

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 24, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
Mr. Evans  
Mr. Mills  
Mr. Robertson

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Allen, Director, Division of Personnel  
Administration  
Mr. Sloan, Director, Division of Examinations  
Mr. Hackley, Assistant General Counsel

Reference was made to a recent inquiry by a representative of the United States Air Force regarding assistance which the Federal Reserve Banks might render in contacting member banks to ascertain whether such institutions had bank accounts or safe deposit boxes in the name of an Air Force officer currently under investigation by the Air Force for alleged irregularities. It was stated that when the Air Force representative originally brought up the matter with Messrs. Thurston and Vest, the impression was gained that the information was desired only in certain limited areas in two or three Federal Reserve districts. However, on the basis of advice received subsequently by telephone from the Federal Reserve Banks of St. Louis and Dallas, it appeared that the Air Force intended to have its representatives contact all of the Federal Reserve Banks to request assistance.

3/24/54

-2-

The matter was discussed in the light of the propriety of using the Federal Reserve Banks to obtain from member banks information regarding the relations of such banks with their customers and also from the standpoint of the advisability of setting a precedent which might give rise to other requests of this character. It was pointed out that, in view of the number of banks, compliance with such requests would involve, if nothing more, a Reserve Bank operation of some magnitude.

At the conclusion of the discussion, unanimous approval was given to a telegram to the Presidents of all Federal Reserve Banks in the following form:

We understand that your Bank has recently received or will receive shortly a request from a representative of the United States Air Force for your assistance in contacting member banks in your district to ascertain whether such member banks have bank accounts or safe deposit boxes in the name of an Air Force officer who is under investigation by the Air Force for possible irregularities. For your information, a representative of the Air Force in Washington recently contacted Messrs. Thurston and Vest of the Board's Staff on this subject, advising that the information was desired only in certain limited areas in two or three Federal Reserve districts, and the suggestion was made to him that the Air Force might wish to discuss the matter with these two or three Reserve Banks individually so that the Banks might decide whether they wished to transmit this request to their member banks, with the understanding that compliance would be wholly voluntary and the information held confidential. It was not understood at the time that the matter was one involving all Federal Reserve districts. The Board has considered the matter and feels that it would not be desirable for the Federal Reserve Banks to communicate any request on this subject to their member banks. The office of the Air Force in Washington is, of course, being informally advised of the Board's position in this matter.

3/24/54

-3-

There was presented a draft of letter to Mr. John B. Hollister, Executive Director, Commission on Organization of the Executive Branch of the Government, General Accounting Office Building, Washington, D. C., reading as follows:

This is in response to your letter of March 19, 1954, requesting certain information indicated in an enclosed memorandum of February 18, 1954, regarding the legal staff of the Board of Governors of the Federal Reserve System.

The Board of Governors employs 10 attorneys in its Legal Division and a copy of the organization chart of the Legal Division is enclosed. The Legal Division also includes 8 employees whose duties are of a nonlegal nature. In addition, the Board of Governors employs a Legislative Counsel who maintains liaison with the Congress on legislative matters relating to the Federal Reserve System.

Authority for the Board's legal staff is derived from section 10 and section 11(1) of the Federal Reserve Act (U. S. Code, Title 12, secs. 244 and 248 (1)).

It is hoped that the above will supply the information which is desired by your Commission.

Approved unanimously.

At this point Mr. Leonard, Director, Division of Bank Operations, entered the room.

Prior to this meeting there had been sent to the members of the Board, with a covering memorandum from Mr. Heckley dated March 23, 1954, copies of alternative drafts of a letter to the Honorable R. M. Gidney, Comptroller of the Currency, prepared in response to Mr. Gidney's letter of March 10, 1954, requesting the Board's views as to whether a plan of The Franklin National Bank of Franklin Square, Franklin Square, New York, for the solicitation of new savings accounts would involve payments of interest on deposits within the purview of the Board's Regulation Q,

3/24/54

-4-

Payment of Interest on Deposits. Under this plan, a passbook containing a balance of \$1 would be mailed by the bank to prospective depositors, together with a letter indicating that the person had a savings account at the bank, with \$1 already credited, provided he sent a deposit of \$10 within the next few days.

At the request of the Board, Mr. Hackley commented on the matter, referring first to the discussion which took place at the meeting of the Board on February 23, 1954, as the result of similar questions which had been raised informally by the Federal Deposit Insurance Corporation and by the Federal Reserve Bank of San Francisco. At that time the Board indicated a feeling that the practice should be discouraged but took no position as to whether a credit of this type would violate Regulation Q on the basis that this was a question which, in line with the Board's general policy, would be decided only if it should be presented in a specific case, with information as to all of the circumstances involved.

Mr. Hackley said that the question presented was not an easy one, there being legal and practical considerations which might be cited on both sides. Therefore, alternative drafts of a reply to the Comptroller of the Currency had been prepared, neither of which, however, would take a specific position on the legal question. The first draft would point out that it was a close question whether the \$1 credits should be deemed to be payments of interest within the meaning of Regulation Q, but would state that in view of the limitation on amount and the fact that the payment

3/24/54

-5-

was nonrecurring, the Board would not object. The other draft, which would conform more closely to the sentiments expressed at the meeting of the Board on February 23, would take the position that the practice should be discouraged without stating specifically whether or not the Board would object. This would be substantially the same position finally taken by the Federal Deposit Insurance Corporation in the case which gave rise to its recent informal inquiry.

It was Mr. Hackley's personal feeling that the first draft was preferable since he felt that any other position might be subject to criticism as being rather strict and rigid. He pointed out that in the past the Board has stated that it would not object to the offering of wallets, mechanical pencils, and other items of nominal value, and while he recognized that there was a legal distinction between the offering of such items and the giving of money, he felt that, as a practical matter, it was difficult to differentiate. The giving of items of nominal value, he pointed out, was considered by banks as merely an advertising device to attract customers and not a payment of interest.

In further comments, Mr. Hackley pointed out that since the Board is charged by the Congress with defining the payment of interest on deposits, it seemed proper for the Comptroller of the Currency to request the Board's views as to whether there was a payment of interest in the circumstances of the case in question. Furthermore, although the Board has followed the policy of not expressing an opinion on questions relating to the payment of interest in the absence of an examination of the bank concerned to obtain a full disclosure of the facts, Mr. Hackley brought out

3/24/54

-6-

that in this case the facts seemed to be clear and it was quite apparent that an examination would develop no additional data. He noted that the second alternative draft would only say that in the opinion of the Board the practice should be discouraged because there was a question whether the payment of interest was involved, which might cause the Comptroller to feel that he had not received a satisfactory response to his inquiry.

During a discussion of the matter which followed, the members of the Board expressed preference for an approach along the lines of the second alternative draft. Although it was recognized that, if the practice grew, the Board at some point probably would be obliged to take a definite position, it was felt that it was not necessary to make that decision at this stage. It was also pointed out that if the practice should spread, observation of developments would be helpful in reaching a decision.

At the conclusion of the discussion, unanimous approval was given to a letter for the signature of the Chairman to the Comptroller of the Currency in the following form:

This is in further reference to your letter of March 10, 1954, in which you asked whether a plan of The Franklin National Bank of Franklin Square, Franklin Square, New York, for the solicitation of new savings accounts would involve payments of interest on deposits within the purview of the Board's Regulation Q.

You explained that under the plan a passbook containing a balance of \$1 would be mailed by the bank to prospective depositors, together with a letter containing the following statements:

3/24/54

-7-

"You actually have a savings account at our bank - with one dollar already credited, provided you send a deposit of \$10.00 within the next few days. Your balance will then be \$11. This gives you a 10% profit on your first \$10. - already credited."

As you know, in the exercise of the authority conferred by section 19 of the Federal Reserve Act, the Board has stated in section 2(a) of its Regulation Q that "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest".

In view of the fact that the plan involves an actual payment or credit to the account of the depositor, there is a serious question whether the amount of such payment or credit may be disregarded in determining whether the interest paid by the bank on the account exceeds the maximum rate permitted by the Board's Regulation Q; and accordingly, the Board does not look with favor upon this practice. It is hoped that the practice will not be adopted generally by member banks, and, until there is an indication that it is developing generally, the Board would not wish to pass upon the question whether the practice involves a payment of interest within the meaning of Regulation Q.

In this connection, it may be said that a plan such as that described by you was the subject of recent correspondence of an insured nonmember State bank with the Federal Deposit Insurance Corporation, whose regulation at 12 CFR 329 contains a definition of "interest" identical with that quoted above from the Board's Regulation Q. The reply to the nonmember insured State bank signed by the Corporation's Assistant General Counsel stated that ". . . we do not recommend the adoption of such a practice because in some circumstances the credit could be construed as a payment of interest; and, if so construed, the amount thereof would have to be included in determining whether interest was being paid in excess of the maximums prescribed by our regulation on the time or savings deposits solicited".

The following letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency), had been circulated among the members of the Board and was presented for consideration at this meeting because the

3/24/54

-8-

recommendation contained in it differed from the recommendation made by the Federal Reserve Bank of Atlanta:

Reference is made to a letter from your office dated August 19, 1953, enclosing photostatic copies of an application to organize a national bank at Wilton Manors, Florida, and requesting a recommendation as to whether or not the application should be approved.

We have received a report of investigation of the application made by an examiner for the Federal Reserve Bank of Atlanta setting forth information with respect to the factors usually considered in connection with such applications. This information indicates that the applicants have agreed to provide a capital structure of \$400,000 for the bank instead of \$255,000 proposed in the application and that this revised capital structure would be barely adequate for the estimated volume of deposits; that the future earnings prospects are not promising; and that information as to the operating management was not disclosed. It is indicated also that the area in which the bank would be located is being developed quite rapidly and that the need for banking facilities may be more pressing in the near future than at the present time. While our informant feels that the application is somewhat premature, it is apparent that considerable business is now available and that the bank would be a convenience for the residents of this growing area. After careful consideration of the situation and all of the factors set forth in your letter, the Board of Governors recommends favorable consideration of the application, provided arrangements are made for management satisfactory to your office.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office, if your so desire.

There was a discussion of the reasons underlying the Atlanta Bank's recommendation, which were that the proposed capital did not appear to be adequate, future earnings prospects were not promising, the management factor could not be regarded as entirely satisfactory, and the application seemed somewhat premature. Reference was made to the number of recent applications for new bank charters in the State of Florida, and it was



3/24/54

-9-

pointed out that this might reflect undue optimism on the part of groups seeking to organize new banks and the filing of applications which were not fully supportable. Therefore, it was suggested that careful consideration should be given in each case to the views expressed by the Reserve Bank.

On the other hand, it was brought out that there were a number of factors pointing in the direction of a favorable recommendation on the application under consideration, particularly the unusual growth of the area around Fort Lauderdale which indicated a need now, or at least within the near future, for additional banking facilities. While it was realized that appraisal of each application involved a matter of judgment in the light of all the circumstances surrounding the particular case, the view was expressed that where there appeared to be a reasonable basis for a favorable recommendation, the tendency should be in that direction. In this connection, Governor Robertson said he had suggested that if the Board recommended favorably in this case, Mr. Sloan should contact the Federal Reserve Bank of Atlanta, state fully the reasons underlying the Board's decision, and state that the Board's decision in this and other similar cases should not influence the Reserve Bank in making whatever recommendation it felt justified in any case in the future.

Thereupon, the letter to the Comptroller of the Currency was approved unanimously in the form set forth above.

3/24/54

-10-

On September 14, 1953, the Board approved certain modifications in its leave program as the result of the July 2, 1953, amendment to the Annual and Sick Leave Act of 1951, but it deferred taking action in respect to the policy to be followed regarding the transfer of leave where an individual previously employed by a United States Government agency enters the employ of the Board. This matter was discussed further at the meetings on January 25 and 29, 1954, and at the latter meeting the Board decided to refrain from adopting any fixed policy, with the understanding that any individual case would be handled on the basis of the facts involved. Subsequently, in a letter advising Mr. J. Frank Holahan that the Board had approved his appointment as a Review Examiner in the Division of Examinations, the Division of Personnel Administration informed Mr. Holahan that he might be required by the Board to refund the equivalent of any lump-sum payment for annual leave that he received upon leaving his position in the Office of the Comptroller of the Currency. In his letter accepting the appointment, Mr. Holahan requested that the Board give consideration to the possibility of his being permitted to retain such lump-sum payment in order that he might use it to help finance the purchase of a residence upon moving to the Washington area.

Prior to this meeting there had been circulated to the members of the Board a memorandum from the Division of Personnel Administration dated March 17, 1954, reviewing the matter and setting forth three alternative procedures which appeared to be available to the Board, as follows:

3/24/54

-11-

1. To start all new employees with a zero leave balance and permit them to retain any payment for leave which they might have received;

2. To request the new employee to pay to the Board an amount equivalent to any unexpired annual leave; or

3. To request the Comptroller of the Currency not to pay Mr. Holahan for his leave but to transfer such leave to the Board.

There had been circulated to the Board, along with the above-mentioned memorandum, a memorandum from Mr. Vest dated March 19, 1954, stating reasons why he considered the third alternative to be preferable, provided that the Comptroller of the Currency would be willing to handle the matter in that way.

At this meeting there was a general discussion of the three alternatives, the legal and administrative considerations involved, and reasons which might be cited for and against each of the procedures. No conclusions were reached and it was understood that the matter would be considered further at the meeting of the Board tomorrow.

Messrs. Thurston, Vest, Allen, Sloan, and Hackley then withdrew from the meeting.

Governor Evans stated that he had received a telephone call yesterday from Mr. Irons, President of the Federal Reserve Bank of Dallas, who reported that the owner of a piece of property (known as the "Nardis property") containing a three-story office building and situated to the rear of the Reserve Bank building had now offered the property to the Bank for

3/24/54

-12-

a consideration of \$300,000. The Reserve Bank had wished to obtain this property for some time to round out a full half-block and to facilitate the Bank's building expansion program, but the owner, up to this time, had refused to sell at a price which the Reserve Bank deemed reasonable. President Irons said that the building committee of the Bank's board of directors recommended purchase of the property at the price stated, and he requested favorable action by the Board of Governors as soon as possible so that the transaction might be consummated.

At this point Governor Vardaman entered the room.

The matter was considered on the basis of the advantages to the Reserve Bank in acquiring the property and the reasonableness of the price. It was the view of the Board that the responsibility for justifying the purchase at the price mentioned should rest upon the Reserve Bank directors, but it was felt that before the Board of Governors acted it should have formal advice that the proposed transaction had the approval of all of the current directors of the Dallas Bank. Governor Evans stated in this connection that President Irons had advised yesterday that he was addressing a letter to the Board of Governors on the matter but that this letter had not yet been received.

Particular reference was made to the fact that the proposed price for the property was substantially higher than an informal appraisal made for the Dallas Bank but that the land would greatly facilitate the future building program and could well be worth the amount asked.

3/24/54

-13-

During the discussion, Governor Evans was called from the room and, upon his return, stated that he had received a telephone call from Mr. Parten, Chairman of the Dallas Bank, who was in Washington. Governor Evans said Chairman Parten favored the purchase and was of the opinion that the price of \$300,000 was reasonable. Governor Evans also said that Chairman Parten would visit the Board's offices for luncheon today and that if the Board desired further information, such information might be obtained at that time.

Following further discussion of the matter, Governor Evans was requested to say to Chairman Parten that the Board would like to have assurance that all of the Bank's directors concurred in the desirability of the purchase of the property and that, if the Board had such an assurance, it would be willing to act favorably on the matter.

The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 23, 1954, were approved unanimously.

Memorandum dated March 22, 1954, from Mr. Allen, Director, Division of Personnel Administration, recommending that the resignation of Edna B. Hardesty, Substitute Nurse in that Division, be accepted effective March 22, 1954.

Approved unanimously.

3/24/54

-14-

Letter to the Board of Directors, Wachovia Bank and Trust Company, Winston-Salem, North Carolina, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of branches at 235 and 844 South Main Street, Burlington, North Carolina, by the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, provided the merger of The National Bank of Burlington, Burlington, North Carolina, with Wachovia Bank and Trust Company is effected substantially in accordance with the plan submitted and the branches are established within six months of the date of this letter.

Approved unanimously, for transmittal through the Federal Reserve Bank of Richmond.

Letters to the Board of Directors, Union Bank of Michigan, Grand Rapids, Michigan, and to the Board of Directors, Old Kent Bank, Grand Rapids, Michigan, respectively, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 2111 Plainfield Avenue, N. E., in the city of Grand Rapids, Michigan, by the Union Bank of Michigan, provided (a) that prior to December 31, 1954, the bank will have completed the sale of new common stock to provide at least \$200,000 of additional capital funds, and (b) the branch is established by January 3, 1955.

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 2209 Plainfield Avenue, N. E., in the city of Grand Rapids, Michigan, by the Old Kent Bank, provided the branch is established by January 3, 1955.

Approved unanimously, for transmittal through the Federal Reserve Bank of Chicago.

3/24/54

-15-

Letter for the signature of the Chairman to the Honorable Arthur

E. Summerfield, Postmaster General, Post Office Department, Washington,

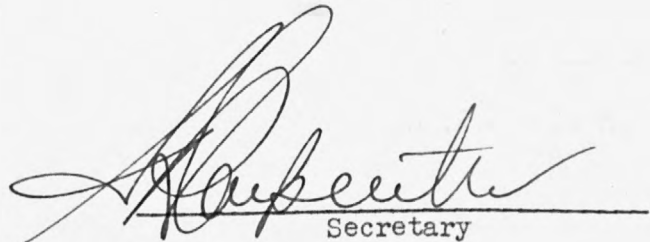
D. C., reading as follows:

This refers to my letter of June 19, 1953, advising you that the Federal Reserve Banks were prepared to continue the arrangement for handling of postal money orders for the fiscal year commencing July 1, 1953 at a reimbursement rate of \$3.60 per thousand postal money orders handled. The Federal Reserve Banks at that time reserved the right to review and redetermine the rate of reimbursement after six months of the fiscal year.

Such a review has been made, and the Conference of Presidents of the Federal Reserve Banks has approved, and the Board of Governors has concurred in, a reduction in the reimbursement rate for the second half of the fiscal year to \$3.42 per thousand money orders handled. The proposed reduction was discussed informally by representatives of the Federal Reserve with Mr. Askew and Mr. Stine of the Post Office Department.

In order to make the reduction effective from January 1, 1954, the Federal Reserve Banks in subsequent billings will make appropriate adjustments for excess amounts paid by the Post Office Department at the former rate of \$3.60 for money orders processed since January 1, 1954.

Approved unanimously, with  
copies to the Presidents of all  
Federal Reserve Banks.

  
Secretary