

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 7, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Horbett, Assistant Director, Division of
Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Daniels, Chief, Reserve Bank Operations
Section, Division of Bank Operations

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on May 3, by the Federal Reserve Banks of Richmond, Kansas City, and San Francisco on May 5, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, and Dallas on May 6, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was also presented a memorandum from Mr. Young, Director, Division of Research and Statistics, dated May 5, 1954, recommending that in response to an invitation extended by Mr. Earhart, President of the

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Federal Reserve Bank of San Francisco, the Board authorize Mr. Louis Weiner, Chief, National Income, Moneyflows, and Labor Section of the Division of Research and Statistics, to attend and participate in a Business Outlook Conference scheduled by that Bank to be held in San Francisco on May 17, 1954.

Approved unanimously.

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Fulton, President, Federal Reserve Bank of Cleveland, reading as follows:

The Board will interpose no objection to the expenditure of approximately \$150,000 for the alterations to the Cincinnati Branch building and in the space to be leased in the adjoining Commerce Garage for the purpose of providing a security court for the Branch, all in accordance with the program approved by the Directors of the Federal Reserve Bank of Cleveland and as outlined in your letter of April 9, 1954. This represents an increase of \$50,000 in the expenditure authorized in the Board's letter of December 4, 1953.

The Board likewise will interpose no objection to the execution of the contract with Hillsmith and Co. for the necessary work, at a cost of approximately \$134,397, as recommended by the Directors. It is understood that, because of the status of one of the owners of the property, approval of the court must be obtained before the lease may be executed. It is also understood that the Bank's action with respect to the contract will be dependent upon obtaining the lease. In view of the uncertainty as to the time of court action upon the lease, it is assumed that appropriate steps will be taken to protect the Bank's interest in case there may be a decline in building costs before the lease is signed.

It is understood also that you expect to forward the proposed lease to the Board for review before it is submitted to the court for approval.

Approved unanimously.

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Governor Vardaman referred to the discussion at the meeting of the Board on April 2, 1954, at which time he reported that Mr. Boothe, Administrator, Office of Defense Loans, had suffered another heart attack. He stated that Mr. Boothe's condition was such that he would not be able to return to the office for some time and he raised the question whether some adjustment should be made in compensation for Mr. Connell, Acting Administrator for Defense Loans.

Chairman Martin suggested that in view of the uncertainty regarding Mr. Boothe's return to the office, Mr. Connell should serve as Acting Administrator for at least two months before consideration is given to any adjustment in his compensation.

Governor Vardaman commented that by the end of that time there probably would be more definite information regarding Mr. Boothe's return to the office and also regarding the volume of defense loans, and that the Board might then be in a better position to determine whether the present arrangements for handling the work should be continued or whether some change should be made.

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 May 6, 1954, were approved unanimously.

Memorandum dated May 5, 1954, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Marilyn Rishell, Clerk-Typist in that Division, be accepted, effective May 13, 1954.

Approved unanimously.

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Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis, reading as follows:

In accordance with the requests contained in your letters of April 28, 1954, the Board of Governors approves the appointments of Leander George Tonsager and William James Kilroy as Examiners, and Robert F. Farrell, Harold K. Swanson and Raynold Wilbur Anderson as Assistant Examiners for the Federal Reserve Bank of Minneapolis.

It is noted that Mr. Swanson is indebted to the First Robbinsdale State Bank, Robbinsdale, Minnesota, and Mr. Anderson to the Richfield State Bank, Richfield, Minnesota, both nonmember banks. It is assumed that they will not be authorized to participate in any examinations of the banks to which they are indebted.

With reference to the mortgage indebtedness of Mr. Tonsager to Ebenezer Home Society, Minneapolis, of Mr. Anderson to Minnesota Federal Savings and Loan Association, Minneapolis, and of Mr. Swanson to First Robbinsdale State Bank, a nonmember bank, Robbinsdale, Minnesota, it will be appreciated if you will furnish the essential details regarding such indebtedness as requested in the Board's letter S-178 of August 25, 1939 (FRIS #9181).

Approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

Reference is made to your letter of April 27, 1954, recommending an extension of twelve months be granted the First State Bank of Salina, Salina, Utah, within which to establish a branch at Panguitch, Utah. The establishment of the branch was approved by the Board on May 27, 1953, provided among other things, that it be established within one year.

From the information submitted it appears that a definite location for the branch has not been selected, plans for a building have not been prepared and a date for opening of the branch is very uncertain. Under ordinary circumstances the Board would feel that the time originally granted

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for the establishment of the branch was sufficient. However, it is realized that illness has intervened and the Board extends to the end of the year 1954 the time within which the branch may be established under the conditions prescribed in its letter of May 27, 1953.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency) reading as follows:

Reference is made to a letter from your office dated March 26, 1954, enclosing photostatic copies of an application to organize a national bank at Prescott, Arkansas, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of St. Louis indicates generally favorable findings with respect to the factors usually considered in connection with such proposals. Accordingly, the Board of Governors recommends approval of the application.

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

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks reading as follows:

In referring to a Federal Reserve Bank for appropriate reply a letter recently received from a national bank which indicated that the Board had expressed the view that the expense of printing of names on checkbooks for customers must be charged to the customers, the Board said:

"The Board has issued no interpretation to the effect that an expense of this kind must be charged to a bank's customers or that absorption of such expense is an indirect payment of interest in violation

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of Regulation Q. On the contrary, in a letter to the Federal Reserve Bank of _____ dated December 30, 1943, with respect to a case in which the expense incurred by a national bank in printing checkbooks averaged three or four dollars with respect to each customer, the Board stated:

"The absorption of the expense of specially printing check books for a customer does not result in any payment to the customer or credit to his account which increases the amount of his deposit balance. * * * Moreover, under the facts here stated, it is believed that the absorption of the expense in question cannot properly be considered as "compensation for the use of the funds constituting the deposit".

"Accordingly, it is the view of the Board that the absorption by the First National Bank of _____ of the expense of specially printing check books for its customers in the circumstances indicated in Mr. _____'s letter would not involve a payment of interest on demand deposits in violation of the Board's Regulation Q. It is possible, of course, that there may be other cases in which the absorption of an expense of this kind would constitute a payment of interest because of the particular facts involved."

Approved unanimously.

Letter to Mr. Leach, President, Federal Reserve Bank of Richmond, reading as follows:

In the interest of strengthening internal control, the Board's public accountants, Arthur Andersen & Co., recommend that payrolls be paid from an imprest payroll bank account. Accordingly, effective May 12, 1954, the Board's next pay day, you are authorized and requested to open an account on your books to be known as "Board of Governors of the Federal Reserve System - Payroll Fund", and to transfer to that account from the Board's existing General Fund account, such sums as

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will be authorized from time to time by the medium of a check drawn on the latter account. These checks will be drawn in the following manner:

Pay to the order of

"Federal Reserve Bank of Richmond for credit to Board of Governors of the Federal Reserve System - Payroll Fund".

All checks drawn on the Payroll Fund account, will be signed by those persons authorized in the Board's letter of August 6, 1953, to sign and countersign checks drawn on the General Fund account, specimens of whose signatures you now have on file at the Bank.

Checks to be charged to the Payroll Fund account established on your books will be the "primrose" color now being used for payroll disbursements. In order to establish a cutoff date it will be appreciated if you will begin charging payroll checks to the Payroll Fund account effective Wednesday morning May 12, 1954. On receipt by us of your statement for Tuesday, May 11, 1954, we will determine the total amount of payroll checks outstanding as of the close of business on that day and immediately forward our draft to transfer this amount from the General Fund account. All "blue-gray" color checks now being used will continue to be charged to the General Fund account.

Incidentally, about the first of the year 1955, when our present supply of paper payroll checks is exhausted, it is contemplated that a card check for salary payments will be adopted. This type of check would be of a color that would further distinguish it from checks drawn on the General Fund account as well as make it possible to prepare statements mechanically when volume warrants.

It is contemplated that separate daily statements of the two accounts will be submitted to the Board. However, if for any day there are no transactions in either of the accounts there would, of course, appear to be no reason for the forwarding of a statement of that particular account.

Approved unanimously.



Secretary