remember, these are their own audits. They selected the auditors, they gave the auditors instructions, they received the audits themselves and they were considered private and confidential. It was requested they bring them up to the Committee and permit me to examine them and they did, in part.

They furnished me part of the audits. Certain information, I requested in connection with them has been refused.

For instance, I wanted the transactions of the Open Market Committee over certain periods of time but just recently I got a letter refusing that; they claim they should not let us see anything later than December 31, 1956, because anything later might reveal to us their current policies.

Also the board's written instructions to the auditors are that the audit reports are to be made in several different parts. The auditors' comments and the information they have to report on the officers and directors of the Reserve banks—their financial operations, market speculations, and other such things as a business auditor would normally put in an audit report—are put in a separate report. Chairman Martin wrote me a letter refusing to supply the committee with copies of these for our inspection.

Also, I asked Chairman Martin to have tabulations made of the prices paid and received by the open market account, and the Open Market Committee refused that, because they said it would cost about \$4,000; and also they felt the information would not be "significant". They suggested that they might have the board's staff meet with me and the chairman of the committee and somebody else and see if we couldn't get up something else.

But this refusal and countersuggestion came after several months, and, well, of course, the time is too close, now. So that was tantamount to a refusal to furnish that very informative information and needed information.

But I did go over these partial audits and it will be shocking to you, Mr. Chairman, to know that we have licensed an agency known as the Federal Reserve System, under the Federal Reserve Board, which has the privilege of going down to the Bureau of Engraving and Printing and getting unlimited quantities of printed money—Federal Reserve notes. Each note is an obligation of the United States Government, just as much so as a Government bond. The only difference is the money does not bear interest. The bond does bear interest. So this Federal Reserve System can obtain from the Bureau of Engraving and Printing, unlimited quantities of currency to trade for Government securities. Just as if the chairman owed \$1,000 on his home and he gave me a check for \$1,000 and told me to go see the holder of that vendor's lien and pay off that \$1,000 on his home. And I took the chairman's check and I carried it to the holder of that mortgage and I endorsed the check to the holder of the mortgage to pay that mortgage. The mortgagee at my request, transfers the mortgage to me and then I hold the mortgage and every year I go to the chairman and say, "You have to pay me interest on this."

4 MJ MONO. SECTION

Now, that sounds idiotic, doesn't it? It would be idiotic. It would not be allowed and it would not be tolerated. But we do tolerate that same type thing in the Federal Reserve System. We let them take \$23 billion worth of Federal Reserve notes and trade them for \$23 billion worth of United States Government bonds; they hold these Government bonds and they collect interest from the taxpayers on them every year. Last year that interest amounted to almost \$600 million. Now, they spend that money any way they want to. That is taxpayers' money. And then at the end of the year they voluntarily turn over, as they should have done all the time, 90 percent of the net earnings to the Treasury. That was \$534 million, to the best of my recollection, last year. Ten percent they keep in their surplus funds. That 10 percent is not needed.

We have an amendment in this bill to perpetuate that. What will they do with that 10 percent? They have \$1 billion approximately in surplus funds. They are not used. They are not invested. They are not needed. They will never be used. Neither is the so-called capital stock.

If that capital stock had been put out at an interest rate of 3 percent and the surplus funds had been put out at 3 percent interest, the Federal Treasury would have over \$1 billion today that it doesn't have. But these funds remained uninvested.

So they take this money and spend it as they want to.

As one illustration of the fact that the Federal Reserve System is very generous with the taxpayers' money when they are on the loose under no Government supervision, not even including an audit made by the General Accounting Office, I am inserting herewith a table comparing the salaries paid the Federal Reserve officials with Government officials' salaries.

This money for salaries is paid out of the taxpayers' dollars. The Congress has no adequate control over the System, since it is privileged by Congress to use the Government's money that is printed at the Bureau of Engraving and Printing and, therefore, the System doesn't ask for an appropriation since it has unlimited amount of printed money for use and is not under the scrutiny of the appropriations committees of Congress.

The annual salaries of the principal Federal officials are:

President of the United States.....	\$100,000
President, Federal Reserve Bank, New York ¹	60,000
President, Federal Reserve Bank, Chicago ¹	50,000
Presidents, Federal Reserve Banks: Boston, Philadelphia, Richmond, Atlanta, St. Louis, and Kansas City ¹	35,000
Vice President of the United States.....	35,000
Speaker of the House of Representatives.....	35,000
Chief Justice of the United States.....	35,500
Associate Justices of the Supreme Court.....	35,000
Presidents, Federal Reserve Banks: Cleveland, Minneapolis, Dallas, and San Francisco ¹	30,000

¹ Salaries fixed by each Federal Reserve Bank, with approval of the Board of Governors under law passed by Congress. All other salaries listed fixed by Congress.

And let me tell you some of the ways that they spend this money. You take, for instance, one way—I don't know that I would want to say much about it, it is on education of their employees—I am for education, but I don't know whether the Federal Reserve System should pay the expenses of people going to school and college to the extent of thousands and hundreds of thousands of dollars a year out of funds that are really public funds, but that is happening.

I don't think they should be allowed to pay country club dues, as they are. And bank golf tournament fees and commissions and prizes and presents. But they buy Christmas remembrances for persons other than even bank employees. They have holiday season expenditures, and they spend money for any purpose that they want to spend money for. There is no restriction. There has never been an audit. There is nobody to stop them.

25 MJ

MONO. SECTION

UNUSUAL EXPENSES

One thing here I know will be shocking to the chairman. I am going to see if I can't shock him on this: They had a symposium of two days on consumer credit and they invited some speakers, and they paid certain honorariums to these speakers. Two of them, they paid \$2,000 each. Four of them, they paid \$1,600 each. Two of them they paid \$1,550 and \$1,500, respectively, and one of them \$500.

Mr. BETTS. Who were the speakers?

Mr. PATMAN. I don't know that it is necessary to mention their names, but they are people who spoke on installment buying. If you insist, I will put the names in; they are as follows:

Name	Affiliation	Title of paper	Amount
Atlee, John S.	University of Pittsburgh	Consumer Credit Expansion: Macroeconomic Analysis and Data Requirements.	\$500.00
Tobin, James.	Yale University	Consumer Debt and Spending: Some Evidence from Analysis of a Survey.	1,500.00
Andersen, Theodore A.	University of California at Los Angeles.	Market Practices in the Consumer Lending Industry.	1,550.00
Humphrey, Don D.	Duke University	Instalment Credit and Business Cycles.	1,600.00
Miller, Ervin.	University of Pennsylvania.	Consumer Credit and Economic Growth.	1,600.00
Shay, Robert P.	University of Maine	Consumer Credit Control as an Instrument of Monetary Policy for Economic Stability.	1,600.00
Simmons, Edward C.	Duke University	Consumer Credit Control and Central Banking.	1,600.00
Nadler, Marcus.	New York University	For Standby Consumer Credit Control.	2,000.00
Friedman, Milton	University of Chicago and National Bureau of Economic Research.	Consumer Credit Control as an Instrument of Stabilization Policy.	2,000.00

Now, if that is not spending money rather recklessly, I would like to know what is—I am sure that is shocking to the chairman to learn that the Federal Reserve System has the power to go out and hire speakers, have meetings and pay honorariums up to \$2,000 and more if they want to. That has been done clear across the board all over the country. Not only that, I will tell you some of the others.

They pay dues and assessments to the American Bankers Association, the American Institute of Banking, the private clearing houses, the chambers of commerce, and others, and pay officers' and employees' fees and expenses for attending meetings of such organizations. Examples:

Richmond, 1953

Deferred charges:

Assessment and dues:

American Bankers Association	\$350.00
Richmond Clearing House Association	320.76
Robert Morris Associates	198.31
Richmond Chamber of Commerce	158.29
Advanced registration fees—meetings of bankers' associations	280.00

Dallas, 1956

Unamortized expenses of portion paid in advance—Assessment and dues American Bankers Association	\$700.00
Bank's contribution to Dallas Chapter AIB—July 1—Aug. 31, 1956	333.26

St. Louis, 1955

Advanced registration fees for convention of National Association of Bank Women	\$84.00
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26 MJ MONO. SECTION

I haven't seen where the Independent Bankers Association received any of these generous gifts or any of these assessments or dues. But the American Bankers Association has been the recipient and the beneficiary of many substantial funds of what really means public funds. We have had no accounting of it whatsoever. Dues to the Clearing House Association, the American Bankers Association, Robert Morris Associates, Richmond Chamber of Commerce—that is just for one bank. It goes clear through the system.

They pay expenses for training programs at the conclusion of which—listen to this—“employees accept employment in other commercial institutions.”

In other words, they let employees go to school to prepare themselves for other jobs outside and the Federal Reserve bank pays their expenses. If that is right, I don't know what right and wrong is.

(Continuing examples:)

Philadelphia, 1952

Personnel: The 2-year training program at the Reserve bank continues in effect, 6 recent college graduates and 1 regular employee participating at the present time. All 3 persons completing the training in 1951 accepted outside positions, and only 2 of the 5 individuals finishing the program in the current year remained with the bank. The majority of the trainees accept employment in other commercial institutions where the chances for rapid advancement are more evident.

Philadelphia, 1956

In the area of training for executive development, the program of affording opportunities for selected senior employees to attend graduate schools for banking and to enroll for other educational courses is being continued, 13 employees participating at the present time.

Seven men are currently enrolled in the college trainee program. The purpose of this program is twofold: (1) to develop future executive material for the Reserve bank's staff, and (2) to provide trained banking leadership in the district. Since the program was inaugurated in 1946, 36 college graduates have completed the 2-year course. Three of these men, one of them an officer, are at present members of the bank's permanent staff. The remaining graduates, almost without exception, are in commercial banking and we have been informed that they are making rapid advancement in their institutions.

They subsidize training of junior employees in shorthand and typing. Example:

New York—1952

Junior employees are encouraged to enroll for courses in shorthand and typing. Reimbursement for tuition and other related costs is made on the same basis to these employees as to those who complete A. I. B. and college courses.

They also loan employees to different drives, including charity drives and others, and one of them was lent for 316 days. The Federal Reserve bank paid him all this time. Well, maybe it was justified, I don't know, but it doesn't look like a very good policy for a public institution to be furnishing employees at public cost and expense to serve 316 days a year.

(Continuing examples:)

Chicago, 1956

The bank examiners comment on leaves of absence as follows:

“The lending of this employee [a utility clerk attached to the personnel department] to charitable organizations for an aggregate of 316 days in the year does not appear to comply with the views of the Board of Governors on this subject as expressed in its letter of September 25, 1951 (S. 1396).”

Boston, 1956

Officer's contribution to American Red Cross, \$15.

27 MJ
MONO. SECTION

They have generous rules and regulations about leaves of absence for their employees. And paying registration fees and graduation fees of different people working for the Federal Reserve bank who get their education at the expense of the Federal Reserve and go out to work for other commercial institutions and do not go back to the Federal Reserve System.

They make expenditures for a dining room for bank guests. One item here of \$19,000. They can give banquets any time they want to. They can pay all the expenses of the banquets. They can pay \$2,000 to a speaker if they want to. All that comes out of the Treasury. It is just the same as dipping their hands in the United States Treasury, taking that money and paying it out.

Congress has never looked at these expenditures. Therefore, the banks feel free to continue doing it.

They have Federal Reserve Club expenses.

(Continuing examples:)

Dallas, 1954

Deferred charges—bank's contribution to Federal Reserve Club, \$1,488.90.

Dallas (Houston branch), 1954

Bank's contribution to Federal Reserve Club, \$200.

St. Louis, 1952

Advance to Federal Reserve Club for expenses of annual picnic—settlement to be made when all bills are paid, \$1,500.

They have all kinds of fees for research and preparation of opinions. Theater tickets. Baseball tickets. When the directors complained about the expenses being so high to go from these Federal Reserve banks to the American Bankers Association Convention arranged for they wanted to get their wives' expenses paid too, whatever they got that done too. Not only do the 108 directors of the 12 Federal Reserve banks, Mr. Chairman, and the officers get their own expenses paid but their wives' expenses are paid too. How much, we don't know. There is no supervision. There is nobody looking into it for Congress or for the Government. They are just doing whatever they want to, and they are encouraged to continue. There is no limit. They spend money for everything imaginable for anything they want to.

(Continuing examples:)

Boston, 1953

Bank policy established to reimburse expenses for officers' wives at conventions.

"It is customary at several conventions which one or more of the bank's officers are asked to attend for wives to be invited. * * * On such occasions, attendance by an officer without his wife may give rise to an unfavorable impression. Because some of these meetings are expensive to attend, there may well be reluctance on the part of some officers assigned to attend to take their wives. It would therefore seem to be good bank relations policy to encourage officers to take their wives on such occasions, although of course their attendance remains optional.

"Therefore, necessary expenses for wives of officers assigned to attend will be authorized for such meetings as the New Hampshire Bankers Association at Portsmouth and at Whitefield; the Connecticut Bankers Association at Manchester, Vt.; the Maine Bankers Association at Poland Springs; and the Vermont Bankers Association at Manchester, Vt."

I will place in the record a number of things. Like legal fees, \$2,500. For what purpose? I don't know.

Eighty-six theater tickets at \$4.88 each; eighty-five baseball tickets at one meeting, \$1.85 each; fifty-seven theater tickets at \$1.75 each, for one group.

I just mention those to indicate specifically what has been done in the way of spending this money.

The blanket insurance policies covering athletic accidents—they are out money on that.

At the Minneapolis bank, they paid expenses for entertainment at a meeting including musicians, basketball tickets, Ice Follies tickets, dinner music, and football tickets. They paid the cost of a dinner party. They handled collections of grain drafts for about 25 years without imposing any charge for these services.

28 MJ MONO. SECTION

I have a list of expenses here like entertainment—who did the entertaining—and the tickets and for different things that they spend money for.

Another list of unusual expenses and assessments, such as for the American Institute of Banking. Imagine a Government agency paying out money for dues to the American Institute of Banking, and the American Bankers Association.

The CHAIRMAN. What were those banquets for? What was the purpose of them?

Mr. PATMAN. Whatever they wanted them for. There is no evidence of what they were for. There is an item of expense like \$38,000 for expenses to be met. There is no evidence as to who got it, what they did with it, and there is no reporting made.

Remember, these things are picked out of reports that were made under the direction of the people who are being audited and investigated. They are not going to put a lot of unfavorable material in these audit reports—I just doubt that they would. If they did, I do not know how secure they would be in their jobs in the Federal Reserve banks because these audits are made by Federal Reserve bank employees. They pay for dinners for employees groups. There is plenty of evidence on that.

Here is just one little expenditure of \$1,773.70, in Kansas City. They had a conference there and entertainment—Eddie and Ruth Jester, \$75. Another one, \$65. Another one, \$75. Another one, \$100. A pianist, \$20.

All the entertainment expenses, paid any way they want to pay them. The sky is the limit, because nobody is watching them.

The expenses to the Federal Reserve banks are unlimited so far as I have been able to find through an examination of these reports.

They pay the cost of dinner parties for retiring officers; and while the examiners sometimes "take exception," there is no indication that any action is recommended or taken on the "exception." Example:

Minneapolis, 1956

The examiners take exception to the following item: Cost of dinner party on June 30, 1955, in honor of retiring assistant vice president. The party was attended by 18 officers, 3 former officers, and 1 employee and 1 director, \$281.60.

They perform costly services free of charge to private firms and organizations, even nonbanks. Example:

Minneapolis, 1956

GRAIN DRAFTS

The auditors make the following comments:

"In 1955 the Department handled 916,000 city collections totaling \$785 million. The grain drafts included in this total were 788,000 in number and amounted to \$704 million. During January and February of 1956, approximately 107,000 city items totaling \$106 million were handled. These figures include 84,000 grain drafts aggregating \$89 million. It is estimated that more than 90 percent of the latter were received by the Reserve bank from Reserve city banks located in Minneapolis and St. Paul. The Reserve bank has been collecting these drafts for about 25 years and has not imposed any charges for its services. Effective January 1, 1956, the Reserve bank made an arrangement with a large grain cooperative and a St. Paul bank which services the co-ops' account whereby drafts drawn on the cooperative are now drawn payable through the member bank with settlement through the Twin City Clearing House. As a result the volume of grain drafts handled by the noncash collection department has been reduced by about 18,000 items per month. Having established this precedent, the Reserve bank hopes that similar arrangements acceptable to the grain firms and the member banks can be devised with respect to the grain drafts drawn on other dealers."

They pay large and unusual fees. Examples:

Folios 101-200--Lino Section

1 FBO - LINO

St. Louis, 1954

Legal fee for research and preparation of an opinion on the applicability of labor laws to employees of the Federal Reserve bank, \$2,500.

Expenditures in connection with negotiation for purchase of building site, \$3,807.

There is an item for purchase of property in Louisville, Ky.: Purchase price, \$449,305; legal expenses, \$7,546.98; title insurance and miscellaneous expenses, \$2,110.62. Architects' fees and other expenses pertaining to new building construction, \$25,813.33, of a total of \$484,775.93.

They hire entertainers; buy football, baseball, and basketball tickets; and hire musicians to provide dinner music. Examples:

Minneapolis, 1953

"All expenditures . . . were reviewed to determine the propriety in compliance with the rules and regulations of the Reserve bank and the Board of Governors. The following expenditures were noted. Included in total expenses of \$1,395 incurred in connection with the Annual Conference of Personnel Officers of the 12 Federal Reserve banks on May 11, 1952 were the following items:

(1) Entertainment—Hal Olsen	\$50.00
(2) Included in the total expenses of \$1,692.14 incurred in connection with a conference of 9th District Bank Examiners on Nov. 29, 1952, is the following item: Entertainment—Clyde Snyder Production—Schick's Sextet	150.00

Minneapolis, 1955

Examiners' conference held Nov. 27, 1954:

Juanita's Entertainment Service (musicians and vocalists)	\$100.00
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Short course in central banking held Jan. 1 to July 1, 1955:

26 basketball tickets	62.40
Ice Follies tickets	60.00

Total 122.40

Directors and Officers Assembly held Apr. 25-26, 1955—Wesley Barlow (dinner music) 72.00

Directors meeting to be held October 1955—21 football tickets 76.40

St. Louis, 1954

86 theater tickets at \$4.88 each for musical comedy "Pal Joey", purchased for the use of directors and officers and their wives \$419.68

Meeting held at St. Louis on June 10, 1954—included in the cost of meeting of \$1,510.22 in the following items:

Purchased for use of directors and officers and their wives:

85 baseball tickets at \$1.85 each	\$157.25
57 theater tickets for the municipal opera at \$1.75 each	99.75

Total 257.00

The banks made contributions to the Federal Reserve Society. Example:

Boston, 1955

Reimbursable charge—Contribution to Federal Reserve Society, \$12,000.

Boston, 1956

Contribution to Federal Reserve Society, \$9,100.

They pay the cost of setting up and operating new clearing houses. Examples:

New York, 1956

Nassau County Clearing House, organized in 1953.

The Reserve bank agreed to pay the initial costs and expense of the clearing arrangement during a trial period of 6 months, and thereafter to pay two-thirds of the operating expenses less the cost of handling intrabank items:

Expenses paid by bank July 1953 to May 1956 \$327,650

The bank feels that this arrangement is advantageous as it serves to expedite the collection of items and to reduce the tremendous number of items which flow through the Reserve bank's clearing process.

They pay for "conferences" of bank supervisors and examiners at which entertainment is provided at bank expense. Examples:

Kansas City, 1953

EXPENDITURES

Expenses incurred in connection with a conference of bank supervisors and examiners on Mar. 23, 1953 \$1,773.70

Included in the total cost of this conference were the following:

Entertainment Eddie and Ruth Jester	\$75
Cedric and Algie	65
Pauline Dennison and Virgil Woodside	75
Matt Tuck	100
Chopin pianist	20

Total 325

2 FBO - LINO

Dallas, 1956

Expenditure for entertainment: Bobby Williamson, \$100.

Musical entertainment at a dinner given on June 4, 1956, for representatives of the 12 Federal Reserve banks who were delegates to the National Convention of the American Institute of Banking.

They make unspecified expenditures for holiday seasons. Example:

Chicago, 1956

Expenditures for the current holiday season are expected to be approximately \$1,900.00

(The audit report does not indicate what disposition was made of these items, or upon whose authority the expenditures were approved.)

They buy Christmas "remembrances" for persons other than bank's own employees. Example:

Chicago, 1956

Charge of December 23, 1955, covering expenses of Christmas remembrances to persons other than bank's own employees who rendered valuable services to the bank during 1955, \$1,909.

They pay for employees' golf tournaments. Example:

Chicago, 1954

Deposit with country club for the 1954 Federal Reserve Bank golf tournament, \$100.

They pay for deluxe staterooms for officers to go on Chamber of Commerce cruises, pay for gifts for directors and their wives, pay for picnics, and so on. Examples:

Cleveland, 1952

Cost of one deluxe stateroom used by two members of the head office on June 16 to 20, 1952, in the annual lake cruise sponsored by the Cleveland Chamber of Commerce, \$295.

Expenses incurred in connection with a joint meeting of the Board of Directors of the head office and the two branches held in Cincinnati on June 11 and 12, 1952, \$5,417.

Included in the total cost of the above were the following:

1. Rook Wood Pottery Co.—favors for directors and wives, \$165.
2. Johnson Boat Co.—68 passengers transportation on the Ohio River, \$184.
3. WLW Promotions, Inc.—entertainers, \$150.
4. Taft Museum Garden Fund—honorarium in connection with services of tour guides for wives of directors, \$15.
5. Bruce Brownfield entertainers, \$40.

"An amount of \$1,800 was provided for this meeting in the bank's budget for 1952, and on March 13, 1952, the head office board of directors approved the sum of \$3,500 for this occasion."

Deposit with Cincinnati Board of Park Commissioners for use of picnic grounds in 1953, \$40.

They pay for luncheons for participants in community fund drives. Example:

Cleveland, 1953

Head office: Cost of luncheons for various members of the 1952 Cleveland Community Fund Drive as guests of President Gidney, who was president of the Cleveland Community Fund, \$79.20.

Pittsburgh Branch: Cost of luncheons and dinners for division chairmen of the Community Chest as guest of Vice President Kossin, general chairman of the Allegheny County Community Chest Campaign for 1953, \$70.50.

They make loans of bank funds to officers and employees. Example:

New York, 1952

Authorized "officers' fund" account for loans to employees, \$25,000.

New York, 1955

Reimbursable expenses due from officers and employees:

Loans outstanding	\$10,752.71
Educational loans	1,538.50
Dining room charges	124.63
Sundry	278.88

Boston, 1952

Loans to employees, \$1,347.

They pay the insurance premiums on "workmen compensation policies" covering officers and directors, and pay for insurance covering employees against injury while engaged in athletic games. Examples:

Dallas, 1955

Employer's liability coverage applicable to officers and directors under the workmen's compensation policy was increased from \$50/\$200,000 to \$50/\$500,000.

3 FBO - LINO

St. Louis, 1955

Blanket athletic accident expense: A policy was procured at the head office to cover medical payments arising from bodily injuries sustained by members of the Reserve bank's softball team.

They pay for hospitalization and surgical insurance, including supplemental death benefit premiums. Examples:

San Francisco, 1954

Deferred charge: Reserve bank's portion of fees under Reserve bank's group hospitalization plan charged to current expense at end of month, \$2,248.25.

San Francisco (Los Angeles branch), 1954

Retirement system contributions:

Supplemental death benefit.....	\$8,705.00
Premiums, group hospitalization and surgical expense benefits policy.....	1,819.70
Deposit in connection with annual dinner for employees with service records of 25 years or more.....	50.00

Some of the Banks give the clearing house associations rent-free space in the Federal Reserve Bank building. Examples:

Philadelphia, 1952

1,800 square feet assigned to Philadelphia Clearing House on rent-free basis.

Boston, 1954

An office comprising 1,128 square feet has been allocated to the Boston Clearing House Association on rent-free basis, in consideration of Reserve Bank's exemption from association dues and assessments.

St. Louis, 1955

Leased 705 square feet to the St. Louis Clearing House on a rent-free basis.

San Francisco, 1952

The Reserve Bank occupies the entire head office building except for a small area which the San Francisco Clearing House Association continues to use on a rent-free basis in lieu of payment by the Reserve Bank of dues and assessments as paid by other members.

They may rent at nominal rates office space in the Federal Reserve Bank buildings to private banker associations. Example:

New York, 1952

2,550 square feet of space leased to New York State Bankers' Association at \$340.

Richmond (Baltimore branch), 1952

A basement area of 1,531 square feet is rented to the Baltimore Clearing House Association at \$50 per month.

When it comes to making the bank premises lush and plush, the Reserve banks spare no expense. They spend enough on the premises to have them gold-plated. They have auditoriums and they buy organs. They build small dining rooms for entertaining banks' guests, presumably for small intimate parties where there aren't enough guests to feel comfortable in the large dining rooms. They build roof gardens. They build parking garages for bank personnel. They acquire land and buildings for future possible needs. They pay large sums to option land and allow the options to expire. They pay large architects' and engineers' fees, usually without indicating how the lucky contractor is selected, and they pay for costly plans for buildings that are not built.

These banks are supposed to be limited by law in their spending for bank premises. They are expressly forbidden to build or enter into any contract to erect any building to cost in excess of \$250,000 without coming to Congress for the authorization.

But the Federal Reserve System has invented a new accounting system which seems to eliminate much of the normal inconvenience of any restraint on capital outlays. By this new system, they simply charge capital outlays to current expense.

They lease bank space to others, including clearing house associations, and then meet their own needs by leasing space outside the bank building.

4 FBO - LINO

Chicago, 1952

The head office building provides a total of 307,138 square feet of usable floor space, of which the Reserve Bank utilizes 293,800 square feet for its operations. The remaining area of 13,248 square feet is occupied, under lease by the District Chief National Bank Examiner, the Federal Deposit Insurance Corporation, and the Chicago Clearing House Association. The rental from these tenants amounts to \$2,316.03 per month. The expanding level of operation at the bank has increased the space requirements considerably. To meet this situation 10,528 square feet of space has been leased in the insurance building, 175 West Jackson Boulevard, directly across the street from the bank, and during the course of examination this leased area was augmented by 5,000 additional square feet.

Boston, 1953

An outstanding decorative feature of the entrance lobby is a relief map of the First Federal Reserve District carved in marble.

Richmond (Baltimore branch), 1952

The available space seems adequate for the branch's operations at their current level. However, the management feels that additional space would be desirable to provide needed service and auxiliary facilities.

Richmond, 1954

Expenditures in connection with the new building addition aggregated \$2,551,349.75.

Quarters on the first and third floors of the main building were redecorated and refurbished to provide for a reception area (first floor) and an exhibit conference room (third floor) at costs of about \$6,000 and \$14,800, respectively.

Philadelphia, 1952

Estimated cost of construction of balcony on mezzanine, \$55,000.

St. Louis, 1956:

Sculpture (estimate)-----	\$8,000
Mural (estimate)-----	18,000

Boston, 1953

Cost of console organ purchased from the Baldwin Piano Company on December 23, 1952, and placed in the new auditorium, \$6,000.

St. Louis, 1955

The garage contains a service center for bank-owned automobiles but is used primarily as a parking area for employees' cars. A nominal parking fee is charged for the latter accommodation.

Atlanta, 1955

* * * with the authorization of the Board of Governors, construction of a 3-story, 7-deck parking garage for the use of bank personnel was commenced on this part of the property. When completed this structure will have a parking capacity for about 140 cars.

The construction contract was awarded on the basis of a low bid of \$269,900 and, inclusive of architects' fees and other expenses, it is estimated that the total cost will be \$303,000.

New York, 1952

* * * \$6,145 for the erection of a platform on the roof of the Annex Building. The construction served two purposes: needed repairs to the roof were made and the employees were provided with a roof garden which has proved to be highly popular with the staff.

Philadelphia, 1952

Studies are now being made of the advisability of the construction of a joint assembly hall and recreation room on the roof of Building No. 1B at a cost of about \$150,000.

Chicago, 1952

Projects * * * at the head office comprise the laying of tile flooring and installation of lockers in shower room * * * The largest undertaking completed was the remodeling of the auditorium on the fifth floor. In addition to the reconstruction of the floor and ceiling, new seats and lighting were installed and a movie screen, cloak and storage rooms were provided. The auditorium has a seating capacity of 240 persons and is used by the Reserve Bank for personnel training through the medium of motion pictures and for employee meetings and other activities. The Reserve Bank has also made the facilities of the auditorium available to member banks and other appropriate groups with related interest.

Boston, 1953

There are also provided such facilities as an auditorium, a renovated and enlarged cafeteria, an employees' recreation lounge, a medical section, and classrooms.

Atlanta, 1953

On September 23, 1952, the Jacksonville Branch took occupancy of its new building at 515 Julia Street. This distinctive structure incorporates many features of modern design. Disbursements to this construction project amounted to the total cost to date to \$2,314,961.33.

5 FBO - LINO

SPACE ASSIGNMENT

Fifth floor

Personnel Department: employees' cafeteria and lounge: infirmary: kitchen: library: officers' lounge and dining room: old file storage: recreation room.

Although there is considerable area of unused space on the fourth floor, the management does not contemplate the leasing of any space to outside tenants.

Richmond (Charlotte branch), 1953

A new addition was, for all practical purposes, completed during the latter part of September 1952 although it had not been formally accepted. The addition which has increased usable space by approximately 64,000 square feet has not only supplied ample working areas, but has made possible such facilities as an auditorium, cafeteria, an employees recreational lounge, and a library and reading room. These together with the excellent modern lighting and sound-proofing provide an efficient comfortable and attractive working environment.

Dallas (Houston branch), 1956

The new home of the branch will be of modern design and without windows. It will consist of a basement, three floors, a penthouse for elevator machinery, and a roof terrace and sun deck for the use of employees.

St. Louis, 1956

* * * a bid of \$32,823.19 was accepted covering food service equipment to be installed in the building.

St. Louis, 1955

Chargeoff to expense for furniture and equipment purchases. In the year 1954, this amounted to \$137,805.23. In the year 1953, this amounted to \$187,209.33.

St. Louis, 1956

It is planned also to replace the furniture in the Accounting, Fiscal Agency, Safekeeping, and Money Departments, and \$101,000 has been budgeted for this purpose.

Dallas, 1955

Forfeiture of option money on tentative building site at Houston, \$1,500.

St. Louis, 1952

Expenditures in connection with expired options on sites for a proposed new Louisville Branch Bank, \$1,532.60.

Atlanta, 1955

Architects' fees and other expenses related to the several projects thus far paid total \$206,549.01 at the head office, \$41,632.81 at the Birmingham Branch and \$29,208.24 at the Nashville Branch. Architects' fees totalling \$34,343.23 were paid for work done in preparing preliminary plans and cost estimates in connection with an earlier and radically different design for the head office construction. As this tentative proposal was discarded the relevant architects' fees were charged to profit and loss in 1954.

Chicago, 1955

On a proposal to add four stories to the existing bank building. After full consideration that plan was abandoned and \$110,000 which had been expended on it for architects' fees and engineers' fees was charged off.

San Francisco, 1956

Loss on architects' fees paid for services performed in connection with subsequently discarded plan for proposed alterations to head office building, 1955, \$2,035.

They expand bank premises beyond their needs, but hold space "in reserve," rather than making it available for rental.

Chicago, 1953

Although the 7th and 8th floors of the new addition are currently not needed for bank operations, the management deems it advisable to hold this space in reserve and not consider making these areas available for rental.

They make purchases without approval—not in accordance with even their own bank regulations.

Richmond, 1955

Earnings and expenses: "Under the Reserve Bank's procedure, neither the disbursement vouchers nor the supporting invoices bear any direct evidence that the purchases were approved in accordance with the Reserve Bank's regulations. This matter was discussed with the management and we were advised that appropriate revisions would be made in present procedures, so that the vouchers would carry evidence of the necessary official approvals."

They acquire land and buildings and lease them for \$1 per year; in one case "in consideration of" the lessee's agreement to park bank employees' autos for \$4 per month.

(FBO - LINO

Richmond, 1952

Other real estate consisted of two parcels of land acquired for banking house purposes at Richmond and Charlotte, the book value of these properties being \$146,549.91 and \$10,868.42, respectively. The head office figure reflected a reduction of \$6,897.25 in the interval between examinations, representing the net proceeds of the sale of a small portion of the land.

The Richmond property is located on North Eighth Street opposite the new building addition and is leased to a parking lot and filling station operator for \$1 per year in consideration of his agreement to park bank-owned and employees' automobiles for a nominal fee of \$4 per month.

The Charlotte property adjoins the branch building and is used as a free parking lot for employees' automobiles.

Richmond, 1953

An unimproved lot adjoining the rear of the branch of this building was acquired in 1944 in contemplation of a possible enlargement of the present building. The cost of this property, \$10,868.42. The expenses, principally city and county taxes, incurred in connection with this property, amounted to \$178.05 in the year 1952.

San Francisco, 1952

Other real estate carried at a book value of \$35,000. This property is currently used by branch employees as a free parking lot. Taxes are the only item of expense on the property and amounted to \$817.80 for 1951, and to \$277.05 for the current year to date of examination.

San Francisco, 1953

The Los Angeles property was acquired in the current year at a cost of \$320,317. This property was acquired primarily to provide for possible future needs of the branch, but present plans contemplate conversion of part of it to a parking area for employees' cars.

Dallas, 1952

* * * While the management is currently negotiating for the purchase of a desirable site, it is realized that "regardless of the plan finally adopted the bank cannot proceed with any building program under present conditions."

Philadelphia (Pittsburgh branch), 1952

The remainder of the land is rented by this company under a lease expiring on June 23, 1954, for \$6,448.20 per annum, approximately the tax assessment, and is used as a parking lot. * * * However, plans for proceeding with the enlargement of the present building are being held in abeyance pending congressional authorization of additional branch building.

Atlanta (Birmingham branch), 1955

One-half of the Birmingham property is under lease to a commercial parking lot operator at a monthly rental of \$300. The remainder of this property and the property at Nashville are currently used as parking areas for employees' cars.

They let construction contracts without calling for fixed-price bids.

New York, 1952

It was impractical to attempt to obtain bids for this work on a fixed-price basis and it is now expected that the final cost may exceed \$635,000, by as much as \$100,000.

They acquire properties and pay architects' fees for buildings not authorized.

Dallas (San Antonio branch), 1953

Accordingly, a site was purchased on July 1, 1952, and a firm of architects has been engaged to prepare plans for a new building. "Any program of construction is, of course contingent on the obtaining of appropriate authorization."

Minneapolis, 1955

The Board of Governors authorized a total expenditure of \$5,105,000 which is intended to cover the construction costs specified in the aforesaid contracts, the architects' fee, and a contingency allowance of \$200,000.

This figure includes \$81,523.33 covering architects' and engineers' fees and other costs related to the present construction which were incurred in prior years and previously charged to profit and loss when there was no definite assurance that the project would be adopted.

Here are just a few examples of construction costs which are charged to current expenses.

Cleveland, 1952

"Also nearing completion is the installation of new doors for the security court. The cost of this replacement is estimated to be approximately \$39,000 and the entire amount is to be charged to current expense as repairs and alterations."

New York, 1952

Total costs \$121,416 for alteration in the gold vault were charged to current expense on the theory that the alteration did not materially add to asset values but served rather to make the alteration and utilization of existing vault space.

7 FBO - LINO

Atlanta, 1955

During 1954, an incinerator was installed in the basement of the annex building at a cost of \$15,287.38. The amount was charged to profit and loss on the assumption that the incinerator would have no salvage value.

Cleveland, 1956

Construction costs of \$135,000 allocated to current expenses.

Philadelphia, 1956

Construction of a counter and rearrangement of the serving area in the cafeteria, \$2,588.

All of the expenditures in connection with the projects mentioned above were charged to current expenses.

LOSSES AND DISCREPANCIES

Some of the losses and the discrepancies in the accounts of the Federal Reserve banks are truly amazing. All of these banks experience tremendous losses of registered mail containing deposits, securities, and other things of value. They charge off or set up reserves amounting to millions of dollars for such losses. They have all manner of losses and discrepancies in the funds and property of the Reserve banks, according to their own auditors. And when the General Accounting Office has occasion to audit any of their work, as when they pay checks for the account of the United States Treasury, the Government auditors find losses which the bank auditors appear not to know about.

Kansas City, 1952

Loss absorbed by Federal Reserve bank account as result of delay in transferring funds for member bank, \$83.23

Head office—difference account: This balance largely made up of substantial amounts of differences relating to work processed in 1952 by the Government Card Check Sections as a result of the Government Card Checks Section of the Check Collection Department of the records of the bank were not maintained in such a manner as to permit ready identification of the differences, and it further appeared that the Federal Reserve bank was unaware of the existence of such large differences until they were disclosed by the General Accounting Office's audit of card checks paid by the Reserve bank for the account of the United States Treasury, \$7,677.13.

Kansas City (Oklahoma City branch), 1953

Shortage in assorting teller's cash at the Oklahoma City branch, \$100.

Kansas City (Omaha Branch), 1956

Audit revealed 25 \$200 series E savings bonds which Reserve bank's records showed to have been part of shipment of unissued bonds forwarded to an issuing agent on August 3, 1955, were reported by agent as not having been received.

San Francisco, 1954

Uncollected cash items: Misrouted items forwarded to member banks and other Federal Reserve banks—charges deferred to correspond with availability date of relevant cash letters, \$157,838.80.

San Francisco, 1955

RECONCILIATION

Understatement of accountability of U. S. Government securities	\$200,000.00
Uncollected cash items: Misrouted items reforwarded to member banks for collection—charged next day	409,170.34

San Francisco (Portland Branch), 1955

Accounts of member and nonmember banks and others

DEFERRED ACCOUNTS

Missent item reforwarded as noncash collection	\$271,796.58
Missent items reforwarded as noncash collection	46,794.21
Misrouted items reforwarded to other Federal Reserve banks—charged next day	1,552.57

San Francisco (Los Angeles Branch), 1954

A review of "difference account" record disclosed rather frequent Transit Department entries in substantial amounts occasioned by improper handling of the relevant transactions or by lack of due diligence on the part of employees in the department. "From the foregoing it appeared to us [auditors] that the department needed closer supervision."

San Francisco, 1954

Accounts of member and nonmember banks and others

DEFERRED ACCOUNTS

Uncollected cash items:	
Misrouted items forwarded to Federal Reserve banks—charged next day	\$42,281.67
Missent items reforwarded as noncash collections	14,100.00
Due from member and nonmember banks	51,883,221.62

8 BO - LINO

¹ Does not include \$30,732.16 at the Los Angeles Branch, representing missorted cash items which were forwarded on Oct. 2, 1954, in special cash letters to the banks on which drawn. This amount was carried in "Difference account" at date of examination. Adjusting entries were made on Oct. 6, 1954.

San Francisco, 1956

Insurance and fidelity bonds

Head office	Amount	Date claim filed
Bankers' blanket bond: Money stolen from Reserve bank officer while traveling on official business.....	\$60	Oct. 20, 1955

Shipment of currency received by Reserve bank, claimed by shipping bank to be \$1,000 more than Federal Reserve count. Matter was closed because of lapse of time.

San Francisco, 1954, Auditing Department

The general auditor advised that one special investigation was made under his direction during the interim between examinations. It concerned a shipment of currency received by the Reserve bank on November 11, 1953, from the * * * branch of Bank * * *, and verified to contain \$132,000. The shipping bank claimed that the contents totaled \$133,000. The general auditor's investigation did not develop evidence of any irregularities in the handling of the shipment at the Reserve bank and no formal claim has been filed by bank * * *. Moreover, an investigation by the Federal Bureau of Investigation at both the office of the shipping bank and the Reserve bank also failed to disclose anything of a suspicious nature which would warrant further inquiry. In view of these circumstances, as well as the lapse of time since the incident, the matter is considered closed.

Kansas City (Omaha branch), 1956

Shortage of currency shipment made on July 1, 1955, to Omaha, at the request of * * * bank (reimbursement from the bonding company), \$200.

Of the numerous reconciling items shown by a member bank, pertaining to the account maintained by it with Reserve banks, 242 remained unadjusted, amounting to over \$1 million. Fifty-nine exceptions were more than 30 days old.

San Francisco, 1956

ACCOUNTS OF MEMBER BANKS

Officially executed reconcilements were received from all the member banks in the district. Of the numerous reconciling items shown by bank * * *, pertaining to the accounts maintained by it with the Reserve bank's head office and Los Angeles Branch 242 remained unadjusted at the conclusion of the examination, and are summarized as follows:

Head office	Number of items	Amount
Bank * * * debits.....	41	\$164,248.28
Bank * * * credits.....	27	163,602.89
FRB debits.....	32	90,505.29
FRB credits.....	33	68,130.04
Total.....	133	486,486.50
LOS ANGELES BRANCH		
Bank * * * debits.....	29	27,089.25
Bank * * * credits.....	18	44,531.41
FRB debits.....	28	34,244.22
FRB credits.....	34	46,725.34
Total.....	109	152,590.22
Grand total.....	242	639,075.72

The majority of the foregoing items were of recent dating; however, 59 exceptions totaling \$29,811.05 were more than 30 days old at examination date.

Deductions from Net Earnings: Registered mail losses (year 1955), \$44,457.63.

Richmond, 1952

NONCASH COLLECTION DEPARTMENT

Country collections outstanding with collecting agents consist of 333 items, in the total amount of \$213,985.21, and were confirmed by correspondence with the agents concerned.

Examination of this function disclosed that one collecting agent was holding 23 past due items which had matured in the period April 21 to June 9, 1952. All but 2 of such items were subject to protest. Another agent was holding 7 past due items which had matured in the period of May 1 to June 2, 1952. While the records indicated that these items had been traced to the collecting banks, there was no evidence that the matter had received consideration at the official level. We were advised that in the future all past due items or instances wherein the

FRO - LINO

collecting banks were not adhering to the applicable instructions would be brought to the attention of the supervising officer.

Richmond, 1953

Insured losses recovered on mysterious disappearance of currency reported by a currency counter.....	\$500.00
Loss sustained in coin shipment while in transit from the branch to bank * * * North Carolina on June 22, 1953.....	18.85
Loss on returned check on which the payee's endorsement was allegedly forged and on which the Reserve Bank's prior endorser could not be identified.....	92.00

Richmond, 1954

Debit adjustments in connection with errors in redemption of savings bonds by paying agents.....	\$2,230.00
Credit adjustments in connection with errors in redemption of savings bonds by paying agents.....	4,540.00

Embezzlement of \$85,000 in currency shipped by Federal Reserve bank by a post office employee.

Philadelphia, 1952

On September 17, 1951, the Federal Reserve Bank of New York, at the request of the Federal Reserve Bank of Philadelphia, shipped \$85,000 in currency to two member banks located in the third district. These shipments were not received by the addressees and the ensuing investigation by the Post Office Department revealed that the currency was embezzled by a Post Office employee.

At date of examination, \$68,004.62 had been recovered on the loss; and, as mentioned subsequently under litigation, there is a possibility of obtaining an additional \$5,000. The unrecovered portion of the shipments, \$16,995.38, is being carried in a suspense account pending determination of the ultimate loss to be charged to the reserve for registered mail losses and/or distributed among the various Federal Reserve banks under the loss sharing agreement.

Philadelphia, 1954

Cash department—difference account losses	
1953	\$1,953.00
1954 January to August.....	291.00

Philadelphia 1956

Mysterious disappearance of a deposit apparently received from the Postmaster at * * *, Pa., on Oct. 19, 1954—not reported to Reserve Bank until January, 1956.....	\$170.00
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Unusually large errors in Check Collection Department. The records were in such unsatisfactory condition that the majority of differences could not be located. The net debit differences of the Check Collection Department amount to \$32,790 of which \$22,384 was charged to profit and loss in 1952.

Boston, 1952

In the previous report of examination reference was made to the unusually large differences occurring in the Check Collection Department. The management attributed this situation primarily to the substantial increase in the volume of checks handled and the necessity for operating under a dual system during the period of conversion from the use of a block system, the use of proof machines, and the rather heavy turnover which has resulted in a large proportion of inexperienced personnel in the Department. In the latter part of 1951 when it became apparent to the manager that the Adjustment Division of the Check Collection Department did not have sufficient personnel to cope with the increasing number of differences, the division was increased on November 26, from 6 to 42 employees. Progress reports revealed the unsatisfactory condition of the records and indicated that the majority of the differences could not be located. Corrective measures were subsequently taken to see that in the future the records would be cared for and filed in such manner as to facilitate the checking of differences. The Adjustment Division currently has a staff of 25 employees. At December 31, 1952, the net debit difference of the Check Collection Department amounted to \$32,790.43, of which \$22,384.78 was charged to profit and loss and the remainder of \$10,412.65 representing net unlocated differences for the month of December 1951, was carried forward to 1952. In addition, net debit differences aggregating \$3,281.67 applicable to the 1951 period, prior to December were reported in 1952 and remained unlocated. However, only \$1,608.01 of the differences for the month of December 1951 remains unlocated at this time. The management believes that completion of the changeover to proof machines fully converted on August 6, 1952, and the continuance of the comparative staff stability now prevailing will result in increased efficiency among the departmental personnel and a more satisfactory difference experienced in the future.

The many corrective measures as instituted by the management to expedite the handling of checks and to eliminate the underlying causes creating differences is reflected in the progress noted above. However, continuing vigorous efforts must be made if a further reduction of such differences is to be accomplished.

Boston, 1953

A special investigation of a discrepancy of \$68 between the records maintained by the Public Relations Department and the Expense Department in reflecting

10 FRO - LINO

the proceeds of the sale of a brochure published by the Federal Reserve bank indicated that this was caused by inadequate bookkeeping procedures in the Public Relations Department.

Reserves for contingencies:

Reserve for losses from fire and allied risks..... \$380,000.00
 Reserve for registered mail losses..... 853,448.18
 Contingent liability on acceptances purchased for
 foreign correspondents..... \$1,990,775.19

Losses under loss sharing agreement:

Pro rata share of claim paid Federal Reserve Bank of Philadelphia account net loss of \$16,995.38 resulting from the theft of currency, totaling \$85,000, shipped by registered mail on Sept. 17, 1951..... 758.30

Boston, 1956

Advanced traveling expenses..... \$10,252.09
 Difference resulting from error in advice of charge received from Federal Reserve Bank of New York covering its shipment of unit 1A Federal Reserve notes to the Treasury Department on Mar. 16, 1956—adjusted on Mar. 21, 1956..... 10,000.00

Bankers' blanket bond	Amount	Date claim filed	Date settled
Mysterious disappearance of postal deposit: Received from the Postmaster, * * * Mass., on Mar. 29, 1955.....	\$260	July 22, 1955	July 25, 1955
Received from the Postmaster, * * * Maine, on Mar. 3, 1955.....	70	Sept. 15, 1955	Sept. 28, 1955

Mr. CHAIRMAN. Here are some more examples for the record. I believe that you will find it quite educational just to scan some of these items.

Chicago, 1952

Mysterious disappearance of coupons detached from Government obligations..... \$465.00
 Charge by Bureau of Engraving and Printing, Washington, D. C., for furnishing new Puerto Rico bonds to replace bonds inadvertently canceled by Federal Reserve bank..... 997.60
 Unadjusted exception of member bank account representing a charge of Feb. 14, 1952, covering the shipment of 2 bags of coins by insured mail which did not reach the Reserve bank..... 402.14

Chicago, 1953

Loss in a currency shipment dispatched to Reserve bank, Oct. 14, 1952, from * * * Bank, * * * Mich..... \$3,050.00
 Loss in currency shipment dispatched from the Reserve bank on December 17, 1952, to the * * * Bank at * * *, Ill..... 7,000.00
 Mysterious disappearance of Government coupons..... 465.00

Chicago, 1954

Under the loss sharing agreement, the Reserve bank absorbed a net loss resulting from damage to a currency shipment of \$7,000 in transit from the Reserve bank to the * * * Bank, * * * Ill., on or about Dec. 17, 1952..... \$775.00
 Partial recovery on the Reserve bank's share of a loss sustained in 1951 by the Federal Reserve Bank of Philadelphia..... 333.18
 Fiscal agency securities forming a part of the total accountability—not reported—adjusted during auditor's examination... 1,500,000.00
 Mysterious disappearance of * * * School District bonds shipped by registered mail to the Treasurer, * * * District, * * *, Iowa..... 5,000.00
 Unlocated differences, year 1953..... 124,918.22
 Unlocated differences January 1-May 28, 1954..... 88,522.45

Chicago, 1955

Loss resulting from faulty handling security transactions from member banks, 1954..... \$232.41
 Jan. 1-Sept. 2, 1955..... 24.26
 Loss resulting from mishandling of check received for collection... 2,300.00
 Loss of postmaster's deposit of currency, Jan. 1-Sept. 2, 1955..... 220.00
 Mysterious disappearance of photostat equipment..... 154.00
 Loss of mutilated currency..... 11.00

Richmond, 1952

Refunds due from nonmember paying agents—to adjust errors in cashing savings bonds..... \$1,916.57
 Transit Department differences—pending adjustment..... 1,746.44

11 FBO - LINO

Claims under banker's blanket bond

Shortage in assorting teller's cash disclosed by audit of Money Department on May 6, 1952.....	\$1,000.00
Shortage in assorting teller's cash.....	100.00
Shortage in assorting teller's cash.....	60.00
<i>Richmond (Charlotte branch), 1952</i>	
Shortage in pay teller's account.....	\$200.00
Shortage in shipment of unfit Federal Reserve bank notes to Treasury Department on Mar. 31, 1951.....	200.00
Shortage in coin teller's account.....	100.00
Mysterious disappearance from coin teller's account.....	24.75
Medical expense claim under blanket accident policy, employee injured while playing on bank's softball team.....	24.00
<i>Richmond, 1954</i>	

Head office	Amount	Date claim filed	Date settled
CLAIMS UNDER BANKER'S BLANKET BOND			
Mysterious disappearance of currency reported by a currency assorter.....	\$100	June 9, 1953	July 2, 1953
Do.....	100	Oct. 6, 1953	Nov. 17, 1953
Medical expense blanket accident policy—employees injured while playing on bank's softball teams:			
* * *.....	15	Sept. 17, 1953	Sept. 30, 1953
* * *.....	5	July 10, 1953	July 22, 1953
* * *.....	18	Aug. 11, 1953	Sept. 1, 1953

Richmond (Charlotte branch), 1954

Mysterious disappearance of currency from a shipment to Treasury Department.....	\$180	Aug. 21, 1953	Nov. 18, 1953
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Richmond (Charlotte branch), 1954

Loss arising from forged endorsement on check received for collection in 1950 and on which prior endorser cannot be determined.....	\$92.50
Unadjusted exception of member bank reserve account arising from Federal Reserve bank's charge of Dec. 17, 1953, for return of a Government check on which payment had been stopped. Check reportedly had been issued in error and the bank claims the check was paid on proper identification and refused to accept the charge. The Reserve bank referred this matter to the Treasurer of the United States. Amount of exception.....	100.00

Richmond, 1955

Auditors' verification of the \$2,000 impressed fund carried with the postmaster and included in miscellaneous cash items revealed that the fund was overstated by \$100 on the Reserve bank's books, as a result of various errors in charges to expenses for postage used....	\$100.40
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There were five unadjusted differences in the accounts of issuing agents, the auditors were unable to authenticate the signatures on many of the reconciliations returned by issuing agents because the Reserve bank does not maintain a complete signature file on such accounts.

Boston, 1956

Earnings reduced by transfer to reserve for registered mail losses.....	\$35,397.29
Difference account net losses.....	1,555.38

Atlanta (Head office), 1952

Shortage in shipment of fit Federal Reserve notes to Federal Reserve bank of St. Louis on May 21, 1951.....	\$100.00
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Atlanta (New Orleans Branch), 1952

Shortage in shipment of currency to * * * Bank of New Orleans, La. on October 24, 1951.....	\$100.00
Registered mail loss in connection with shipment of currency to * * * Bank. * * * Louisiana on October 26, 1951.....	65.00

Atlanta (Birmingham Branch), 1952

Auditor's count of sorted currency forming part of the vault cash revealed an overage.....	\$170.00
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Atlanta (Birmingham Branch), 1953

Pro rata share of claim paid Federal Reserve Bank of Philadelphia account net loss of \$16,995.38 resulting from the theft of currency totaling \$85,000, shipped by registered mail on Sept. 17, 1951.....	\$651.76
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Atlanta (Jacksonville Branch), 1953

Shortage discovered Oct. 25, 1953, in bundle of fit \$1 bills.....	100.00
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Atlanta, 1954

Shortage of Treasury Certificates of Indebtedness. "After the loss was discovered, an exhaustive search was made of all working areas

12 CBO - LINO

where the certificates might conceivably have been. In view of the failure to find them despite the intensive efforts that were made and the inability to trace them beyond their delivery to the vault custodian, there is a strong feeling on the part of the bank that the certificates fell or were accidentally brushed off the desk of the vault custodian into a trash basket and disposed of as wastepaper"-----101,000.00

Atlanta (New Orleans Branch), 1954

Mysterious disappearance in currency----- \$100.00
Check Collection Department differences—pending adjustment----- 1,084.72

Atlanta (New Orleans Branch), 1955

Unadjusted exception dating back to 1953 in the reconciliation of Reserve account of a member bank in the New Orleans Branch territory representing a deduction by the Reserve bank from credit for member bank's transmittal letter covering paid U. S. savings bonds... \$190.10
Transfer to reserve for registered mail losses----- 27,001.34
Net loss on sale of U. S. Government securities----- 6,279.98

Atlanta (Nashville Branch), 1955

Loss in transit to Federal Reserve bank of New York of registered mail shipment containing coupons----- \$1,338.75

Atlanta, 1956

Shortage in shipment of \$79,300 in currency received from Reserve bank by an Atlanta member bank. On the basis of the information furnished by the member bank, it appeared that the shipment had been opened by one of its employees without the presence of a witness----- \$300.00

Cleveland, 1952

Deductions from net earnings include—
(1) Delay in returning check to a member bank----- \$350.00
(2) U. S. savings bond issued in error----- 18.75
(3) Chargeoff of architects' fees in connection with proposed improvements at Cincinnati Branch----- 4,950.00
(4) Refund of 1 day's interest on loan made to member bank to offset a deficiency in reserves resulting from mishandling of a security transfer----- 191.10

Cleveland, 1953

Deductions from net earnings include—
(1) Loss resulting from a delay in purchase of securities for a member bank, year 1952----- \$13.75
(2) Refund of 1 day's interest on loan made to member bank to offset a deficiency in reserves resulting from the mishandling of a security transfer, year 1952----- 191.10

Cleveland, 1954

Reserves for contingencies:
Reserves for registered mail losses: Balance, Nov. 30, 1953... \$687,232.23
Add: Transferred from profit and loss, Dec. 9, 1953----- 39,472.44
Balance, Sept. 7, 1954----- 726,704.67
All other:
Balance, Sept. 7, 1954 (no change since last examination), composed of—
Such reserve for contingencies----- 8,102,000
Reserve for losses not covered by loss sharing agreement----- 1,000,000 9,102,000.00
Total----- 9,828,704.67

Cleveland, 1955

Loss: Unpaid missent check which endorsing bank refused to accept because of delay—period Jan. 1 to June 23, 1954----- \$354.97
Savings bonds issued in error in the year 1954----- 332.50

Cleveland, 1956

Loss: "Faulty handling of security transactions for member banks"... \$125.00
Losses on unpaid missent check which endorsing bank refused to accept because of delay----- 354.97

New York (Head office), 1952

The registered mail and messenger service policies (insurance and fidelity bonds) were revised and no longer include coverage on gold or silver while temporarily stored on any pier in the Port of New York or in the vaults of any trucking company; or on gold in transit between the United States Mint at San Francisco and the Federal Reserve Bank of San Francisco.

Reimbursement of \$1,325.55 was made to a member bank in head office zone for the amount of the increase in the premium charged on the renewal of its bankers' blanket bond. The additional premium resulted from the payment of a claim of \$26,000 in connection with the theft of a currency shipment in transit to the Reserve bank on July 20, 1948, and the amount reimbursed to the member bank was charged to the reserve for registered mail losses.

13 FBO - LINO

New York (Buffalo Branch), 1952

Subsequent to date of examination, a charge of \$500 to the reserve for registered mail losses and a recovery of \$100 from the Post Office Department effected the settlement of a loss of \$600 in coin; this loss had occurred in shipment of currency and coin to a member bank on April 7, 1952.

Due to clearing house banks account errors in exchanges held in this account pending adjustment by clearing house banks affected, \$188,220.

New York, 1952

Coin shipment of Apr. 7, 1953, to the * * * Bank, * * *, N. Y., lost in transit----- \$600.00

New York, 1953

One exception to officially executed reconciliations of accounts of member bank was not cleared----- \$200.00

New York, 1955

Disappearance of coin shipment of \$200 sent by Reserve bank to the * * * Bank of * * *, N. Y., on Sept. 28, 1954—Net deduction for that loss----- \$150.00

New York, 1956

Shortage in unit \$20 Federal Reserve notes----- \$200.00
Reserve for registered mail losses, 1955----- 54,158.95

On March 17, 1956, a special audit was made of all Treasury tax and loan accounts, as a result of information received that remittance letters in support of two entries, totaling \$44,551.88 in the accounts of the 2 Treasury tax and loan depositories, could not be found. The banks involved disclaimed any knowledge of the transactions, and the audit of the various accounts disclosed no basis for the entries in question. Accordingly, the entries and the corresponding credits to the U. S. Treasurer's account were reversed.

On March 19, 1956, a survey was conducted of the operations of the Delivery and Records Sections of the Safekeeping Department because of the number of errors reported in the handling of securities. The survey disclosed some minor exceptions, and certain recommendations were made to improve the controls.

Philadelphia, 1952

Amount of unissued savings bonds reported by the issuing agents as stolen; and claim for stock credit was forwarded to the Treasury Department on December 4, 1952. Difference short, \$4,500.

Minneapolis, 1953

Loss: Two typewriters belonging to Treasury Department.

Minneapolis, 1954

Mysterious disappearance of cash item in Reserve bank, \$96.

San Francisco, 1956

Counterfeit currency:

January 1956----- \$243
September 1955----- 695

Shortage in coin deposit not considered chargeable to depositing bank, 1956----- 63

Money lost by or stolen from an examiner while on an examination assignment----- 30

Money lost by an examiner while on an examination assignment----- 45

St. Louis, 1952

Bank of * * *, * * *, Ark.—Shortage between agent's balance and the Federal Reserve bank's balance----- \$2,000

St. Louis, 1956

Shortage in account of issuing agent----- \$5,750

RESERVES FOR CONTINGENCIES

All other:

Special reserve for contingencies----- 4,210,000

Reserve for losses in excess of blanket bond coverage----- 1,000,000

Record of losses not covered by loss sharing agreement----- 500,000

5,710,000

Now, we have possible law violations—a number of instances involving law violations.

POSSIBLE LAW VIOLATIONS

Boston, 1956

Mysterious disappearance of registered mail deposits forwarded by postmaster to the Reserve bank's Postal Deposit Unit.

New York (Buffalo Branch), 1955

New York clerk in Cash Division at Buffalo Branch admitted withholding small amounts of cash from incoming cash.

Unlawful borrowing by special assistant examiner—by incurring direct and indirect indebtedness from certain State member banks.

14 FRO - LINO

New York (Rochester Branch), 1952

Supervisor of the Return Checks and Government Paper Checks Division used his position on 2 or 3 occasions to "kite" personal checks in the amount of \$50.

Richmond, 1954

Violation by supervisor in the Transit Department in the Baltimore Branch who was discovered to have substituted an unlisted check of small amount enclosed in an incoming cash letter for a personal check of similar amount which he cashed at the bank. Further investigation disclosed similar manipulation and employee admitted to four instances.

Chicago, 1954

Two checks had been raised in the aggregate amount of \$180.

Minneapolis, 1952

Improper purchases of food were charged to cafeteria operation but converted to personal uses.

San Francisco, 1953

An employee found guilty of embezzling the sum of \$2,000.

Los Angeles, 1956

Defalcation by an employee in the amount of \$4,445.

GENEROUS SUBSIDIES TO DINING ROOM AND CAFETERIA COSTS

They make generous subsidies to the employees' cafeterias and dining rooms. The Board has authorized the banks to pay up to one-half of the costs. As previously pointed out, the total cost of all the cafeterias in 1956, according to the bank's method of computing these costs, came to \$2,549,099, and of this amount the banks paid \$1,196,814, while the cafeterias receipts took care of \$1.3 million. (See vt. I, p. 569, of the hearings.)

I do not object to a fair subsidy for restaurants and cafeterias in connection with a business. I think it is pretty well accepted practice. But I think it is very unusual for the Government to have to pay 50 percent of such expenses, and even more. Furthermore, these audit reports disclose that even the theoretical maximum of 50 percent is an understatement.

In other words, in the Federal Reserve banks, they get a \$4 steak for \$2. Over here at the Capitol, the members get a \$2 steak for \$4. There is a little difference there.

But having control of the pursestrings, they can spend any way they want to.

However, I asked Chairman Martin last August to supply more detailed breakdowns of certain of expense items shown in the Board's report for the year 1956, and by letter of October 7, 1957, Chairman Martin supplied a report showing certain details of these expense items. One of the expense items shown in the board's regular annual report for 1956 is for "printing, stationery, and supplies." Chairman Martin's supplemental report of October 7, 1957, shows that one of the charges going into the category "printing, stationery, and supplies" was \$1,208,641 for "cafeteria food." In other words, the cost of cafeteria food alone incurred in the 12 Federal Reserve banks and the branches came to slightly more than the Board has reported as the entire cost of cafeteria operations in these banks and branches. So it would appear that the cost of overhead—bank space, lights, water, all the expensive equipment and the dining room furnishings and perhaps even the personnel—are furnished free by the banks and are not counted against the 50 percent subsidy which the banks have been authorized to make to the cafeterias.

I might add that two other items of general expenses for which Chairman Martin's supplemental report gives detailed breakdowns are these—(1) "furniture and equipment purchases" and (2) "furniture and equipment rentals." The breakdowns of these items in the supplemental report show no charges of furniture and equipment for the cafeterias or dining room.

I will insert the supplemental report supplied by Chairman Martin at a later place, so that all of this report will appear together.

GENEROUS RETIREMENT SYSTEM

And the retirement system of the Federal Reserve is clear out of line with that of other Government employees. I believe in a good

15 FBO - LINO

liberal retirement system, but I don't believe they should have a better system than the other Government employees because they work for the Government.

They have a generous retirement system for officers and employees, and they make supplementary contributions to retired employees. As has been previously shown, through June 30, 1957, the banks and the Board had contributed \$117.8 million to the retirement funds of the Board and the employees, plus another \$2.2 million; while the employees have contributed \$63.6 million. (See pt. I, p. 568 hearings.) The banks have on occasion made supplemental contributions to the retirement system for supplemental death benefits and for allowances for members who retired before qualifying for Social Security benefits.

Examples:

Boston 1953

Supplementary retirement allowance for members retired before qualifying for social security (January-May), \$140,402.

Boston 1956

Retirement system contribution—supplemental death benefit, \$24,559.

St. Louis 1954

Payment to retirement system to provide supplementary allowances for members who retired before qualifying for social security benefits, \$145,595.53.

DEFICIENCIES IN RESERVES OF MEMBER BANKS

There are all kinds of irregularities about the use of bank reserves. They have never been looked into. Nobody has ever looked over their shoulder.

They assess or waive penalties for deficiencies in member bank reserves on the basis of erroneous computations, or without authority.

They accept incorrect reporting of net demand and time deposits for computing required reserves because of using only test checks.

Atlanta (Birmingham branch), 1952

The bank disclosed one instance wherein a penalty of \$241.95 had been waived without authority; however, prior to the conclusion of the audit, authorization to waive this penalty was requested from and granted by the Board of Governors.

Minneapolis (Helena branch), 1954

"It has been the practice to assess or waive penalties for deficiencies in reserves maintained by member banks on the basis of computation made by only one employee of the branch. Inasmuch as five erroneous computations had been made in the interval between examinations, we recommended that the accuracy of the computation of all deficiencies and their resultant penalties, whether assessed or waived, be rechecked by another employee."

Kansas City (Oklahoma City branch), 1956

A review of reports of net demand and time deposits and required reserves submitted by all member banks for 1 reporting period disclosed 5 instances of incorrect reporting at the Oklahoma City branch. In view of this it was suggested to the branch management that instead of making test checks as had been the practice in the past all reports should be received to be checked for correctness.

San Francisco (Portland branch), 1953

The following comment is made:

"All penalties assessed and waived since last examination were reviewed. The verification disclosed that a penalty of \$46.03 was erroneously waived for the * * * in the period ended February 4, 1953. Inasmuch as this bank's average daily deficiency in the period amounted to \$60,000, or \$51,080 in excess of 2 percent of its average daily required reserve, the board's permission to waive the penalty should have been obtained."

Atlanta (Birmingham branch), 1954

At the Birmingham branch the audit review indicated that approximately 20 percent of the member banks were reporting deposit balances incorrectly for Sundays and holidays.

One Reserve city bank was improperly carrying reserves on a country-bank basis.

Dallas (Houston branch), 1953

At the Houston branch, our review disclosed that one Reserve city bank, a small outlying institution, which opened for business on January 24, 1953, was improperly carrying reserves on a country-bank basis. This member bank had not requested permission to carry reduced reserves and the branch management

16 FBO - LINO

inadvertently overlooked the requirement that the Board's approval be obtained in such cases in accordance with the Board's letter of August 9, 1946 (S. 928). This matter was brought to the attention of the Reserve bank management, which in turn apprised the member bank of the necessity for filing a formal application for permission to carry reduced reserves.

Banks made unusual and unduly liberal adjustments in deficiencies in member bank reserves without official approval. These adjustments have been made for banks which have been constantly deficient in reserves. Examples:

Atlanta (New Orleans branch), 1954

The audit review disclosed this analysis adjustment of \$250,000 for 5 days in favor of the * * * seemed unduly liberal in light of the underlying circumstances. To remedy this situation, which was a repetition of a condition prevailing at the date of the last examination, the branch management arranged to advise the member banks concerned as to the proper method of reporting and to insure more care by the branch personnel in checking the reports. The adjustment was in the computation period ended July 22, 1953. This bank had pledged \$250,000 in Treasury bills with a State official. The bills matured July 16, 1953, but the member bank was unable to obtain their release until July 22, on which date the proceeds were credited to its reserve account. It was our view that these circumstances were not sufficient basis for granting the adjustment.

The Reserve bank management agreed that the adjustment was unduly liberal and that all unusual adjustments of this nature should have official approval and be so indicated on the record.

Atlanta (New Orleans branch), 1955

* * * [The same bank] was deficient in reserves in 17 computation periods during the year 1954; it was deficient in 19 weekly reserve computation periods during the year 1955, 8 of them being consecutive.

PENALTY PAYMENTS TO UNITED STATES TREASURY

Reserve banks pay the Treasury penalty charges with money that would go to the Treasury anyway.

Kansas City, 1954

Penalty tax paid to the United States Treasury: On May 21, 1954, the Reserve bank paid a penalty tax of \$57,000 to the Treasurer of the United States in accordance with section 16, paragraph 3, of the Federal Reserve Act. The circumstances giving rise to this payment have heretofore been fully reported by the Reserve bank to the Board of Governors and to the Treasury Department.

MEMBER BANK RESERVES AND OTHER DEFICIENCIES

Member banks have been deficient in reserves for as much as 40 percent or more of the computation periods in a year.

The audits revealed that there were numerous instances in which agents were permitted to carry stocks of unissued savings bonds in excess of their designations or requirements. Member banks' collateral security accounts frequently remained deficient for over the 10-day period permissible under current Treasury regulations.

Chicago, 1952

Three banks located in the head office zone were deficient in reserves in reserves in 40 percent or more of the computation periods for the year 1951.

Chicago, 1955

The bank examiners made the following statement with respect to stocks of unissued savings bonds carried by issuing agents:

"A review of the issuing agent's accounts maintained at the head office revealed numerous instances in which agents were permitted to carry a stock of unissued savings bonds in excess of their designations or normal requirements as measured by their sales."

Concerning the bond fiscal agency department, the examiners made this comment:

"A review of the collateral securing the accounts disclosed two deficiencies which are set forth in the schedule section of this report. As indicated therein both deficiencies were corrected during the examination, although one was permitted to continue slightly longer than the 10-day period permissible under current Treasury Department regulations."

The Comptroller of the Currency and the Federal Reserve System Are Not Audited

Now, the General Accounting Office has never audited the books of a Federal Reserve bank, Federal Reserve oBard, or the Comptroller of the Currency, Mr. Chairman.

The office of the Comptroller of the Currency has handled over \$154 billion worth of Federal Reserve notes; it has received this much from the Bureau of Printing and Engraving; it has issued a major percentage of this to the Federal Reserve banks; it has received back a large percentage of this for destruction; and it holds several billion dollars worth in custody, yet none of these operations is subject to any audit; they are not even audited by the Treasury's own internal auditors.

17 FBO - LINO

The Federal reserve system, as I have pointed out, has never had a Government audit. It has never had any audit by independent auditors from outside the system itself. There are internal audits, made by personnel of the system, and even these audits—taking them for what they are, internal audits—show on their face to be subject to serious inadequacies and limitations. The audit teams are supposed to be made up so that the employees of one bank audit another bank, but even this principle is rarely followed 100 percent. In practice the employees of a particular bank are on the team to help audit their own banks.

Boston, 1952

The examiners borrowed from the auditing department of the Federal Reserve Bank of Boston 14 employees to assist in this examination.

Boston, 1955

The examination of this bank was made with borrowed assistance from the auditing department of the Federal Reserve Bank of Boston, a total of 23 employees and a total of 97 man-days.

Cleveland, 1952

The examiners borrowed from the audit department of the Federal Reserve Bank of Cleveland 21 employees, and from the auditing department of the Federal Reserve Bank of New York, 18 employees to assist in this examination.

Cleveland, 1953

The examiners borrowed from the Federal Reserve Bank of New York 20 employees, and from the audit department of the Federal Reserve Bank of Cleveland 13 employees to assist in this examination.

Cleveland, 1955

The examiners borrowed assistance from the Federal Reserve Bank of New York's head office, 14 employees of which were used in the Cleveland head office, 6 employees in the Cincinnati Branch, 8 employees in the Pittsburgh Branch. In addition, the examiners borrowed from the audit department of the Federal Reserve Bank of Cleveland 11 employees for the examination at the head office, 4 employees for the Cincinnati Branch examination, and 2 employees for the examination of the Pittsburgh Branch.

Cleveland, 1956

The Board examiners borrowed 24 employees of the Federal Reserve Bank of New York for the examination of the Cleveland head office, the Cincinnati Branch, and the Pittsburgh Branch. In addition, the examiners borrowed from the audit department of the Federal Reserve Bank of Cleveland 12 auditors to assist on the examination of the Cincinnati Branch, and 3 auditors to assist on the examination of the Pittsburgh Branch.

The examiners stated that "all Federal Reserve notes and other cash on hand were verified by us, our procedures including a detailed piece count of quantities we considered adequate for test purposes."

The examiners borrowed five employees of the Audit Department of the Cincinnati Branch to assist in the examination of the Cincinnati Branch.

Three employees of the audit department of the Pittsburgh Branch were used as assistants in the examination of the Pittsburgh Branch.

New York, 1953

The report indicates that the examiners borrowed from the Federal Reserve Bank of Boston, 24 employees; Cleveland, 25 employees; Philadelphia, 15 employees; and Richmond, 25 employees. Additionally, personnel was borrowed from the auditing department of the Federal Reserve Bank of New York. A total of 14 employees were borrowed from the New York bank.

New York, 1955

In the examination of the Buffalo Branch of the New York bank, two employees were borrowed from Cleveland and two employees from the auditing department of the Buffalo Branch who were used to assist in the examination.

The report indicates the following borrowed assistance in the conduct of the examination of this bank and its Buffalo Branch: Borrowed from the Federal Reserve Bank of Boston, 25 employees; Cleveland, 25 employees; Philadelphia, 50 employees; Richmond, 25 employees; also used were 27 employees from the auditing department of the Federal Reserve Bank of New York.

Philadelphia, 1953

The examiners borrowed from the auditing department of the Federal Reserve Bank of Philadelphia, 15 employees to assist in the examination.

Philadelphia, 1955

The examiners borrowed from the audit division of the Federal Reserve Bank of Philadelphia, 19 employees; for a total of 199 man days to assist in the conduct of this examination.

10 FBO - LINO

Richmond, 1953

The examiners borrowed 3 employees from the Federal Reserve Bank of New York, and 14 employees from the auditing department of the Federal Reserve Bank of Richmond to assist in this examination.

Richmond, 1955

15 employees of the auditing department of the Federal Reserve Bank of Richmond were used to assist in the examination of this bank and its branches.

Richmond, 1956

In addition to assistance borrowed from the Federal Reserve Bank of New York for this examination, the examiners used 15 employees of the auditing division of the Federal Reserve Bank of Richmond for the examination of the head office.

These internal audits of the Federal Reserve banks have many limitations with respect to verification of currency, checks, gold, and securities. Frequently the banks' audits do not conform to the recommended procedures of the Conference of Auditors and the audit committees of the boards of directors of the banks themselves. The audit committees override the recommended procedures of the Conference of Auditors. Sometimes audit committees of the board of directors fail to meet even once a year. Examples:

Atlanta, 1955: Collateral and custodies

The verification of collateral and custodies is subject to the following qualifications:

- (1) The general auditor's certification was accepted covering \$15,510,000 in unfit silver certificates held under audit control;
- (2) Nonnegotiable notes held at the head office for the Commodity Credit Corp. and carried at their face value of \$171,203,947.61 were not counted or confirmed;
- (3) United States savings bonds held for individuals (these bonds are non-negotiable and nonmarketable obligations) were not counted or confirmed.

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1 XQ
MONO. SEC.

Chicago, 1952, auditing department

By the authorization of the audit committee of the board of directors it continues to be the practice to make 2 rather than the recommended 3 audits of the check department at the head office.

Chicago, 1953, auditing department

By the authorization of the audit committee of the board of directors, the practice of making 2 rather than the recommended 3 audits of the check department at the head office was continued in 1952.

Chicago, 1955, auditing department

The examiners make the following statement:

"There is a regularly constituted audit review committee of the board of directors which in the past has met annually; however, a meeting of the committee has not been held since January 1954."

Cleveland, 1953

In accordance with the practice authorized by the audit review committee of the board of directors, the audit department's analysis of reports of net deposits submitted by member banks in connection with reserve requirements, embraced only 1 reporting period for each member bank in 1952, instead of 4 as recommended by the conference of auditors. In the current year the number of these analyses had been increased to two, which will conform with the revised frequency established by the conference in 1953.

Cleveland, 1955

The examiners make this statement:

"Effective January 1, 1955, the audit review committee of the board of directors authorized the general auditor to discontinue the direct verification of pledged securities with the pledgees, except securities being held subject to the order of Federal agencies."

Dallas, 1952, auditing department

The completed 1951 audit program for the head office and branches substantially conformed to the minimum frequencies recommended by the conference of auditors. However, agents' cash at the branches continued to be audited only 3 times a year instead of the minimum of 4 audits annually. This variation arises from the fact that the branch auditors also act as the Federal Reserve agents' representatives which precludes their making a verification of such holdings as a branch audit function. Consideration is being given to designating employees other than the branch auditors to act as the Federal Reserve agents' representative at the respective branches. When the proposed change is accomplished, the branch auditors will be able to verify such holdings as part of their audit program and the present deviation will be corrected.

Minneapolis, 1952

With the authorization of the audit committee of the board of directors, it continues to be the practice to reconcile reserve, clearing, and deferred credit accounts to member and nonmember clearing banks 3 times annually rather than 11 times as recommended by the conference of auditors.

Minneapolis, 1953

In accordance with the practice adopted several years ago, reserve clearing and deferred credit accounts of member and nonmember clearing banks are reconciled 3 rather than 11 times annually as recommended by the conference of auditors. This variation from conference frequently has been authorized by the auditing committee of the directors.

Minneapolis, 1955

In accordance with a practice followed for many years and with the sanction of the audit committee of the board of directors, reserve, clearing, and deferred credit accounts of member and nonmember clearing banks are reconciled 3 times per annum rather than 11 times annually as recommended by the conference of auditors.

Minneapolis, 1956

The examiners make the following comment:

"With the approval of the audit committee of the board of directors, this department observes a minimum frequency of 3 reconciliations annually on reserve, clearing, and deferred credit accounts of member and nonmember clearing banks, instead of the minimum of 1 such verification a year as recommended by the conference of auditors. During 1955, these accounts were reconciled 4 times at the head office and 3 times at the Helena branch."

2 X Q MONO. SECTION

New York, 1956

ACCOUNTS OF MEMBER AND NONMEMBER BANKS AND OTHERS

Checks and drafts held over in the check and Government check departments amounted to \$52,284,299.96 and consisted of approximately 319,000 items; of these 7,184 items totaling \$1,696,051.52 were verified by us. The examiners did not undertake a verification of the remainder because to have done so would have unduly disrupted the work of the check department and delayed the preparation of the items.

COLLATERAL AND CUSTODIES—GOLD BULLION AND COIN

The examiners accepted from the general auditor, under whose direction an independent fiscal control is maintained, his certification covering the total holdings of gold bullion and coin. The total held \$5,871,724,940.02, or 84.57 percent, was independently verified by the examiners either at prior examinations or during the current examination.

They have bank examiners located on field staffs who also serve as fiscal reserve agents and as alternate assistant Federal Reserve agents. This situation seems most inadvisable.

Minneapolis, 1956

The examiners indicate that included in the field staff is a senior examiner, who is also assistant fiscal reserve agent, and 6 examiners, 1 of which is also an alternate assistant Federal Reserve agent.

VERIFICATION AND DESTRUCTION OF CURRENCY

Now, if there ever was a disgrace, it is Congress' permitting people to have complete control of United States currency who do not consider themselves obligated to the Government, at least—not even a Government employee. Some of these employees of Federal Reserve banks are, but they are not willing to admit it, and they do not concede it. They claim they are not.

They have charge of destroying the worn and mutilated currency. And, of all the irregularities and seemingly dishonest dealings in connection with it, you will find plenty of eye openers in these reports that even their own auditors made about the irregularities in handling the tremendous amount of money that is destroyed every year, and the loose fashion in which it is handled.

Up at Pittsburgh, a cyclone or a heavy wind hit the city while currency was being destroyed in the municipal incinerator and scattered money all over Pittsburgh, Pa. The only reason we found out about it through the newspapers and they had to redeem a lot of that currency because it wasn't burned and under certain conditions it is redeemable.

There are other cases just as bad as that throughout the United States.

In July of 1953, the Federal Reserve banks took over the destruction of unfit United States currency which had previously been handled by the Treasury Department. The principal reason given for the changeover was to save the expense of transporting the currency back to Washington for destruction—the only possible savings since the Treasury reimburses the banks for the actual costs of destruction. However, one expense not considered was the cost to the Federal Reserve banks and branches for the installation of incinerators and other equipment for destruction. These costs the Federal Reserve banks have charged off to current expenses, thereby reducing their revenues and amount of money paid into the Treasury by the Federal Reserve. And the savings to the Government, if there have been any, have been at the sacrifice of less security over United States currency.

The banks have destroyed around \$8 billion of currency since 1953—and this without Government audit.

The banks have employed inadequate controls over the destruction of United States currency. Although their own auditors recommended methods of improving procedures, the same weaknesses continued throughout the System year after year.

The following are examples of lack of security in the destruction of currency by the Federal Reserve banks.

3 XQ

MONO. SECTION

Even when there are provisions made for dual control of currency, they do not maintain it continuously.

Currency verifiers do not execute a receipt to the destructors for canceled currency turned over to them.

Appropriate records of test errors inserted in currency were not maintained.

Incinerators were not cleaned before and after destruction of canceled currency.

Cleveland (Cincinnati Branch), 1954

* * * it was observed that dual control of the canceled currency was not continuously maintained as prescribed by the rules of the Reserve bank. Specifically, 1 lot of canceled currency was delivered to the currency verification unit by 1 employee of the cash department instead of 2, and only 1 representative of the currency verification unit inventoried and receipted for the lot of currency at the time of its acceptance from the cash department.

Cleveland (Cincinnati Branch), 1955

On the basis of the audit review of the operations, it was suggested that existing procedures be supplemented in the following respects: (1) That dual control be maintained over canceled currency from the time of cancellation to the time of delivery to the currency verification and destruction unit, (2) that the verifiers execute a receipt to the destructors for the canceled currency turned over to them for verification, (3) that the unit maintain an appropriate record of test errors inserted in currency to be verified, (4) that the incinerator be cleaned and inspected before and after the destruction of canceled currency so that the ashes from the currency will not be mingled with the residue from other matter burned in the incinerator.

Cleveland (Cincinnati Branch), 1955

The following weaknesses were present:

(1) Because the currency verifiers have custody of all the canceled currency in the unit and make their own selection of \$1 bills to be piece counted, the program of inserting test errors in selected bundles cannot be accomplished for notes of this denomination, and

(2) The canceled currency is destroyed by the same employees who act as verifiers and this does not seem to conform to the intent of paragraph 10 of the Treasury Department regulation which provides that the lot shall be destroyed by 2 employees of the currency verification unit who shall be charged jointly with the responsibility of receiving the currency for destruction and destroying of it.

Banks hold unverified currency aggregating millions of dollars for several months.

They permit individuals to serve in dual capacity of verifiers and currency destruction clerks.

They maintain inadequate controls during and after incineration. Examination of the ashpits after all currency had been placed in an incinerator revealed that 2 packages of \$100 bills each had fallen through the grate. Moreover, the doors to the ashpit could be pulled back far enough to remove ashes or any unburned currency without tampering with the lock.

Dallas, 1956

At the time of the examination, unverified currency holdings in the head office aggregated over \$9 million and represented an accumulation dating back to August 1956. This backlog had existed for several months. A more prompt verification was necessary in order to avoid undue delay in advising depositors of any differences found. The currency verification unit, at the time of examination, had on hand 4 lots of canceled currency totaling \$474,000. The unit had partially verified one of these lots but had not commenced verification of the others. The following observations with particular reference to the security features of the procedures of the currency verification unit were made by the examiner:

4 X Q
MONO. SECTION

(1) The currency destruction clerk, who jointly with the teller supervised the incineration of the verified canceled currency, also works full time as a verifier. On occasion he serves as a relief for the teller and therefore has access to the records of test errors. We believe that the security of this operation is weakened by having one individual serving in the dual capacity of verifier and currency destruction clerk.

(2) It was observed that there was some relaxation in the maintenance of dual control during the transfer of the verified canceled currency from the vault to the containers used in transferring it to the incinerator.

(3) An examination of the ashpit after all currency had been placed in the incinerator revealed that two packages of \$100 bills each had fallen through the grate. Moreover, it was noted that even though the doors to the ashpit were secured by chains with locks, the doors could be pulled back far enough to remove the ashes or any unburned currency without tampering with the locks.

Banks permit canceled currency to be destroyed by the same employees who act as verifiers, contrary to Treasury regulations.

They do not verify bundles not included in percentage counts nor do they make any determination that the standard of fitness of the currency conforms to Treasury regulations.

Cleveland (Pittsburgh Branch), 1955

* * * the canceled currency is destroyed by the same employees who act as verifiers. This does not seem to conform to the intended paragraph 10 of the Treasury Department regulation which provides that the lot shall be destroyed by two employees in the currency verification unit who shall be charged jointly with the responsibility of receiving the currency for destruction and destroying it.

Cleveland (Pittsburgh Branch), 1956

* * * with particular reference to security features and it was noted that in the handling of \$1 bills the unit does not employ the practice of "fanning" the bundles of currency not included in the percentage count. Hence there is no verification of the contents of the bundles or determination of the standard of fitness of the currency conforms to that prescribed by the Treasury Department.

San Francisco, 1956

With respect to certain procedures in the currency verification unit, the following comments were made by the examiner:

(1) It was noted that in the handling of \$1 bills, the unit does not employ the practice of "fanning" the bundles of currency not included in the percentage count. Hence there is no verification of the contents of the bundles or determination that the standard of fitness of the currency conforms to that prescribed by the Treasury Department.

(2) The practice with regard to the insertions of test errors in straps of currency to be verified does not provide for maximum effectiveness in that test errors are directed only to the number of bills and do not include the mixing of denominations or issues.

Banks were not conforming to Treasury Department regulation requiring that errors to be inserted in packages of unfit currency.

Minneapolis (Kansas City Branch), 1954

Although it was provided for in the procedures set up, in practice, the bank is not conforming to Treasury Department regulation requiring that each Federal Reserve bank, from time to time, arrange for test errors to be inserted in the packages of unfit currency to be verified by employees in the currency redemption unit, in order to maintain the integrity of the verification operations and to insure that employees are actually performing the work for which they are responsible.

Minneapolis, 1955

In the currency redemption unit it was the practice for two particular vault custodians to act as the regular currency verifiers with others filling in only when the regular verifiers were absent on vacation or otherwise. The lack of planned rotation of the verifiers was called to the attention of the management. On the basis of review of the operation of the currency redemption unit the examiner suggested that existing procedures be supplemented in the following respects:

1. That dual control of the currency be maintained during all phases of the verification process.

2. That a sight examination by "fanning" be made of the \$1 silver certificates not verified by piece count.

For 2 successive years because a bank's records of cash holdings had not been posted for several months, sectional verification according to denomination or vault location could not be made by the examiners.

5 X Q MONO. SECTION

St. Louis, 1955

CASH HOLDINGS AND ACCOUNTS

The examination of coin holdings reveal that the subsidiary record controls pertaining to such holdings had not been posted since mid-1955 and therefore sectional verifications according to denomination or vault location could not be made. These records were also uncurrent at the time of the 1954 examination and this condition was brought to the attention of the Reserve bank at that time.

Minneapolis, 1954

The following weaknesses were present in the operation of the currency verification unit:

1. There is no custodial control of the currency independent of that maintained by the verifiers;
2. There is no planned rotation of verifiers;
3. Because of the circumstances mentioned in paragraphs (1) and (2), there are not adequate safeguards against the possibility of collusion between employees of the currency and coin department and employees of the currency verification unit;
4. Because the currency verifiers have custody of all the canceled currency in the unit and make their own selection of \$1 bills to be piece counted, the program of inserting test errors in selected bundles cannot be accomplished for notes of this denomination; and
5. The practice of having test errors inserted in strap of denominations other than \$1 by the currency and coin department seems inappropriate when it is considered that one of the principal functions of the currency verification unit is to verify the work of the former department.

The verification of unfit, canceled currency was being performed in a utility cage in the cash department, contrary to Treasury Department regulations.

Banks failed to mix denominations or issues in test errors.

Banks have cash holdings on hand of many millions of dollars of unverified currency representing accumulations of unworked deposits dating back several weeks.

Because of inexperienced machine operators and vacations, work of transit department had not been current for 2 months. Because millions of dollars in checks and drafts held over, examiners could not make satisfactory examination.

San Francisco (Seattle Branch), 1953

(1) The verification of the unfit, canceled currency was being performed in a utility cage in the cash department whereas the Treasury Department regulations provide as follows:

"The verification and destruction of unfit United States paper currency at each Federal Reserve bank and branch shall be a fiscal agency operation and shall be performed in a currency verification unit which shall be separate and apart from each cash operations of such Federal Reserve banks and branches."

(2) The practice with regard to the insertion of test errors in straps of currency to be verified does not provide for maximum effectiveness in that such test errors are directed only to the number of bills and do not include the mixing of denominations or issues.

San Francisco (Los Angeles Branch), 1955

CASH HOLDINGS

Cash holdings included \$11,700,000 in unverified \$1 bills representing an accumulation of unworked deposits of currency of this denomination dating back 6 weeks.

San Francisco (Portland Branch), 1955

Because of an unusually high percentage of inexperienced machine operators on the staff, and vacation absences, the work of the transit department had not been maintained on a current basis for about 2 months. Checks and drafts held over at the time of examination amounted to over \$12,000,000, and consisted of 86,700 items. In view of this large number of items the examiner could not make a satisfactory verification.

The Boston bank maintained inadequate safeguards against the possibility of collusion between employees of currency verification division and currency and coin department and employees of currency verification division, and lacked dual control of currency.

6 X Q MONO. SECTION

Boston, 1955

The examiners have the following comments with respect to the activities of this division:

"From our review of the operations, it appeared to us that the following weaknesses were present: (1) Dual control is not being maintained from the time of cancellation to the time of delivery in the currency and coin department to the currency verification division. (2) The practice of having only one individual inventory the currency at the time of its acceptances by the division precludes the maintenance of dual control. (3) After completion of the verification process, the currency comprising a particular lot is inventoried by two persons, one counts the currency by straps and bundles, and the other makes a bundle count only. Because of the limited count made by one of the parties to this final inventory before incineration, the effectiveness of the dual check is considerably reduced. (4) Because the supervisor and assistant supervisor of the verification division make the selection of the notes to be piece counted and also act as currency verifiers, the program of inserting test errors in straps of \$1 notes to be verified cannot be accomplished. (5) There is no rotation of employees. (6) Because of the circumstances mentioned in paragraph 4 and 5 there are no adequate safeguards against the possibility of collusion between employees of the currency and coin department and the employees of the currency verification division. (7) The practice of having test errors inserted in straps of denominations other than \$1 by the currency and coin department seems inappropriate when it is considered that one of the principal functions of the verification division is to verify the work of the former department."

Backlogs of many millions of unassorted currency accumulate at banks.

They insert test errors in straps of currency within view of verifiers.

They do not examine ashes remaining from currency destruction in accordance with Treasury Department regulations.

Chicago, 1953

A backlog of approximately 22,800,000 pieces of unassorted currency, of which 19,800,000 pieces were in denominations of \$1 and \$2, had accumulated since December 31, 1952, and were on hand at date of examination.

Chicago, 1955

Although the procedures in effect appeared to be in conformity with Treasury Department regulations, under present practices test errors are inserted in straps of \$1 certificates within view of the verifiers. It was recommended that provisions be made to prevent verifiers from having prior knowledge of the preparation of the test packages.

St. Louis, 1954

The examiners indicated the following weaknesses in the operations of the currency verification section:

(1) Dual control is not being maintained from the time of cancellation to the time of delivery by the money department to the verification section.

(2) During the verification process there are times when only one individual is present in the verification section.

(3) Because the supervisor and the currency verification clerk who made the selection of bills to be piece counted, also act as currency verifiers, the program of inserting test errors in bundles to be verified cannot be accomplished insofar as these individuals are concerned.

(4) There is no planned rotation of custodians or verifiers.

(5) Because of the circumstances mentioned in paragraphs 3 and 4, there are no adequate safeguards against the possibility of collusion between employees of the money department and employees of the currency verification section.

(6) Ashes are not being examined in accordance with the Treasury Department regulation.

Because of the physical layout of the incinerator room, they could not maintain absolute dual control during the destruction process of unfit currency.

They leave extraneous matter in fire box during the currency burning process.

They need to make more careful examinations of residual ashes for recognizable pieces of currency.

They assign cash department employees to currency verification units.

They have such loose protective arrangements that unauthorized personnel can gain access to contents of the incinerator during the burning process.

7 XG MONO. SECTION

Dallas, 1955

After review of the operations of the currency verification unit it was suggested that existing procedures be supplemented in the following respects:

1. That dual control be maintained;
 - (a) From the time of cancellation to the time of delivery by the cash department to the currency verification unit;
 - (b) During all phases of the verification process;
 - (c) During the destruction process. (The present absence of an absolute dual control at this stage is caused by the physical layout of the incinerator room and it is impracticable to correct it until other facilities are available.)
2. That extraneous matter be kept out of the firebox during the currency burning process.
3. That a more careful examination of the residual ashes be made to insure that no recognizable pieces of currency remain.
4. That adequate records be maintained to show that "the work of each employee engaged in sorting, counting, and strapping such currency in the cash division [is] subjected to verification regularly" (Paragraph 6 (a) of Treasury Department regulations).
5. That the practice of occasionally assigning an employee of the cash department (currency sorter) to the currency verification unit as a verifier be discontinued.

It was also observed that certain mechanical defects exist in the protective arrangement used to prevent unauthorized personnel from gaining access to the contents of the incinerator during the burning process.

They left open the grille door to main vault throughout the day, contrary to the bank's rule and in disregard of ordinary security precautions.

In the check collection department they keep no record control of checks requiring investigative action.

They permit verifiers to make their own selection of currency to be piece counted.

They have no planned rotation of verifiers.

VAULT

Minneapolis (Helena branch), 1954

It was observed that the grille door to the main vault was left open throughout the day, contrary to the bank's rule and in disregard of ordinary security precautions.

PAYROLL

In the preparation of the payroll disbursements, the personnel clerk did not verify the funds received from the paying teller, nor did the paying teller verify the excess balance returned to him. In order that responsibility for any differences might be fixed, it was recommended that each party immediately make a verification of the moneys received in his custody.

CHECK COLLECTION DEPARTMENT

Minneapolis, 1956

It was noted that the check collection department followed the practice of holding, without entry, certain checks, few in number and nominal in amount, which require investigative action in order to determine their proper disposition. It was recommended that a record control be established for these checks and greater effort be made to expedite these items.

Minneapolis (Kansas City Branch), 1954

The examiners noted the following weakness with respect to the operations of the currency redemption unit:

- (1) There is no custodial control of the currency independent of that being maintained by the verifiers.
- (2) Although the bank's procedures contemplate that the chief of the unit make an independent selection of the currency to be piece counted, in practice, the verifiers make their own selection.
- (3) There is no planned rotation of the verifiers.

A backlog of over 4 million pieces of unsorted currency was permitted to accumulate over a period of 3 months.

At banks it was the practice for only one person to inventory canceled currency as it was received into the division and one person made a count by strap and bundle, and another person, by bundle only.

8 X Q MONO. SECTION

Richmond, 1953

At the Baltimore Branch, approximately 4,120,000 pieces of unassorted currency in denominations of \$1, \$2, and \$5, representing an accumulation dating from December 4, 1952, were on hand at the examination date. The management advised that appropriate measures would be taken to reduce this backlog and place the currency assorting operation on a current basis.

Richmond, 1955

* * * in the interest of greater protection: (1) That procedures be extended to insure the maintenance and effective dual control during the entire period that the canceled currency is in the custody of the division. It was the practice for only one person to inventory the canceled currency as it was received into the division, and that in making the final inventory for incineration, 1 of 2 persons made a count by strap and bundle and the other by bundle only. (2) That test errors be inserted at least monthly in packages of unfit currency to be verified by employees in the currency verification and destruction division.

They use an incinerator with mechanical imperfections. Whole notes were found after the burning process—in the elevator, on the chain feed, and in the upper portion of the firebox. Any notes not thoroughly incinerated are disposed of by burning in a trash receptacle.

New York, 1956

A new incinerator, specifically designed for burning currency, was placed in operation on August 19, 1954, but because of mechanical imperfections that developed it was not used on a full-time basis until February 1, 1956. It was observed during the course of our examination that the mechanical defects have not yet been entirely eliminated; whole notes were found after the burning process—in the elevator, on the chain feed, and in the upper portion of the firebox. Because of these defects, an inspection is made after each incineration and any notes not thoroughly incinerated are disposed of by burning in a trash receptacle provided for the purpose.

They left combination locks on a chest in the bank vault unturned.

They do not maintain dual control over canceled currency in the currency verification and destruction unit.

They do not inspect bundles and packages of currency to insure that all currency has been canceled.

In using municipal incinerators for the burning of unfit United States currency, the banks have allowed money to escape destruction and have had to redeem partially destroyed currency.

Banks hold such exceedingly large quantities of unfit paper currency on hand that the auditors at times can make at best only percentage audits and in some cases no counts at all.

Their witnesses to the destruction of canceled currency do not maintain dual control while currency is being placed in incinerator.

Philadelphia, 1955

During our review of the operations, it was observed that witnesses to the destruction of the canceled currency had not fully exercised their responsibility of maintaining dual control while the currency was being placed in the incinerator.

Atlanta, 1954

Up to January 15, 1954, the canceled notes had been destroyed by incinerator at the city of Atlanta's incinerator after having been cut into upper and lower halves. Use of the municipal incinerator was discontinued on that date following the discovery that two half notes had passed through the incinerator without being destroyed.

* * * The following excerpt is quoted from General Auditor Adams' report to the audit committee of the board of directors:

"Unfit United States paper currency (new series) amounting to \$16,246,000 was found to be in agreement with the memorandum control maintained in the accounting department. Due to the exceedingly large volume of currency on hand, a percentage count was made of \$5 and \$10 denominations (10 and 20 percent, respectively) and a close inspection was made of \$1 and \$2 denominations. In addition to the punched currency, the unit was holding 46 heavy corrugated boxes containing half notes (uppers), with a total dollar value of \$3,079,000, the lowers having been destroyed by incineration, and 208 such boxes containing half notes (uppers and lowers), with a total dollar value of \$6,456,000. This currency was not counted but each of the boxes was opened and inspected. At the conclusion of the audit this currency including the half notes in boxes was placed under seal of the auditing department and it will remain under audit control until released for destruction."

OXQ MONO. SECTION

Atlanta, 1955

AUDITING DEPARTMENT

On October 19, 1954, a special audit was made of all collateral and custodies held by the Nashville branch. The General Auditor determined upon this audit when it was reported to him that the acting vault custodian at the branch discovered that the combination locks on a chest in the vault had been left unturned. No exceptions or irregularities were disclosed by the audit and it is presumed that the vault custodians had inadvertently failed to throw the combinations.

CURRENCY VERIFICATION AND DESTRUCTION UNIT OF THE SERVICE DEPARTMENT

On the basis of review of the operations, it was suggested that existing procedures be supplemented in the following respects:

(1) That dual control be maintained over canceled currency from the time of cancellation until the delivery thereof by the currency and coin department to the currency verification and destruction unit;

(2) That at the time of delivery of currency to the unit each bundle and package be inspected to insure that all currency has been canceled, such inspection to be performed by one employee of the cash division not charged with the cancellation function at the time of delivery to the currency verification unit and before that unit executes the receipt to the cash division.

(3) That the unit maintain such records of the currency verified but it will show that "the work of each employee engaged in sorting, counting, and stripping such currency in the cash division is subjected to verification regularly."

Atlanta, 1956

* * * of the operations disclosed that personnel replacements during the vacations of the regularly assigned currency verifiers are drawn from the staff of currency assorters of the currency and coin department. In our opinion, this practice is incompatible with Treasury Department regulations which provide that the verification and destruction of paper currency be performed in a unit "which shall be separate and apart from other cash operations" of the Reserve bank.

Atlanta (Jacksonville branch), 1954

This unit received currency in canceled (by perforation) whole note form from the currency and coin department daily. Such currency was independently verified within the unit, cut into upper and lower halves and then destroyed by incineration at the South Jacksonville municipal incinerator. However, on November 27, 1953, the upper half of a \$5 silver certificate canceled, but only partially burned, was presented at the branch for redemption. The following day an inspection by representatives of the branch was made of the premises surrounding the incinerator but no additional currency was found. To avoid a recurrence of this nature, the use of the municipal incinerator was discontinued and, effective December 8, 1953, the operations of this unit were terminated.

HANDLING OF UNITED STATES TREASURY ACCOUNTS

Let us come now to the fiscal agent's department. The fiscal agent in each Federal Reserve bank, and in the branch banks, have charge of the accounts of the United States Treasury. The fiscal agent receives and has custody of Treasury securities which have not been issued; and he is responsible for canceled or redeemed securities which are to be returned to the Treasury. Furthermore, he has the all-important responsibility for the Treasury tax and loan accounts with the private banks. He has to see that the funds which the Treasury has on deposit with the private banks—and these funds usually amount to between \$2 billion and \$6 billion—are in order, and that the private banks have on deposit sufficient securities to cover these tax and loan accounts. Here then are a few of the things that the Federal Reserve auditors themselves have commented on about the way the fiscal agents' departments are being handled.

Boston, 1952

Under the fiscal agency department schedule of unadjusted differences in the accounts of issuing agents, it is indicated that an agent has a shortage of \$2,075 in his balance. The footnote indicates that this represents unissued bonds reported by the agent as stolen.

10 X Q

MONO. SECTION

Boston, 1953

One unadjusted difference in the account of an issuing agent is shown in the schedule section of this report. The management is aware of this difference and is endeavoring to effect adjustment.

We were unable to make our review of issuing agent's accounts inasmuch as individual ledger sheets for each agent are not maintained; the Reserve bank's records consist only of punched cards used in connection with tabulating equipment.

Richmond, 1955

The examiners make this statement:

"Our verification of the securities on hand at the head office disclosed that securities retired upon denominational transactions were not being canceled until prepared for shipment to the Treasury Department. Procedures were changed during the examination to provide for cancellation of these securities at the time the transactions are completed."

Cleveland, 1955

The examiners make this statement:

"We were unable to authenticate the signatures on many of the reconciliements returned to us from issuing agents because the Reserve bank does not maintain a complete signature file on such accounts."

Chicago, 1952

Balances due from 1,811 Treasury tax and loan depositaries, of which 1,680 were located in the head office zone, aggregated \$807,743,086.97. A review of the collateral securing the accounts disclosed 9 deficiencies, 8 at the head office and 1 at the Detroit branch. * * * an uninsured bank which had been permitted, through oversight, to carry an unsecured balance ranging from \$535.40 to \$1,059.70 from March 4 to April 4, 1952, when sufficient collateral was obtained to secure this account.

Chicago, 1954

The auditors' reconciliation of the Treasury tax and loan accounts indicated that numerous issuing agents are crediting the proceeds of sale of savings bonds directly to these accounts. This practice is contrary to the applicable provisions of the Treasury Department Circular No. 657 that "each banking institution qualified as an issuing agent will * * * open and maintain * * * a separate deposit account * * * to be known as the series E bond account. It was also observed that a number of depositaries for Federal taxes are not complying with the instruction in Treasury Department Circular No. 848 that "depositaries shall forward daily * * * the depository receipt * * * together with payment * * * covering the aggregate amount of all Federal tax deposits received during that day." A list of these issuing agents and depositaries was furnished the Reserve bank management.

Chicago, Detroit Branch, 1954

Balances due from 258 Treasury tax and loan depositaries aggregate \$164,701,728.05, and this total was confirmed with the Treasury Department. The balances were reconciled with all depositaries except the * * *, Mich., from which we have been unable to obtain a balanced reconciliation. Recent news releases state that the cashier of this bank has been charged with embezzlement of bank funds and that the irregularities involve the Treasury tax and loan account.

Atlanta (New Orleans Branch), 1954

Deficiencies in collateral held to secure Treasury tax and loan accounts

Name and location of bank	Deposit balances	Deficiency		
		Amount	Originated	Eliminated
* * * Bank	\$339,055.32	\$339,055.32	Feb. 3, 1954	Feb. 23, 1954

Atlanta, 1954

This difference was disclosed when the agent, in responding to our request for verification of his holdings, reported a bond as being either lost or stolen. The Reserve bank is endeavoring to obtain additional information from the agent.

The handling of the Treasury tax and loan accounts at that branch gave evidence of lack of proper attention.

11 XQ

MONO. SECTION

Atlanta (Nashville Branch), 1954

Accepted the general auditor's certification as to the amount of such notes in lieu of an independent verification.

Atlanta (New Orleans Branch), 1954

* * * A review of the collateral securing the accounts disclosed one deficiency which is set forth in the schedule section of this report. This deficiency came about when the depository bank made a substitution of the securities pledged as collateral and held in custody of its correspondent bank. It was determined that the substituted securities were ineligible as collateral, but because of the failure of the branch to operate properly to follow up to secure their replacement by acceptable collateral, the Treasury tax and loan balance of \$349,055.32 remained unsecured (except to the extent of \$10,000 deposit insurance) from February 4 to 23, 1954, or until after the inquiry was made in the course of our examination.

An adjusted difference of \$1,000 in the account of an issuing agent is shown in this report.

Dallas (San Antonio Branch), 1954

The accountability of the branch to the Treasury Department for unissued Government securities was carried on the records of the fiscal agency department in the amount of \$352,245,450 and on the control and general ledger at \$302,295,450. The difference in the records was caused by an error made on April 5, 1954, by which a \$50 million transaction was reported as \$50,000. The branch management has instituted procedures to prevent errors of this nature from continuing undetected over an extended period.

Banks permit collateral securing Treasury tax and loan accounts to remain deficient for a period of 10 days in accordance with the time limit prescribed by Treasury regulations. However, the examiners' review disclosed numerous instances where these deficiencies existed for periods in excess of the 10 days permissible under Treasury regulations. Examples:

Dallas (El Paso Branch), 1953

A deficiency in collateral securing the accounts in the fiscal agency department in the El Paso branch was not corrected until 17 days after the conclusion of the examination.

Minneapolis, 1956

FISCAL AGENCY DEPARTMENT—DEFICIENCIES IN COLLATERAL HELD TO SECURE TREASURY TAX AND LOAN ACCOUNTS

The examiners indicate that the * * * Bank had a deficiency in collateral in the amount of \$9,443.24 originating on February 29, 1956. This is a period of 12 days.

Richmond (Baltimore Branch), 1955

FISCAL AGENCY DEPARTMENT

The examiners make the following comment:

"A review of the collateral securing the accounts disclosed two deficiencies. In view of the length of time—17 and 28 days, respectively—these deficiencies were permitted to remain unadjusted, it was recommended to the management that closer supervision be given to the review of collateral securing the Treasury tax and loan accounts.

Richmond, 1955

With respect to the Treasury tax and loan depository district, the examiners make this statement:

"A review of the collateral securing the accounts disclosed six deficiencies, the details of which are shown in the schedule section of this report. As indicated therein, all were corrected during the examination, although 1 deficiency at the head office, 2 at the Baltimore office, and 1 at the Charlotte Branch remained unadjusted for periods in excess of the 10 days permissible under current Treasury Department regulations."

San Francisco, 1952

12 XQ MONO. SECTION

FISCAL AGENCY DEPARTMENT

The schedule indicates that the * * * had deficiencies in collateral held to secure Treasury tax and loan accounts from April 15, 1952, to May 22, 1952 (37 days).

A deficiency in collateral securing accounts in the Baltimore branch zone for each of 2 years was "inadvertently" permitted to continue 14 days. Examples:

Richmond (Baltimore Branch), 1953

In commenting upon the collateral with respect to the Treasury tax and loan depositaries, the examiners make this comment:

"A review of the collateral securing the accounts disclosed 2 deficiencies, 1 each at the head office and the Baltimore branch. These temporary deficiencies are shown in the schedule section of this report. As indicated therein, the deficiency in the head office zone was corrected within the 10-day period permissible under current Treasury Department regulation, but the one in the Baltimore Branch zone was inadvertently permitted to continue for 14 days before correction was effected."

Richmond (Baltimore Branch), 1954

The deficiencies in collateral securing the accounts were the same conditions as in 1953, with one in the Baltimore branch zone inadvertently permitted to continue 14 days before correction was effected.

It was discovered in a test review that securities held for the account of a member bank were released on the authorization of one official signature, although member banks have instructed that the release be made only on authorizations signed by two officers.

An over-the-counter delivery of \$2 million in United States Treasury bonds was made to an officer of a local member bank against his authorized signature. Normal written request for the release of these securities was not obtained as required by the procedures of the Reserve bank.

Cleveland (Pittsburgh branch), 1955

RELEASE OF SECURITIES FROM CUSTODY

In a test review of the authorizations on which the branch acted in making releases from custody, it was noted that on one occasion the securities held for the account of a member bank were released on the authorization of one official signature although the member bank had instructed that the release be made only on authorizations signed by two of its officers. On another occasion, an over-the-counter delivery of \$2 million in United States Treasury bonds was made to an officer of a local member bank against his authorized signature. Formal written request for the release of these securities was not obtained as required by the procedures of the Reserve bank.

For several years a Federal Reserve branch held in their vaults member banks securities other than United States Government obligations, even though the examiners in three successive reports considered that the facilities were already taxed beyond their limits. Examples:

Dallas (San Antonio), 1952

As mentioned in our last two reports of examination, the management was requested to review the circumstances under which securities other than United States Government obligations were being held by the San Antonio Branch for four local member banks, particularly since the vault facilities for the bank were taxed beyond proper limits. Since last examination, two of the member banks have withdrawn their securities and the other two have assured the Reserve bank management of their intention to withdraw their holdings in the near future, when additional vault facilities now under construction in their respective institutions become available.

They make errors in overstating and understating accountability for unissued United States securities on consignment with issuing agents. They make errors in reporting tax and loan collateral accounts held by commercial banks and have numerous discrepancies in the records pertaining to this collateral.

Atlanta (Birmingham branch), 1952

Error in reporting Treasury tax and loan collateral held by commercial banks—adjusted at our examination, \$100,000.

13 XQ

MONO. SECTION

Atlanta (Jacksonville Branch), 1954

Overstatement of collateral for Treasury tax and loan accounts, \$1,170,000. There were numerous discrepancies in the records pertaining to collateral for Treasury tax and loan accounts. It was also observed that Treasury tax and loan depositaries were tardy in submitting their monthly statements to the branch and that the department was unduly slow in reconciling the statements received. It was recommended to the management that closer supervision be given to the operations of this department.

Richmond, 1954

COLLATERAL AND CUSTODIES—RECONCILIATION*

Deduct (head office):

Overstatement of accountability for unissued U. S. Government securities on consignment with issuing agents:	
United States savings bonds charged to issuing agents in Washington D. C., prior to delivery to Treasury Department.	\$1, 823, 000
Duplication in reporting.....	826, 400
Total.....	2, 649, 400

BANK EXAMINATIONS

The Federal Reserve banks have set certain policies with respect to member-bank examinations. However, they make frequent exceptions to these policies throughout the Federal Reserve System.

As an example, at the San Francisco Bank it was the policy to examine 4 of the 5 holding company affiliates within the district biennially, and the fifth, Transamerica Corp., on a triennial basis. However, the bank failed to make examinations of this holding company for 6 years. They make frequent exceptions to the policy of examining banks once a year and to their policy of making examinations jointly with State examiners.

They do not always examine branches simultaneously with head offices, nor do they examine the commercial departments of banks concurrently with trust departments.

On many occasions they defer examinations when mergers are pending, when banks are making alterations on the premises, and when examining personnel is not available, and fail to examine new banks.

San Francisco, 1952

While it is the policy of the Reserve bank to examine Transamerica Corp. on a triennial basis, the examination in 1952 was the first which had been made of this organization since 1946.

San Francisco, 1954

Seven new banks which opened for business during 1953 were not examined in that year. In the case of one large California bank organization, it is the practice to assign members of the Reserve bank staff to the more important branches and to review the findings of the State examiners as to the other offices.

San Francisco, 1955

Four new banks which opened for business during the year 1954 were not examined in that year. One bank considered to be in an unsatisfactory condition was examined twice. Because of an increase in the number of special investigations required in 1955, it was expected that five banks and the trust department of one of them would not be examined during the current year.

San Francisco, 1956

One bank considered to be in the problem category was examined twice.

The Reserve bank made 10 independent examinations in Nevada, Oregon, Utah, and Washington during 1955 and 12 to the date of examination in 1956 as a result of the State authorities' inability to coordinate their schedules with that of the Reserve bank.

14 XQ

MONO. SECTION

San Francisco, 1952

Four of the five holding company affiliates in the district were examined during the year 1951, being the policy of the Reserve bank to examine these four affiliates biannually. The remaining affiliate, Transamerica Corp., was under examination at the time of our examination of the Reserve bank. While it is the policy of the Reserve bank to examine Transamerica Corp. on a triannual basis, this is the first examination which has been made of this organization since 1946.

San Francisco, 1954

Because of a shortage of experienced examining personnel, the * * *, San Francisco, which was examined as of December 16, 1952, was not examined until the early months of 1954. In addition, seven new banks which opened for business during 1953 were not examined in that year.

Branches are not always entered simultaneously with head offices. The Reserve bank is represented at the examination of all branches, except in the case of one large California branch banking organization. In that examination it is the practice to assign members of the Reserve bank's staff to the more important branches and to review the findings of the State examiners as to the other offices.

There are five holding company affiliates in the district, and it has been the custom to examine the largest of these, Transamerica Corp., triennially, and the remaining four biennially. Transamerica Corp. was last examined in 1952, and three of the other holding company affiliates were examined in 1953; the remaining one, though not examined during the biennial year 1953, was examined in 1954, as of December 31, 1953.

San Francisco, 1955

Four new banks which opened for business during 1954 were not examined in that year; with these exceptions, all State member banks were examined in 1954, and one bank considered to be in an unsatisfactory condition was examined twice. Because of an increase in the number of special investigations required in 1955 and the Reserve bank's inability to maintain its field examining staff at the desired level, it is probable that five banks; and the trust department of one of them, will not be examined during the current year.

San Francisco, 1956

Because of the continuing shortage of examining personnel and an increase in the number of special investigations, the department was unable to fulfill its 1955 examination schedule to the extent that five banks (including the trust department of one of them) were not examined. All of these banks were examined during the early part of 1956. One bank considered to be in the problem category was examined twice.

In Nevada, Oregon, Utah, and Washington, it is the general practice to make examinations jointly with the respective State supervisory authorities. However, the Reserve bank made 10 independent examinations in these States during 1955 and 12 thus far in 1956 as a result of the State authorities' inability to coordinate their schedules with that of the Reserve bank. There are no State member banks in the portion of Arizona located in the 12th Federal Reserve District.

Usually, examinations of commercial and trust departments are not made concurrently. When physically possible, head offices and branches are examined simultaneously. The most notable exceptions to this policy are the * * *, and the * * *, which have 97 and 53 branches, respectively; in these cases, the branches are all examined during the course of the examination of the head office but at varying times.

15 XQ

MONO. SECTION

Boston, 1952

Five banks and trust department of one large bank were not examined in 1951. The inability to complete the 1951 schedule in accordance with the established policy of examining all State member banks, including the trust departments of those exercising fiduciary powers, at least once each calendar year, was attributed to the necessity for making 2 membership examinations which required practically all of the bank examination department's manpower for approximately 5 weeks.

Boston, 1955

The examination of 1 bank, although dated as of December 31, 1954, was not commenced until the opening of business on January 3, 1955. Examinations are customarily conducted jointly with the respective State supervisory authorities and all States of the district with the exception of New Hampshire where the one member bank of the State was examined independently. In 1954 because of a shortage of examining personnel in the State banking department, the Reserve bank made independent examinations of 2 member banks in Massachusetts. In both instances the Reserve bank's examination was of limited scope, embracing an appraisal of assets and a credit examination of the commercial department and all phases of the usual examination of the trust department except proof of records and verification of assets. Wherever feasible trust departments are examined concurrently with commercial departments. This general rule cannot be applied, however, to certain large trust departments in Connecticut and Rhode Island. It is the practice also to make simultaneous examinations of the main office and branches of branch-bank organizations, an exception being made in the case of one bank whose branches are too numerous to be entered simultaneously. In this instance several branches are entered on dates shortly following the start of the main office examination.

New York, 1952

Three State banks were not examined in 1951. Early in 1952, the New Jersey State Advisory Authority advised the Reserve bank that it would be unable to examine eight State member banks during the year and therefore the Reserve bank made independent examinations.

Philadelphia, 1952

Three banks were not examined in 1951 because of shortage of State banking department personnel. In 1952, 4 or 5 small to medium-size banks in central Pennsylvania and one large trust company in Philadelphia area were not made. The latter case resulted because of a major renovating program underway in that institution.

New York, 1952

In the year 1951, there were three exceptions to the established policy of examining all State member banks, including the trust department of those exercising fiduciary powers, at least once each calendar year. These banks are located in New Jersey and the exceptions occurred because the State authority was unable to examine the banks during the year; however, joint examinations of all three banks were made early in 1952.

Joint examinations of commercial departments are usually made by the Reserve bank and the representative State supervisory authorities in all States in the district. However, early in 1952, the New Jersey authority advised that it probably would be unable to examine eight State member banks during the year; and the Reserve bank, with the concurrence of the State authority, made independent examinations of these banks. These were the only exceptions to the established policy of conducting joint examinations.

Philadelphia, 1952

In the year 1951, there were three exceptions to the established policy of examining all State member banks, including the trust departments of those exercising fiduciary powers, at least once each calendar year. The three banks, which were examined early in 1952, are located in Pennsylvania and were not examined in 1951 because of a shortage of State banking department examining personnel.

For a similar reason as well as a shortage of Reserve bank examiners early in the current year, examinations will not be made in 1952 of 4 or 5 small to medium-sized banks in central Pennsylvania and one large trust company in the Philadelphia area. In the latter case, the examination will be deferred until after March 1, 1953, owing to a major renovation program presently underway in that institution.

Philadelphia, 1954

One large institution in Philadelphia was not examined in 1953.

10 XQ MONO. SECTION

Philadelphia, 1955

Two banks were not examined in 1954. In one instance, it was agreed to defer the examination because a merger of a State bank with a nonmember bank was pending. Two of the larger banks, one in Pennsylvania and one in Delaware, were not examined during 1955 because "the Reserve bank was unable to make necessary arrangements with the State authorities."

Philadelphia, 1956

A large bank of Philadelphia and a commercial department of a Wilmington bank were not examined because the State bank department did not have the available manpower and independent examinations by the Reserve bank "were impractical because of the size of the institution."

Cleveland, 1952

"A serious illness of one of the Reserve bank's senior examiners and other extenuating circumstances will probably necessitate the postponement of the 1952 examination of 6 to 10 of the smaller banks until early 1953." Two State member banks were examined twice during 1951 because of their unsatisfactory condition. The Reserve bank considered it advisable to forgo the examination of two banks upon being informed of a merger and an audit of public accountants in process. A joint examination of two banks had been scheduled on two occasions but were deferred at the request of the State banking department.

Philadelphia, 1954

Because of a shortage of examining personnel in both the Reserve bank and the Pennsylvania State Banking Department, one large institution in Philadelphia was not examined in 1953, but was examined as of March 29, 1954.

Philadelphia, 1955

Two banks were not examined in 1954. In one instance it was agreed to defer the examination because a merger of a State member bank with a nonmember bank was pending. In another case the omission was attributed to the shortage of examining personnel in both the Reserve bank and the Pennsylvania State Banking Department. Two of the larger banks, 1 in Pennsylvania and 1 in Delaware, were not to be examined during 1955 because "the Reserve bank was unable to make necessary arrangements with the State authorities. Examinations of these banks, neither of which is regarded as a problem bank, will be made early in 1956."

Philadelphia, 1956

The * * * Bank of Philadelphia and the commercial department of the * * * in Wilmington were not examined in 1955. The State bank departments were unable, because of unavailable manpower, to join with the Reserve bank in examinations, and independent examinations by the Reserve bank "were impracticable because of the size of the institutions."

Cleveland, 1952

In the year 1951 there were four exceptions to the bank examiners' policy. Two of these banks had been scheduled for examination late in the year, but upon being informed of a merger and an audit by public accountants was in process, the Reserve bank considered it advisable to forego the examination. An examination was made in April 1952 after the merger. A joint examination of the other 2 banks was scheduled on 2 occasions but were deferred at the request of the State banking department. Two State member banks were examined twice during 1951 because of their unsatisfactory condition. "A serious illness of one of the Reserve bank's senior examiners and other extenuating circumstances will probably necessitate the postponement of the 1952 examination of 6 to 10 of the smaller banks until early 1953."

Cleveland, 1955

Because of continuing shortage of examining personnel, the bank examination department was unable to examine 19 banks and 22 branches of the Reserve city banks. Three banks considered to be in the problem category were examined twice in 1954.

Cleveland, 1956

Continuing shortage of examining personnel made it impossible to examine 11 banks, including 3 trust departments in 1955. Instead of simultaneous examination of the main office with branches, one bank "will usually have been entered within a week following the commencement of the examination of the head office."

17 XQ

MONO. SECTION

Cleveland, 1955

Because of the continuing shortage of examining personnel, the bank examination department was unable to fulfill the 1954 examination schedule. In that year, 19 banks and 22 branches of the Reserve city banks (the Cleveland Trust Co.) were not examined. Three banks considered to be in the problem category were examined twice in 1954, and two special credit examinations were conducted in each of the years 1954 and 1955. Branches entered simultaneously with respective main offices except in the case of the * * * whose branches are too numerous to permit simultaneous coverage by available examining personnel.

Cleveland, 1956

Because of the continuing shortage of examining personnel, the bank examination department was unable to fulfill its 1955 examination schedule to the extent that 11 banks, including 3 trust departments were not examined.

It was also anticipated that four State member banks would not be examined by the Reserve bank during 1956.

It was expected that instead of simultaneous examination of the * * * with the main office, all branches of this bank "will usually have been entered within a week following the commencement of the examination of the head office." In the examination of the member banks in Cleveland, as well as in other districts, the examiner made the following statement:

"Officially executed reconcilements were received from these banks and all reconciling items included thereon were cleared to our satisfaction, or were in process of adjustment at the close of the examination."

The auditing reports do not describe what was meant by the term "officially executed reconcilements," therefore there is no way to determine whether or not such reconcilements constitute a good auditing procedure in verifying the balances.

Richmond, 1952

In 1951, however, lack of available manpower necessitated the examination of the branches of a North Carolina bank in 3 of the 5 cities outside of the head office city, after the opening of the head office examination and the examination of the commercial and trust departments of one Richmond bank on different dates.

Richmond, 1954

The size of one large branch banking organization in North Carolina, however, makes it infeasible to examine all offices simultaneously.

Richmond, 1956

The report indicates that 5 State member banks, 3 of which exercise fiduciary powers, are located in the District of Columbia and are therefore under the supervision of the Comptroller of the Currency. The * * * was not examined in 1955. Examination of this bank had been scheduled for December but was canceled when it was learned that the institution was in the process of merging with the * * *.

Atlanta, 1953

Since there are very few qualified trust examiners in the State banking departments of this district, examinations of trust departments are usually conducted by the Reserve bank with little assistance from State authorities.

18 XQ

MONO. SECTION

Atlanta, 1954

It is also the policy of the department to conduct periodic examinations of the three holding company affiliates which hold general permits to vote the stock of their subsidiary member banks, such examinations being scheduled on a rotation basis so that each affiliate is examined once every 3 years. One of these affiliates was examined during 1953.

Examinations are conducted jointly with the respective State supervisory authorities in Florida, Louisiana, and Mississippi; but in accordance with the expressed preference of the banking authorities in Alabama and Georgia, independent examinations are usually conducted in those States, only one large bank in Georgia being examined jointly. Joint examinations were formerly conducted in Tennessee, but at recent examinations the lack of available personnel has made it difficult for the State authorities to participate; consequently, independent examinations will usually be conducted in this State in the future, except in the case of one large bank which will continue to be examined jointly.

Chicago, 1952

Permission to forgo examination of one bank in 1951, for which adequate manpower could not be made available at the time, was granted by the Board of Governors on December 6, 1951.

Chicago, 1955

All branches of State member banks except the one branch of the * * * were examined simultaneously with their head offices in 1954.

Chicago, 1956

The * * * of Chicago was not expected to be examined in 1956 because of the fact the State authorities could not enter into an arrangement for a joint examination because of manpower limitations and the fact that the bank is too large for the Reserve bank to undertake an independent examination.

St. Louis, 1953

Nine banks were not examined in 1952, and again it was expected that 30 to 40 would not be examined in 1953. The management of the Federal Reserve bank stated that the lack of numerical strength of the field staff, coupled with the extra man-days required in repeat examinations of difficult and problem banks, were the principal reasons for the failure to complete the schedule.

St. Louis, 1954

Because of a shortage of examining personnel and the necessity for making 2 examinations of 3 difficult or problem banks, 32 banks were not examined during 1953. It was expected that one bank would not be examined during 1954, due to the fact that the bank was reported to be undergoing a remodeling of its banking quarters and the Reserve bank considers it inadvisable to make an examination while the work is in process.

St. Louis, 1955

For the same reason of adverse physical condition imposed by a remodeling project then in process in another bank, it was expected that examination of this bank would be omitted in 1955. In 1954 one member bank considered in unsatisfactory condition was examined twice.

St. Louis, 1956

There were 8 holding company affiliates in the district, only 2 of which hold voting permits. One of the latter was examined in 1955, and one was investigated. Of the remaining 6 holding company affiliates, 1 is a State member bank and is examined in usual course; the other 5 were examined or investigated in 1955 simultaneously with the annual examinations of the affiliated banks.

19 XQ

MONO SECTION

Minneapolis, 1952

Alternate independent examinations are made by the Reserve bank and by the State departments in Minnesota and North Dakota. The State authorities accept a Federal Reserve examination in lieu of 1 examination by the State department involved, thus satisfying the statutory requirements of 2 examinations annually in the above-mentioned States. In the other States of the district, it is the general practice to make examinations jointly with the respective State banking departments. However, 13 independent examinations were made in these States by the Reserve bank in 1951. In 6 instances, the deviation from the usual practice occurred because the State department was understaffed; in the case of 3 banks, it was deemed advisable that 2 examinations be made within the year, the State department and the Reserve bank each making separate examinations; in 3 other cases the same plan was followed at the specific requests of the banks concerned; in the remaining instance, the Reserve bank made an independent examination as an accommodation to the State supervisory authority.

Kansas City, 1952

Nine banks were not examined in 1951. The management stated that lack of manpower was the principal reason for failure to comply with the schedule. Three examinations of one small member bank were made during the year because of the bank's unsatisfactory condition. These examinations required more time than would have been necessary to the average bank.

Kansas City, 1955

Because of a tight manpower situation in the bank examination department, 7 State member banks, 2 in Kansas, and 5 in Missouri, were not examined in 1954. All of these banks were examined during January and February of this year.

In 1954, 3 examinations of 1 problem bank in Colorado were made jointly with the State authority.

Alternate independent examinations are made by the Reserve bank and by the State authorities in Kansas, Nebraska, and Oklahoma. In each of these States, the law requires two examinations by the State banking department during a calendar year. The State departments—Nebraska and Oklahoma—have interpreted the statutes to permit acceptance of an examination made by the Reserve bank in lieu of one examination by the respective State banking authorities, and the statute in Kansas has been amended to specifically authorize acceptance of an examination by the Reserve bank. Colorado, New Mexico, and Wyoming statutes require 2 examinations each year by the respective State authorities; Missouri law required 1 such examination yearly. In each of these four States, the Reserve bank's examinations are usually made jointly with the State banking departments, and there were no exceptions to this practice in 1954.

FOREIGN OPERATIONS

The Federal Reserve Bank of New York has what is called a "foreign department." This department handles all manner of transactions for foreign banks and international banks. It makes tremendous loans to these banks, on gold and on securities of various kinds. It accepts and holds collateral and custodies for these foreign accounts. And when foreign accounts wish to purchase bankers' acceptances of

20 XQ

MONO. SECTION

private banks in the United States, the Federal Reserve Bank of New York underwrites and guarantees these bankers' acceptances, although none of the Federal Reserve banks underwrites or guarantees bankers' acceptances for domestic purchasers.

Among other things, the Federal Reserve Bank of New York has an agreement by which it is committed to lend the Bank for International Settlements up to \$25 million on gold. Prior to October 31, 1955, there was not even a charge made for this commitment, although since that date there has been a charge of one-fourth percent per annum for that part of the commitment not sold in any calendar month. None of these operations is subject to any independent, outside audit. All 12 of the Federal Reserve banks participate in this department, in the sense that they participate in the profits the department makes, if any, and they participate in any losses or liabilities it might incur.

New York, 1952

FOREIGN LOANS ON GOLD

Foreign depositors' borrowings on gold amounted to \$45 million at examination date. This indebtedness represented five advances outstanding to Banque Centrale de la Republique de Turquie as follows:

Date of advance	Maturity	Amount
Aug. 13, 1952	Feb. 13, 1953	\$21,500,000
Sept. 15, 1952	Dec. 15, 1952	500,000
Do.	do.	8,000,000
Sept. 19, 1952	Dec. 19, 1952	8,000,000
Sept. 29, 1952	Dec. 29, 1952	7,000,000
Total		45,000,000

Advances aggregating \$11 million to Banque Centrale de la Republique de Turquie were the only foreign loans on gold made by the Reserve bank during 1951. These borrowings were repaid during the year and for the second consecutive time there were no foreign loans on gold outstanding at year end.

* * * The bank's policy with respect to loans on gold remains unchanged, contemplating the making of "loans only for a short-term period for the purpose of relieving balance of payments' disequilibria of a seasonal or other temporary character."

DUE TO FOREIGN DEPOSITORS

Dollar deposits, totaling \$686,031,916.15, decreased by approximately \$80 million in the interval between examinations. Dollar balances amounting to \$366,671.80, maintained by the Reserve bank as fiscal agent of the United States, are included in the foregoing total but are not participated among the other Federal Reserve banks.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, INTERNATIONAL MONETARY FUND, AND SECRETARY OF THE TREASURY—SPECIAL ACCOUNT

The accounts maintained by the foreign department of the Federal Reserve Bank of New York for the International Bank for Reconstruction and Development and for the International Monetary Fund at date of examination reflected total deposit balances of \$40,675,416.79, earmarked gold valued at \$1,027,652,-835.51, and securities carried at \$2,324,658,930.15, including \$1,263 million in special non-interest-bearing notes of the United States-International Monetary Fund series. The aggregate showed an increase of about \$166 million since date of last examination.

New York, 1952

The activities of the foreign department also included operations by the Federal Reserve Bank of New York as fiscal agent of the United States in the purchase and sale of gold and in foreign exchange and allied transactions. The records of the Reserve bank indicated a total deposit balance of \$26,337,397.07 and earmarked gold valued at \$43,400,676.44 held for the special account of the Secretary of the Treasury.

21 XQ

MONO. SECTION

CUSTODIES

Custodies held for foreign account totaled \$6,161,785,801.45 representing the dollar value of the following holdings: \$2,334,992,482.57 in securities, acceptances, and commercial paper; \$3,826,765,133.25 in earmarked gold; and \$28,185.63 in earmarked silver. These custodies showed a net decrease of \$351 million in the interim between examinations, the principal amount of the change resulting from a decline of \$1,078 million in holdings of earmarked gold and an increase of \$741 million in holdings of United States Government securities. During the same period, holdings for domestic account increased by about \$17 million to a total of \$141,647,462.54 at examination date, this amount representing the dollar value of earmarked gold transferred from foreign accounts to other designations because of the pledge of such gold as collateral to loans made by domestic banks for foreign account.

VERIFICATION

As has been done in the past few years, a list of the foreign banks and governments and other financial agencies abroad for which the Reserve bank maintained dollar balances or held custodies was referred to the bank's vice president and general counsel and to the manager of the foreign department. They were requested to advise whether there were legal restrictions on communications with any of such foreign correspondents, or whether there were any other circumstances known to them which would make it inadvisable to seek verification by correspondence with the foreign parties at interest.

GENERAL

The rise in the Reserve bank's holdings for foreign account, which has been in evidence during the past several years, reached its peak in March 1951. Since that time a steady decline has been noted; at date of examination, the total of such holdings amounted to \$6.8 billion, a net decrease of \$432 million, or approximately 6 percent in the interval between examinations. During the same period, assets held for the International Bank and the International Monetary Fund rose slightly, bringing the combined assets held for foreign and international account to \$10.2 billion at date of current examination.

The number of foreign banks and governments and other financial agencies abroad for which the Federal Reserve Bank of New York was carrying deposit accounts or holding custodies totaled 78, a net increase of 2 in the interval between examination.

ACCOUNTS OF FOREIGN OPERATIONS DIVISION—PARTICIPATION OF FEDERAL RESERVE BANKS

Currently all Federal Reserve banks are participating in all foreign accounts and custodies except those carried by the Federal Reserve Bank of New York in its capacity as fiscal agent of the United States. Balances aggregating \$366,671.80 carried for 5 fiscal agency accounts are included in the participation of the Federal Reserve Bank of New York in "Due to foreign deposits" shown above.

New York, 1952

At date of examination, the principal foreign accounts participated and the Federal Reserve Bank of New York's participations therein were as follows:

	System	Federal Reserve Bank of New York
ASSETS		
Foreign loans on gold.....	\$45,000,000.00	\$13,500,000.00
Due from foreign banks.....	23,026.48	6,954.00
LIABILITIES		
Due to foreign depositors.....	686,031,916.15	219,767,916.15
CONTINGENT LIABILITIES		
On acceptances purchased for foreign correspondents.....	13,910,309.17	4,017,906.35

New York, 1954

CONTINGENT LIABILITY ON ACCEPTANCES PURCHASED FOR FOREIGN CORRESPONDENTS

Included in the custody holdings was a total of \$9,058,422.19 in bankers' acceptances which the Reserve bank has purchased for foreign accounts with its guaranty of payment at maturity, such guaranty earning a commission of one-eighth of 1 percent per annum. The foregoing total reflected a decrease of about \$20 million from the amount held at the time of last examination, this change being attributed to a scarcity of bankers' acceptances available for purchase.

22 XQ MONO. SECTION

New York, 1956

FOREIGN LOANS ON GOLD

The loan agreement with the Bank for International Settlements is the renewal of an arrangement which has been renewed or extended several times in the past; this latter renewal became effective October 31, 1955, and runs for a period of 12 months. The agreement provides for a loan or loans on gold up to an aggregate principal sum of \$25 million at any one time outstanding, with a maximum credit available in any calendar month not to exceed the equivalent of \$25 million for a total of 7 days. This latest renewal includes, for the first time, a commitment charge of one-fourth of 1 percent per annum on that part of the loan facility not used in any calendar month.

During 1955, loans on gold were made to only two foreign correspondents: Bank for International Settlement and Banco Central de Reserva de El Salvador. The former made active use of its \$25 million standby arrangement, drawing on 16 occasions amounts of \$3 million to \$10 million for periods up to a week; the total of these borrowings amounted to \$103 million. The Banco Central de Reserva de El Salvador borrowed \$1 million shortly before year end under a \$3 million arrangement entered into in December; this loan was repaid on January 20, 1956.

A loan to Banco do Brasil as fiscal agent of the Brazilian Government, on which there was a balance of \$106,666,666.68 outstanding at date of last examination, was repaid in the interim in accordance with its terms, the final installment having been paid on October 24, 1955.

WHO ARE THE "DEALERS" WITH THE OPEN-MARKET ACCOUNT?

Now, the trading in securities. Under the 1913 act and up until 1935, each bank had its own open-market operations and it was plain that there was conflict among the banks.

Some would be buying and others selling, and it rather upset the market. They gave that as an excuse for the amendment that went into the 1935 act, which permitted 1 Open Market Committee and 1 manager of that account in the New York Federal Reserve Bank to handle it for all the banks.

None of the banks touches these securities except the New York bank. The money they get, the New York bank sends to them.

Yet this trading in securities is still going on. When a member bank of the system wants to buy Government securities, or to sell them, the likelihood is that it will ask the Reserve bank to handle the transaction. The Reserve banks are buying and selling hundreds of millions of dollars worth of Government securities, acting as agent for member banks and for others. So they are in competition with one another today, and they are in competition with the Open Market Committee. They cannot trade with the open-market account, so they may be buying at the same time the open-market account is selling.

This so-called open market means that the Government must pay this select group of open-market dealers a split of some kind, a commission or fee, in order to buy or sell Government bonds. It cannot be done any other way. And in a great many instances, this thing is rigged so that the dealers receive two fees when the open-market account is selling at the same time a Federal Reserve bank is selling, and vice versa.

There are only 17 dealers and in 1956 five of them did 52 percent of the business. The top did 88 percent of the business. Many of these 17 dealers got their money for speculation in the Federal Reserve Bank of New York. We have never looked into that, and we do not know anything about it.

23 XQ

MONO. SECTION

I can state, however, that according to one report of the Open Market Committee that I have seen, the open-market account bought from and sold to 13 of these dealers who are not banks—that is, nonbank dealers—Government securities amounting to \$2.9 billion in the year 1956. And, in contrast to total purchase and sale transactions with these 13 nonbank dealers amounting to \$2.9 billion, the open-market account lent these dealers, through repurchase agreements made during the year, \$4.6 billion with which the dealers carried Government securities in their portfolios.

How does the manager of the open-market account decide the question of allocating a given volume of sales, or a given volume of purchases, among these 17 dealers? Well the answer seems to be “primarily”—but not exclusively—on the basis of which dealer offers the open-market account the best price. The Committee should be extremely interested in the following statement from the Open Market Committee’s Annual Report for 1956:

The distribution of outright transactions among dealers continues to reflect the account management’s practice of doing business with dealers and dealer banks primarily on the basis of the “best price” obtainable. Repurchase agreement volume reflects principally the financing needs of the various dealers and the willingness of the account management, in implementing system policy, to enter into agreements at the times they were requested by dealers. Also, consideration was given at all times to the financial capacity of the specific dealers in extending repurchase agreements, the need to distribute on a given day the total of repurchase agreements equitably among nonbank dealers, and the dealers’ exposure as measured by their positions.

Who are these dealers? We have their names and that is about all. I will list these names and then point out what I have tried to do to learn something for myself about who these dealers are.

17 dealers trading with the open-market account in 1956 (showing percent of total volume done, by groups of 5’s)

Dealer:	Percent of trading
Discount Corp.....	} 51.7
Chemical Corn Exchange Bank.....	
Salomon Bros. & Hutzler.....	
C. J. Devine & Co.....	
Aubrey G. Lanston & Co., Inc.....	
D. W. Rich & Co.....	} 36.6
C. F. Childs & Co., Inc.....	
Guaranty Trust Co.....	
Bankers Trust Co.....	
First Boston Corp.....	
Continental Illinois National Bank & Trust Co., Chicago.....	} 11.7
Briggs, Schaedle & Co., Inc.....	
First National Bank, Chicago.....	
Wm. E. Pollock & Co., Inc.....	
N. Y. Hanseatic Corp.....	
J. G. White & Co.....	
Chas. E. Quincey & Co.....	
Total.....	100.0

Now, I think the committee should look into the Open Market Committee and try to find out a little something about who these dealers are that serve as the funnels through which our great Federal Reserve System passes out additions to the money supply of the country, and pulls in subtractions from the money supply of the country. So, I have had the first 10 names looked up—that is the names of the 10 biggest dealers—to try to find out who the people are that are partners in these dealer firms, and who are the officers and directors in these dealer firms where the firm is incorporated. Then

24 XQ MONO. SECTION

I have asked for information on the other connections of these people wherever such information is available from published directories. Well a large percentage of these people do not publish information about themselves. But enough of them do give information to show us that they represent all of the big money interest of the country—the big commercial banks, the big investment banks, the big insurance companies, the trust funds, and the big industrial and utility corporations.

The following list shows the names of the top officials in each of the 10 dealer firms doing the largest volume of business with the open-market account in 1956. Then, where information is published about the other connections of the individuals, those connections are shown too.

Discount Corp.

Mills, Dudley H., chairman
Great American Insurance Co., director
Underwood Corp., director
American National Insurance Co., director
Great American Indemnity Co., director
Rochester American Insurance Co., director
Anderson, Edward E., senior vice president and director
East River Savings Bank, trustee
Bixby, Wingate, vice president
Fleming Realty Co., director
432 East 57th Street Corp., director
Fairchild, Julian D., vice president
Kings County Trust Co., trustee
Franklin Savings Bank, trustee
Cleveland, J. Luthur, director
Guaranty Trust Co., chairman
Guaranty Safe Deposit Co., director
Atchison, Topeka & Santa Fe Railway, director
American Arbitration Association, director
Anaconda Co., director
Sunray Mid-Continent Oil Co., director
Colt, S. Sloan, director
Bankers Trust Co., chairman and director
Provident Fire Insurance Co., director
Royal Exchange Assurance Co., member United States Advisory Committee
State Assurance Co., Ltd., member financial advisory board
Car and General Insurance Corp., Ltd., member financial advisory board
American Bank Note Co., director
General Foods Corp., member finance committee and director
General Electric Co., member finance committee and director
Metropolitan Opera, assistant treasurer and director
American Can Co., director
Tax Foundation, Inc., treasurer and trustee
Ebbott, Percy J., member executive committee and director
Chase Manhattan Bank, chairman trustee advisory board and director
Allied Stores Corp., member executive and advisory committees, and director
Moore-McCormack Lines, Inc., director
International Paper Co., director
Chase Bank, vice-chairman
Oberlin (Ohio) College, trustee and chairman, investment committee
Belding-Heminway Co., director
New York State Chamber of Commerce, vice-president
American Export Lines, Inc., director
Massie, Adrian M., director
New York Trust Co., chairman
Pacific Fire Insurance Co., director
Rotary Electric Steel Co., director
Homeland Insurance Co., director
Commonwealth Insurance Co., director
Mercantile Insurance Co., director
Columbia University, trustee
Bankers & Shippers Insurance Co., director
Jersey Insurance Co., director
North British & Mercantile Insurance Co., director
Greenwich Savings Bank, trustee
United States Life Insurance Co., director
Sweet Briar College, member board of overseers

25 XQ MONO SECTION

Sherer, Dunham B., director
Chemical Corn Exchange Bank, director
Home Life Insurance Co., director
Whitney, George, member, executive committee and director
J. P. Morgan & Co., member executive committee
Braden Copper Co., director
General Motors Corp., member financial policy committee and director
Kennecott Copper Corp., member executive committee and director
Continental Oil Co., director
Consolidated Edison Co. of New York, member, executive and salary committees, trustee
Helm, Harold H., director
Chemical Corn Exchange Bank, chairman and director
Corn Products Refining Co., member executive committee and director
City Investing Co., director
Home Insurance Co., member, finance, executive committees and director
Whitehall Foundation, Inc., trustee
Princeton University, trustee and chairman, executive committee, member, finance, grounds and buildings committees.
Commercial Solvents Corp., member executive and audit committees and director
Associated Dry Goods Corp., member executive committee and director
Lord & Taylor, director
Christian Properties Corp., director
Log Cabin Association, Inc., trustee
Federal Hall Memorial Association, Inc., trustee
Champion Paper & Fibre Co., director
Chemical Corn Exchange Safe Deposit Co., director
Equitable Life Assurance Society of the United States, member, executive and finance committees and director
Ralston Purina Co., director
National Industrial Conference Board, director
Repp, Herbert N., president and director
Dunbar, Charles E., vice president and secretary
Marckwald, Andrew K., vice president and assistant secretary
Coon, Robert M., vice president and treasurer
Leverich, Walden H., vice president
Nagle, William G., vice president
Jantzen, Ray H., vice president
Bethke, Robert H., vice president
Morton, Stewart C., vice president
Shepherd, Howard C., director

Chemical Corn Exchange Bank

Helm, Harold H., chairman and director
Corn Products Refining Co., member executive committee and director
City Investing Co., director
Home Insurance Co., member financial and executive committees and director
Commercial Solvents Corp., member executive committee, audit committee and director
Associated Dry Goods Corp., member executive committee and director
Lord & Taylor, director
Christian Properties, director
Champion Paper & Fibre Co., director
Discount Corporation of New York, director
Chemical Corn Exchange Safe Deposit Co., director
Equitable Life Assurance Society of the United States, member executive and financial committees and director
Ralston Purina Co., director
Jackson, N. Baxter, chairman, executive committee and director
Chemical Corn Exchange Deposit Co., chairman
General Reinsurance Corp., director
McCrary Stores Corp., director
American Chicle Co., director
French American Banking Corp., director
Interchemical Corp., director
Western Electric Co., director
Aluminium, Ltd., director
Aleo Products, Inc., director
Roosevelt Hospital, trustee
Vanderbilt University, trustee
Beekman—Downtown Hospital, treasurer and director

26 X Q

MONO. SECTION

- Grainger, Isaac B., president and director
Safety Industries, Inc., director
Chemical Corn Exchange Safe Deposit Co., director
Fort Myers Southern Railroad Co., director
Hartford Fire Ins. Co., director
Kerite Co., director
Missouri Pacific Railroad Co., director
Hartford Accident & Indemnity Co., director
Campbell, LeRoy Walter, vice president
Chemical Safe Deposit Co., director
Sun Chemical Corp., member of executive commission and director
Napier Co., Conn., director
Beatti, Francis P., vice president
Mercury Aircraft, Inc., director
Bromfield, Horace P., vice president
Nationwide Food Service, director
Brummer, Harold, vice president
Mrs. John S. Sheppard Foundation, Inc., trustee and director
Carr, William D., vice president
Rahway Valley Railroad, treasurer and director
Cummings, W. Burton, vice president
New York Federal Savings & Loan Association, director
Berkshire Gas Co., director
Driscoll, William Jennings, vice president
Teleprograms, Inc., vice president
Duncan, Claudius D., vice president
Manhattan Life Insurance Co., director
Durham, Kenneth A., vice president
Snowden, Inc., director
Worth Street, Inc., director
Gibbons, John L., vice president
Angostura-Wupperman Corp., director
Hauser, Alfred H., vice president
Maracaibo Oil Exploration Corp., director
American Surety Co., trustee
Empire City Savings Bank, trustee
American Hide & Leather Co., director
Granby Construction, Mining, Smelting & Power Co., Ltd., director
Hawkins, Walter M., vice president
Dunlap & Associates, director
Love, Hamilton M., vice president
Hoagland Laboratory, treasurer and director
Mooney, Wandell M., vice president
Chemical Corn Exchange Safe Deposit Co., president
Chesebrough-Pond's, Inc., director
Clemson Bros., Inc., director
Sherwin, Arthur S., vice president
Dalminter, Inc., director
Borneo Sumatra Trading Co., director
Far Eastern Agencies, Inc., director
Italit, Inc., director
Pur-Sale Service Corp., director
Swidut Food Importers, Inc., director
Urmy, Keith M., vice president
New York Medical College, Flower and Fifth Avenue Hospitals, treasurer
and trustee
VanPelt, Edwin, vice president
West Side Federal Savings & Loan Association, director
Republic Pictures Corp., director
Wright, Ford, vice president
Coca-Cola Bottling Co., director
Sinsabaugh, Robt. W., traffic officer
Commercial Casualty Insurance Co., secretary
Concordia Fire Insurance Co., secretary
Firemen's Insurance Company of Newark, secretary
Girard Fire & Marine Insurance Co., secretary
Metropolitan Casualty Insurance Co., New York, secretary
Milwaukee Mechanics' Insurance Co., secretary
National-Ben Franklin Fire Insurance Co., secretary
Loyalty Group, secretary

27 XQ

MONO. SECTION

- Houston, Frank K., honorary chairman, vice chairman, executive committee and director
" Chemical Corn Exchange Safe Deposit Co., director
Standard Insurance Company of New York, director
Aetna Insurance Co., director
Century Indemnity Co., director
Piedmont Fire Insurance Co., director
World Fire & Marine Insurance Co., director
Hotel Waldorf-Astoria Corp., director
Thomas Jefferson Memorial Foundation, president and director
Vanderbilt University, trustee
- Johnston, Percy H., director
New York Life Insurance Co., director
Federal Hall Memorial Association, Inc., governor
- Bower, Joseph A., director, member trust and executive committee
Detroit International Bridge Co., chairman
Canadian Transit Co., chairman
- Golet, Robert, director, chairman, real estate and mortgage committee
City Investing Co., director
Lopert Films, Inc., director
Fifth Avenue & 66th Street Corp., vice-president and director
Lopert Films Distributing Corp., director
Lopert Films Productions, Inc., director
- Hillman, Jr., J. H., director
J. H. Hillman & Sons Co., president and director
Chemical Bank & Trust Co., director
Pennsylvania Bankshares & Securities Corp., chairman
Pittsburgh Coke & Chemical Co., chairman, finance committee and director
Great Lakes Steamship Co., director
Peoples First National Bank & Trust Co., Pittsburgh, Pa., director
Texas Gas Transmission Co., chairman
Pittsburgh Steel Co., director
- Williams, Thomas R., director
Ichabod T. Williams & Sons, partner
Geo. D. Emery Co., president and director
Edgewater Saw Mills Co., president and director
Niagara Fire Insurance Co., director
Astoria Importing & Manufacturing Co., president and director
- Roosevelt, John K., director
Roosevelt & Son, partner
Hackensack Water Co., director
Elizabethtown Consolidated Gas Co., director
Elizabethtown Water Co., Consolidated, director
All American Cables Co., director
- Harris, Henry Upham, director
Harris, Upham & Co., partner
Texas Co., New York City, director
Stone & Webster, Inc., director
New York Stock Exchange Governor
Great American Insurance Co., director
- Humphreys, Jr., H. E., director
United States Rubber Co., chairman and president
Latex Fiber Industries, Inc., director
Terminal Warehouses, Ltd., Toronto, director
Great American Insurance Co., director
Dominion Rubber Co., Ltd., Montreal, director
Mutual Life Insurance Company of New York, trustee
Rubber Manufacturing Association, director
National Industrial Conference Board, member
- Callaway, Cason J., director
Blue Springs Farms, Hamilton, Ga., owner
United States Steel Corp., director
Trust Company of Georgia, Atlanta, director
Shell Oil Co., director
University Systems of Georgia, member board of regents
Nutrition Foundation, Inc., trustees
- McKim, Robert J., director
Associated Dry Goods Corp., president and director
Bowery Savings Bank, trustee

28 X Q

MONO. SECTION

- Moore, Maurice T.**, director
Cravath, Swaine & Moore, partner
Pennsylvania Glass Sand Corp., director
Studebaker-Packard Corp., director
Time, Inc., chairman
- Bruce, James**, director
American Airlines, director
Commercial Credit Corp., director
General American Investors Co., director
Equity Corp., director
United States Industries, Inc., director
Fruehauf Trailer Co., director
National Dairy Products Co., director
Congoleum Nairn, Inc., director
Technicolor, Inc., director
Federal Home Loan Bank of New York, director
Republic Steel Corp., director
Avco Corp., director
Grayson-Robinson Stores, Inc., director
Continental Insurance Co., director
Western Table & Stationery Corp., director
- Few, Benjamin F.**, director
Liggett & Myers Tobacco Co., president and director
Duke University, trustee
Roberts College, Istanbul, trustee
- Woods, J. Albert**, director
Commercial Solvents Corp., president and director
Central Savings Bank, president and director
Corn Products Refining Co., director
Wilson & Toomer Fertilizer Co., Jacksonville, Fla., director
Theratomic Carbon Co., chairman
American Smelting & Refining Co., director
- Black, James B.**, director
Pacific Gas & Electric Co., chairman, member executive committee and director
United States Steel Corp., director
Southern Pacific Co., member executive committee and director
Equitable Life Assurance Society, director
Shell Oil Co., director
Fireman's Fund Insurance Co., member executive committee and director
Ford Foundation, trustee
Del Monte Properties Co., director
California Pacific Title Insurance Co., director
- Drysdale, Robert A.**, director
Drysdale & Co., Sr. partner
Central Savings Bank, trustee
Guardian Life Insurance Co., director
Westchester Fire Insurance Co., director
North River Insurance Co., director
United States Fire Insurance Co., director
- Sherer, Dunham B.**, director
Discount Corp., New York, director
Home Life Insurance Co., director
- Nichols, C. Walter**, director
Nichols Engineering & Research Corp., chairman
First National Bank of West Orange, vice president and director
Nichols Engineering & Research Corporation of Canada, president and director
Corn Exchange Safe Deposit Co., director
Ralph C. Coxhead Corp., chairman
Allied Chemical & Dye Corp., director
Sintering Machinery Corp., chairman
Wellman Engineering Co., director
Kennecott Copper Corp., director
- Kiggins, Jr., Willard A.**, director
A. H. Bull Steamship Co., president and director
Bull-Insular Line, president and director
Bull Steamship Line, president and director
A. H. Bull & Co., president and director
San Antonio Docking Co., president and director
Dafton Realty Corp., president and director
San Antonio Co., president and director
Baltimore Insular Line, Inc., president and director
Caribbean Dispatch, Inc., president and director
New Rochelle Federal Savings & Loan Association, director

29 XQ

MONO. SECTION

Black, Kenneth E., director
Home Insurance Co., president and director
Harlem Savings Bank, trustee
Home Indemnity Co., president and director
Atlantic Coast Line Railroad, director
Insurance Society of New York, director
General Adjustment Bureau, Inc., president and director
National Board of Fire Underwriters Building Corporation, vice president
Underwriters' Laboratories Inc., director
Beekman-Downtown Hospital, director
Perkins, Gilbert H., executive vice president
Johnson, Clinton C., executive vice president
McCall, Howard W., executive vice president
Renchard, William S., executive vice president
Anderson, Thomas G., vice president
Azoys, Geoffrey V., vice president
Blum, William H., vice president
Brennan, Peter J., vice president
Brown, J. Stanley, vice president
Bubindey, Paul F., vice president
Caldwell, Arthur C., Jr., vice president
Calhoun, N. S., Jr., vice president
Chamberlain, Melville P., vice president
Cleary, F. Stafford, vice president
Compton, Joseph H., vice president
Cropper, Samuel H., vice president
Cunliffe, John J., vice president
DeWitt, William G., vice president
Dribben, Seymour, vice president
Farnsworth, George L., vice president
Finlayson, Daniel A., Jr., vice president
Foy, Amos B., vice president
Frey, William A., vice president
Haggerty, Frederick B., vice president
Haviland, David, vice president
Hayward, Charles E., Jr., vice president
Hellerman, Louis, vice president
Hellier, James E., vice president
Hall, Magne, vice president
Jantzen, William J., vice president
Johnson, Reginald H., vice president
Kildea, York, vice president
King, George L., Jr., vice president
Laemmel, William G., vice president
Lysle, George, vice president
McFadden, Joseph A., vice president
McGowan, George B., vice president
McManus, Edwin S., vice president
McMillen, Lloyd M., vice president
McWilliam, Franklin A., vice president
Moore, William H., vice president
Newfang, Edward C., vice president
Obeda, John, vice president
O'Brien, Robert B., vice president
O'Callaghan, John H., vice president
Onthank, Pierce, vice president
Patterson, Donald C., vice president
Peck, Mark B., vice president
Peer, George A., vice president
Pons, A. Karl, vice president
Pugh, Harry J., vice president
Rance, Charles E., vice president
Richter, Charles, vice president
Rogers, Thomas A., vice president
Rommel, Frederick H., vice president
Ross, Walter M., vice president
Salzer, Richard L. H., vice president
Schneider, Leo, vice president
Schneider, Max J., vice president
Scherer, Frank A., vice president
Smith, John J., vice president
Topp, Marinus J., vice president
Townsend, J. Kenneth, vice president

30 XQ MONO. SECTION

Tree, Alfred E., vice president
Turner, Huntington M., vice president
Weir, Hugh, vice president
Welles, Edward R., vice president
Williams, Z. Homer, vice president
Wittman, William J., vice president
Ringler, Arthur P., vice president and comptroller
Nanner, Herbert W., treasurer
Jordan, W. Donald, secretary
Sandmeyer, Earl C., public relations director
Erhart, George M., corporation trust officer
Corbett, R. Leroy, trustee (personnel)
Tomlinson, Eustace W., trustee (personnel)
Jenkins, Merwin S., trust officer (investment)
White, Irving, trust officer
Meucke, Arthur J., trust officer (pension)
Clark, James M., trust officer
Doyle, Albert W., trust officer
Emmerich, Joseph F., trust officer
Farrington, Ralph, trust officer
Lightall, Richard J., trust officer
Metz, Herman W., trust officer
Miller, Robert A., trust officer
Moore, Raymond W., trust officer
Nicholson, Clayton M., trust officer
Oats, C. Reginald, trust officer
Pfeiffer, Fred G., trust officer
Rosebrook, Charles A., trust officer
Sherman, Russell H., trust officer
Wells, Clinton A., trust officer
Golet, Robert G., director

Salomon Bros. & Hutzler

Brummer, Bertram F., partner
New York Stock Exchange member
Brummer Investing Co., president and treasurer
Bertram F. & Susie Brummer, Inc., president, treasurer, and director
Levy, Benjamin J., partner
Holsten, Edward L., partner
Ottens, Jonas H., partner
Perrin, Myles D., partner
Carson, James H., partner
von Glahn, Theodore A., partner
Simon, Charles J., partner
Spencer, Girard L., partner
Salomon, William R., partner
Freeman, Merrill D., partner
Levy, Maurice, partner
Curran, Ralph A., partner
Stevenson, John, partner
Brown, Harry, partner
Quinn, Robert J., partner
Kaufman, Irving, partner
Kelly, Daniel M., partner
Obendorfer, Herbert, partner
Gaertner, Clement J., partner
Curran, Ralph A., limited partner
Salomon, Percy F., limited partner
Losee, Herbert I., limited partner

C. J. Devine & Co.

Devine, Christopher J., partner
Stoutenburgh, William J., partner
Reilly, Matthew F., partner
Dunn, Stewart A., partner
Herrmann, Vincent H., partner
Kennedy, Frank T., partner
Kreitler, Carl J., partner
Revits, Samuel, partner
Bellinzoni, Arthur J., partner
Coman, John J., partner
Cross, Joseph, Jr., partner

31 XQ MONO. SECTION

Aubrey G. Lanston & Co.

Graustein, Archibald Robertson, director
Graustein, Hatch & Kormendi, partner
Agency of Canadian Car & Foundry Co., director
D. W. Rich & Co., president and director
Brightwater Paper Co., director
Synfoam Yarns, Inc., president and director
Luvan, Peter I. B., director
Stroock & Stroock & Lavan, partner
Winter & Co., director
American Securities Corp., director
United Factors Corp., director
American Machine & Metals Co., director
United Merchants & Manufacturers, Inc., director
Vistario Corp., director
Union Sugar Co., director
Delavan Foundation, Inc., president and director
Haveg Industries, Inc., director
Molybdenum Corporation of America, director
Nacional Hotel, director
Lanston, Aubrey G., president and director
Horton, Leonard M., vice president, treasurer, and director
Youngdahl, C. Richard, vice president
Piser, Leroy M., vice president
Childs, Curtis W. (Boston), vice president
Montgomery, Marshall H., vice president
Duffy, James P., vice president
Callahan, Daniel J., vice president
Combe, Arthur J., vice president
Moffatt, Donald L. (Chicago), vice president
Freeman, John P., Jr., assistant vice president
Gould, Charles W. (Boston), assistant vice president
Ross, Helen P., secretary
Hoffman, Samuel, director

D. W. Rich & Co.

Graustein, A. R., president and director
Graustein, Hatch, & Kormendi, partner
Agency of Canadian Car & Foundry Co., director
Aubrey G. Lanston & Co., director
Brightwater Paper Co., director
Synfoam Yarns, Inc., president and director
Ewig, T., secretary and director
O'Gara, A., treasurer and director
Rich, Dominic W., vice president and director
McMorrow, C. M., director

C. F. Childs & Co.

Partridge, M. A., secretary and director
Childs Securities Corp., secretary
Childs, F. Newell, president
Boynton, Elwood D., vice president
Brown, Murray F., vice president
Cantwell, Timothy F., vice president
Fletcher, William M., vice president
Fraser, David B., vice president
Smith, Merrill S., vice president
Van Cleave, Robert G., vice president
Obplanalp, Harry, assistant vice president
Coffin, Robert H., assistant vice president
Condict, John K., assistant vice president
Doyle, Robert, assistant vice president
Fletcher, Stanley W., assistant vice president
Georgie, Charles J., assistant vice president
Hawkins, Russell S., assistant vice president
Heiskell, Raymond H., assistant vice president
Kelliher, Richard E., assistant vice president
Koenig, Philip F., assistant vice president
Stenzel, Frederick J., assistant vice president
Williams, Russell T., assistant vice president
Carr, Charles D., treasurer
Currie, Stuart G., treasurer

32 XQ MONO. SECTION

Ekman, C. R., treasurer
Galambos, M. L., treasurer
Giamondi, Charles, treasurer
Golin, Herman, treasurer
Keys, Thomas, treasurer
McNally, John D., assistant treasurer
Moorshead, Beatrice, assistant treasurer
Nebhan, Luke, assistant treasurer
Briggs, Loring T., assistant secretary
Hamilton, Thomas J., assistant secretary
Jennings, Joseph A., assistant secretary
Lenihan, A. T., assistant secretary
Roberti, Robert E., assistant secretary
Ruddy, Marion, assistant secretary
Stover, M. G., assistant secretary
Uhlarik, Thomas S., assistant secretary

Guaranty Trust Co., New York

Cleveland, J. Luther, chairman and director
Guaranty Safe Deposit Co., director
Aitchison, Topeka & Santa Fe Railway, director
Anaconda Co., director
Discount Corporation of New York, director
Sunray Mid-Continent Oil Co., director
Kleitzi, William L., president and director
Wilson & Co., director
IBM World Trade Corp., director
Liverpool & London & Globe Insurance Co., Ltd., member local board
in New York
Royal Insurance Co., Ltd., member local board in New York
British & Foreign Marine Insurance Co., Ltd., member local board in
New York
Virginia Fire & Marine Insurance Co., director
Thames & Mersey Marine Insurance Co., Ltd., member local board in
New York
Newark Insurance Co., director
Queen Insurance Company of America, director
American & Foreign Insurance Co., director
Globe Indemnity Co., director
Royal Indemnity Co., director
Star Insurance Company of America, director
One Hundred Fifty William Street Corp., director
W. T. Grant Co., director
American Smelting & Refining Co., director
Sharp, Dale E., executive vice president
Standard Accident Insurance Co., director
Pilot Insurance Co. (Toronto), director
Planet Insurance Co., director
Yorkshire Insurance Company of New York, chairman
Seaboard Fire & Marine Insurance Co., director
Jerman, Thomas Palmer, executive vice president
Union Pacific Railroad, director
Broome, Robert E., vice president
Iowa Public Service Co., director
McCabe, Herbert P., vice president
New Jersey Natural Gas Co., director
Palmer, Louis Babcock, vice president
Peerless Insurance Co., director
Verbeck, Guido F., Jr., vice president
Morris County Savings Bank, director
Wallace, John Brougham, Jr., vice president
Union Terminal Cold Storage Co., director
Manhattan Refrigerating Co., director
Interwoven Stocking Co., director
White, William Rafford, vice president
Bowery Savings Bank, trustee, member executive committee
Strelow, William Richard, vice president
Pan American Society of United States, director
National Council American Importers, Inc., director
National Foreign Trade Council, director

33 XQ

MONO. SECTION

- Anderson, Harold F., vice president
Swedish Chamber of Commerce, U. S. A., director
Sandvik Steel Co., director
- Colwell, Kent G., vice president
Belgian Chamber of Commerce (United States), director
- Kimpel, Ralph E., vice president (foreign)
Peruvian-American Association, Inc., director
Mexican Chamber of Commerce (United States), Inc., director
Venezuelan Chamber of Commerce of United States, Inc., director
- Menapace, Robert B., vice president
Chile-American Association, chairman
American-Brazilian Association, treasurer and director
- Swart, Philip F., vice president
New York Board of Trade, Inc., director
- Twyeffort, Herbert E., vice president
Rusticana Corp., secretary and director
936 Fifth Avenue Corp., vice president and director
- Brickhouse, Ephraim L., vice president
American European Securities Co., director
- Kunhardt, Kingsley, vice president
Carpenter Steel Co., director
Royal McBee Co., director
Peabody Home for Aged and Indigent Women
Diocesan Investment Trust, trustee
Chemical Enterprises, Inc., director
- Buckley, Jere D., vice president
Columbian Carbon Co., director
Yale & Towne Manufacturing Co., director
- Parvin, W. Rodman, vice president
Guaranty Safe Deposit Co., president and director
- Gost, William F., vice president
Guaranty Safe Deposit Co., vice president and director
- Baker, Walter Cummings, vice president
J. J. Newberry Co., director
Union College, chairman board of trustees and director
Manhattan Eye, Ear, and Throat Hospital, director
NYC Bank for Sight Restoration, Inc., president and director
555 Park Ave., Inc., treasurer and director
American Academy in Rome, trustee
Metropolitan Museum of Art, trustee
Archeological Institute of America, treasurer and director
- Stephens, Robert W., vice president
Guaranty Safe Deposit Co., vice president and director
- Barrett, R. T. Tupper, vice president (foreign)
Compagnie IBM-France, director
Cie Francaise Pour La Propriete Fonciere, director
- Whiteman, H. Clifton, second vice president, New York Presbyterian Foundation, Inc., treasurer and director
- Gundersen, Reidar E., second vice president, United States-German Chamber of Commerce, treasurer and director
- Zulch, Walter H., second vice president, Compagnie Francaise pour la Propriete Fonciere, director
- Bloom, Winfred C., trust officer:
Raymond Concrete Pile Co., controller and assistant treasurer
Centriline Corp., assistant secretary-treasurer and director
Raymond Concrete Pile Company of Venezuela, assistant secretary
Cia Constructora Raymond de Colombia, assistant secretary and assistant treasurer
Raymond Concrete Pile Company of Delaware, assistant secretary and assistant treasurer
Raymond Concrete Pile Company of America, assistant secretary and assistant treasurer
Raymond Concrete Pile Company of Panama, assistant treasurer and director
Raymond Concrete Pile Company of Cuba, assistant secretary-treasurer
Raymond Construction Corp., assistant treasurer
Raymond Concrete Pile Company of Puerto Rico, assistant treasurer
Raymond Concrete Pile Co., Ltd., treasurer
Compania Raymond, S. A., assistant secretary-treasurer
Cen Vi-Ro Corp., treasurer
Raymond Concrete Pile Co., Ltd., Liberia, assistant treasurer
Construction Corp., assistant treasurer
Raymond Concrete Pile (Ontario), Ltd., assistant secretary-treasurer
Raymond Construction Co. of Puerto Rico, assistant treasurer and director.

34 XQ

MONO. SECTION

Raymond Builders, Inc., assistant treasurer and director
Centriline Co., S. A., assistant secretary-treasurer
Raymond Concrete Pile Construction Co., Ltd., assistant treasurer
Raymond Concrete Pile Co. of South America, assistant secretary and treasurer
Raymond International Co., Ltd., assistant treasurer and director

Allen, George G., director:
American Cyanamid Co., director
Duke Power Co., chairman

Bolenius, William C., director:
American Telephone & Telegraph Co., vice president (accounts and finance).
Bell Telephone Company of Pennsylvania, director
195 Broadway Corp., director
Indiana Bell Telephone Co., director

Cooper, Charles P., director
Presbyterian Hospital in City of New York

Crane, Jr., Winthrop M., director
Crane & Co., Dalton, Mass., chairman
Agricultural National Bank, Pittsfield, Mass., director
Berkshire Life Insurance Co., Pittsfield, Mass., director
American Bank Note Co., New York City, director
Otis Elevator Co., New York City, director
Eaton Paper Corp., Pittsfield, director
Western Massachusetts Electric Co., director
Western Massachusetts Cos., director
Air Reduction Co., Inc., director

Dorrance, Jr., John T., director
Campbell Soup Co., assistant to president and director
C. A. Swanson & Sons, director
John Wanamaker, Philadelphia, director
John Wanamaker, New York, director
Pennsylvania & Atlantic Railroad, director
Pittsburgh, Fort Wayne & Chicago Railway, director

Dunlap, Charles E., director
Berwind-White Coal Mining Co., president and director
Archer Coal Depot Co., president and director
Berwind Bank, director
Berwind Fuel Co., director
Eureka Stores, director
Havana Coal Co., president and director
Howe Sound Co., director
International Products Corp., director
International Telephone and Telegraph Corp., director
Kentland Coal & Coke Co., president and director
Mutual Life Insurance Co., trustee
New River & Pocahontas Consolidated Coal Co., president and director
North British & Mercantile Insurance Co., director
Northern Insurance Company of New York, director
Porto Rico Coal Co., president and director
Seamen's Bank for Savings, trustee
Wilmore Coal Co., president and director
Wilmore Steamship Co., director
Windber Trust Co., director

Franklin, Walter S., director
Pennsylvania Railroad, director
Long Island Railroad, director
Wabash Railroad, director
Western Saving Fund Society, member board of managers
Norfolk & Western Railway, director
Girard Trust Corn Exchange Bank, Philadelphia, director
Bell Telephone Company of Pennsylvania, director
Detroit, Toledo & Ironton Railroad, director
Curtis Publishing Co., director

Jones, W. Alton, director
Cities Service Co., chairman, member executive committee and director
Adriatic Petroleum Corp., chairman
Colombia-Cities Service Petroleum Corp., chairman
Sixty Wall Tower, Inc., president and director
Empire Gas & Fuel Co., member executive committee, president and director
Cities Service Oil Co. (Pennsylvania), chairman

35 XQ MONO. SECTION.

Cities Petroleum Corp. (Canada), chairman
Cities Service Refining Corp., chairman and member executive committee
Cities Service Mid-East Oil Corp., chairman
Dhofar-Cities Service Petroleum Corp., chairman
Sixty Wall Street, vice president and director
Arkansas Pipeline Corp., director
Dominion Natural Gas Co., Ltd., director
Orange State Oil Co., director
Chrysler Corp., member finance committee and director
Cities Service Defense Corp., president and director
Cit-Con Oil Corp., chairman
Cities Service Research & Develop. Co., chairman
Mexico Cities Service Petroleum Corp., chairman and director
Richfield Oil Corp., chairman finance committee and director
Cities Service Petroleum Corp. (Venezuela), chairman
Cities Diverse Assets, Inc., president and director
American Petrochemical Corp., vice chairman, member executive committee and director
Petroleum Chemicals, Inc., chairman
Kelley, Cornelius F., director
Anaconda Co., director
Butte, Anaconda & Pacific Railway, president and director
Mines Investment Co., president and director
Chile Copper Co., chairman
Chile Exploration Co., chairman
Silesian Holding Co., president
Silesian-American Corp., president
Potrerillos Railway, director
Glesche Spolka Akcyjna, chairman
Santiago Mining Co., director
Andes Copper Mining Co., chairman
Andes Exploration Company of Maine, director
Butte Water Co., director
Arizona Oil Co., director
American Brass Co., director
Anaconda-American Brass Co., Ltd., director
Anaconda Sales Co., president and director
Greene Cananea Copper Co., director
Washoe Copper Co., director
International Smelting & Refining Co., president and director
Basic Magnesium, Inc., director
Anaconda Wire & Cable Co., director
Anaconda Alloys Corp., president and director
Copper Institute, president and director
Munson, Charles S., director
Air Reduction Co., chairman
Consolidated Edison Co., New York, member executive committee and trustee
Commonwealth Insurance Co., director
North British & Mercantile Insurance Co., director
Ohio Chemical—Canada, Ltd., director
Dry Ice, Inc., director
Cuban Air Products, Inc., director
Sterno, Inc., director
Liquid Carbonic Corporation of Cuba, director
National Distillers Products Corp., member finance committee and director
6 East 72d Street Corp., vice president and director
National Shares Corp., director
Air Reduction, Canada, Ltd., director
Homeland Insurance Co., director
Penick & Ford, Ltd., member executive committee and director
Manufacturing Chemists Association, director
Greyhound Corp., director
Taft School, trustee
Roosevelt, George E., director
Roosevelt & Son, partner
Bank for Savings in New York, first vice president, trustee, and chairman executive committee
French American Banking Corp., director
Broadway Improvement Co., president and director
Investors Management Co., chairman
Union Pacific Railroad, director

36 XQ
MONO. SEC.

Oregon Short Line Railroad, director
Oregon-Washington Railroad & Navigation Co., director
Los Angeles & Salt Lake Railroad, director
Long Island Railroad, director
New York University, chairman
Roosevelt Hospital, vice president, treasurer, trustee
Shanks, Carrol M., director
Prudential Insurance Company of America, president and director
Life Insurance Association of America, director
Federal Insurance Co., New York City, director
National Biscuit Co., New York City, director
Public Service Electric & Gas Co., director
Bigelow-Sanford Carpet Co., director
Fidelity Union Trust Co., Newark, director
Institute of Life Insurance, director
Georgia-Pacific Corp., director (Georgia Pacific Plywood Corp.)
Union Carbide and Carbon Corp., director
Spofford, Charles M., director
Davis, Polk, Wardwell, Sunderland & Kiendl, partner
Mutual Life Insurance Company, New York, trustee
Distillers Co., Ltd. (Delaware), director
Carnegie Corporation of New York, trustee
Stetson, Eugene W., director
Textile Banking Co., chairman
Coca-Cola Co., member finance committee and director
French American Banking Corp., chairman executive committee and
director
McLellan Stores Co., member executive committee and director
United Stores Co., director
Illinois Central Railroad, chairman executive committee and director
Air Reduction Co., member executive committee and director
Tri-Continental Corp., member advisory committee and director
McCrary Stores Corp., member executive committee and director
Gulf Atlantic Warehouse Co., chairman executive committee and director
(Sub Anderson Clayton & Co., Inc.)
Symes, James M., director
First Penn. Banking & Trust Co., director
Pennsylvania Railroad, president and director
Norfolk & Western Railway, director
Long Island Railroad, director
Wabash Railroad, director
Detroit, Toledo & Ironton Railroad, director
Association of American Railroads, director
Insurance Company of North America, director
Richmond, Fredericksburg & Potomac Railroad, director
Towe, Kenneth C., director
Putnam Trust Co., director
American Cyanamid Co., president and director
Southern Minerals Corp., director
Southern Pipe Line Corp., director
Southern Petroleum Corp., director
Woodruff, Robert W., director
Metropolitan Life Insurance Co., director
Trust Company of Georgia, director
Coca-Cola Co., chairman finance committee and director
Southern Railway, director
Continental Gin Co., director
General Electric Co., director
American Express Co., director
Young, George S., director
Columbia Gas System, president and director
Atlantic Seaboard Corp., director
Virginia Gas Transmission Corp., director
Amere Gas Utilities, director
Eastern Pipe Line Co., director
Home Gas Co., director
Keystone Gas Co., director
Central Kentucky Natural Gas Co., director
Binghamton Gas Works, director
Cumberland & Allegheny Gas Co., director
Manufacturers Light & Heat Co., director
Natural Gas Co. of West Virginia, director
United Fuel Gas Co., director
Ohio Fuel Gas Co., director
Preston Oil Co., director
Virginia Gas Distributing Corp., director

37 XQ MONO. SEC.

Atkinson, R. Alton, vice president
Bissell, Ellsworth C., vice president
Bottomley, Jay E., vice president
Brandebury, Carl V. E., vice president
Brass, Edward K., vice president
Duval, Gordon Bisland, vice president
Ford, Francis P., vice president
Goodwin, John B., vice president
Ives, Gerard M., vice president
Lee, Elliott H., vice president
McGregor, A., vice president
Morey, Robert W., vice president
Potter, Walter H., vice president
Schwartz, H., vice president
Post, Samuel D., vice president
Wardburgh, Russell L., vice president
Brooks, Oliver R., vice president
Knudsen, Harry W., vice president
McCarroll, T. Clyde, vice president
Patton, B. Frank, vice president
Lack, William F., vice president
Kiendl, Arthur H., vice president
Sherman, Harold M., Jr., vice president
Abeel, Alan C., vice president
Bound, Charles F., vice president
Brown, Stanley H., vice president
Dalton, Lawrence E., vice president
Leach, Ralph F., treasurer
Barnes, Stuart K., secretary
Anthony, Donald B., second vice president
Betz, O. John, Jr., second vice president
Blake, Benson, second vice president
Cavanaugh, Frank J., second vice president
Cleveland, Charles A., second vice president
Crowther, G. Kenneth, second vice president
Dalrymple, Temple E., second vice president
Denier, Robert S., second vice president
Glorieux, John P., second vice president
Lang, William C., second vice president
McKaig, J. Arthur, second vice president
Mengel, Theodore H., second vice president
Miller, Charles L., second vice president
Sandstrom, Frank, second vice president
Schaumberg, Frank R., second vice president
Scott, Corwin S., second vice president
Valentine, Stephen, Jr., second vice president
Wilson, Harry M., second vice president
Firmbach, Wilbur C., second vice president
Stoddard, Donald A., second vice president
Green, J. Bradley, second vice president
Bochow, John P., second vice president
Doty, John R., second vice president
O'Brien, Edmund C., second vice president
Rohrberg, Clifford A., second vice president
St. Aubyn, Everest, second vice president
Schwoon, John H., second vice president
Buttery, Joseph C., second vice president
Merker, William W., second vice president
Neil, William J., second vice president
Rippe, John D., second vice president
Wainken, Herman W., second vice president
Ince, Louis R., second vice president
Lewis, William McK., second vice president
Tewes, Elmer G., second vice president
Braden, William, second vice president
Dater, Walton F., second vice president
Haythe, Madison H., second vice president
Lazo, William C., second vice president
Denuir, Robert S., second vice president
Brewer, Ferdinand H., second vice president
Eitner, W. E., vice president
Keyes, John M., second vice president
Martinez, Manuel, second vice president

38 XQ MONO. SEC.

Schaefer, John S., second vice president
Scheu, Lawrence D., second vice president
Eiseman, William C., second vice president
Hallock, Gerard, second vice president
Lord, Joseph F., second vice president
Bucker, Joseph A., second vice president
LeRoy, Joseph, second vice president
McMaster, William J., Jr., second vice president
Whelan, Richard V., second vice president
Knott, John S., second vice president
Curry, Bernard F., traffic officer
Henrick, Karl R., traffic officer
Judd, Howard C., traffic officer
Kelly, Harry J., traffic officer
Kreger, Don C., traffic officer
Powers, James A., traffic officer
Wiesenauer, Percy, traffic officer
Crocker, Dana R., traffic officer
Gettman, Albert L., auditor
Bratton, Meredith J., manager, publicity
Wildhack, Adelbert C., purchasing agent
Stevens, Robert M., director
Weed, Clye E., director
Wilson, Charles E., director

Bankers Trust Co., of New York

Colt, S. Sloan, chairman
Provident Fire Insurance Co., director
Royal Exchange Assurance Co., member United States advisory committee
State Assurance Co., Ltd., member finance advisory board
Car & General Insurance Corp., Ltd., member advisory committee
Discount Corp. of New York, director
General Electric Co., director, member finance committee
American Can Co., director
Tax Foundation, Inc., treasurer and trustee
Baer, Francis S., chairman, executive committee
Union Oil Company of California, director
Crowell-Collier Publishing Co., director
Jones & Laughlin Steel Corp., member executive committee and director
TXL Oil Corp., director
Gersten, E. Chester, vice chairman
Consolidated Cigar Corp., director
American Broadcasting-Paramount Theaters, director
Moore, William H., executive vice president
American Can Co., member executive committee and director
Delaware Lackawanna & Western Railroad, director
Republic Aviation Corp., member executive committee and director
Royal-Liverpool Insurance Group, director
M. A. Hanna Co., director
Leeb, Brian P., senior vice president
Franklin Savings Bank, trustee
Phoenix London Group, director
Hospital Center, Orange, trustee
Shelburne Museum, Inc., treasurer and director
Brewer, Graham H., vice president
Securities Co., director
Carolina Clinchfield & Ohio Railway, director
Stony Wold Sanatorium, treasurer and director
Budinger, J. M., vice president and chairman advisory committee
Thomas J. Lipton, Inc., member executive committee and director
Mavibel International N. V., director
Rockwell Spring & Axle Co., director
International Commercial Corp., president and director
Beckman Downtown Hospital, director
New York Becumy, director
General Aniline & Film Corp., member of finance committee and director
Dikeman, Edward J., Jr., vice president
Connam Trust, trustee
Footc, Ray Palmer, vice president
Telarama Inc., treasurer and director
Englewood Hospital, president board trustees
Eaglebrook School, trustee

39 XQ MONO. SEC.

Frey, S. T. Mason, vice president
Southern Indiana Gas & Electric Co., director

Fulkerson, W. Neal, vice president
Greater New York Savings Bank, trustee

Hamilton, Frank, vice president
Consumers Power Co., director

Lake, L. Craig, vice president
Swedish Chamber of Commerce, treasurer and director

Maser, Herman George, vice president
ELPOA, director
Cupsaw Lake Improvement Corp., director
National Arts Club, governor
Mills College for Education, trustee

Mathias, David B., vice president and general auditor
Williams Club, Inc., governor

Mendell, M. L., vice president
Queens College, trustee

Moore, Miller, vice president
American Youth Hostels, Inc., president
Pouch Terminal, Inc., director

Morgan, Wm. A., Jr., vice president
Century Investors, Inc., director
Webster Investment Co., director
American Manufacturing Co., Brooklyn, director

Mueller, Carl M., vice president
Texas Butadiene & Chemical Corp., director

Murphy, J. M., vice president
The Evergreens, Brooklyn, trustee

Norton, A. Sidney, vice president
Baltimore Gas & Electric Co., director

Parsons, Robert W., vice president
Seatrains Line, Inc., director
Charles Pettinos, Inc., chairman
Overlook Hospital, trustee
Nine Ninety Fifth Avenue Corp., director

Strait, Harold C., vice president
Fifth Avenue Association, director
Gibbs & Hill, Inc., director

Taber, John Starr, vice president
Dun & Bradstreet, Inc., director
Taber Pump Co., director
American Extract Co., Inc., director
Ohio Edison Co., director
Sanborn Map Co., director
Thompson Grinder Co., director

Taylor, W. T., vice president
Adams Land & Development Co., director
American Land & Development Co., director
Adams Express Co., member executive committee and board of managers
American International Corp., member executive committee and director
ACF Industries, Inc., member executive committee and director
ERCO Division (ACF Industries), member advisory board
First National Bank in Greenwich, Conn., director
Basic Research Corp., trustee
Columbia College, council, chairman

Watkins, Harry Ashton, vice president
Neptune Meter Co., director
Minute Maid Corp., director

Brady, James C., director
Brady Security & Realty Corp., president and director
Chrysler Corp., director
Purolator Products, Inc., director
Berkshire-Hathaway, Inc., director
Feedback Controls, Inc., director
Somerville Trust Co., director

Cullman, Howard S., director
Cullman Bros., Inc., president and director
Port of New York Authority, honorary chairman
Tobacco & Allied Stocks, Inc., vice president, secretary and director
Cullman Bros., partner
Lexington Avenue & 42d Street Corp., chairman
Prudential Insurance Company of America, director
Waldorf-Astoria Hotel Corp., director
Cigar Institute of America, Inc., chairman
Phillip Morris, Inc., director
Tobacco Merchant Association, president and director
Fifth Avenue Coach Lines, director

40 XQ MONO. SEC.

- Given, Jr., William B., director**
American Brake Shoe Co., chairman
Bucyrus-Erie Co., member executive committee and director
Mellon National Bank & Trust Co., director
Combustion Engineering, Inc., chairman executive committee and director
Dry Dock Savings Bank, trustee
Fabrications Auxiliares des industries Locomotrice (honorary), director
Dominion Brake Shoe Co., Ltd., director
- Hanes, John W., director**
Olin Mathieson Chemical Corp., chairman finance committee and director
United States Lines Co., chairman executive and finance committee and director
Johns-Manville Corp., director
Ecusta Paper Co., president
Purolator Products, Inc., director
Thomas Young Orchids, Inc., director
Mutual Life Insurance Co., trustee
P. H. Hanes Knitting Co., director
- Lapham, Lewis A., director**
Grace Line, Inc., president and director
Federal Insurance Co., director
Barber Oil Co., director
W. R. Grace & Co., director
- Melville, Ward, director**
Melville Shoe Corp., chairman
Bowery Savings Bank, trustee
Suffolk Improvement Co., president and director
McElwain (J. F.) Co., director
W. T. Grant & Co., director
Three Village Inn, owner
1020 Fifth Avenue Corp., director
- Montgomery, George G., director**
Kern County Land Co., president and director
Castle & Cooke, Ltd., director
Matson Assurance Co., director
Matson Navigation Co., director
Oceanic Steamship Co., director
American Trust Co., director
General Electric Co., director
Pacific Lumber Co., director
- Morgan, Thomas A., director**
Lehman Corp., director
Atlantic Mutual Insurance Co., trustee
Bulova Watch Co., director
Centennial Insurance Co., director
Western Union Telegraph Co., director
Shell Oil Co., director
General Aniline & Film Corp., member executive committee and director
United States Industries, Inc., president and director
Jewelers Acceptance Corp., director
- Olin, John M., director**
Olin-Mathieson Chemical Corp., chairman
Equitable Powder Manufacturing Co., president and director
Egyptian Powder Co., president and director
Columbia Powder Co., president and director
Liberty Powder Co., president and director
Illinois State Bank, president and director
First National Bank & Trust Co., director
Midwest Rubber Reclaiming Co., director
St. Louis Union Trust, director
Washington University Corp., director
Ecusta Paper Corp., director
United States Defense Corp., chairman
Liberty Powder Defense Corp., president and director
Midwest Research Institute, trustee
Squibb, S. P. A. (Rome), director
- Pomeroy, Daniel E., director**
American Brake Shoe Co., director
Bucyrus-Erie Co., director
American Museum of Natural History, trustee

41 XQ MONO. SEC.

Puckett, B. Earl, director
Allied Stores Corp., chairman
James Black Dry Goods Co., Waterloo, Iowa, director
L. S. Donaldson Co., Minneapolis, director
L. H. Field Co., Jackson, Mich., director
Golden Rule, St. Paul, director
Herpolsheimer Co., Grand Rapids, director
Jordan Marsh Co., Boston, director
Joske Bros. Co., San Antonio, director
F. N. Joslin Co., Malden, Mass., director
Maas Bros., Inc., Tampa, director
Meyer's Co., Greensboro, N. C., director
Morehouse-Martens Co., Columbus, Ohio, director
Muller Co., Ltd., Lake Charles, La., director
O'Neill & Co., Baltimore, director
Pomeroy's, Inc., Reading, director
A. Polsky Co., Akron, Ohio, director
Rollman & Sons Co., Cincinnati, director
Louis Samler, Inc., Lebanon, Pa., director
Titcher-Goettinger, Co., Dallas, director
A. E. Troutman Co., Greensburg, director
C. M. Guggenheimer Corp., Lynchburg, Va., director
Geo. B. Peck, Inc., Kansas City, Mo., director
Waite's, Inc., Pontiac, director
Heer's Inc., Springfield, Mo., director
C. C. Anderson Stores Co., Boise, director
Polsky Realty Co., Akron, Ohio, director
B. Gertz, Inc.
Bon Marche, Inc., Lowell, Mass., director
Stern Bros., director
Lehman Corp., director
Pee Wee Corp., president and director
Wayne Petroleum Co., president and director
Robinson-Puckett, Inc., director
Twentieth Century-Fox Corp., director
Reed, Philip D., director
General Electric Co., chairman
Metropolitan Life Insurance Co., director
Hoving Corp., director
Tiffany & Co., director
Tompkins, B. A., director
Administrative division (Greater New York Association, Inc.), president and director
Bowery Savings Bank, trustee
General American Investors, director
Otis Elevator Co., director
Babcock & Wilcox Co., director
National Aviation Co., director
Flintkote Co., director
International Paper Co., director
Detroit Edison Co., director
Webb & Knapp, Inc., director
Purolator Products, director
Watson, Jr., Thomas J., director
International Business Machines Corp., president and director
Directory of Directors Co., director
Mutual Life Insurance Co., director
International Correspondence Schools World, Ltd., director
Whiting, Justin R., director
Coun, McKone, Badgley, Domke & Kline, director
Moore Investment Co., director
Michigan Gas Storage Co., director
Consumers Power Co., chairman finance committee and director
National Bank of Jackson, director
Ardey, Alex. H., president and director
Dreibelbis, J. P., senior vice president and director
Alliger, Philetus, vice president
Andel, E. M., vice president
Babcock, Talbot, vice president
Baskin, Herbert K., vice president
Baylis, Chester, Jr., vice president
Beach, E. E., vice president
Bloom, Jacob, vice president
Bonyng, Paul, Jr., vice president

42 XQ MONO. SEC.

Borman, Charles, vice president
Burrows, Herbert C., vice president
Cahill, T. Merton, vice president
Dunckel, W. B., vice president
Dunstan, E. F., vice president
Dye, Roy A., vice president
Ebert, E. F., vice president
Farnum, C. W., vice president
Farrell, E. G., vice president
Farrell, James F., vice president
Fay, Harold C., vice president
Finley, Wm. F., vice president
Flaherty, Frederick D., vice president
Forrestal, F. V., vice president
Garrett, Charles G., vice president
Gevers, M. E., vice president
Gruber, Benjamin B., vice president
Gundersdorf, Harold P., vice president
Hartman, Wm. N., vice president
Hemming, R. W., vice president
Hetzler, Edward T., vice president
Hickson, Daniel C., vice president
Kennedy, Joseph C., vice president
Kenny, W. J., vice president
Kissel, William J., vice president
Kubach, John J., vice president
Kyle, W. H., vice president
Laud-Brown, W., vice president
Leary, Fred J., Jr., vice president
Lee, R. B., vice president and deputy controller
Levine, Irving, vice president
Livingston, W. P., vice president
Martin, M. Scovell, vice president
McKee, Floyd E., vice president
McKinley, Wm., vice president
Miller, Charles G., Jr., vice president
Millikin, J. H., vice president
Morris, R. C., vice president
Mulgrew, Felix A., vice president
Muller, A., vice president
Murray, R. F., vice president
Orr, Everett, Jr., vice president
Pagnamenta, G., vice president
Paul, Julius, vice president
Pfizenmayer, W. J., vice president and deputy controller
Rath, John F., vice president
Reierson, Roy R. L., vice president
Ripley, H. H., vice president
Ruehle, A. G., vice president
Rutherford, W. F., vice president
Salamon, Theodore I., vice president
Sanders, Henry, vice president
Sandler, A. Herbert, vice president
Sauter, J. V., vice president
Schlichting, A. W., vice president
Schliesman, John E., vice president
Schneider, Ernest H., vice president
Schoenfein, Benjamin P., vice president
Shea, Herbert D., vice president
Shepard, F. P., vice president
Shields, Richard, vice president
Silver, Maxwell, vice president
Sime, Thomas E., vice president
Singer, Joseph, vice president
Sitgreaves, E. Jack., vice president
Smith, Irwin W., vice president
Snow, William J., Jr., vice president
Stuart, D. R., Jr., vice president
Summers, Charles, vice president
Tait, Malcolm R., vice president
Tappen, Harry F., vice president
Tuttle, P. M., vice president
Walker, Coleman C., vice president
Woodward, Gordon, vice president
Moses, Henry L., director

43 XQ
MONO. SEC.

First Boston Corp.

Woods, George D., chairman
Kaiser Steel Corp., director
Linsley, Duncan Robertson, vice chairman and director
Sharon Steel Corp., director
Coggeshall, James, Jr., president and director
Commercial Credit Co., director
United States Life Insurance Co., director
Brushaber, Albert Bailey, vice president and director
National Union Fire Insurance Co., director
H. K. Porter Co., director
Cannon, Francis A., vice president and director
Plainfield Savings Bank, director
Glavin, Charles C., vice president and director
Belle Isle Corp., director
J. J. Kennedy Corp., director
Commonwealth Oil Refining Co., director
Wilshire Oil Company of Texas, director
Gerade, Alfred A., vice president
Melrose (Mass.) Savings Bank, vice president, trustee and member
board of investors
Harter, Robert L., vice president
Bonanza Airlines, director
Lyles, James Adam, vice president and director
Southern Nitrogen Co., director
Berkshire School, trustee
Sarah Lawrence Coll., treasurer and trustee
Townsend, Edward, vice president
Transoceanic Development Corp., Ltd., vice president and director
Addinsell, Harry M., director
Phillips Petroleum Co., director
Virginian Railway, director
Bachelder, Charles F., director
Ruberoid Co., member executive committee and director
Holbrook, Luther G., director
General Reinsurance Corp., member finance committee and director
Guaranty Reinsurance Co., Ltd., director
T. Millon & Sons, assistant vice president
Herbert Clough, Inc. (New York City), director
Carlton Products Corp. (Cleveland), director
Orr, James H., director
Colonial Management Associates, partner
Colonial Fund, Inc., president and director
Standard Accident Insurance Co., director
Bond Investment Trust of America, president and trustee
Planet Insurance Co., director
Gas Industries Fund, Inc., president and director
Seaboard Finance Co., director
Accounting Service Corp., trustee
Pitney-Bowes, Inc., director
Draper Corp., director
Commonwealth Oil Refining Co., director
Providence Gas Co., director
Pope, Allan M., director
Insuranshares Certificates, Inc., director
Commerce & Industry Association of New York, member executive
committee and director
Black, Starr & Gorham, Inc., director
Knapp Bros. Shoe Manufacturing Corp., director
Zion Industries, Inc., director
Emerson, Robert Greenough, director
First National Bank of Boston, director
Maryland Casualty Co., director
First of Boston International Corp., director
Suffolk Savings Bank for Seamen & Others, trustee
Baystate Corp., director
Nevada-Massachusetts Co., director
New Ocean House, Inc., director
Sheraton Buildings, Inc., director
Atlas Plywood Corp., director
Plymouth Rubber Co., director

44 XQ
MONO. SEC.

Murray Company of Texas, director
Baltimore Gas & Electric Co., director
Merchants Warehouse Co. (Boston), director
Boston Tidewater Terminal, director
New England Confectionery Co., director
Commonwealth Oil Refining Co., director
Northeastern University, treasurer and trustee
Bradford Junior College, trustee
Pattberg, Emil J., Jr., chairman, executive committee, and director
Potter, William H., Jr., senior vice president and director
Cross, Milton C., vice president and director
Chappell, William B., vice president and director
Day, John A., vice president
Delafield, Richard M., vice president
Dorsey, Cornelius A., vice president
Herron, S. Davidson, vice president
Hodges, Ransom F., vice president
Hovorka, Robert J., vice president and director
Johnson, Thomas J., vice president
King, Francis S., vice president and director
Ladd, Edward H., vice president and director
Lebens, Edward P., vice president
Macy, Norman L., vice president
Maxson, L. Meredith, vice president
McCarthy, Dennis H., vice president
Merritt, Wilbur M., vice president
Miller, Paul L., vice president
Morris, Joseph E., Jr., vice president
Morrison, James C., vice president
Perin, George L., vice president
Richardson, Howard P., vice president
Ruxton, Warren A., vice president
Simpson, George W., vice president
Smyth, Henry G., vice president
Sullivan, Winthrop E., vice president
Tritschler, Frederick M., vice president
Whitbeck, Brainerd H., vice president
Wilkes, Howard L., vice president
Ross, Lawrence O., treasurer
Kirkpatrick, R. J., secretary
Glavin, F. A., financial secretary
Dasburg, Albert, comptroller
Bradlee, W. L., clerk
Ford, Nevil, director
Whitbeck, B. H., director
Woods, J. D., director

**THE TREASURY AND THE FEDERAL RESERVE SYSTEM GET THE ADVICE
OF BIG FINANCIAL INTERESTS**

Another thing the committee has not looked into in connection with these bills is the advisory councils and the advisory committees which help the Federal Reserve System decide what interest rates shall be set and what the money supply shall be, and help the Treasury decide what kind of securities to issue and at what interest rates.

Recently, the Select Committee on Small Business of the House, of which I am privileged to be chairman, issued a report on the interlocking officers and directors between and among the 135 largest private financial companies of the country. Using this list of the officers and directors of these 135 companies in 1956, I have had these compared to the membership lists of the Federal Reserve Advisory Council which is provided for in these bills, as well as so the Treasury's advisory committees. I believe the following summary of the results will strongly suggest to this committee that it should stop, look, and listen before passing a bill to continue any of these advisory committees without making some drastic amendments to the way they are selected and organized.

45 XQ
MONO. SEC.

FEDERAL RESERVE SYSTEM PERSONNEL WHO ARE DIRECTORS AND OFFICERS OF
MAJOR FINANCIAL COMPANIES

As of the middle of 1957, at least 21 individuals who are directors or officers of major financial institutions (the "base" companies of this report) serve on the Federal Reserve System as directors of individual Federal Reserve banks or on the Federal Advisory Council of the Board of Governors. Eight of the total are members of the Federal Advisory Council; 4 are directors of the Federal Reserve Bank of New York; and 3 are directors of the Federal Reserve Board of San Francisco. The remaining 6 are directors of the boards of the Federal Reserve banks of Boston (1), Philadelphia (1), Cleveland (2) and Chicago (2).

The eight members of the Federal Advisory Council, with their major connections with other companies, are as follows:

Robert V. Fleming, president of the Federal Advisory Council, is chairman of Riggs National Bank, Washington, D. C., and is also a director of Metropolitan Life Insurance Co. (largest life insurance company in the United States), of the Southern Railway, of Pan American World Airways, and of the Chesapeake & Potomac Telephone Co.

Frank R. Denton, vice president of the Federal Advisory Council, is vice chairman of the Mellon National Bank & Trust Co. (12th largest commercial bank), and is also a director of the following companies: Union Oil Company of California, Shamrock Oil & Gas Corp., Diamond Alkali Co., Jones & Laughlin Steel Corp., Westinghouse Electric Corp., Pullman, Inc., Western Allegheny Railroad, and National Union Fire Insurance Co.

Herbert V. Prochnow, secretary of the Federal Advisory Council, is a vice president of the First National Bank of Chicago (sixth largest commercial bank).

Lloyd D. Brace, president of First National Bank of Boston (14th largest commercial bank) is also a director of the John Hancock Mutual Life Insurance Co. (fifth largest life insurance company), of the American Telephone & Telegraph Co., of Gillette Co., the United Shoe Machinery Corp., the Pullman Co., and the Boston Five Cents Savings Bank.

Frank L. King, president of the California Bank, Los Angeles (22d largest commercial bank), is also a director of Pacific Mutual Life Insurance Co., Pacific Indemnity Co., and the Times Mirror Co.

Homer J. Livingston, president of the First National Bank of Chicago (sixth largest commercial bank), is also a director of Continental Casualty Co. (12th largest fire and casualty insurance company), of Standard Oil Company of Indiana, Sears Roebuck & Co., and Continental Assurance Co.

Adrian M. Massie, chairman of New York Trust Co. (31st largest commercial bank), is also a trustee of the Greenwich Savings Bank (eighth largest mutual savings bank) and a director of the United States Life Insurance Co.

William R. K. Mitchell, chairman of Provident Trust Co., Philadelphia, is a director of Provident Mutual Life Insurance Co. (18th largest life insurance company), and of the Fire Association of Philadelphia.

I. Federal Reserve Bank of Boston

Milton P. Higgins is a director of the Liberty Mutual Insurance Co. (fifth largest fire and casualty insurance company), president of the Norton Co., and director of the Boston Manufacturers Mutual Insurance Co., and the New England Telephone & Telegraph Co.

II. Federal Reserve Bank of New York

Clarence Francis, a director and former chairman of General Foods Corp., is also a director of Mutual Life Insurance Company of New York (ninth largest life insurance company), of Lehman Corp. (13th largest investment trust), and of Mead Corp., Air Reduction Co., United States Rubber Co., Bendix Aviation Corp., and Northern Pacific Railway.

Howard C. Sheperd, chairman of the First National City Bank of New York (third largest commercial bank), is also a trustee of the East River Savings Bank (ninth largest mutual savings bank), and also a director of the Corning Glass Works, Anaconda Co., New Jersey Zinc Co., United Aircraft Corp., Federal Insurance Co., Union Pacific Railroad and Consolidated Edison Company of New York.

Lansing P. Shield, president of Grand Union Co., is a director of the Prudential Insurance Company of America (second largest life insurance company), and of American Reinsurance Co.

Charles H. Diefendorf, on the board of directors of the Buffalo Branch of the Federal Reserve Bank of New York, is chairman of the executive committee of Marine Trust Company of Western New York (35th largest commercial bank), and also a director of Marine Midland Trust Co., Marine Midland Corp., General Baking Co., Dunlop Tire & Rubber Corp., International Salt Co., Carborundum Co., Niagara Share Corp., and the Erie Railroad.

46 XQ

MONO. SEC.

III. Federal Reserve Bank of Philadelphia

Geoffrey S. Smith, president of the Girard Trust Corn Exchange Bank, is also on the board of managers of the Philadelphia Saving Fund Society (second largest mutual savings bank), and a director of National Life Insurance Co. and of the Bell Telephone Company of Pennsylvania.

IV. Federal Reserve Bank of Cleveland

Arthur B. Van Buskirk, chairman of the Federal Reserve Bank of Cleveland and Federal Reserve agent, is also a director of the Equitable Life Assurance Society of United States (third largest life insurance company), of Pittsburgh Consolidation Coal Co., of Koppers Co., and of General Reinsurance Corp.

Joseph H. Thompson, deputy chairman of the Federal Reserve Bank of Cleveland, is chairman of the M. A. Hanna Co. and also a director of the National City Bank of Cleveland (34th largest commercial bank), of the Labrador Mining & Exploration Co., National Steel Corp., American Ship Building Co., Butler Bros., and the Pennsylvania Railroad.

V. Federal Reserve Bank of Richmond

None.

VI. Federal Reserve Bank of Atlanta

None.

VII. Federal Reserve Bank of Chicago

Walter J. Cummings, chairman of Continental Illinois National Bank & Trust Co. (eighth largest commercial bank), is also a director of the Texas Co., ACF Industries, Inc., the Chicago, Milwaukee, St. Paul & Pacific Railroad, and Commonwealth Edison Co.

Raymond T. Perring, on the board of directors of the Detroit branch of the Federal Reserve Bank of Chicago, is the president of the Detroit Bank & Trust Co. (21st largest commercial bank), and also a director of Standard Accident Insurance Co. and of Detroit Edison Co.

VIII. Federal Reserve Bank of St. Louis

None.

IX. Federal Reserve Bank of Minneapolis

None.

X. Federal Reserve Bank of Kansas City

None.

XI. Federal Reserve Bank of Dallas

None.

XII. Federal Reserve Bank of San Francisco

A. H. Brawner, chairman of the board of the Federal Reserve Bank of San Francisco and Federal Reserve agent, is vice president of the Fireman's Fund Insurance Co. (13th largest fire and casualty insurance company), and also director of California Packing Corp., W. P. Fuller & Co., and Caterpillar Tractor Co.

James E. Shelton, on the board of directors of the Los Angeles branch of the Federal Reserve Bank of San Francisco, is the chairman of the Security-First National Bank of Los Angeles (10th largest commercial bank), and also a director of Rexall Drug Co., of Southern California Edison Co., and on the advisory board of the American Mutual Fund, Inc.

Edward C. Sammons, on the board of directors of the Portland branch of the Federal Reserve Bank of San Francisco, is president of the United States National Bank of Portland (27th largest commercial bank), and also director of the North-western Mutual Life Insurance Co. (6th largest life insurance company), and of the Pacific Telephone & Telegraph Co.

In summary, the above information shows that these 21 directors of Federal Reserve banks and members of the Federal Advisory Council of the Board of Governors of the Federal Reserve System are officers or directors of 26 of the 135 base companies of this study. These include 12 of the 35 largest commercial banks of the Nation, 3 of the 9 largest mutual savings banks, 7 of the 18 largest life-insurance companies (including the first, second, third, fifth and sixth largest), 3 of the 13 largest fire and casualty insurance companies, and the 13th largest investment trust.

47 XQ MONO. SEC.

MEMBERS OF THE ADVISORY COMMITTEE FOR THE STUDY OF FEDERAL STATUTES CONCERNING FINANCIAL INSTITUTIONS AND CREDIT OF THE SENATE COMMITTEE OF BANKING AND CURRENCY WHO ARE INTERLOCKING DIRECTORS AND OFFICERS OF MAJOR FINANCIAL COMPANIES

Of the 27 members of the Advisory Committee for the Study of Federal Statutes Concerning Financial Institutions and Credit,¹ 7 are officers and directors of 1 or more of the 135 major financial companies.² These seven men, together with their more important interlocking corporate connections are:

¹ The full list of members of the advisory committee is published in U. S. Congress, Senate Committee on Banking and Currency. Study of banking laws; hearings, pt. 1, Nov. 9-10, 1956, p. 3-4.

² The 135 top financial companies were chosen as of December 31, 1956, and were selected on the basis of deposits in the case of banks, and admitted assets in the case of insurance companies.

1. Joseph A. Broderick, chairman of the board, East River Savings Bank, New York (11th largest mutual savings bank).

2. Reese H. Harris, Jr., senior vice president, Connecticut Bank & Trust Co., who is also a director of the Connecticut General Life Insurance Co. (the 14th largest life-insurance company), and a trustee of the Society for Savings, Hartford, Conn.

3. Norris O. Johnson, vice president, First National City Bank, New York, N. Y. (third largest commercial bank).

4. Homer J. Livingston, president, First National Bank of Chicago (sixth largest commercial bank), who is also a director of the Continental Casualty Co. (12th largest fire and casualty company), of Standard Oil Company of Indiana, of Sears Roebuck & Co., and of the Continental Assurance Co.

5. John J. McCloy, chairman of the board, Chase Manhattan Bank (second largest commercial bank), who is also a director of Metropolitan Life Insurance Co. (largest life-insurance company in the United States), of United Fruit Co., of Allied Chemical & Dye Corp., of Westinghouse Electric Corp. and of American Telephone & Telegraph Co.

6. James E. Shelton, chairman of the board, Security-First National Bank of Los Angeles (10th largest commercial bank) is also a director of Rexall Drug Co., of the Southern California Edison Co., and on the advisory board of the American Mutual Fund, Inc.

7. Ben Wooten, president, First National Bank in Dallas (26th largest commercial bank) is also a director of the Gulf, Colorado & Santa Fe Railway, a subsidiary of the Atchison, Topeka & Santa Fe Railway.

Thus, these seven men between them are senior officers of the 2d, 3d, 6th, 19th, and 26th largest commercial banks in the country and of the 11th largest mutual savings bank (based on deposits at the end of 1956), and are also directors of the 1st and 14th ranking life-insurance companies and of the 12th ranking fire and casualty insurance company.

It should also be noted that this 27-member advisory committee includes directors of two Federal Reserve banks:

Vivian Johnson, president, First National Bank, Cedar Falls, Iowa, is a director of the Federal Reserve Bank of Chicago.

James E. Shelton, chairman of the board of Security-First National Bank of Los Angeles is on the board of the Federal Reserve Bank of San Francisco, Los Angeles branch.

In addition, Homer J. Livingston, president, First National Bank of Chicago, is a member of the Federal Advisory Council of the Board of Governors of the Federal Reserve System.

MEMBERSHIP OF ADVISORY COMMITTEES TO THE TREASURY DEPARTMENT WHO ARE ALSO OFFICERS AND DIRECTORS OF "BASE" COMPANIES

There are at present four committees of major financial organizations which advise the Secretary of the Treasury on debt-management policies and operations. These are the Government Borrowing Committee of the American Bankers Association, the Governmental Securities Committee of the Investment Bankers Association of America, the Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks, and the Joint Committee on Economic Policy of the American Life Convention and the Life Insurance Association of America. These 4 associations have a combined membership of 75. Of these 75, 45 hold positions as directors or officers in 22 of the 34 largest commercial banks, 9 of the 14 largest life insurance companies, 6 of the 17 largest mutual savings banks, 2 of the 14 largest investment bankers, the 2d largest investment trust and the 12th largest fire and casualty insurance company.

48 XQ MONO. SEC.

In a number of cases, these large financial institutions were represented by more than one member on these committees. Thus, for example, 4 officers or directors of Chase Manhattan Bank are represented on 3 of these committees; 3 officers or directors of Metropolitan Life Insurance Co. are represented on 2 of them. The following companies are represented by two directors or officers on these committees: Bank of America National Association & Trust Co., Guaranty Trust Co., Continental Illinois National Bank & Trust Co., Security-First National Bank, Los Angeles, First National Bank of Boston, J. P. Morgan & Co., Bowery Savings Bank, Massachusetts Investors Trust, and New England Mutual Life Insurance Co.

The specific connections of each of these 45 individuals are shown in the following sections, one for each of the advisory committees.

A. Government Borrowing Committee of the American Bankers Association

The Government Borrowing Committee of the American Bankers Association was formed in November 1942. As of the middle of 1957 it had a membership of 21. Of these 21, 12 are officers or directors of "base companies" of this study. These 12 members with their major connections with other companies are as follows:

Robert V. Fleming, Chairman of the Government Borrowing Committee, is chairman of the Riggs National Bank, Washington, D. C. and also a director of Metropolitan Life Insurance Co. (largest life insurance company), of the Southern Railway, the Pan American World Airways, Inc., and the Chesapeake & Potomac Telephone Co.

Henry C. Alexander, chairman of J. P. Morgan & Co. (30th largest commercial bank) is also a director of American Viscose Corp., Johns-Manville Corp., and General Motors Corp.

S. Clark Beise is president of the Bank of America National Trust & Savings Association (largest commercial bank).

Fred F. Florence, president of the Republic National Bank of Dallas, Tex. (28th largest commercial bank), is also a director of Lone Star Steel Co., and of the Missouri-Kansas-Texas Railroad.

H. Frederick Hagemann, Jr., president of the Rockland-Atlas National Bank, Boston, is also a member of the finance committee and director of the New England Mutual Life Insurance Co. (11th largest life insurance company), on the advisory board of Massachusetts Investors Trust (2d largest investment trust), of Provident Institution for Savings, and of the Massachusetts Bonding & Insurance Co.

N. Baxter Jackson, chairman of the executive committee of Chemical Corn Exchange Bank (fifth largest commercial bank), is also a director of American Chicle Co., of Interchemical Corp., of Aluminum, Ltd., of Western Electric Co., of Alco Products, Inc., of McCrory Stores Corp., and of General Reinsurance Corp.

David M. Kennedy is a vice president of Continental Illinois Bank & Trust Co. (eighth largest commercial bank).

William Fulton Kurtz, chairman of the executive committee of First Pennsylvania Bank & Trust Co. (19th largest commercial bank), is also a trustee of the Penn Mutual Life Insurance Co. (13th largest life insurance company), a director of Proctor & Schwartz, Inc., of the Philco Corp., of Western Saving Fund Society, of the Fire Association of Philadelphia, and of the Reading Co.

Homer J. Livingston, president of the First National Bank of Chicago (6th largest commercial bank), is also a director of the Continental Casualty Co. (12th largest fire and casualty company), of Standard Oil Company of Indiana, of Sears Roebuck & Co., and of the Continental Assurance Co.

John J. McCloy, chairman of the board, Chase Manhattan Bank (second largest commercial bank), is also a director of Metropolitan Life Insurance Co. (largest life insurance company), of United Fruit Co., of Allied Chemical & Dye Corp., of Westinghouse Electric Corp., and of American Telephone & Telegraph Co.

Earl B. Schwultz, chairman and president of Bowery Savings Bank (largest mutual savings bank), is also a director of the Savings Banks Trust Co.

James E. Shelton, chairman of the Security-First National Bank, Los Angeles (10th largest commercial bank), is also a director of Rexall Drug Co., of Southern California Edison Co., and on the advisory board of the American Mutual Fund.

Robert V. Fleming and *Homer J. Livingston* are also members of the Federal Advisory Council of the Board of Governors of the Federal Reserve System.

James E. Shelton is also on the board of directors of the Los Angeles Branch of the Federal Reserve Bank of San Francisco.

Homer J. Livingston, *John J. McCloy* and *James E. Shelton* are also members of the Advisory Committee for the Study of Federal Statutes Concerning Financial Institutions and Credit of the Senate Committee on Banking and Currency.

49 XQ MONO. SEC.

Between them these 12 men are represented on the boards of directors of 9 of the 30 largest commercial banks of the United States, including the 2 largest; of 3 of the 13 largest life insurance companies, (2 of the 12 men being directors of the largest life insurance company) of the largest mutual savings bank; of the 2d largest investment trust, and of the 12th largest fire and casualty insurance company.

B. Governmental securities committee, Investment Bankers Association of America

The governmental securities committee of the Investment Bankers Association was first appointed in 1918 and consulted and advised with the Treasury on a variety of problems from 1918 to 1922. Beginning in 1947, it again commenced to consult and advise with the Secretary of Treasury whenever requested to do so. The committee now has 25 members of whom 18 are officers or directors of "base" companies of this study. These 18 members with their major connections with other companies are as follows:

Emil J. Pattberg, Jr., chairman of the committee, is chairman of the executive committee of the First Boston Corp. (the largest investment banker, based on underwritings managed during 1956).

Robert B. Blyth is a vice president of the National City Bank of Cleveland (34th largest commercial bank).

Milton S. Bosley is a vice president of the National Bank of Detroit (11th largest commercial bank).

Dwight W. Chapman is a senior vice president of the American Trust Co. (16th largest commercial bank).

W. Wayne Glover is a vice president of the California Bank, Los Angeles (22d largest commercial bank).

Hardin H. Hawes is a vice president of the Harris Trust & Savings Bank, Chicago (33d largest commercial bank).

Russel A. Kent is a vice president of the Bank of America National Trust & Savings Association (largest commercial bank in the United States).

Frederick G. Larkin, Jr. is a vice president of the Security-First National Bank (10th largest commercial bank).

Ralph F. Leach is a treasurer of the Guaranty Trust Co. of New York (seventh largest commercial bank).

Pat G. Morris is a vice president of the Northern Trust Co. (32d largest commercial bank).

Robert C. Morris is a vice president of the Bankers Trust Co. (ninth largest commercial bank).

Delmont K. Pfeffer is a vice president of the First National City Bank of New York (third largest commercial bank).

George B. Kneass is a vice president of the Philadelphia National Bank (20th largest commercial bank).

John H. Perkins is a vice president of the Continental Illinois National Bank & Trust Co. (eighth largest commercial bank).

L. Sumner Pruyn is a vice president of the First National Bank of Boston (14th largest commercial bank).

F. Brian Reuter, a vice president of the Mellon National Bank & Trust Co. (12th largest commercial bank), is also a director of the Pennroad Corp.

Girard L. Spencer is a general partner of Salomon Bros. & Hutzler (14th largest investment banker).

Together these officers and directors represent 16 of the 34 largest commercial banks in the United States, including the 3 largest, and 2 of the 14 largest investment bankers, including the largest one.

C. Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks

The Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks was established in 1942 under the name of Committee on War Effort Cooperation. In 1946, this Committee was merged with the Committee on Government and Municipal Securities and in 1947 the name of the Committee was changed to the one it now has. The committee has a membership of 17. Of this total, six are officers or directors of "base" companies of this study.

These six officers or directors and the major positions they hold in other companies are as follows:

John H. Duerk, is vice president of Howard Savings Institution, Newark, N. J. (17th largest mutual savings bank).

W. H. Harder, a vice president of the Buffalo Savings Bank (16th largest mutual savings bank), is also a director of Institutional Investors Mutual Fund, Inc.

Richard A. Holton, a vice president of the East New York Savings Bank, Brooklyn (ninth largest mutual savings bank), is also a director of Institutional Investors Mutual Fund, Inc.

Alfred C. Middlebrook, a vice president of East River Savings Bank (11th largest mutual savings bank), is also executive vice president and director of Institutional Investors Mutual Fund, Inc.

60 XQ MONG SEC

John Ohlenbusch is a vice president of Bowery Savings Bank (largest mutual savings bank).

A. Edward Scherr, Jr., a vice president and treasurer of Dime Savings Bank of Brooklyn (fourth largest mutual savings bank), is also a director and vice president of Institutional Investors Mutual Fund, Inc.

These 6 individuals combined are officers in 6 of the 17 largest mutual savings banks in the country, including the largest one.

D. Joint committee on economic policy of the American Life Convention and the Life Insurance Association of America

The joint committee on economic policy was organized in 1945 under the name of a joint treasury liaison committee. This was renamed the joint committee on monetary affairs in the same year and was given its present name in September 1952 with broadened functions, including the formulation of views of the life-insurance business regarding monetary, fiscal, and housing policies of the Federal Government. At present the committee has 12 members of whom 9 are officers or directors of base companies of this study. These nine members and their major connections with other companies are:

Carrol M. Shanks, chairman of the joint committee, is president of the Prudential-Insurance Company of America (second largest life insurance company), and also a director of the Guaranty Trust Co. (seventh largest commercial bank), of National Biscuit Co., of Bigelow Sanford Carpet Co., of Georgia Pacific Corp., of Union Carbide & Carbon Corp., of Fidelity Union Trust Co., of Federal Insurance Co., and of Public Service Electric & Gas Co.

O. Kelley Anderson, president of New England Mutual Life Insurance Co. (11th largest life insurance company), is also a director of Canada General Fund, Ltd., Consolidated Investment Trust, Century Shares Trust, and Boston Edison Co.

Paul F. Clark, president of John Hancock Mutual Life Insurance Co. (5th largest life insurance company), is also a director of First National Bank of Boston (14th largest commercial bank), of the Massachusetts Investors Trust (2d largest investment trust), of Armour & Co., of Boston Insurance Co., and of Seaboard Air Line Railroad.

Louis W. Dawson is president of the Mutual Life Insurance Company of New York (ninth largest life insurance company).

Frederic W. Ecker, president of Metropolitan Life Insurance Co. (largest life insurance company) is also a director of Chase Manhattan Bank (second largest commercial bank) and a trustee of Excelsior Savings Bank.

Devereux C. Josephs, chairman of the board, New York Life Insurance Co. (4th largest life insurance company), is also a director of J. P. Morgan & Co. (30th largest commercial bank), of American Brake Shoe Co., of American Smelting & Refining Co., and of Consolidated Edison Company of New York.

Ray D. Murphy, chairman of the board, Equitable Life Assurance Society of the United States (third largest life insurance company) is also a director of Chase Manhattan Bank (second largest commercial bank).

Frazar B. Wilde, president, Connecticut General Life Insurance Co. (14th largest life insurance company), is also a director of Connecticut Bank & Trust Co., of Plax Corp., and of Emhart Manufacturing Co.

James Ralph Wood, president of Southwestern Life Insurance Co., is also a director of First National Bank in Dallas (26th largest commercial bank), and of Chance Vought Aircraft, Inc.

Altogether these 9 individuals are situated on the boards of directors of 8 of the 14 largest life insurance companies of the country (including the five largest), of 5 of the 20 largest commercial banks, and of the second largest investment trust. Two of the individuals are on the board of the second largest commercial bank.

CONSIDERATION SHOULD BE GIVEN TO THE FDIC RESERVES

Now, the FDIC only has \$1.44 to protect every \$100 of bank deposits in insurance. That is a pretty small amount.

The Federal Savings and Loan Insurance Corporation has 60 cents to protect every \$100 of liability. That is a pretty small amount.

Now, in each case, the FDIC has a commitment from the United States Treasury. It is written into the law. It does not cost them a penny.

Bankers charge people for commitments, but the bankers are not charged for commitments in this case. They have a commitment of \$3 billion that they can go down to the Treasury and pick up at any time they need it; provided, of course, that the Treasury has it, or can raise it under the existing debt limit.

61 XQ
MONO. SEC.

The Federal Savings and Loan Insurance Corporation has \$750 million.

I think we should at least consider increasing these fees until the FDIC has enough money to release the Government from that liability, and have at least a substantial sum in there to guarantee all this insurance that has been put out on homes and farms and also to depositors. We should at least do that.

So far, we have had very good luck, since the FDIC was established; we have not had any serious business reversals which would put a great strain on the banks. But we cannot be sure that we will always be so lucky.

THE COMMITTEE HAS A BIG RESPONSIBILITY

Mr. Chairman, we have, as Members of Congress, representing the people of our districts and representing the people of the United States, and as members of this committee representing the House of Representatives, we have some grave responsibilities. As matters stand, we are permitting this Federal Reserve System to continue to go footloose and fancy free, spend all the money they want, and without any accounting to anybody.

Now, all other Government agencies have to go through the Appropriations Committee. They have to have their expenditures screened that way. But not so with the Federal Reserve Banking System, which is wholly owned by the Government and operates on the Government's money. And not so the Comptroller of the Currency, who does not have his funds audited or his handling of billions of dollars of currency audited, and who is not checked on the question whether he is carrying out his legal responsibilities in the laws he is administering.

There is no way for Members of Congress to find out how these Federal agencies spend this money or administer the laws entrusted to them. We just accept their word for these matters.

I do not believe our constituents want us to allow these things to continue. I do not believe the Members of the House want us to allow it. It does not look sensible that we would just turn people loose without safeguards and public accounting.

Suppose that someone would suggest that the Congress could go over and take from the Bureau of Engraving and Printing enough Federal Reserve notes to buy enough Government bonds that the interest on those bonds would pay the expenses of Congress and a lot more besides.

We would not have a chance of getting by with that. It would not look sensible at all, and it would not be sensible.

But that is exactly what we do with the Federal Reserve. We just turn them loose, let them go over there and get all the money they want, print it on Government credit and use it to buy Government bonds. Then we let them keep the Government bonds, collect the interest from the Treasury of the United States, use the interest as they want to use it. To pay entertainment fees, to pay honorariums of \$2,000, have banquets, pay not only the Directors' expenses to all kinds of banker's association meetings but also their wives expenses; and I do not know what else. They pay money for anything they want to.

Now, if that makes sense, I do not have any sense. It is just not sense, that is all.

Normally, we would not allow that in our own business and we should not allow it in the Government's business. This is the Government's business.

52 XQ MONO. SEC.

Now, the whole thing in the banking system, Mr. Chairman, is for the local banks to sell out to some outside bank. Outside people get in control—absentee ownership and monopoly. And I think the examiners are in part the cause of this.

When they go into a local bank, they say "You ought to build up a big secondary reserve." And you will find that the banks today have \$60 billion worth of United States Government bonds.

Now, I do not object to the banks having some Government bonds. But I do object to their being so loaded with bonds that local people needing the credit these local institutions cannot get it. That is exactly the position of many of these banks today.

Some of them have Government bonds, 50 percent, 60 percent, 75 percent, and we have heard of institutions, banking institutions having 100 percent in United States Government securities. Now, that is not rendering service to the people.

The Comptroller of the Currency does not look after the people's interest. He does not determine whether or not they are being charged usurious interest. He does not determine whether or not the banks are furnishing the local community enough money and investing too much in outside securities.

The Federal Reserve banks are not doing it. All they are doing is making it possible for the banks to get into fewer and fewer hands—encouraging absentee ownership, and that should be stopped. We can write into this bill a provision that will stop it.

I ask only that consideration be given to these amendments. I urge particularly the amendment for the small business capital banks. That bill is not only sponsored by the Small Business Committee of the House, after careful consideration, but it is sponsored by the majority leader in the United States Senate and many other Members of that body. It is looked upon as a good bill; it is very much needed, and I think we should pass it. I will offer it as an amendment to these financial institutions bills at the proper time, in connection with the consideration and reading of the bills.

Now, if there are any questions, Mr. Chairman, I will be very glad to yield.

The CHAIRMAN. You may propose your amendments and in executive session we will consider them.

Are there any questions?

Mr. BETTS. You mentioned the supreme court case. I would just like to read into the record what the Supreme Court of Virginia said.

The question cannot arise here because national banking associations organized under the laws of the United States and doing business in a place, the population of which does not exceed 5,000 inhabitants, are expressly granted this power.

See title 12, United States Code, section 92.

Mr. PATMAN. Section 92 was in the code at the time. It was erroneously in the code. The code is only prima facie evidence of what the law is. It was in the code at that time, and the judge presumed the code was correct, because there was no issue made of it. The litigants did not contest it. They accepted the code as correct.

But the code is just prima facie evidence. If the litigants had raised the question of whether the code was correct, the judge would have gone to the statutes; decided whether or not this provision was existing law, and the judge would have found it was not a valid statute.

Mr. BETTS. I know the gentleman wants to be fair and I understood when the chairman mentioned this, you denied it.

Mr. PATMAN. I denied that the court passed to the validity of the statute.

Mr. BETTS. It did, because it said it was in effect, and I just wanted to read it into the record.

Mr. PATMAN. Is the gentleman a lawyer?

Mr. BETTS. Yes.

53 XQ
MONO. SEC.

Mr. PATMAN. You know that a code is prima facie evidence. The section was erroneously in the code at that time, and the judge accepted it as prima facie evidence of the law, because no one raised a question to cause him to go to the underlying statutes, which are the final authority on what is law.

Now, if either side had raised a question about it and said, "Although the code is prima facie evidence, it is not a valid part of the code," then the judge would have taken up that question and passed on the question on the basis of the statutes. But that question was not raised.

The gentleman won't even contend it was raised.

Mr. BETTS. But the point I make is, if the Supreme Court of Virginia felt it was the law, I do not think it is fair for the gentleman from Texas to imply to these witnesses here that they were unfair holding it was the law.

Mr. PATMAN. Let us take the gentleman's argument. Let us send back here and get the code of 1952, and you will find it is not in the code of 1952. Therefore the presumption is, it is not the law. That being the case, the gentlemen who put this forward as being the law have the burden of showing that the code is wrong, and that they cannot do, because the statute of 1918 is just as plain as can be—the insurance provision was repealed in 1918.

You see, the codification carries with it prima facie evidence of validity, and this 1952 code which the chairman says—it is shocking to me to hear him say the staff knew this and did not tell us about it—that is the most shocking thing I have heard on Capitol Hill in 30 years.

The CHAIRMAN. What did you say was so shocking?

Mr. PATMAN. The fact that you said that the staff knew that this was not in the code and did not tell us about it, as members of the committee.

Now, it is not in the code; it was left out, because it was repealed 40 years ago, and here we are.

The CHAIRMAN. They made a complete memorandum and told why it was not in there.

Mr. PATMAN. You mean after the question was raised?

The CHAIRMAN. Your sensibilities must be quite strong to be shocked by that.

Didn't you say that since they did not report this the way you believed it to be, it was shocking and impugned the honor of the Senate and the House and the committee of the House?

People have differences of opinion, you know. They should not be shocked because somebody else has a difference of opinion.

This opinion, I am sure, was made by the staff in good faith. They had no interest in it.

Mr. PATMAN. I just cannot believe that the staff knew it and did not call our attention to it.

Now, Mr. Vanik said the other day that he felt, as a Member of Congress, that he had the right to rely on these reports and comparative prints of the bills.

Now, the report of the Senate said that this language pertaining to insurance continues a provision in the code.

Now, of course, that is not correct, because it is not in the code—the 1952 code, which is the latest code. And the code says it is not the law. That is the last expression of the law we have in the law offices of the Nation for the gentlemen to be governed by.

The CHAIRMAN. You may think you have found a hydrogen bomb, but I think it is a dud. I do not think it amounts to anything. I do not think it is so important.

Mr. PATMAN. If you want the banks to write life insurance and other things, it is not important?

54 XQ MONO. SEQ.

The CHAIRMAN. It has nothing to do with that question, in my mind. I do not express any favor of the bank's writing insurance. I do not believe the banks ought to write insurance. That is not the question involved here. The question is a question of law.

Mr. PATMAN. Like it is now, it is not the law.

The chairman of the Judiciary Committee made an argument on that yesterday and I do not think it can possibly be answered. It is not the law.

Now, then, if we put this in an enacting clause like it is here and enact it, it will be the law.

The reason that the national banks have never used the erroneous authority shown in the code prior to 1952 is because they have smart lawyers. Their lawyers looked into it and say, "That is not the law. You'd better stay out of that business."

Therefore, only 77 banks in the entire Nation are now operating under that old code, according to the Comptroller of the Currency.

The CHAIRMAN. That is not a very material matter because we are free to deal with it as we please.

Mr. PATMAN. It goes to the integrity of this committee, too, and the integrity of Congress.

The CHAIRMAN. We are free to deal with it as we please.

Are there any further questions?

You may stand aside, Mr. Patman, and you may insert your amendments into the record that you intend to introduce.

Mr. PATMAN. I hope you will read what I put in the Congressional Record yesterday, on the question of who owns the Federal Reserve System. The private banks do not; the Federal Reserve System is owned by the Government.

I put in documentary proof on that. I cited such witnesses as Mr. Eccles, Mr. Martin, Mr. Goldenweiser, Mr. Allen Wiggins, and Mr. Folsom.

DETAILS OF SELECTED ITEMS OF EXPENSE REPORTED FOR THE 12 FEDERAL RESERVE BANKS

Mr. Chairman, on August 6 of last year Chairman Martin of the Federal Reserve Board was before this committee testifying on this financial institution bill. On that occasion I made a suggestion for shortening the time of Mr. Martin's appearance, and also for saving the committee's time, which was to hand to Chairman Martin some of the questions I had written out to ask him. You expressed yourself, Mr. Chairman, as being agreeable to my suggestion, as did Chairman Martin. So I handed him, at that time, a list of 44 questions.

To date—although more than 6 months have passed—I have not received the answers to the first 27 questions on that list. I have been advised from time to time that the answers would be forthcoming shortly, the last such advice being contained in a letter from Chairman Martin dated January 23, 1958. But I still do not have the answers. Yet each and every one of these 27 questions pertain to matters authorized or proposed to be authorized by title II of this financial institutions bill, which is the Federal Reserve Act portion of the bill. Furthermore these 27 questions do not have a mere shadowy pertinence to title II of the bill, they go—at least to my mind—to the very heart of the most important matters involved in this legislation.

Now I should like to insert at this point in the record the entire 44 questions, after which I will review the status of the remaining questions.

55 XQ
MONO. SECTION

QUESTIONS FOR MR. MARTIN

1. Mr. Martin, in your prepared statement you suggest that the bill be amended to provide specific authority for the repurchase agreements. You further say in your prepared statement that the repurchase agreement has some of the attributes of a loan.

Does the repurchase agreement have the attributes of anything else other than a loan, and if so what?

2. Last week I obtained from the Board a list of the names of all of the dealers who do business with the Open Market Committee. I note that there are 15 dealers on the list; 5 are called bank dealers, and the other 10 are firms of another character—I suppose they would be called securities brokers, or investment bankers.

Are these all of the firms the Open Market Committee does business with—you sell Government securities to no one else and you buy from no one else?

3. Has this list of names ever been made public; and does the Open Market Committee regularly publish the names of the dealers it does business with?

4. What are the requirements that a dealer or a bank must meet in order to trade with the Open Market Committee?

5. What is the nature of the general agreement that a dealer must sign, if this is still a requirement, before he can trade with the Open Market Committee?

6. Why is it that the Open Market Committee does not buy and sell United States Government securities directly from or to the member banks?

7. What are the circumstances under which the open market desk buys securities from a dealer under a repurchase agreement and what is the rationale insofar as the member banks or the public interest is concerned, for a practice which is, in effect, a practice of making loans to dealers in Government securities?

8. What has been the total dollar volume of purchases under repurchase agreements in the 12 months ended June 30, 1957?

9. Please supply for the record a description of each of the 15 dealers and bank dealers now trading with the open market desk, giving for each the financial condition, the capitalization, the average value of United States Government securities held for the dealer's own account in the last 12 months, the average and the maximum amount of securities held for each under repurchase agreements, and the dealer's gross profits, in the past year, from dealing in United States Government securities.

10. Do the dealers and bank dealers trade with the open market desk both as principals and commission brokers? If so, who decides whether in particular trades the dealer is to act as agent or principal; what are the controlling circumstances; where a commission is paid, what is the amount of the commission; and, if commissions are paid, what was the total value of securities traded with each of the 15 dealers in the past 12 months (a) where the dealer acted as broker and (b) where the dealer acted as principal?

11. What is the minimum amount of Government securities a dealer is required to hold for his own account?

12. Does the Open Market Committee receive regular, formal reports on the amount of Government securities each dealer is holding for his own account?

13. How does the Open Market Committee transact its sales and purchases—is this an auction market, or are prices negotiated with the dealers, or what?

14. Are the prices which the Open Market Committee pays or receives for United States Government securities promptly made public—that is, can the banks read quotations in the newspapers and know what prices the Open Market Committee is receiving and paying?

15. What section of the law provides for the Open Market Committee to buy and sell Government securities to dealers, rather than to member banks?

16. Is it the Board's position that 15 dealers are enough to insure a competitive market, and that there is no serious risk that the Open Market Committee may at times be up against a "rigged" market, or a market influenced by other important noncompetitive factors?

17. Can you name any other organized market, where there are trading rules and penalties for violating trading rules, where the traders are as few as 15?

18. Are there trading rules for dealers trading with the open market desk? If so, please supply a copy of the rules.

19. In case some of the 15 dealers who deal with the Open Market Committee should try to "rig" the market, what are the penalties?

20. Under present organization and procedures, is there any danger of informational leaks, or any danger that dealers who trade with the open market desk will receive information, in advance of the banking community generally, that the Open Market Committee has decided to support the market for Government securities?

21. Have regulations been issued on the subject of employees of the Reserve System owning or trading in Government securities? If so, please supply a copy of the regulations.

22. Are there special regulations applicable to members of the Open Market Committee or to the manager of the open market account?

23. What steps have been taken, if any, to encourage trading with the open market desk by larger numbers of dealers and banks?

56 XQ MONO. SECTION

24. The report of the Open Market Ad Hoc Subcommittee (1952) states that before the market opens each day, meetings are held with the recognized dealers at which there is an exchange of information. This report further states that the "comments of the Committee's representatives in attendance are very guarded." What safeguards are there to assure the Board that the Committee's representatives speak so guardedly that the dealers obtain no advantages from these pre-market conferences?

25. What are the safeguards which assure that the reports given representatives of the Open Market Committee by the dealers are accurate and not self-serving?

26. If the Board of Governors were to become the Open Market Committee, what disadvantages could be expected to flow from this change in jurisdictional responsibility over open market operations?

27. What changes in present methods of operation would be necessary to induce, say, 50 commercial banks to enter actively into the trading with the open market desk?

28. Please supply, if possible, the number and amount of applications for loans, discounts, and advances which the Federal Reserve banks received last year but turned down. Also, if the banks make any tabulation as to the reason for denying a request, I would like to know the number and amount of the applications denied for each of the different reasons. If it is not possible to supply exact information as to the number and amount of applications which were denied, then there should be a statement from the President of each Reserve bank stating whether or not any request of member banks was turned down, giving his impression as to the approximate number and amount of such requests.

29. Mr. Martin, with reference to the record of the transactions of the open market from the date of the Treasury-Federal Reserve accord, in 1952, which record I requested last Friday, in order to avail the possibility that you will work up surplus information, my request is stated more precisely, as follows:

What is wanted is a day-by-day record of open-market transactions, showing the kind of security traded, the name of the dealer to whom it was sold, or from whom it was purchased, the amount sold or purchased, and the price paid or received. In addition, with reference to repurchase agreements, the record should show the name of the dealer, the name of the security, the unit price, the dollar value, the interest rate, and of course, the record for each date should show whether the transaction was a repurchase or a "sale" under a repurchase agreement.

Furthermore, since some time may be required to copy the information described above, it will be appreciated if you will supply promptly certain brief information necessary to bring up to date the table which you supplied the Joint Economic Committee several years ago. This will require, simply, the total volume of repurchase agreements. The table should show both, but separately, the volume of repurchase agreements entered into and the volume closed out in the month.

30. Does the new language appearing in section 35 (a) of the bill, amending the usury provisions of the National Bank Act, change the law as held by the Supreme Court in *National Bank v. Johnson* (104 U. S. 271)? If so, in what way will the new language change the law as held in that decision.

31. Does the new language appearing in section 35 (a) of the bill change the law as held by the United States Court of Appeals for the Fifth Circuit in *Daniel v. First National Bank of Birmingham* (227 Fed. 2d 353, 5th C. C. A.)?

32. Is it true that to the extent national banks comply with present law they may not purchase, in any State, conditional sales contracts which call for the original borrower to pay usurious interest charges?

33. Is it true that under section 35 (a) of the bill, national banks could legally purchase conditional sales contracts without respect to the rate of interest which the borrowers named in those contracts have contracted to pay—except and unless the law of the State in which the national bank is located is deemed to prohibit State banks from purchasing such contracts?

34. With reference to the so-called conditional sales contract, does the Board have any information as to the amount of such paper the member banks now hold? If so, please submit for the record the figure you may have on that; and also any information you may have as to the range of interest rates which this paper carries. (By "interest rate" it is meant, of course, effective per annum rates, computed to include all financing charges.)

35. The Federal Reserve Bulletin frequently reports average interest rates currently being charged on business loans and the interest rates rarely go above 5 or 5½ percent, even for the smallest loans. What instructions have been given to the member banks for the preparation of the reports from which these statistics are drawn; and, have verifications or sample checks of the reports been made to assure that interest rates reported are not in fact discount rates on amortized loans, and to assure that the computed interest rates do not omit other factors which properly should be considered in the rate computations?

36. I judge from your previous testimony that you feel the principal burden of combating the recent inflationary trend has fallen on the Reserve System; and I judge that you think the monetary restraints you have imposed have worked pretty well against inflation. Assuming that you are right—although I don't

57 XQ

MONO. SECTION

necessarily agree with you—I want to ask you this: In case a serious deflationary trend should set in, or in case we have a recession, do you think monetary controls will then be equally effective—in other words, can you push a string as well as pull it?

37. Title I of the bill increases lending limits of national banks in a number of ways. The general loan limit is increased. Then there are several increases in limits on lending on what used to be called real estate; and there are increases in its loan limits on consumer installment paper, on refrigerated or frozen foods, and perhaps other things.

Do you see any danger in these increased loan limits, either singularly or collectively? In other words, would the decreased liquidity of the national banks permitted by these changes be a significant factor in case of a recession?

38. Monetary controls have the effect of limiting bank credit; do these controls also significantly affect the amounts which the insurance companies can lend; and do such controls substantially affect the amount of money available in the capital markets?

39. When bank credit is tight, such as now, is it the Board's position that the price of money allocates the available supply—in other words, assuming that the borrowers competing for the available bank credit offer equal risk, does the bank then decide which borrower gets the credit on the basis of which borrower offers the highest price for the hire of the money?

40. Some of the recent statements of the American Bankers Association would indicate that banks do not allocate credit on the basis of either the price of the money or the risk—just so long as the risk meets acceptable standards—claiming that the banks are favoring small business, in preference to big borrowers.

Has the Board made any study or collected any reports from the member banks that inform the Board as to what the impact of its monetary restraint is, particularly as to how small firms are making out compared to big firms?

41. With reference to title II, section 7 (b) of the bill, would the Board have a serious objection to making the franchise tax 95 percent instead of 90 percent?

42. Briefly, what were the circumstances and considerations which prompted the inclusion in the Federal Reserve Act of section 13 (b)?

43. What evils or inconveniences are now resulting from section 13 (b)?

44. The Board has objected or recommended against a number of changes in substantive law now contained in the bill; yet despite the presence of these objectionable features, the Board still favors the bill, on balance, and recommends its passage. What are the principal changes in the bill which the Board considers of such merit as to outweigh all of the objectionable features?

Now as to the questions other than the first 27 which have not been answered:

Replies to 16 of the 44 questions were transmitted by a letter from Chairman Martin, dated January 23, 1958—less than 1 month ago, and almost 6 months after the day when the questions were handed to Chairman Martin. These replies were to questions numbered 28 and 30 through 44. I offer these for the appendix of the record.

A reply to question 29 was transmitted on November 12, 1957, more than 3 months after it was requested. The reply to this question consists of photostatic copies—with certain deletions—of purchases and sales of Government securities made by the Open Market Account:

At this point, I might call the committee's attention to the subsequent history of these documents submitted in reply to question 29. The details appearing on these documents are voluminous; they must be tabulated and analyzed before they yield any information on a variety of pertinent questions, such as the extent to which the open market account trades with the different dealers on the basis of the most favorable price, and the extent to which the business is allocated among these dealers without regard to price. Consequently, on November 28, I wrote Chairman Martin asking that he arrange to have made certain tabulations which I outlined. On January 29, he wrote me that he had put the question of having these tabulations made before the Open Market Committee, and the Committee had refused my request. Similarly, after examining these records, it appeared that they do not show prices actually bid or offered the open market account by the individual dealers on the occasions when the account has made sales or purchases to these dealers; these data, it turns out, are maintained on a separate record. Accordingly, since a reasonably complete answer to the questions involved here would require reference to these bid and offered prices, I wrote Chairman Martin on November 26, requesting these data. Chairman Martin's letter of January 29 refused this request.

68 XQ MONO SECTION

In addition to the foregoing items, I have sought to obtain from Chairman Martin a variety of other information which is not only important to the consideration of the financial institution bill, they are important for our consideration at all times. They involve matters that are vital to a proper functioning of our whole economic system, but they are secret, like the plans for ballistic missiles.

One of these pieces of information I have already mentioned; it is the part of the audit reports which Chairman Martin refused to let us see.

The Board's written instructions to the auditors call for them to separate out, and make separate reports on several matters that would normally be covered by an auditor's report. These matters for which separate reports are prepared are:

- (1) Management—General comments.
- (2) Management—Comments on newly appointed members of the official staff.
- (3) Officers of the Federal Reserve agent—newly appointed members of the Federal Reserve agent's staff.
- (4) Inattendance of directors.
- (5) Indebtedness, stock ownership in member banks, and outside business connections of officers and employees.
- (6) Schedule of above (item 5) for examiners, assistant examiners, and officers supervising the examination function.
- (7) Apparent or possible violations of the criminal provisions of the banking laws of the United States (involving officers or employees of State member banks).

On September 26, 1957, I wrote Chairman Martin asking that these reports be sent to this committee, for the members' inspection along with the other parts of the audit reports. On October 7, Chairman Martin wrote me refusing the reports, saying that they are prepared for the confidential information of the Board. He made the point also that he feared that if these reports were not held in confidence by the Board, the auditors would in the future feel less free to say the things they have been saying. And I have no doubt this point is correct; as long as the Board depends upon internal audits, it will have to depend upon voluntary revelations of information by the auditors. Chairman Martin's letter on this subject is inserted below.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
Washington, October 7, 1957.

HON. WRIGHT PATMAN,
House of Representatives,
House Office Building, Washington 25, D. C.

DEAR MR. PATMAN: This letter is in response to yours of September 26, 1957, requesting copies of memorandums prepared in connection with examinations of the Federal Reserve banks in accordance with instructions to the Board's examiners.

These memorandums are for the purpose of making available to the Board, strictly for its own confidential information, certain information and views of the chief Federal Reserve examiner. Throughout the history of the Federal Reserve System, the Board has closely guarded the confidential character of the memorandums to insure the freedom with which the Board's examiner necessarily must express his views.

We believe you will agree that an effective discharge of the Board's supervisory responsibilities requires that such information be obtained and made available to the Board. Any departure from the principle of strict confidentiality would tend to undermine the value and usefulness of the memorandums to the Board and would interfere with the orderly discharge of the responsibilities placed upon the Board by the Federal Reserve Act.

In view of the above, it is the Board's belief that you will agree that the memorandums should not be furnished.

Sincerely yours,

WM. MCC. MARTIN, Jr.

59 XQ
MONO. SECTION

I come now to a long list of other information which Chairman Martin has refused to supply, concerning the \$25-billion-a-year under-the-counter trading in Government securities, with Government money, by the so-called open market account with their little club of so-called dealers. I offer for the record my letter of November 26, describing the information requested, together with Chairman Martin's reply of January 7, refusing the information requested.

TEXARKANA, TEX., November 26, 1957.

HON. WILLIAM McC. MARTIN, Jr.,
Chairman, Board of Governors of the Federal Reserve System,
Washington, D. C.

DEAR MR. MARTIN: This is with reference to your letter of November 12 with which you enclosed a letter to Hon. Brent Spence, concerning the transmittal of photostatic copies of certain of the records of transactions of the open market account, which records are offered in response to my request to you of August 6.

While I am happy to receive these after so long a time, after looking them over I find that they provide incomplete information as to the subject matter in several respects which I hope you will correct.

First, in the case of sales to or purchases from dealers, the record shows only the prices and quantities of a security actually bought or sold. I am informed, however, that the open market account also has a record which shows the prices bid or offered by each dealer, for each security on which the open market account solicited quotations on each day of trading. Furthermore, I understand from Messrs. Johnson and Clark, who looked over these records, that on this sheet a circle in red pencil is made around each particular offer which the open market account accepted.

I would appreciate it if you would arrange to supply, under the same terms and conditions, copies of this latter record for each day of trading, going back over the past 3 years. Frankly, these are the things I have in mind. In view of the small number of traders trading with the open market account, and the fact that trades are transacted in a closed, nonpublic market, it is important to be reassured that the dealers trading with the System account are not given to (a) all quoting identical prices, or (b) systematically rotating price quotations.

Second, the records which you have supplied are up to date only through the end of 1956. I note from your letter to Mr. Spence that the Open Market Committee authorized the furnishing of only "the requested information that was nonrecurrent." Furthermore, I fully appreciate the Committee's position in withholding information which may reveal either (a) the open market account's present trading strategy, or (b) the precise nature of the Committee's credit policy. It seems to me, however, that there is a vast difference between information which would reveal these things and information concerning the operations of the account in recent historic periods. Specifically, I should like to ask if you cannot supply both the records described above, and the records of the kind which you have already transmitted, for the period up through June 30, 1957. I cannot imagine that records up to that date could possibly reveal either the policy toward credit ease or restraint, or the posture and trading strategy of the open market account as these things prevail today.

Third, as explained in your letter to Mr. Spence, wherever the record shows a trade with a foreign department account, the name of the account has been deleted. As I understand it, it is no secret that the System open market account trades with foreign central banks, acting at times as agent for such banks. No explanation has been given, however, as to why transactions with foreign central banks are more confidential than trades with United States nationals, which information you have held to be also confidential.

I would appreciate it if you would give me your explanation and reasoning as to why the names of foreign central banks with whom the account has traded in the past should be withheld from the committee.

In view of the Board's request for legislation to authorize repurchase agreements, which are in effect loans to nonbank dealers for carrying Government securities, it becomes especially important to obtain information which will at least give a hint of the scope of the dealer operations and the extent to which financing from Government and other sources is provided the dealers to carry Government securities. Consequently, I would like to request information in a form which would be a substitute to the form of information which I understand Mr. Johnson of my staff attempted to obtain at the New York bank early in October. Specifically, I would like to have tabulations of each item of information submitted on the "daily report of dealer operations in United States Government securities," to cover each Monday and each Thursday in the 3 years preceding June 30, 1957. For the purposes of these tabulations I am not requesting individual dealer information, but aggregates of the information covering dealers in groups of fours. In other words, the tabulation should show totals for the 4 largest nonbank dealers, the second 4 largest nonbank dealers, etc., and the bank dealers should be similarly treated. For this purpose, it will be satisfactory to determine which dealers are the largest on the basis of their total volume of

60 X Q

MONO. SECTION

business in the last fiscal year, so that the report for each Monday and each Thursday will classify the dealers in the same way. In addition, I would like these tabulations, in the case of nonbank dealers, to set out separately the amounts of repurchase agreements outstanding on the date specified.

Also, on the matter of financing, I should like to request two other pieces of information:

(1) Tabulations of the reports on "borrowings by nonbank security dealers," showing the amounts of borrowings on "collateral loans" in each type of fund and each source of credit, and the amounts of "other financing" similarly broken down and showing in each case a separation between loans of 1 day and those of over 1 day, and the rates of interest or equivalent paid for the financing. These tabulations should cover each day for which the reports have been collected, and should be in groups of four dealers corresponding to the same groupings already described with reference to the dealers position and volume report.

(2) Similar tabulations for each group of four dealers, bank and nonbank, showing the amount of the dealers financing of their own customers to carry Government securities, specifying classes of customers.

Finally, I would appreciate receiving information concerning the dealers bids on the Monday Treasury bill auction, and unless you feel that such information for individual dealers is also secret, I would like to have this for each of the individual dealers separately. Specifically, I would like to know for each auction over the past 3 years (a) the average price received by the Treasury for all bills sold on competitive bids submitted to the New York bank, (b) the amount of bills purchased by each of the 17 dealers, (c) the average price bid by each of the 17 dealers, and (d) the average price paid by each of the 17 dealers on bids accepted by the Treasury.

While the foregoing description of information needed seems rather lengthy, I think you must agree that the information requested is not only pertinent, but essential for even a perfunctory appraisal of the question of whether there should be legislation to authorize the open market account to finance nonbank dealers to carry Government securities. I hope, therefore, that you can see your way clear to have the requested information supplied with reasonable promptness.

I am,

Sincerely yours,

WRIGHT PATMAN.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
OFFICE OF THE CHAIRMAN,
Washington, January 7, 1958.

HON. WRIGHT PATMAN,
House of Representatives,
Washington, D. C.

DEAR MR. PATMAN: Your letter of November 26, 1957, asking for further information relating to operations of the System open market account and of dealers in United States Government securities has been discussed at meetings of the Federal Open Market Committee. Some of the information you request is not reported to the Federal Reserve and hence cannot be furnished by us. Some is given to the System account on a purely voluntary and strictly confidential basis and hence it is not within our discretion to transmit it. Some is available to the Federal Reserve System because it is fiscal agent of the United States, and the Treasury, rather than the System, should be approached for such data. Finally, one major portion of the data you request could be made available in the detail you wish only with immense effort. In this case we suggest an alternative which may serve your purpose equally well. To the extent practicable from the standpoint of the amount of work involved, and with proper consideration for the confidential nature of some of the data, the committee desires, of course, that you be furnished with information that will be useful in your analysis of System account operations. Your several requests are discussed in the order in which your letter presented them.

1. Your request for copies of the record of the amounts of purchases and sales of Treasury bills and the prices bid or offered by each dealer for each security on which the System account solicited quotations on each day of trading over the past 3 years would require an immense amount of work, especially since it would be necessary to accompany such a record with memoranda explaining the background of the operations and the reasons for the actions taken, if you were to obtain an understanding of the situation reflected by the data. It would appear, however, that your purpose might be served by having the information (with the accompanying explanatory memoranda) for selected dates, rather than for the entire 3-year period. If this strikes you as practicable and you wish to select a number of days for each of the 3 years—say a dozen days a year—preceding December 31, 1956, we would have the material prepared for you as promptly as possible. You now have the photostatic copies of the sheets showing transactions, so that you would be in a position to select days when the account was active.

61 XQ MONO SECTION

2. Your second request refers to the tabulations transmitted with my letter of November 12, 1957, showing each transaction of the System open market account with each dealer in Government securities from the period of the Treasury-Federal Reserve accord in March 1951 to the end of 1956. You now ask for similar records of each transaction of the System account for the period from the end of 1956 through June 30, 1957.

Each year, pursuant to the requirements of the last paragraph of section 10 of the Federal Reserve Act, a record of policy actions taken by the Board of Governors of the Federal Reserve System and by the Federal Open Market Committee, together with the reasons underlying those actions and the votes taken in each instance, is made public in the Board's annual report to the Congress. Until that record is made public in the annual report, which is published in the spring of each year, the policy directives of the Federal Open Market Committee are regarded as current and are handled in the strictest confidence. It is true that weekly statistics showing the condition of the Federal Reserve banks are published and that to a greater or lesser degree individuals make judgments on the basis of those reports as to the policy actions taken by the Committee. My letter of September 10 stated that the Federal Open Market Committee felt that it would not be proper to divulge information regarding Committee policy decisions and operations for the current calendar year. It continues to be the judgment of the Committee that disclosure of its policy decisions should come in the manner that has been followed for many years in carrying out the provisions of section 10 of the Federal Reserve Act, namely, in the annual report to the Congress covering the year most recently ended. For this reason, it believes that it would not be desirable to furnish the information regarding operations of the System account pursuant to the policy directives issued during any part of the year in which the directives were issued. If, however, you so request, we will undertake to prepare tabulations of the transactions not only for the first half of 1957 but for the entire calendar year, to be submitted at substantially the time the Board's annual report is published.

3. You note that the names of foreign central banks were deleted from the tabulations transmitted with my letter of November 12, and you ask why the names of such banks with which the System account has traded in the past should be withheld from the House Banking and Currency Committee.

To be certain that the situation with respect to the 1,700 odd pages of tabulations sent with my November 12 letter is correctly understood, I wish to emphasize that there were very few deletions from those sheets and that all of the names appearing on those schedules, were names of dealers in United States Government securities. In some instances, those dealers are also domestic commercial banks. However, the distinction between deleting and retaining names was a distinction between investors in securities and dealers in securities, and there was no intention of distinguishing between foreign and domestic banks per se.

Transactions between the System account and dealers are in a different category from transactions between the System account and the Federal Reserve Bank of New York, acting on behalf of and under instructions from its depositors. In the first place, many central banks and international institutions maintain accounts with the Federal Reserve Bank of New York. Such central bank accounts are operated by the Federal Reserve Bank of New York on behalf of all of the Reserve banks. Transactions for these accounts have traditionally been held in strict confidence for substantially the same reasons that, as a matter of policy, banks in general hold in strict confidence transactions on behalf of any of their depositors. This confidential relationship between bankers and depositors has been considered to be especially necessary with respect to operations of foreign central banks, whose deposits with the Federal Reserve banks largely represent monetary reserves of their countries. Disclosure of such operations would be of interest to many persons who follow political and economic developments in foreign countries, but such disclosure might well have serious repercussions and imperil the confidence that foreign countries place in the Reserve banks.

Secondly, you state that you understand that "it is no secret that the System open market account trades with foreign central banks, acting at times as agent for such banks." Actually, this is not strictly correct, and the relationship to which you refer is not between the System account and the foreign banks. The Federal Reserve Bank of New York acts only upon instructions, specific or standing, from its foreign depositors in handling their accounts. Orders to buy and sell securities are given by the depositors to the foreign department of the New York Reserve Bank, which in turn transmits them to the securities department of that bank for execution. Such orders usually are executed by the Reserve bank in the open market, but the foreign customers have been notified that they may be executed with the System account at the discretion of the manager. They are carried out with the System open market account only when the manager of the account so directs for the purpose of coordinating the foreign transactions with

62 XQ MONO. SECTION

current open market operations that are being executed pursuant to the directives of the Federal Open Market Committee. The initiative in executing transactions with the System account rather than in the market in no manner lies with the foreign correspondent.

4. With respect to your request for data from the daily reports of operations received from United States Government securities dealers, these reports are furnished by the dealers on a purely voluntary basis and in the strictest confidence. It would not be within the discretion of the Federal Open Market Committee or the Federal Reserve Bank of New York to disclose information in connection with these reports.

5. You also request a tabulation of dealer borrowings, with a breakdown by types, sources of credit, terms, and rate. Such data are not available to the management of the System account.

6. The answer to your next request is the same—we have no data showing dealer financing of their own customers to carry Government securities. By way of comment, I might say that it seems highly doubtful that dealers do finance their customer holdings to any significant extent although there might be an occasional transaction of that kind. The dealers have difficulties enough in financing their own portfolios of Government securities without assuming added burdens in financing customer holdings.

7. Finally, you request information concerning dealer tenders for Treasury bills in the weekly auctions. In handling tenders in the bill auctions, each Federal Reserve bank acts as fiscal agent for the Treasury Department. A request for data relating to the tenders should, therefore, be directed to the Treasury Department.

Sincerely yours,

WM. McC. MARTIN, Jr.

Finally, I offer for the record a letter of August 28, 1957, from Mr. C. Canby Balderston, Vice Chairman of the Federal Reserve Board. This letter points out that the officers and employees of the Federal Reserve banks are not employees of the United States, and do not take the oath of office required of Government employees. This makes a very interesting arrangement. Here we have non-Government employees running these banks which are owned by the Government and handling and spending billions of dollars of Government funds, and owing no allegiance to the Government.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, August 28, 1957.

HON. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

DEAR MR. PATMAN: This is in response to your letter of August 22, regarding the status of officers and employees of the Federal Reserve System, other than the members of the Board, as public officials.

The Federal Reserve banks are instrumentalities of the Government with public functions. In that sense, the officers and employees of the Federal Reserve banks are engaged in the performance of public service and hence can be considered to be public officials. However, they are not officers or employees of the United States Government and do not subscribe to the oath of office taken by officers and employees of the Federal Government.

Some of the officers and employees of the Federal Reserve System, other than the Board and its staff, can be considered as public officials of the United States Government. They are the members and alternate members of the Federal Open Market Committee, and the Federal Reserve agents and assistant Federal Reserve agents at the various Federal Reserve banks.

The Federal Open Market Committee is, of course, a governmental body created by the Federal Reserve Act. The Reserve bank presidents and first vice presidents who are members or alternate members of the Committee serve in a dual capacity. As such members they subscribe to the constitutional oath of office prescribed by section 16 of title 5 of the United States Code. In their capacity as officers of the Reserve banks, however, they have the different status indicated in the second paragraph of this letter.

The Federal Reserve agent at each Federal Reserve bank, who is also chairman of its board of directors, acts in his capacity as Federal Reserve agent as an agent and representative of the Board of Governors and as such takes the oath of office prescribed by the above-mentioned provisions of the United States Code. For similar reasons, the Federal Reserve agent's assistants likewise subscribe to the statutory oath of office.

I trust that this will supply the information^{##} you desire.

Sincerely yours,

C. CANBY BALDERSTON,
Vice Chairman.

63 XQ MONO. SECTION

On August 16, 1957, I wrote Chairman Martin, asking for a more detailed breakdown of certain of the categories of expenses shown in the Board's annual report for 1956, relating to the expenses of the 12 Federal Reserve banks.

No specific details were requested by me, but rather I left this matter up to Chairman Martin to supply what might be available from already existing tabulations, or summary accounts in the Reserve banks, without making new tabulations of individual expense items.

Following my request, the Board staff suggested a list of categories in which the information might be supplied, indicating that this would be the most detail that could be supplied without going to a great deal of work to make new tabulations of individual expense items. Under the circumstances, this breakdown seemed to me acceptable, in that it would, in most instances, at least supply totals for each of several departments or broad functions of the Reserve banks.

In the case of a \$1.2 million telephone and telegraph expense, the information was that this is not allocated to any separate departments or functions.

I will insert in the record at this point a letter of October 7, 1957, from Chairman Martin, transmitting the report of expenses for 1956, together with the several statistical tables comprising this report.

(The letter is as follows:)

OCTOBER 7, 1957.

HON. WRIGHT PATMAN,
House of Representatives, Washington, D. C.

DEAR MR. PATMAN: Pursuant to the request contained in your letter of August 16, 1957, attached is a detailed statement of each of several items of expense shown in table 6 of the Board's annual report for 1956.

Sincerely yours,

WM. MCC. MARTIN, JR.

64 XQ 65 XQ MONO. SEC.

Breakdown of traveling expenses of the Federal Reserve banks and branches for 1956—Continued

	Directors	Federal Advisory Council	System committees	Auditing function	Bank examination function	Research, public information, and bank relations function	Other functions	Total traveling expenses	nm mm mm mm mm mm mm
<i>Breakdown of traveling expenses of the Federal Reserve banks and branches for 1956</i>									
Boston	\$5,328	\$567	\$5,586	\$331	\$50,434	\$13,786	\$13,405	\$80,437	mm mm mm mm mm mm mm
New York	1,043	282	4,717	440	142,602	24,280	32,107	205,471	mm mm mm mm mm mm mm
Buffalo	819			3,054		667	4,175	8,715	mm mm mm mm mm mm mm
District total	1,862	282	4,717	3,494	142,602	24,947	36,282	214,186	mm mm mm mm mm mm mm
Philadelphia	6,266	279	3,100	254	33,984	11,361	8,147	63,391	mm mm mm mm mm mm mm
Cleveland	4,764	420	5,440	55	78,000	9,281	14,750	112,710	mm mm mm mm mm mm mm
Cincinnati	2,574			1,004		2,235	8,849	14,662	mm mm mm mm mm mm mm
Pittsburgh	2,039			1,551		940	6,916	11,446	mm mm mm mm mm mm mm
District total	9,377	420	5,440	2,610	78,000	12,456	30,515	138,818	mm mm mm mm mm mm mm
Richmond	5,807	44	3,936	5,749	57,137	11,351	21,758	100,633	mm mm mm mm mm mm mm
Baltimore	2,162			5,309		972	8,050	16,433	mm mm mm mm mm mm mm
Charlotte	2,214					502	5,165	13,190	mm mm mm mm mm mm mm
District total	10,183	44	3,936	11,058	57,137	12,825	34,973	130,156	mm mm mm mm mm mm mm
Atlanta	6,362	1,305	3,971	105	33,741	7,654	18,431	71,569	mm mm mm mm mm mm mm
Birmingham	2,448		516	2,316		174	1,433	6,887	mm mm mm mm mm mm mm
Jacksonville	4,193			4,716		513	2,207	11,710	mm mm mm mm mm mm mm
Nashville	3,692			2,364		238	1,593	7,887	mm mm mm mm mm mm mm
New Orleans	4,069			5,073		493	2,161	12,429	mm mm mm mm mm mm mm
District total	21,394	1,305	4,487	14,574	33,741	9,072	25,915	110,488	mm mm mm mm mm mm mm
Chicago	8,430	785	4,697	537	117,558	23,391	22,170	177,568	mm mm mm mm mm mm mm
Detroit	1,373			8,007		3,490	4,455	17,334	mm mm mm mm mm mm mm
District total	9,803	785	4,697	8,544	117,558	26,880	26,625	194,902	mm mm mm mm mm mm mm
St. Louis	3,760	769	4,111	434	41,312	9,006	13,902	73,294	mm mm mm mm mm mm mm
Little Rock	2,050			787		497	3,687	7,021	mm mm mm mm mm mm mm
Louisville	1,878			1,156		1,231	4,495	8,790	mm mm mm mm mm mm mm
Memphis	1,917			885		736	3,599	7,237	mm mm mm mm mm mm mm
District total	9,605	769	4,111	3,362	41,312	11,470	25,683	96,312	mm mm mm mm mm mm mm
Minneapolis	6,510	668	8,305	238	27,445	11,202	14,694	68,972	mm mm mm mm mm mm mm
Helena	3,163			2,736		535	2,992	9,426	mm mm mm mm mm mm mm
District total	9,673	668	8,305	2,974	27,445	11,737	17,596	78,398	mm mm mm mm mm mm mm
Kansas City	8,535	805	7,117	835	19,727	13,740	12,341	63,100	mm mm mm mm mm mm mm
Denver	2,226			2,212		1,386	1,485	7,309	mm mm mm mm mm mm mm
Oklahoma City	2,412			3,134		1,562	369	7,477	mm mm mm mm mm mm mm
Omaha	2,894			1,766		1,841	2,045	8,496	mm mm mm mm mm mm mm
District total	16,007	805	7,117	7,947	19,727	18,529	16,240	86,372	mm mm mm mm mm mm mm
Dallas	7,630	1,003	5,853	212	31,997	8,807	17,584	73,086	mm mm mm mm mm mm mm
El Paso	4,443			2,696		171	3,452	10,762	mm mm mm mm mm mm mm
Houston	2,694			1,957		308	661	5,620	mm mm mm mm mm mm mm
San Antonio	3,179			2,020		921	708	6,828	mm mm mm mm mm mm mm
District total	17,946	1,003	5,853	6,885	31,997	10,207	22,405	97,196	mm mm mm mm mm mm mm
San Francisco	9,591	1,293	11,088		73,011	13,085	6,753	114,821	mm mm mm mm mm mm mm
Los Angeles	1,047			10,208		843	2,760	14,858	mm mm mm mm mm mm mm
Portland	2,948			5,557		280	1,904	10,689	mm mm mm mm mm mm mm
Salt Lake City	2,739			5,145		101	3,708	11,693	mm mm mm mm mm mm mm
Seattle	3,344		379	6,638		145	2,089	12,595	mm mm mm mm mm mm mm
District total	19,669	1,293	11,467	27,548	73,011	14,454	17,214	164,650	mm mm mm mm mm mm mm
Total	137,113	9,120	68,816	89,581	706,948	177,734	275,000	1,464,312	mm mm mm mm mm mm mm

66 XQ MONO. SEC.

Breakdown of postage and expressage expenses of the Federal Reserve banks and branches for 1956—Continued

	Shipping charges on Federal Reserve currency		Currency and coin function	Check collection function	Fiscal agency function		Other functions	Total postage and expressage
	New issues	Redemptions			Government checks	Other		
Boston.....	\$56,426	\$5,421	\$809,192	\$285,600	\$5,054	\$48,092	\$35,059	\$1,246,044
New York.....	253,654	18,715	1,115,130	515,846	9,918	154,289	131,434	2,190,286
Buffalo.....	1,233	1,233	69,419	69,499	2,473	725	1,753	145,102
District total.....	253,654	19,948	1,184,849	585,345	12,391	155,014	133,187	2,344,388
Philadelphia.....	27,408	4,065	426,060	276,099	2,978	47,157	40,651	821,418
Cleveland.....	45,620	1,584	228,393	160,205	8,188	53,758	40,815	538,563
Cincinnati.....	1,620	1,620	153,229	97,278	5,262	13,519	18,760	280,677
Pittsburgh.....	973	973	265,476	130,344	4,807	14,654	18,358	434,612
District total.....	45,620	4,177	647,098	387,827	18,257	81,931	77,942	1,202,852
Richmond.....	76,414	3,114	574,476	198,750	6,754	55,062	19,312	933,882
Baltimore.....	1,402	1,402	135,464	91,853	3,360	7,222	8,348	247,640
Charlotte.....	1,670	1,670	208,274	78,244	4,326	6,888	2,992	302,394
District total.....	76,414	6,186	918,214	368,847	14,440	69,172	30,652	1,483,925
Atlanta.....	41,680	3,335	120,433	49,539	10,806	51,903	67,538	345,234
Birmingham.....	1,426	1,426	75,640	37,250	4,250	1,408	12,871	132,905
Jacksonville.....	5,288	5,288	335,800	77,250	900	3,500	29,833	452,571
Nashville.....	830	830	65,079	42,875	2,500	2,220	3,131	116,635
New Orleans.....	2,167	2,167	213,796	38,860	8,667	10,111	15,690	289,291
District total.....	41,680	13,046	810,748	245,774	27,123	69,202	129,063	1,336,636
Chicago.....	186,280	9,906	855,249	606,808	10,629	103,948	121,933	1,804,753
Detroit.....	3,323	3,323	190,689	120,528	5,028	22,982	12,555	354,505
District total.....	186,280	13,229	1,045,338	727,336	15,657	126,930	134,488	2,249,258
St. Louis.....	57,079	2,097	192,608	173,261	3,351	50,777	11,899	491,062
Little Rock.....	626	626	49,477	30,764	2,388	539	9,055	92,849
Louisville.....	1,240	1,240	61,322	65,236	3,370	660	2,524	134,352
Memphis.....	1,468	1,468	54,090	36,094	3,188	1,789	7,215	103,844
District total.....	57,079	5,431	357,497	305,345	12,297	53,765	30,693	822,107
Minneapolis.....	11,079	1,988	205,967	115,713	3,877	30,742	45,309	414,735
Helena.....	623	623	55,053	21,542	1,700	224	2,354	81,496
District total.....	11,079	2,611	261,020	137,255	5,577	30,966	47,723	496,231
Kansas City.....	45,471	2,190	120,135	103,664	8,717	51,908	53,465	385,550
Denver.....	1,830	1,830	103,306	52,322	3,450	1,934	5,440	168,282
Oklahoma City.....	837	837	91,380	50,100	3,700	2,000	8,134	156,151
Omaha.....	711	711	80,805	43,628	4,438	1,955	24,725	156,262
District total.....	45,471	5,568	395,626	249,714	20,305	57,797	91,764	866,245
Dallas.....	28,138	2,170	222,707	125,167	7,562	50,291	6,588	442,623
El Paso.....	1,625	1,625	46,171	23,364	3,969	1,156	105	76,290
Houston.....	1,138	1,138	71,064	46,900	1,960	3,382	4,013	128,457
San Antonio.....	1,024	1,024	84,059	50,678	2,969	2,031	2,774	143,535
District total.....	28,138	5,857	424,001	246,109	16,460	56,860	13,480	700,906
San Francisco.....	187,324	6,819	314,470	78,532	13,420	65,357	35,677	704,599
Los Angeles.....	9,775	9,775	441,937	143,909	22,631	31,323	13,266	662,841
Portland.....	1,321	1,321	103,493	51,191	3,314	4,439	1,600	165,358
Salt Lake City.....	1,060	1,060	56,807	46,090	2,799	2,058	6,423	115,213
Seattle.....	2,546	2,546	126,816	61,086	7,182	12,023	5,382	215,635
District total.....	187,324	21,627	1,043,523	380,778	49,346	118,200	62,348	1,863,046
Total.....	1,016,573	107,066	8,323,166	4,196,029	200,485	915,686	827,650	15,586,655

67 XQ MONO. SECTION

Breakdown of telephone and telegraph expenses of the Federal Reserve banks and branches for 1956—Continued

	Telegraph			Total telegraph	Telephone		Total telephone	Total telephone and telegraph
	Leased wire service	Commercial service	TWX service		Tolls	Equipment rental and local service		
Boston.....	\$16,672	\$2,185	\$278	\$19,135	\$11,801	\$29,354	\$41,155	\$60,290
New York.....	97,879	13,062	13,120	124,061	28,671	92,532	121,203	245,264
Buffalo.....	5,599	714	123	6,436	5,164	3,093	8,257	14,693
District total.....	103,478	13,776	13,243	130,497	33,835	95,625	129,460	259,957
Philadelphia.....	16,830	2,865	363	20,058	13,993	25,908	39,901	59,959
Cleveland.....	16,125	6,665	609	23,399	10,908	14,250	25,158	48,557
Cincinnati.....	8,740	1,782	280	10,802	3,221	8,148	11,369	22,171
Pittsburgh.....	8,981	580	288	9,849	3,177	7,809	10,986	20,835
District total.....	33,846	9,027	1,177	44,050	17,306	30,207	47,513	91,563
Richmond.....	12,770	7,898	3,517	24,185	11,130	18,068	29,198	53,383
Baltimore.....	6,749	739	120	7,608	2,909	6,100	9,009	16,707
Charlotte.....	6,632	5,312	479	12,423	1,515	3,171	4,686	17,109
District total.....	20,151	13,949	4,116	44,216	15,644	27,339	42,983	87,199
Atlanta.....	11,831	7,402	407	19,640	4,140	10,793	14,933	34,573
Birmingham.....	3,907	5,619	120	9,646	1,002	3,046	4,048	13,694
Jacksonville.....	4,289	14,036	130	18,455	3,657	5,716	9,373	27,828
Nashville.....	2,548	1,750	120	4,418	1,426	2,907	4,333	8,751
New Orleans.....	6,219	10,097	199	16,515	1,949	3,907	5,856	22,371
District total.....	28,794	38,904	976	68,674	12,174	26,369	38,543	107,217
Chicago.....	34,425	14,158	2,236	50,819	16,175	38,870	55,045	105,864
Detroit.....	10,664	3,666	1,369	15,699	4,289	14,973	19,262	34,061
District total.....	45,089	17,824	3,605	66,518	20,464	53,843	74,307	140,825
St. Louis.....	13,286	3,500	290	17,136	6,823	19,424	26,247	43,383
Little Rock.....	2,195	894	140	3,229	1,363	3,090	4,453	7,682
Louisville.....	4,003	660	129	4,792	1,278	4,148	5,426	10,218
Memphis.....	4,270	102	167	4,539	711	2,721	3,432	7,971
District total.....	23,754	5,216	726	29,696	10,175	29,383	39,558	69,254
Minneapolis.....	8,141	4,550	957	13,648	5,007	14,512	19,519	33,167
Helena.....	2,248	2,644	216	5,108	1,210	2,335	3,545	8,653
District total.....	10,389	7,194	1,173	18,756	6,217	16,847	23,064	41,820
Kansas City.....	12,996	7,228	268	20,492	7,066	6,903	13,969	34,461
Denver.....	4,531	2,498	110	7,139	896	3,558	4,454	11,593
Oklahoma City.....	4,094	4,735	120	8,949	600	2,561	3,161	12,110
Omaha.....	4,266	1,966	127	6,379	1,441	3,049	4,490	10,869
District total.....	25,907	16,427	625	42,959	10,003	16,071	26,074	69,033
Dallas.....	14,657	11,414	1,219	27,290	7,979	10,239	18,218	45,508
El Paso.....	2,433	1,110	457	4,000	1,169	1,786	2,955	6,955
Houston.....	7,444	613	453	8,510	1,568	3,162	4,730	13,240
San Antonio.....	4,692	1,354	483	6,529	763	2,937	3,700	10,229
District total.....	29,226	14,491	2,612	46,329	11,479	18,124	29,603	75,932
San Francisco.....	21,208	2,688	622	24,518	7,629	13,442	21,071	45,589
Los Angeles.....	12,752	2,772	1,598	17,122	5,710	15,876	21,586	38,708
Portland.....	5,245	2,020	190	7,455	1,106	5,372	6,478	13,933
Salt Lake City.....	3,341	2,607	235	6,183	1,336	3,748	5,084	11,267
Seattle.....	5,285	2,792	354	8,431	2,383	7,352	9,735	18,166
District total.....	47,831	12,879	2,999	63,709	18,164	45,790	63,954	127,663
Total.....	407,967	154,737	31,893	594,597	181,255	414,800	596,115	1,190,712

69 XQ MONO. SECTION

Breakdown of insurance expenses of the Federal Reserve banks and branches for 1956—Continued

	Hospital and medical service premiums	Workmen's compensation	Currency, coin, and security shipments ¹	Blanket bond	Fire and public liability	Automobile	Other	Total insurance
<i>Breakdown of insurance expenses of the Federal Reserve banks and branches for 1956</i>								
Boston.....	\$52,964	\$11,899	\$152	\$3,339	\$4,304	\$2,186	\$20	\$74,864
New York.....	128,191	44,821	278	3,456	5,721	3,240	3,556	189,363
Buffalo.....	8,620	2,137			800	305		11,952
District total.....	136,811	46,958	278	3,456	6,611	3,645	3,556	201,315
Philadelphia.....	35,333	2,749	3,818	3,099	2,909	1,555	713	50,176
Cleveland.....	49,873	8,847	2,366	3,276	4,434	1,483	12	70,291
Cincinnati.....	14,084	2,023	2,258		2,580	275	46	21,096
Pittsburgh.....	17,304	2,955	830		1,248	685	120	23,142
District total.....	81,261	13,825	5,454	3,276	8,062	2,443	178	114,409
Richmond.....	33,839	2,175	12,860	3,101	2,430	999	61	55,474
Baltimore.....	12,897	2,097	2,209		1,527	194		18,924
Charlotte.....	7,234	853	4,782		387	101	70	13,427
District total.....	53,970	5,125	19,851	3,101	4,353	1,294	131	87,825
Atlanta.....	20,058	4,047	4,829	3,084	2,454	792	506	35,770
Birmingham.....	5,413	1,216	800		663	135	100	8,327
Jacksonville.....	9,973	1,700	1,312		1,685	256	110	15,036
Nashville.....	4,873	853	1,599		413	78	150	7,963
New Orleans.....	5,396	2,671			853	139	86	9,145
District total.....	45,713	10,487	8,540	3,084	6,068	1,400	952	76,244
Chicago.....	109,324	14,521	5,058	3,456	7,025	1,267	48	141,299
Detroit.....	18,622	-1,146	1,749		2,422	243	45	21,935
District total.....	127,946	13,375	6,807	3,456	10,047	1,510	93	163,234
St. Louis.....	30,535	5,894	4,346	2,014	3,522	902	309	47,522k K K
Little Rock.....	1,319	466	2,152		328	196	49	7,510k K K
Louisville.....	6,761	659	2,906		87	144		10,469k K K
Memphis.....	3,950	1,185	4,480		388	192	40	10,235k K K
District total.....	45,568	8,104	13,884	2,014	4,325	1,434	398	75,727k K K
Minneapolis.....	23,350	4,640	1,232	2,622	11,332	677	283	44,136k K K
Helena.....	1,949	310	-26		281	141	925	3,580k K K
District total.....	25,299	4,950	1,206	2,622	11,613	818	1,208	47,716k K K
Kansas City.....	26,298	6,108	3,833	3,089	7,574	1,064	12	47,978k K K
Denver.....	7,678	1,144	228		753	104	191	10,098k K K
Oklahoma City.....	4,591	1,386	911		1,813	210	400	9,347k K K
Omaha.....	6,933	751	1,410		636			9,790k K K
District total.....	45,500	9,389	6,382	3,089	10,776	1,414	603	77,153k K K
Dallas.....	22,434	7,783	1,568	3,084	1,659	485	2	37,006k K K
El Paso.....	2,648	769	1,704		40	275		5,436k K K
Houston.....	4,528	1,240	1,584		253	467		8,102k K K
San Antonio.....	4,905	755	996		1,092	341	1,664	9,753k K K
District total.....	34,515	10,547	5,852	3,084	3,035	1,598	1,666	60,297k K K
San Francisco.....	24,629	5,514	581	3,270	1,371	1,264	223	36,852k K K
Los Angeles.....	23,020	4,305	562		436	900		29,223k K K
Portland.....	7,643	2,088	768		612	308		11,419k K K
Salt Lake City.....	6,297	2,012	356		596	601		9,862k K K
Seattle.....	7,662	2,474	873		568	446		12,023k K K
District total.....	69,251	16,393	3,140	3,270	3,583	3,519	223	99,379k K K
Total.....	754,131	153,801	75,364	36,890	75,686	22,816	9,741	1,128,429k K K

¹ Represents cost of insurance purchased to cover shipments of (a) securities, and (b) currency and coin other than to and from member banks; the latter are covered by the loss-sharing agreement of the Federal Reserve banks.

71 XQ MONO. SECTION

Breakdown of furniture and equipment-rentals of the Federal Reserve banks and branches for 1956—Continued

	Personnel function	Check collection function	Accounting function	Research, public in- formation, and bank relations function	Fiscal agency function	Other functions	Total furni- ture and equipment- rentals	SS SS SS SS SS SS SS SS SS
<i>Breakdown of furniture and equipment-rentals of the Federal Reserve banks and branches for 1956</i>								
	Personnel function	Check collection function	Accounting function	Research, public in- formation, and bank relations function	Fiscal agency function	Other functions	Total furni- ture and equipment- rentals	SS SS SS SS SS SS SS SS SS
Boston.....	\$3,957	\$295,789	\$20,554	\$3,950	\$41,935	\$23,669	\$880,863	SS
New York.....	18,454	405,081	48,105	4,992	82,814	12,194	571,700	SS
Buffalo.....	750	52,564	6,074		9,762	2,217	71,367	SS
District total.....	19,204	457,645	54,239	4,992	92,576	14,411	643,067	SS
Philadelphia.....	5,935	219,580	33,876	2,625	45,105	6,614	313,735	SS
Cleveland.....	2,444	130,546	878	1,830	32,935	7,220	175,853	SS
Cincinnati.....	1,675	67,246	404		18,829	5,087	93,241	SS
Pittsburgh.....	1,986	102,216	1,108		20,626	8,201	134,137	SS
District total.....	6,105	300,008	2,300	1,830	72,390	20,508	403,231	SS
Richmond.....	1,825	113,775	6,742	5,998	33,775	9,468	171,583	SS
Baltimore.....	140	61,780	482		9,271	3,271	74,944	SS
Charlotte.....	173	44,788			8,364	2,719	56,044	SS
District total.....	2,138	220,343	7,224	5,998	51,410	15,458	302,571	SS
Atlanta.....	812	36,852		1,516	51,671	2,300	93,151	SS
Birmingham.....		29,706			10,418	998	41,122	SS
Jacksonville.....	263	60,083			12,744	965	74,055	SS
Nashville.....		29,932			8,378	1,582	39,892	SS
New Orleans.....	102	24,404			11,704	1,218	37,428	SS
District total.....	1,177	180,977		1,516	94,915	7,063	285,648	SS
Chicago.....	12,442	419,673	11,335	17,673	81,436	33,713	576,272	SS
Detroit.....	344	95,788	1,458		24,619	10,064	132,273	SS
District total.....	12,786	515,461	12,793	17,673	106,055	43,777	708,545	SS
St. Louis.....		132,218	1,251	1,953	24,194	25,632	185,248	SS
Little Rock.....		13,194			3,816	817	17,827	SS
Louisville.....		37,215			7,640	371	45,226	SS
Memphis.....		16,044			8,154	1,449	25,647	SS
District total.....		198,671	1,251	1,953	43,804	28,269	273,948	SS

72 XQ MONO. SECTION

Minneapolis.....	126,739		1,159	21,646	6,126	155,670
Helena.....	17,488	12		2,468	244	20,212
District total.....	144,227	12	1,159	24,114	6,370	175,882
Kansas City.....	860					
Denver.....	95,124			26,743	12,920	135,447
Oklahoma City.....	29,191	355		6,782	263	36,591
Omaha.....	38,155			5,650	125	43,930
District total.....	48,696				269	48,965
District total.....	860	211,106	355	39,175	13,577	265,133
Dallas.....	2,645	88,246	1,276	3,093	36,865	4,418
El Paso.....	12,540			6,130	1,140	19,810
Houston.....	37,288			3,670	962	41,920
San Antonio.....	39	36,102	14	13	4,065	1,142
District total.....	2,684	174,176	1,290	3,106	50,730	7,662
San Francisco.....	3,237	104,734	12,324	2,580	26,092	1,531
Los Angeles.....		205,949	1,938		44,323	1,783
Portland.....		43,918	388		3,440	125
Salt Lake City.....		36,780	388		5,509	44
Seattle.....		77,838	388		6,201	666
District total.....	3,237	469,219	15,426	2,580	86,135	4,149
Total.....	58,083	3,387,262	149,410	47,391	748,344	191,527

Breakdown of Federal Reserve currency expenses of the Federal Reserve banks for 1956¹

	Original cost	Cost of redemption	Total Federal Reserve currency
Boston.....	\$316,923	\$32,904	\$349,827
New York.....	1,400,777	119,862	1,520,639
Philadelphia.....	226,985	34,664	261,649
Cleveland.....	198,535	38,231	236,766
Richmond.....	476,408	40,512	516,920
Atlanta.....	375,768	35,579	411,347
Chicago.....	875,909	85,751	961,660
St. Louis.....	220,949	24,693	245,642
Minneapolis.....	18,292	7,322	25,614
Kansas City.....	204,115	19,183	223,298
Dallas.....	69,010	15,396	84,406
San Francisco.....	713,651	51,757	765,408
Total.....	5,097,322	505,854	5,603,176

¹ These expenses are borne entirely by the head offices; therefore, the amount shown above for each bank is the total for the district.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM


Office Correspondence

Date February 24, 1958

To Chairman Martin

Subject: _____

From Mr. Carpenter



CONFIDENTIAL (F.R.)

Attached is a copy of the letter addressed by Congressman Patman to Chairman Spence under date of February 20 to which Chairman Martin referred at the meeting of the Board this morning.

Attachment

C O P Y

February 20, 1958

Hon. Brent Spence
Chairman
Committee on Banking and Currency
House of Representatives
Washington, D. C.

Dear Mr. Chairman:

Attached is a corrected copy of my testimony before the Committee on Friday, February 7, 1958, in which I have inserted the remainder of the exhibits to which I referred.

While I have put into this record some facts of a scandalous nature, this is not because, as you previously suggested, I derive any enjoyment from setting off "a hydrogen bomb". Truth is that these facts, and others of a like nature, are being whispered about, and have been for some time, and our Committee could not long continue sweeping them under the rug, even if we should wish to. Furthermore, I know from first-hand sources that these matters are causing some acute embarrassment to a number of people on the inside of the situation, including even the Wall Street insiders who are actually profiting from it, as well as people in the Federal Reserve System.

It is my suggestion that the Committee call the members of the Federal Reserve Board and the Presidents of the Federal Reserve Banks, or at least those who are presently members of the Open Market Committee, and place squarely on them the burden of making some suggestions for corrective legislation.

Similarly, I would suggest that the Committee also call the Comptroller of the Currency, both for a further consideration of several points about which Mr. Gidney seems to have been in error at the time he testified--particularly on the question of whether there is any audit supervision over the handling of Federal Reserve currency by his Office--and to invite Mr. Gidney's suggestion for legislation to put this and other functions of his office under audit supervision.

As for a recodification bill, if the Committee feels under compulsion to report one, such a bill could readily be drafted without having in it substantive changes in present law. In this event, it would be my suggestion that we refer the matter to the Subcommittee on Revision and Codification of the Statutes of the United States (of the Committee on the Judiciary of the House) asking them to whip into shape such a recodification bill. After all, this is the official committee for such work and it is admirably equipped with expert assistance to do such a job. Furthermore, by that Subcommittee's handling the matter, we might avoid causing that Committee an unnecessary delay in getting out its new codification which is now nearing completion. As you know, the present Code of the United States is now 6 years old and the new general codification, which is due by the end of this session of Congress, is badly needed, and should not be disrupted or delayed.

Hon. Brent Spence
February 20, 1958

-2-

On the other hand, if the Committee is going to seriously consider reporting a Financial Institutions bill which contains a number of major changes in law such as those now in the bill, then I think we should have an opportunity to question Mr. Cravens and perhaps some of the other members of the Advisory Committee which he headed. The present bill would make a number of changes in existing law, the meanings of which I still do not know, and I believe that we should have an opportunity to learn from the people who drafted the bill what the purposes and intended effects of these changes are.

Mr. Chairman, as I see it, all of the Members of our Committee--both majority and minority members--are placed in a most untenable position by some of the conditions which have grown up in the Federal Reserve System and in the other Federal agencies having supervisory responsibilities over banks and banking. The fact that the Federal Reserve is carrying on under-the-counter trading in Government securities with a small club of private speculators, to the tune of \$25 billion in Government funds annually, without public reporting of even the prices at which these trades are made, will be most repugnant to the American people. The people in my part of the country will not even appreciate the fact that Federal Reserve banks are having a free hand in the till of the United States Treasury. Since these are matters which should concern each Member of the Committee, I am sending a copy of this letter to each Member.

Sincerely yours,

/s/ Wright Patman
Wright Patman

Enclosure

Miss Muehlhaus

February 21, 1958

BY MESSENGER

The Honorable Brent Spence,
Chairman,
House Banking and Currency Committee,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

As I understand the record of your Committee's hearings on the pending Financial Institutions bills (H.R. 7026 and S. 1451) may soon be closed, I should appreciate it if you would advise your Committee that the Board would welcome an opportunity to submit written comments on Mr. Patman's statement of February 7.

To do so properly, it will of course be necessary for us first to examine in its entirety the material Mr. Patman said in that statement he intended to place in your Committee's record. As you will recall, the Board supplied to your Committee last August and September reports of examinations and audits of the Federal Reserve Banks made in accordance with the long-standing requirements of the Board. When the Committee record becomes available and we know what Mr. Patman has excerpted from the reports we made available, we should like to furnish to the Committee in writing such information and comments as may be necessary to prevent any misunderstandings with regard to the various items on which Mr. Patman has commented.

Meanwhile, there is one matter which Mr. Patman referred to several times in the course of his general statement which involves at least an implied criticism of persons outside the Federal Reserve System. Therefore, I would like to correct immediately, in justice to them, misunderstandings indicated by Mr. Patman's remarks.

Mr. Patman states: "They had a symposium of two days on consumer credit and they invited some speakers, and they paid certain honorarium to these speakers. Two of them, they paid \$2,000 each. Four of them, they paid \$1600 each. Two of them they paid \$1500, and one of them \$500." Later Mr. Patman states: "That the Federal Reserve System has the power to go out and hire speakers, have meetings and pay an honorarium up to \$2,000 if they want to. That has been done clear across the board all over the country." Again he states: "They can pay \$2,000 to a speaker if they want to."

The expenditures to which Mr. Patman apparently refers were payments to highly respected university professors for expert professional services over a period approximating nine months. These services were rendered in connection with the study of instalment credit, undertaken by the Board pursuant to a request made early in 1956 by the Chairman of the Council of Economic Advisers, at the direction of the President, for a comprehensive analysis of that subject. You will recall that interest in this study was also expressed by the Banking and Currency Committees of the House and Senate and the Joint Economic Committee.

A major part of the instalment credit study consisted of analyses by the university professors referred to above. The arrangements for their services were made through the auspices of the National Bureau of Economic Research, an outstanding independent research organization. Attendance at the two-day conference referred to by Mr. Patman was only a small part of the work undertaken by the participants in consideration of the payments he mentions. In fact, the participants prepared major papers on the subject, and the work involved occupied a substantial part of their time in 1956.

The results of this work are published in Part II, Volumes 1 and 2, of the Board's report on consumer instalment credit. It will be evident from an examination of these volumes that the contribution of the participating scholars was considerable, and was in accordance with the proper objectives of independent research into a field of great economic significance to the American people.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

CM:GEN:JWS:ac

COMMENTS BY BOARD OF GOVERNORS ON REPRESENTATIVE PATMAN'S
TESTIMONY OF FEBRUARY 7, 1958 BEFORE HOUSE BANKING & CURRENCY COMMITTEE

Section 4 of the Act provides that "every Federal reserve bank shall be conducted under the supervision and control of a board of directors," and sets forth both the composition and manner of election or appointment of such boards. It further specifies that "the board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law."

Section 11 authorizes the Board to exercise general supervision over the Federal Reserve Banks; other fundamental powers which the Act confers on the Board include the authority to liquidate or reorganize a Federal Reserve Bank (Section 11), and to readjust or create new districts--not to exceed twelve in all (Section 2).

Congress provided for an accounting by the Board of Governors of its stewardship over the Federal Reserve System by requiring (Section 10) that the Board "shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress."

The responsibilities placed upon the Boards of Directors of the individual Reserve Banks, and the Board of Governors, must be taken into account when considering expenditures and practices upon which Mr. Patman has commented.

Section 21 of the Federal Reserve Act provides that the Board shall at least once a year order an examination of each Federal Reserve Bank. With regard to the scope of the examinations, the Board's instructions to its examiners contain the following general provisions:

"The examination of a Federal Reserve Bank shall determine (a) its financial condition through appraisal of its assets and verification of its assets and liabilities, including liabilities as custodian, without undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit procedure; (b) proper discharge of its responsibilities as Fiscal Agent of the United States; and (c) compliance by the management with applicable provisions of law, regulations of the Board of Governors, and any other applicable requirements. Also the Board's examiners shall develop pertinent facts and opinions which will enable the Board of Governors to appraise the condition, operations, and administration of each Reserve Bank."

Pursuant to these instructions, the examination reports contain-- along with detailed schedules of assets, liabilities, and reserves--a wide variety of information and comments. Some of these comments are of a critical nature; others are in the form of suggestions as to operating procedures; and still others pertain to matters which the examiners feel may be of interest to the Board or should be made a matter of record.

Upon the conclusion of each examination, the examiner presents his report to the President, and the Chairman of the Board of Directors of the Reserve Bank, at which time the examiner's suggestions and criticisms are fully discussed. The report is then reviewed by the Board of Governors, and advice is requested from the Bank concerning matters that seem to warrant further attention. Copies of these reports covering years as far back as 1949 have on previous occasions been furnished to the House Banking and Currency Committee.

Last August Mr. Patman requested copies of the reports of examinations made by the Board's examiners during the five-year period 1952-1956. That portion of Mr. Patman's statement of February 7 which concerns expenditures and operations of the Federal Reserve Banks was based on these reports.

Insurance

On Page 1549 Mr. Patman stated that during the year 1956 the Federal Reserve Banks spent \$1,821,429 for insurance (as shown on Page 1666, this total should be \$1,128,429), and asked: "Why should the Federal Reserve banks buy insurance?" His statement continued: "This insurance is unneeded . . . with all the money and resources of the Federal Reserve System, if it can not carry the risk of its own insurance, then certainly there is no private insurance company that can carry this risk."

The Federal Reserve Banks have discontinued purchasing substantial amounts of insurance. About 15 years ago the Banks, with the encouragement of the Board, entered into a loss-sharing agreement under which they discontinued the purchase of registered mail insurance for their own account and reduced the Bankers' Blanket Bond coverage at each Bank to \$500,000. Each year the Reserve Banks set aside a portion of their earnings (at the rate of two cents per thousand dollars of value of shipments covered) as a reserve for registered mail losses. At the end of 1956 this reserve totaled approximately \$10 million.

The question of purchased insurance has been considered from time to time, particularly the possible desirability of extending the coverage of the loss-sharing program of the Reserve Banks. For various reasons, extensions of this program to risks other than mentioned above were considered undesirable or impracticable. For example, a program of loss-sharing in lieu of Workmen's Compensation insurance would necessarily have to comply with the laws of each of the States in which the Federal Reserve Banks have employees. Administration of such a program would require expert technical

knowledge on personal injury and insurance matters, such as investigation and settlement of claims, with respect to which Federal Reserve personnel have had little or no experience.

A breakdown of the \$1,128,429 which the Federal Reserve Banks spent for insurance in 1956 is shown in the table on Pages 1665-1666. As this table indicates, about \$750,000 of the total represented the Banks' portion of premiums paid for hospital and medical service insurance, and about \$150,000 was for Workmen's Compensation insurance.

"Unusual Expenses"

Mr. Patman's statement mentioned (pages 1562-1584) numerous items under the heading "Unusual Expenses." These items include expenditures for the following purposes: Personnel activities including training, recreation, loan funds, and employee insurance; Membership dues; Charitable activities; Meetings and entertainment; and Buildings and land.

Except for the "Buildings and land" category, all of the above reflect operating policy decisions at the individual Reserve Banks. The Board has taken the position that the responsibility for determining whether expenditures of this nature are necessary expenses within the meaning of Section 7 of the Federal Reserve Act rests primarily with the officers and directors of the individual Banks. This position is consistent with the provisions in Section 4 of the Federal Reserve Act that "every Federal reserve bank shall be conducted under the supervision and control of a board of directors" and that the "directors shall perform the duties usually appertaining to the office of directors of banking associations."

The Board of Governors relies upon its examiners to review all such expenditures and bring those about which there may be any question to the attention of the Bank's management and to the attention of the Board.

More specific comments with regard to these matters are given below:

Personnel activities

The fact that employees of the Federal Reserve Banks are not Government employees is particularly important when considering personnel programs. The Reserve Banks must compete in the local labor market and, if they are to compete successfully, their personnel programs must be in line with those of the community.

The Federal Reserve Clubs, which Mr. Patman referred to on several occasions, are employee organizations which sponsor social, recreational, and educational programs. Allotments to them are part of the per capita cost which the Reserve Banks budget for their personnel activities.

To a large extent the efficiency of the operations of a Reserve Bank depends upon the experience and stability of its staff. In this light, the real measure of personnel activities is their effect on reduced turnover and greater efficiency, rather than the direct cost of the various activities.

Membership dues

Mr. Patman commented (page 1564) that the Federal Reserve Banks "pay dues and assessments to the American Bankers Association, the American Institute of Banking, the private clearing houses, the chambers of commerce, and others, and pay officers' and employees' fees and expenses for attending meetings of such organizations."

Among the organizations mentioned were, "private clearing houses." Memberships in local Clearing House Associations greatly expedite the presentation by the Federal Reserve Banks of checks drawn on local banks. Membership dues are levied by these associations to pay their operating and administrative expenses. In some cases, the Reserve Banks pay such dues; in other cases they provide the Clearing House with operating space in the Reserve Bank building and are accordingly relieved from the payment of dues. One advantage of the latter arrangement is that it eliminates the need to transport through the streets each day the great volume of local checks received by the Reserve Banks.

Memberships in such organizations as the American Bankers Association, chambers of commerce, etc., reflect--like personnel activities--operating policy decisions at the individual Reserve Banks. The over-all guiding principle in connection with such memberships is that they should be confined to organizations falling within one or more of the following

categories:

1. Organizations whose activities are directly related to the work of the Reserve Bank, such as national and State bankers' associations.
2. Organizations in which the Reserve Bank feels it should be represented, such as chambers of commerce and appropriate financial and agricultural associations.
3. Organizations in which membership is desirable in order to obtain publications and other services, such as economic and other professional associations.

Memberships in the first two categories permit regional soundings and a blending of views that constitute one of the most important strengths of the Federal Reserve System. They form a means of economic intelligence that enables the Reserve Banks to obtain and transmit to appropriate authorities in the System information concerning rapidly occurring changes in our economy, and are directly relevant to the timely formulation of credit policy.

Although it feels that individual decisions with respect to memberships should be determined at the local level, the Board has devoted considerable attention over the years to the general question of expenditures for membership dues. The most recent review of this matter, begun in the latter part of 1956, resulted in discontinuance of certain memberships carried at Bank expense.

Meetings and entertainment

In this category Mr. Patman cited from the examination reports comments concerning the following matters:

Cleveland 1952

Expenditures of \$295 for stateroom for two officers in connection with annual lake cruise sponsored by the

Cleveland Chamber of Commerce.

Expenses of \$5,417 for joint meeting of Boards of Directors of the main office and the Pittsburgh and Cincinnati Branches at Cincinnati, including \$165 for favors, \$184 for a river trip, and \$190 for entertainers.

Boston 1953

Reimbursement of expenses (\$158) incurred by officers as a result of attendance of their wives at meetings of State bankers associations.

Minneapolis 1953

Entertainment expenses of \$50 in connection with Annual Conference of Personnel Officers of Federal Reserve Banks; and entertainment expenses of \$150 in connection with a conference of Ninth District Bank Examiners.

Kansas City 1953

Expenses totaling \$1,773.70 incurred in connection with a Conference of Bank Supervisors and Examiners, including \$325 for entertainers.

St. Louis 1954

Expenditure of \$419.68 for 86 theater tickets purchased for entertainment in connection with November 12, 1953 joint meeting of Boards of Directors of the head office and the three branches.

Expenditures of \$157.25 for 85 baseball tickets; and of \$99.75 for 57 theater tickets purchased for entertainment in connection with June 10, 1954 joint meetings of Boards of Directors of the head office and the three branches.

These tickets were for the use of the directors and officers of the Reserve Bank and their wives.

Minneapolis 1955

Expenses of (a) \$100 for entertainers in connection with an Examiners' Conference; (b) \$62.40 for basketball tickets and \$60 for Ice Follies tickets purchased for entertainment in connection with various sessions of the "Short Course in Central Banking" during the period January 1 - July 1, 1955; (c) \$72 for dinner music entertainment for April 1955 "Directors and Officers Assembly"; and (d) \$76.40 for 21 football tickets in connection with the October 1955 Directors' meeting.

Dallas 1956

Expenditure of \$100 for entertainment during dinner given to delegates from all Federal Reserve Banks attending National Convention of American Institute of Banking.

The above expenditures were in connection with business meetings of direct interest or benefit to the Reserve Banks. They were considered by the management of the individual Bank concerned to be reasonable and appropriate for the occasion. In each case, however, after the matter was made a subject of comment in the examination report, the Bank reviewed its policy and subsequently discontinued incurring expenses of the type questioned.

Buildings and land

On page 1571 the following statement by Mr. Patman appears:

"These banks (the Reserve Banks) are supposed to be limited by law in their spending for bank premises. They

are expressly forbidden to build or enter into any contract to erect any building to cost in excess of \$250,000 without coming to Congress for the authorization."

This statement is incorrect in two respects. First, the limitation in the law applies to branch buildings, not to head office buildings. Secondly, the limitation cited is that originally enacted June 3, 1922, and ignores subsequent amendments.

The full text of the limitation is found in paragraph 9 of Section 10 of the Federal Reserve Act, which reads as follows:

"No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of \$250,000: Provided, That nothing herein shall apply to any building under construction prior to June 3, 1922: Provided further, That the cost as above specified shall not be so limited as long as the aggregate of such costs which are incurred by all Federal Reserve banks for branch bank buildings with the approval of the Board of Governors after the date of enactment of this proviso does not exceed \$30,000,000."

Mr. Patman's statement continued: "But the Federal Reserve System has invented a new accounting system which seems to eliminate much of the normal inconvenience of any restraint on capital outlays. By this new system, they simply charge capital outlays to current expense."

The examples cited with respect to the charge of construction costs to current expense (page 1575) refer to repairs and alterations at head office buildings. The basic principle followed in such charges is to capitalize those which add to the intrinsic value of the property, and to charge to expenses the costs of repairs and alterations which keep the properties in repair and make for efficient utilization of space and operations but do not add new intrinsic values to the building. This is in accordance with standard accounting practice.

Much of the material concerning Bank premises which is contained in Mr. Patman's statement represents merely comments by the Board's examiners with respect to the progress of building projects at various Federal Reserve Banks and branches. Mr. Patman cited several instances of parking arrangements provided for Bank employees. These arrangements are similar to those provided here in Washington for employees of Government departments.

Losses and Discrepancies

On page 1575, Mr. Patman stated:

"Some of the losses and the discrepancies in the accounts of the Federal Reserve Banks are truly amazing. All of these banks experience tremendous losses of registered mail containing deposits, securities and other things of value. They charge off or set up reserves amounting to millions of dollars for such losses."

The implied criticism of the practice of setting up reserves against possible registered mail losses seems to conflict with the earlier assertion (page 1549) that the Federal Reserve System should carry its own insurance. As mentioned previously, the Federal Reserve Banks do have a registered mail loss-sharing agreement, and--as part of this program--set aside a portion of their earnings each year as a reserve against possible losses.

The record does not support the assertion regarding losses and discrepancies at the Reserve Banks. In the light of the tremendous volume of money, checks and securities handled by the Reserve Banks--losses and discrepancies have been exceedingly small and infrequent.

The following data indicating the volume of currency, checks and securities which the Federal Reserve Banks handle in one year were taken from the table on page 79 of the Board's 1956 Annual Report.

<u>1956 volume of--</u>	<u>Millions of pieces</u>	<u>Billions of dollars</u>
Currency received and counted <u>1/</u>	4,467	29
Checks handled--		
Government	539	114
All other	2,822	1,005
Issues, redemptions and exchanges of U. S. Government securities	199	422

1/ Does not include new money received from Washington.

In contrast to the above amounts which are in billions of dollars, the following figures showing net losses at all Reserve Banks due to differences and registered mail losses, during the years covered by Mr. Patman's statement, are in actual dollars.

	<u>Profit and Loss-- Difference account</u>	<u>Net Losses charged to Reserve for registered mail losses</u>
1952	\$16,239	\$1,150
1953	11,907	1,140
1954	9,325	150
1955	9,097	965
1956	7,112	100

Note--The total of about \$3,500 charged to the Reserve for Registered Mail Losses during the five years 1952-56 resulted from the loss-sharing agreement of the Federal Reserve Banks. It may be of interest to mention that during the same period this agreement also resulted in a savings of more than \$2 million in premiums that the Reserve Banks would have paid if, in lieu of the loss-sharing program, they had purchased insurance to cover their shipments of currency, coin and securities.

In several cases, the losses which Mr. Patman cited were beyond the responsibility of the Reserve Banks and were included in the examination report only as a matter of information. For instance, on page 1578, Mr. Patman commented on an \$85,000 currency shipment by the Federal Reserve Bank of New York which was embezzled by a Post Office employee.

The quotation from the examination report clearly indicates that the embezzler was an employee of the Post Office Department, and that most of the money was recovered. In the light of these facts it is obvious that there was no negligence or culpability on the part of the Reserve Bank in connection with the incident.

Moreover, certain of the larger items which Mr. Patman listed under the general heading "Losses and Discrepancies" do not belong in such a category. They pertain to Deferred Accounts, Reserves for Contingencies, and other such schedules which are necessary in the examination report to show the detail of the Bank's assets, liabilities and reserves. They do not represent, or indicate, losses or discrepancies.

For example, on page 1576 there is listed from the 1954 Examination Report of the Federal Reserve Bank of San Francisco an amount of \$51,883,221.62 which is shown under Deferred Accounts as "Uncollected cash items--Due from member and nonmember banks." This amount, of course, represents checks and other cash items which the Reserve Bank forwarded for collection and for which, in the normal course of business, payment had not yet been received as of the date of the examination. It is in no sense a loss or a discrepancy.

Cafeteria Subsidy

On page 1584, Mr. Patman's statement includes the following remarks:

"They make generous subsidies to the employees' cafeterias and dining rooms. The Board has authorized the banks to pay up to one-half of the costs. As previously pointed out, the total cost of all the cafeterias in 1956, according to the bank's method of computing these costs, came to \$2,549,099, and of this amount the banks paid \$1,196,814, while the cafeterias receipts took care of \$1.3 million. (See pt. I, p. 569, of the hearings.)

"I do not object to a fair subsidy for restaurants and cafeterias in connection with a business. I think it is pretty well accepted practice. But I think it is very unusual for the Government to have to pay 50 per cent of such expenses, and even more. Furthermore, these audit reports disclose that even the theoretical maximum of 50 per cent is an understatement."

He adds (on page 1585) that "it would appear that the cost of overhead--bank space, lights, water, all the expensive equipment and the dining room furnishings and perhaps even the personnel--are furnished free by the banks and are not counted against the 50 per cent subsidy which the banks have been authorized to make to the cafeterias."

In most of the cities in which the Reserve Banks or branches are located, it is well-established practice for business and industrial firms to provide low-cost meal service. In some areas, many of the large banks and insurance companies provide free meals to employees. This is a competitive factor in local labor markets where the Reserve Banks must recruit their employees. A first-class cafeteria serving low-cost, balanced meals is an internal economy factor as it minimizes absenteeism, increases productivity, and reduces turnover. The Reserve Banks' average cost of \$67 per employee during the year 1957 for the subsidized food service is small in comparison to the advantages derived.

The Board has authorized the absorption by a Reserve Bank of up to one-half of the cost of operating its cafeteria, based upon the following expense items:

Salaries and retirement contributions of employees assigned to the cafeteria operation.

Cost of food, and cafeteria supplies (including ordinary day-to-day replacements of small utensils, dishes, glassware, etc.)

Cost of licenses, permits, and outside laundry and cleaning..

As Mr. Patman notes, the cost of operating Federal Reserve Bank cafeterias does not include allocations of overhead and space charges. Exclusion of these items from cafeteria and dining room costs is in line with commercial accounting practices.

Retirement System

On page 1585, Mr. Patman states: ". . . the Retirement System of the Federal Reserve is clear out of line with that of other Government employees. I believe in a good liberal retirement system, but I don't believe they should have a better system than the other Government employees because they work for the Government."

This statement with regard to the Federal Reserve Retirement System has been reviewed by the actuarial firm of George B. Buck. Mr. Buck is the Actuary of the Retirement System of the Federal Reserve Banks and is also Chairman of the Board of Actuaries of the Civil Service Retirement System. Mr. Buck's firm noted that--

1. Benefits to which employees of the Board of Governors are entitled under the Federal Reserve Retirement System are identical to those provided for Civil Service employees other than Members of Congress.

2. Under the Federal Reserve Retirement System, a Federal Reserve Bank employee is not eligible for full service retirement benefits until he has attained age 65 regardless of the number of years of his service; whereas, under the Civil Service System an employee may become eligible for full benefits at age 60 after 30 years of service or at age 62 after 5 years of service.

3. The cost to the employer of the total benefits (including Social Security) provided for Bank employees versus Civil Service employees is quite close to being the same.

The following figures compare the total service retirement benefits under the Bank Plan and Civil Service Plan for employees having a "final average salary" of \$3,000 and \$25,000 with 30 years of future service rendered after the effective date of the changes in the Bank Plan on September 1, 1957.

	Retirement benefits as a per cent of salary	
	Bank Plan (including Social Security)	Civil Service Plan
30 years service and "final average salary" of \$3,000	55.8	58.3
30 years service and "final average salary" of \$25,000	56.3	56.25

While some benefits of the Bank Plan, when compared with the Civil Service Plan, would be more favorable in certain cases and less favorable in others, the figures given above as well as those that apply at other salary levels show on the average closely comparable benefits between the plans. On the twenty-two salaries that exceed \$25,000, the maximum retirement benefits

for 30 years' service would amount to 57.0 per cent of final average salary. In this latter group there are only two salaries that exceed \$35,000--one at \$50,000 and one at \$60,000.

Deficiencies in Reserves

Mr. Patman stated (pages 1586-1587) that "there are all kinds of irregularities about the use of bank reserves," and that "they assess or waive penalties for deficiencies in member bank reserves on the basis of erroneous computations, or without authority."

All member banks are required to submit reports of deposits for reserve purposes--central reserve and reserve city banks on a weekly basis, and country banks on a semi-monthly basis. These reports, numbering over 162,000 a year, are compared at the Reserve Bank offices with the member banks' reserve accounts.

The Board delegates to the Reserve Banks discretion as to whether penalties are assessed or not in specified types of cases--for example, when the penalty is less than a certain amount, and when the deficiency is less than a stated percentage of required reserves and is offset by excess reserves during the immediately following reserve computation period. In all other cases, penalties incurred shall be assessed unless the Board, after a review of the facts of the case and the recommendation of the Federal Reserve Bank, authorizes the Reserve Bank not to make the assessment. Detailed instructions regarding these waivers were furnished to Mr. Patman, at his request, with the Board's letter of September 4, 1957.

From October 10, 1949 through August 15, 1957, during which about 1.3 million reports were reviewed for reserve purposes, only 76 cases were referred by the Reserve Banks to the Board, and in these cases the Banks were authorized not to make the assessment. Experience in this matter indicates that member banks conscientiously attempt to maintain adequate reserves, and

that deficiencies arise largely through inadvertence, clerical error, delay in mail, and absence of key employees of the member banks.

The Board believes there is no justification for the charge that there are all kinds of irregularities about the use of bank reserves.

Examination Procedures

In connection with the examinations of Federal Reserve Banks, which are conducted by the Board's examiners pursuant to the requirement of Section 21 of the Federal Reserve Act, Mr. Patman made the following comments (page 1588):

"The Federal Reserve System, as I have pointed out, has never had a Government audit. It has never had any audit by independent auditors from outside the system itself. There are internal audits, made by personnel of the system, and even these audits--taking them for what they are, internal audits--show on their face to be subject to serious inadequacies and limitations. The audit teams are supposed to be made up so that the employees of one bank audit another bank, but even this principle is rarely followed 100 per cent. In practice the employees of a particular bank are on the team to help audit their own banks."

Since 1952 the Board has employed public accounting firms to audit its accounts. The certifications submitted in connection with these audits have been included in the Board's Annual Reports to Congress.

Beginning in 1953 the Board has also engaged the same public accountants to accompany the Board's examiners on one examination of a Reserve Bank each year for the purpose of obtaining an independent judgment as to the adequacy of the examination procedures and as to whether the procedures are being carried out properly. The reports submitted to the Board in this connection by the public accountants have consistently indicated the effectiveness of examinations made by the Board's examiners; for example, in a report dated June 13, 1957, the public accountants made the following statement:

"We believe that the examination conducted at the Federal Reserve Bank of San Francisco, including its four branches, conformed to the standards expected from an examination conducted by independent public accountants. The detailed audit procedures manuals set forth clearly an adequate examination procedure related specifically to the operations of the Banks. The audit assignments were carried out by the examiners in accordance with such audit procedures."

The Board's field staff of examiners comprises a group of approximately 35 examiners and assistant examiners who are employees of the Board. They work throughout the year under the active direction of the Chief Federal Reserve Examiner, who is an officer of the Board's Division of Examinations, responsible to the Director of that Division and through him to the Board of Governors.

Within each Federal Reserve Bank there is a General Auditor who has a staff which is engaged throughout the year in conducting internal audits of the affairs of the Bank and any branches of that Bank. The General Auditor and his staff are independent of the operating management and operating staff of the Bank and do not participate in operations. The General Auditor is responsible directly to the Board of Directors of the Bank, and he reports the results of the internal audits to the Directors.

During the first part of each examination of a Federal Reserve Bank conducted by the Board's field staff, there is necessity for verification of a very substantial volume of currency and securities which must be accomplished quickly in order not to interfere unduly with the Bank in the conduct of its day-to-day business. Moreover, in making simultaneous entry into all offices of a Bank which has several Branches, there is a temporary need for additional personnel to provide adequate coverage. It would be wasteful for the Board to maintain a field staff of examiners of sufficient size in itself to perform expeditiously all

the detailed work concerned with the opening phases of these examinations. Therefore, the Board's field staff utilizes the temporary assistance of men (a) from other Federal Reserve Banks--chiefly from the internal audit staffs of the other Banks; and (b) from the internal audit staff of the Bank under examination. The men borrowed temporarily from other Banks and from the Bank under examination are not conducting the examination; rather, they are assisting the Board's examiners and in so doing they are at all times under the active supervision of members of the Board's field examining staff. The temporary assistance received from within the Bank under examination is restricted entirely to members of the internal audit staff of the Bank who, as stated above, are independent of the operating personnel of the Bank.

Member-bank examinations

Mr. Patman cited on Pages 1603-1608 a number of factual reports by Board's examiners concerning the frequency of member-bank examinations made by the examining staffs of the Reserve Banks. He prefaced these citations by stating:

"The Federal Reserve banks have set certain policies with respect to member-bank examinations. However, they make frequent exceptions to these policies throughout the Federal Reserve System.

"As an example, at the San Francisco Bank it was the policy to examine 4 of the 5 holding company affiliates within the district biennially, and the fifth, Trans-america Corp., on a triennial basis. However, the bank failed to make examinations of this holding company for 6 years. They make frequent exceptions to the policy of examining banks once a year and to their policy of making examinations jointly with State examiners.

"They do not always examine branches simultaneously with head offices, nor do they examine the commercial departments of banks concurrently with trust departments.

"On many occasions they defer examinations when mergers are pending, when banks are making alterations on the premises, and when examining personnel is not available, and fail to examine new banks."

State member banks are subject to examinations made by direction of the Board of Governors or of the Federal Reserve Banks by examiners selected or approved by the Board. The established policy is to conduct at least one regular examination of each State member bank, including its trust department, during each calendar year, by examiners from the Federal Reserve Bank of the district in which the member bank is situated, with additional examinations if considered desirable.

In carrying out this policy, the Board has not required that all examinations of trust departments or all examinations of branches of State member banks be made simultaneously or concurrently with examinations of their head offices, nor has the Board required that all examinations of the commercial or trust departments of State member banks be made jointly with State examiners.

The programs for examination of State member banks have been substantially completed in all recent years. Deviations from the general policy have been largely due to a shortage of qualified examiners, and almost without exception have involved State member banks in sound condition and under capable management. A large majority of the banks not examined in a specific calendar year were examined during the latter part of the previous year and, as a general rule, during the early months of the following year. In no case was there a deferment involving a bank considered to be in unsatisfactory condition. During the period 1952-1956, all newly organized banks were examined within one year by either the

State banking department or the Federal Reserve Bank, and in a majority of cases by both authorities.

The approach to the examination of branches of State member banks is governed almost without exception by the aggregate number, size and location of the branches of the institution under examination. At banks with a small or medium number of branches, it is customary to examine all offices simultaneously with the head office, but it is not possible to follow this policy consistently when a large number of branches is involved. However, in every case, statements of all branches are obtained as of the date of examination of the head office and are reconciled to the books of the head office as of that date.

Due to the specialized character of fiduciary activities and the required separation from commercial banking activities of fiduciary responsibilities and related functions, records and assets, it is the judgment of supervisory authorities that the examination of the commercial and trust departments of State member banks other than on a simultaneous basis does not represent a departure from sound examination principles.

The examination of Transamerica Corporation which would ordinarily have been made on a triennial basis in 1949 was omitted because of the Clayton Act proceedings with respect to the Corporation which were in process at that time. The Board's order in these proceedings was issued March 27, 1952 and an examination of the Corporation was commenced on April 21, 1952.

Verification and Destruction of Currency

With regard to the work which the Federal Reserve Banks are performing in connection with the verification and destruction of unfit

Treasury currency, Mr. Patman suggested (page 1591) that it is a disgrace for Congress to permit "people to have complete control of United States currency who do not consider themselves obligated to the Government. . ."

His statement continued:

"They have charge of destroying the worn and mutilated currency. And, of all the irregularities and seemingly dishonest dealings in connection with it, you will find plenty of eye openers in these reports that even their own auditors made about the irregularities in handling the tremendous amount of money that is destroyed every year, and the loose fashion in which it is handled.

"Up at Pittsburgh, a cyclone or a heavy wind hit the City while currency was being destroyed in the Municipal incinerator and scattered money all over Pittsburgh, Pa. The only reason we found out about it through the newspapers and they had to redeem a lot of that currency because it wasn't burned and under certain conditions it is redeemable."

Mr. Patman's statement then quoted certain criticisms and other comments concerning individual Reserve Banks, as shown in the reports of examinations made by the Board's examiners.

Under date of June 24, 1953, the Secretary of the Treasury directed the Federal Reserve Banks and branches as fiscal agents of the United States, under the provisions of Section 15 of the Federal Reserve Act, to verify and destroy unfit United States paper currency. The proposed change in procedure was discussed by Treasury representatives with appropriate Congressional committees during the hearings on the Treasury appropriation for the fiscal year 1954. In this connection Secretary Humphrey's letter of May 22, 1953 to Chairman Canfield of the Treasury-Post Office Subcommittee of the House Committee on Appropriations concluded: "Since the net savings resulting from this change of procedure will be substantial, it is assumed that your Committee would concur in the

Department's proposal to proceed along the lines indicated."

From the time the Reserve Banks began this work on July 1, 1953, it has been performed under regulations issued by the Treasury Department. A copy of these regulations was forwarded to the House Banking and Currency Committee with the Board's letter of December 16, 1957. As stated on page 1801, the Treasury Department has advised the Board that it is their practice to visit the Reserve Banks which destroy currency at least once a year for the purpose of observing the verification and destruction operations. One purpose of these visits is to ascertain that the operation is being conducted in a manner satisfactory to the Treasury.

Certain safeguards and other controls covering this operation are described on pages 1742-1750 and 1780-1792. In many respects the safeguards in effect at the Reserve Banks go beyond Treasury regulations. In some cases the additional safeguards were the result of suggestions by the Board's examiners, such as shown on pages 1592-1595 of Mr. Patman's statement. However, in considering the matter of suggested additional precautions over and above the requirements of the Treasury regulations, the Reserve Banks must balance the added protection against its cost, and in this light some of the examiners' suggestions were not deemed feasible.

The Pittsburgh incident mentioned by Mr. Patman on page 1591 occurred when an unknown quantity of cancelled currency escaped incineration because of completely unforeseeable malfunctioning of the incineration facility of the City of Pittsburgh. The City incinerator was used in July of 1953 to destroy the first batch of currency at the Pittsburgh Branch because at that time the Branch had no facility of its own. This incinerator was then also used by local offices of the United States District Court, the

Federal Bureau of Investigation, the Internal Revenue and other departments of the Federal Government to destroy confidential records. Before its use for the destruction of currency, the facility was thoroughly tested, and its use was approved by the Treasury Department. Nevertheless, before the cancelled currency was completely destroyed an unknown amount passed through the grates into the water tanks provided for receiving the ashes. A complete account of this incident appears on pages 1794-1799.

When it occurred, the matter was reported immediately to the Secret Service, the Federal Bureau of Investigation, the Pittsburgh Police Department, the Treasury Department, and the Board. Contrary to the statement on page 1591 that "they had to redeem a lot of that currency," all of the money was cancelled and valueless before it was taken to the incinerator. There has been no loss to the Treasury as a result of this incident or of any of the others which have occurred (described on pages 1793-1794 and 1799-1800.) All of the cancelled money which has been presented to the Federal Reserve Banks for redemption has been confiscated, and in all but a very few cases the Reserve Banks have refused to give credit or value for it.

The exceptions to this last statement constitute three \$5 bills and five \$1 bills which were accepted at face value and charged to profit and loss by the Reserve Banks because of operating circumstances, such as the fact that the notes were partially burned and discovered to have been cancelled too late in the sorting process at the Reserve Bank to permit identifying the bank which deposited them. From the time the Reserve Banks undertook the currency destruction work on July 1, 1953 to the present time, their loss as a result of this operation has totaled \$20.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

February 21, 1958

The Honorable Brent Spence,
Chairman,
House Banking and Currency Committee,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

As I understand the record of your Committee's hearings on the pending Financial Institutions bills (H.R.7026 and S.1451) may soon be closed, I should appreciate it if you would advise your Committee that the Board would welcome an opportunity to submit written comments on Mr. Patman's statement of February 7.

To do so properly, it will of course be necessary for us first to examine in its entirety the material Mr. Patman said in that statement he intended to place in your Committee's record. As you will recall, the Board supplied to your Committee last August and September reports of examinations and audits of the Federal Reserve Banks made in accordance with the long-standing requirements of the Board. When the Committee record becomes available and we know what Mr. Patman has excerpted from the reports we made available, we should like to furnish to the Committee in writing such information and comments as may be necessary to prevent any misunderstandings with regard to the various items on which Mr. Patman has commented.

Meanwhile, there is one matter which Mr. Patman referred to several times in the course of his general statement which involves at least an implied criticism of persons outside the Federal Reserve System. Therefore, I would like to correct immediately, in justice to them, misunderstandings indicated by Mr. Patman's remarks.

Mr. Patman states: "They had a symposium of two days on consumer credit and they invited some speakers, and they paid certain honorarium to these speakers. Two of them, they paid \$2,000 each. Four of them, they paid \$1600 each. Two of them they paid \$1500, and one of them \$500." Later Mr. Patman states: "That the Federal Reserve System has the power to go out and hire speakers, have meetings and pay an honorarium up to \$2,000 if they want to. That has been done clear across the board all over the country." Again he states: "They can pay \$2,000 to a speaker if they want to."

The expenditures to which Mr. Patman apparently refers were payments to highly respected university professors for expert professional services over a period approximating nine months. These services were rendered in connection with the study of instalment credit, undertaken by the Board pursuant to a request made early in 1956 by the Chairman of the Council of Economic Advisers, at the direction of the President, for a comprehensive analysis of that subject. You will recall that interest in this study was also expressed by the Banking and Currency Committees of the House and Senate and the Joint Economic Committee.

A major part of the instalment credit study consisted of analyses by the university professors referred to above. The arrangements for their services were made through the auspices of the National Bureau of Economic Research, an outstanding independent research organization. Attendance at the two-day conference referred to by Mr. Patman was only a small part of the work undertaken by the participants in consideration of the payments he mentions. In fact, the participants prepared major papers on the subject, and the work involved occupied a substantial part of their time in 1956.

The results of this work are published in Part II, Volumes 1 and 2, of the Board's report on consumer instalment credit. It will be evident from an examination of these volumes that the contribution of the participating scholars was considerable, and was in accordance with the proper objectives of independent research into a field of great economic significance to the American people.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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APR 29 1958

BY MESSENGER

The Honorable Brent Spence,
Chairman,
House Banking and Currency Committee,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

You will recall that on February 21, 1958, I addressed a letter to you with respect to Mr. Patman's statement of February 7 before your Committee during the hearings on the pending Financial Institutions Act (H.R. 7026 and S. 1451). I stated then that, after we had had an opportunity to examine in its entirety the material which Mr. Patman placed in your Committee's record, the Board would like to furnish to the Committee in writing such information and comments as might be necessary to prevent misunderstandings.

Accordingly, now that this material (appearing on pages 1535-1698 of Part 2 of your Committee hearings on S. 1451 and H.R. 7026) has been reviewed, I am transmitting herewith 35 copies of our comments. The page numbers appearing throughout the memorandum refer to Part 2 of the above-mentioned hearings. The memorandum does not comment on Mr. Patman's statements with respect to Open Market and other matters which have been the subject of discussion on earlier occasions.

Mr. Patman's statement contains numerous excerpts or paragraphs of excerpts taken from reports of examination of the Federal Reserve Banks made by the Board's examiners over a period of five years. Numerous items of expenditure authorized by the boards of directors of the 12 Federal Reserve Banks and their 24 branches, as well as instances of losses or discrepancies in the handling of checks, currency, and similar items were cited.

The Board is satisfied that in all cases where judgments may differ as to the wisdom of certain expenditures, the Bank managements acted in good conscience.

The Federal Reserve Banks annually handle a volume of transactions that runs into billions of items and hundreds of billions of dollars. Some losses and discrepancies are humanly unavoidable, but every effort is made to hold them to a minimum.

The Honorable Brent Spence

-2-

You will find enclosed a copy of my letter of February 21 and our additional comments concerning Mr. Patman's statement of February 7. The Board believes that these explanations should serve to prevent misunderstanding of the operating policies and practices of the Federal Reserve Banks, and of the care and thoroughness with which these operations are conducted.

If you desire further information, we shall undertake to furnish it.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

JRF:ig

To:

Dear Bill,

(Handwritten flourish)
This is from
to-day's Chicago Tribune -
the editorial page.

C.S.A.

2/17/58

From C. E. ALLEN

This article is protected by copyright and has been removed.

Article Title: Inflationist at Work

Journal Title: Chicago Tribune

Date: February 17, 1958

March 4, 1958

The Honorable Kenneth B. Keating
House of Representatives
Washington, D. C.

Dear Ken:

In answer to your letter of February 26, with which you enclosed a memorandum relating to expenses of Federal Reserve banks, there is enclosed a copy of my letter to Chairman Spence, of the House Banking and Currency Committee, which contains a statement of the Board's approach to the matter. As indicated in the first paragraph of the attached letter, the expense items referred to were mentioned in a statement which Congressman Patman made before the House Banking and Currency Committee in connection with the pending Financial Institutions Act on February 7.

The Federal Reserve Act provides that Federal Reserve banks shall be conducted under the supervision and control of a board of directors. As you know, there are twelve reserve banks, each with a board of nine directors, who are performing a nonsalaried public service. They are men of good repute and standing, and I am sure that they have welcomed the opportunity to comment on such items as the five cited by your constituents. I shall be glad to pass along to you, if you wish, their comments and those of the Board as soon as available.

Standing alone, isolated instances of expenditures may be misunderstood, particularly if it is assumed that they were paid out of appropriated funds, which is not the case. In conducting the affairs of Reserve banks over the past forty-four years, the directors and officers of the banks have felt that it was in the interest of their banks to hold various meetings from time to time with member bankers and other interested groups, and to authorize expenses for incidental entertainment and other purposes that seemed to them to be warranted by the circumstances in their districts.

With all good wishes,

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure
SRC:ET:nbk