

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 12, 1954. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel
Mr. Hostrup, Assistant Director,
Division of Examinations
Mr. Farrell, Chief, Reserve Bank Budget
and Expense Section, Division of
Bank Operations

Governor Mills reported that pursuant to the understanding at the meeting on August 10, 1954, he and Mr. Vest met this morning with Senator Williams, of Delaware, in the latter's office to discuss section 114 of Bill H. R. 9366, the Social Security Act Amendments of 1954, as reported by the Senate Committee on Finance. He said that at the meeting, which was also attended by representatives of other interested Government departments and agencies, Mr. Perkins, Assistant Secretary of Health, Education, and Welfare, explained the over-all difficulties which the inclusion of section 114 would cause. However, Senator Williams stated that certain abuses had occurred (none of which involved the Federal Reserve Banks) and that, although he had objected repeatedly to those abuses, corrective steps had not been taken.

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Senator Williams also said that the House bill reached the Senate only at the last minute so that there was no opportunity for thorough study of the bill, particularly in relation to the recommendations of the Committee on Retirement Policy for Federal Personnel, which were designed to cure certain problems in which he was interested. Although Mr. Perkins stated that H. R. 9366 was introduced as far back as January of this year but was delayed because other legislation took precedence, Senator Williams said in effect that he was so concerned about the lack of attention to points which he had criticized that even if section 114 should cause damage to existing retirement systems he would rather include it and make any justified corrections later than to have the entire problem lay over until another session of the Congress.

Senator Williams appeared not to have been aware, Governor Mills said, that enactment of the bill with section 114 included would terminate the Retirement System of the Federal Reserve Banks as an operating system, in that there would be no election on the part of Reserve Bank personnel to withdraw from Social Security coverage. He thought that point might be quite persuasive with Senator Williams, who invited the Board to develop a statement showing retirement benefits of Federal Reserve Bank personnel prior to integration of the Federal Reserve Retirement System with old age and survivors' insurance in 1951, along with the comparable benefits following that integration. Governor Mills brought out that this invitation gave the Federal Reserve an opportunity to present the problem in the form of a written document and

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that if section 1114 should not be withdrawn and the bill went to conference, the Federal Reserve would then be in a position to express itself to the conferees from the Senate and the House.

At the request of Governor Mills, Mr. Vest then offered additional comments on the meeting with Senator Williams and stated that steps were being taken to compile as rapidly as possible the information to be included in the statement to Senator Williams which Governor Mills had mentioned. Mr. Vest also said that in accordance with the understanding at the meeting of the Board on August 10, he had talked with President Young, Chairman of the Conference of Presidents of the Federal Reserve Banks, regarding developments in the matter, and that at President Young's suggestion copies of the Board's letters of August 3, 1954, to Senator Millikin, Chairman of the Committee on Finance, and Representative Reed, Chairman of the Ways and Means Committee, were sent to the Presidents of all Federal Reserve Banks on August 10. He went on to suggest that copies of the statement sent to Senator Williams likewise be transmitted to the Reserve Bank Presidents.

Governor Mills stated that he understood the American Bankers Association was interested in section 1114 from the standpoint of its possible effect upon national banks, and that if the bill with this section included should be passed by the Senate and go to conference the Association would make representations to the conferees.

There was a further discussion of the steps which it would be appropriate to take in the circumstances, and it was suggested: (1) that

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the statement requested by Senator Williams, including information on the nature of the Federal Reserve Retirement System and the effect of the integration of that system with Social Security, be prepared and sent to Senator Williams by Governor Mills; (2) that a letter be sent to the Presidents of the Federal Reserve Banks advising them of the discussion with Senator Williams this morning and attaching summary information along the lines of that being sent to the Senator; (3) that if H. R. 9366 should be passed by the Senate and sent to conference with section 114 included, letters outlining the concern of the Federal Reserve System be sent over the signature of Governor Mills to the members of the Senate and House appointed to the conference committee; and (4) that if the bill should be passed by the Senate and sent to conference, the Federal Reserve Banks be advised of such developments.

These suggestions were approved unanimously.

Prior to this meeting there had been sent to the members of the Board copies of the usual memorandum from the Division of Examinations summarizing or quoting information from the report of examination and accompanying memoranda covering the examination of the Federal Reserve Bank of Chicago by the Board's examiners as of May 28, 1954. Under special comments, there was quoted from page 24 of the examination report a breakdown of expenses totaling \$29,705.08 in connection with the opening of the new building of the Detroit Branch. The report stated that this included expenditures of \$15,123.80 made by the head office and \$14,581.28 by the Detroit Branch, that the 1953 budget for the

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Detroit Branch provided \$14,000 for expenses incident to the opening of the new building, but that no such provision was contained in the head office budget. Accordingly, there had been prepared a draft of letter to Mr. Coleman, Chairman of the Federal Reserve Bank of Chicago, copies of which also had been sent to the members of the Board in advance of this meeting, which stated that the expenditures listed on page 24 of the report had been noted, that the Board was deeply concerned with the fact that the expenses in connection with the opening of the new building reached so large an aggregate amount and were more than twice the amount included in the budget for this purpose, and that the Board would like to have a full statement of the reasons why it was felt that expenditures of this magnitude were necessary or desirable.

There was a general discussion of the expenditures in connection with the opening of the Detroit Branch building during which it was pointed out that some of the expenses might have been provided in the Bank's 1953 budget on a functional basis, so that the exact extent to which the budget actually had been exceeded could not be ascertained definitely from the information available. On the other hand, it was noted that the report of examination had been presented to and discussed with the management of the Federal Reserve Bank of Chicago, so that the Bank had had an opportunity to take exception to the statement in the report.

Alternative letters which might be sent to the Chicago Reserve Bank were presented, and during their consideration Governor Mills

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withdrew from the meeting to keep another appointment.

At the conclusion of the discussion, unanimous approval was given to a letter to Chairman Coleman reading as follows, with the understanding that it would not be sent until Governor Mills had had an opportunity to read and concur in it:

The Board of Governors has received your letter of July 1, 1954, stating that the report of examination of the Federal Reserve Bank of Chicago, made as of May 28, 1954, by the Board's examiners, was submitted by President Young to the Board of Directors and reviewed at its meeting held on that date. It is noted that Mr. Young stated that most of the criticisms and suggestions contained in the report had already been given consideration and that steps were being taken to comply with the suggestions of the examiners.

The expenditures listed on page 24 of the report of examination have been noted, and the Board is concerned with the fact that the expenses in connection with the opening of the new building at the Detroit Branch reached so large an aggregate amount and were so far in excess of the amount included in the budget for this purpose. The Board would like to have a full statement of the reasons why it was felt expenditures of this magnitude were necessary or desirable.

Secretary's Note: Governor Mills having indicated that he concurred, the letter was sent under date of August 12, 1954.

In connection with the above-mentioned matter, reference was made to the Board's letter of August 5, 1953, to the Presidents of all Federal Reserve Banks relating to the preparation of the Reserve Bank budgets for the year 1954, and particularly to that portion of the letter concerning excess expenditures. Instructions in effect prior to that time provided that the Board should be advised in advance as

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to the probable amount and the reason whenever it appeared that expenditures for any of the budget categories would exceed the budget by \$5,000 or 10 per cent. The letter noted that this procedure had not worked out satisfactorily, since in many cases it had not appeared to the Reserve Banks that excess expenditures would be incurred until shortly before the end of the year. Therefore, the Board requested that an experience report following the close of the year be submitted to the Board after it had been submitted to and considered by the directors, this report to contain a comparison of the budget estimates with actual costs for the calendar year, together with an explanation of significant differences. The Board expressed the hope that such reports would be an effective means of improving the budgetary procedure and the control of expenses and that they would be of material assistance to the managements of the respective Reserve Banks as well as to the Board.

Following comments by Mr. Leonard regarding the reasons for instituting the revised procedure, during which he pointed out that the change was in line with the expressed desire of the Board to emphasize the responsibilities of the Reserve Bank directors for control of expenditures, Governor Robertson suggested that the procedure be reviewed and that the experience reports for 1953 be analyzed with a view to further discussion of the matter sometime during the month of September when a full Board was available.

There was unanimous agreement with Governor Robertson's suggestion.

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There had been sent to the members of the Board prior to this meeting copies of a memorandum from Mr. Leonard dated August 11, 1954, discussing an attached letter dated July 19, 1954, from Mr. Earhart, President of the Federal Reserve Bank of San Francisco, and an accompanying report concerning possible branch territory changes in the Twelfth Federal Reserve District. With Mr. Leonard's memorandum there had been distributed copies of a proposed reply to President Earhart which took the position that the Board was inclined to approve the proposed territorial changes if a survey of the member banks affected disclosed that the changes were agreeable to the member banks.

Following a brief discussion of the matter, it was suggested that action be deferred pending consideration at a time when a full Board was available.

This suggestion was
approved unanimously.

Messrs. Leonard and Farrell then withdrew from the meeting.

Mr. Vest referred to the Board's letter of April 7, 1954, to the Federal Reserve Bank of New York concerning the applicability of section 32 of the Banking Act of 1933, as amended, to interlocking relationships between member banks or trust companies and a "mutual trust investment company", the incorporation of which would be authorized by a bill pending in the New York State Legislature and sponsored by the New York State Bankers Association. The "mutual trust investment company" would be incorporated by or on behalf of trust companies

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and national banks with trust powers as a medium for the common investment of fiduciary funds, and in its letter the Board expressed the view that on the basis of available information interlocking relationships between member banks and the proposed mutual trust investment company would not be permissible under the provisions of section 32.

Mr. Vest summarized further discussions and correspondence in the Board's files concerning this matter and stated that memoranda prepared by the Trust Division of the New York State Bankers Association requesting reconsideration of the Board's position had been submitted to the Federal Reserve Bank of New York for transmittal to the Board. He also said that Counsel for the Trust Division spoke to him by telephone from New York yesterday and inquired concerning the possibility of coming to Washington for discussion of the matter, to which he (Mr. Vest) replied that he would be glad to talk with him informally and that if an audience with the Board was desired, a letter to the Board would be appropriate.

Inasmuch as no action on the part of the Board was called for at this time, it was understood that the matter would receive consideration when a full Board was available after the memoranda from the Trust Division of the New York State Bankers Association had been received from the Federal Reserve Bank of New York.

The meeting then adjourned.

Mr. C. Canby Balderston, having been appointed by the President and confirmed by the Senate to be a member of the Board of Governors of

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the Federal Reserve System for the remainder of the term of 14 years from February 1, 1952, took an affirmation of office and qualified today as a member of the Board.

During the day the following additional actions were taken by the Board with Governors Szymczak, Vardaman, Mills, and Robertson present:

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointments, effective upon the date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Type of appointment</u>	<u>Basic annual salary</u>
Jeanette E. Miller, Clerk-Stenographer	Research and Statistics	Temporary indefinite	\$3,255
Andrew Fassino, Assistant Foreman of Laborers	Administrative Services	Temporary (two months)	2,974
Harold B. Savage, Operator (Tabulating Equipment)	Administrative Services	Temporary (six months)	3,175
Lillian E. Wilson, Cafeteria Helper	Administrative Services	Temporary (two months) (four-hour day basis)	1,315

Change in status of appointment

Edna L. Benjamin, Cafeteria Helper, Division of Administrative Services. From temporary (two months) to temporary indefinite, on a part-time (four-hour day) basis, with no change in basic annual salary at the rate of \$1,315, effective upon the expiration of her present appointment.

Salary increases, effective August 15, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Virginia J. Ogilvie, Stenographer	<u>Board Members' Offices</u>	\$3,785	\$3,910

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Salary increases, effective August 15, 1954 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Legal Division</u>			
Eugene C. Harrison, Clerk		\$3,335	\$3,415
<u>Research and Statistics</u>			
Bessie M. McCrae, Clerk		3,030	3,110
Charles S. Yager, Economist		5,310	5,940
<u>International Finance</u>			
Foteny Economon, Clerk-Stenographer		3,410	3,535
Evelyn R. West, Clerk-Stenographer		3,030	3,110
<u>Examinations</u>			
Gena E. Gander, Special Assistant Federal Reserve Examiner		3,785	3,910
<u>Bank Operations</u>			
Harold F. Stone, Analyst		5,310	5,435
Esther W. Conover, Supervisor, Reserve Bank Statement Unit		4,420	4,545
Helen A. Bennett, Clerk-Stenographer		3,335	3,415
<u>Personnel Administration</u>			
Jane Donohoe, Clerk-Stenographer		3,110	3,190
Margaret Wolverton, Personnel Technician		5,185	5,310

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Salary increases, effective August 15, 1954 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Administrative Services</u>		
Mildred D. Spano, Stenographer		\$3,335	\$3,415

Approved unanimously.

Memorandum dated August 10, 1954, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending that the resignation of Jean Callovini, Stenographer in that Division, be accepted effective August 21, 1954.

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in your letter of August 6, 1954, the Board approves the appointment of Dwight L. Wonus as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

Reference is made to your letter of July 28, 1954, submitting the application of First Bank and Trust Company of Utica, Utica, New York, for approval of a reduction of \$415,000 in its stated capital in connection with a recapitalization program which provides for the retirement of \$2,350,000 par value of preferred stock held by the Reconstruction Finance Corporation and an increase in common stock from \$215,000 to \$2,150,000 through sale of additional

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shares to the Marine Midland Corporation.

After consideration of the information submitted, the Board of Governors concurs in your recommendation and has approved the reduction in capital of First Bank & Trust Company of Utica, provided the program of recapitalization is completed substantially in accordance with the terms of the agreement dated July 20, 1954, between the Reconstruction Finance Corporation, the Marine Midland Corporation, and the applicant bank.

It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the recapitalization program.

Approved unanimously.

Telegram to Mr. Crane, Chairman, Federal Reserve Bank of New York, stating that, subject to the condition set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Marine Midland Corporation, Jersey City, New Jersey, entitling such organization to vote the stock which it owns or controls of First Bank & Trust Company of Utica, Utica, New York, at all meetings of shareholders of such bank, and that the period within which a permit may be issued pursuant to the authorization contained in the telegram is limited to thirty days from the date of the telegram unless an extension of time is granted by the Board. The condition upon which the permit was authorized was as follows:

Prior to the issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190). Permit authorized herein shall not be issued until you have been notified by Marine Midland Corporation that it has acquired a controlling interest in bank named herein. Meanwhile, you may assure Marine Midland Corporation that voting permit will be issued upon receipt of such notification.

Approved unanimously.

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Letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

In accordance with the recommendation contained in your letter of August 3, 1954, the Board of Governors extends to August 8, 1955, the time within which the Citizens Trust Company, Atlanta, Georgia, may establish a branch at 965 Hunter Street, S. W., Atlanta, Georgia, under the approval given by the Board in its letter of February 8, 1954. Please advise the bank accordingly.

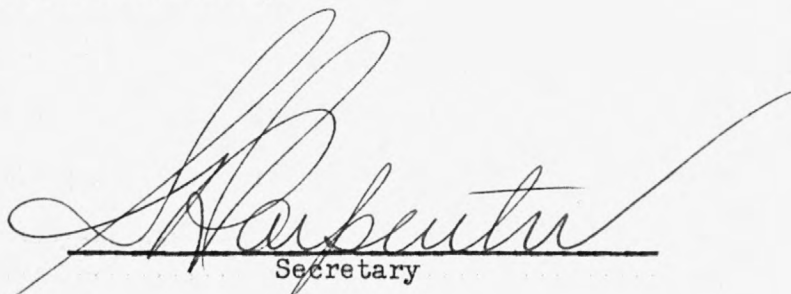
Approved unanimously.

Letter to Mr. Johns, President, Federal Reserve Bank of St. Louis, reading as follows:

This refers to your letter of April 28, 1954, addressed to Governor Robertson, enclosing a copy of a memorandum to files concerning the conference which you had had with Mr. Byron Moser of St. Louis regarding his litigation against Mercantile-Commerce Bank & Trust Company. Subsequently, on May 25, 1954, Mr. Moser visited the Board's offices and talked with Messrs. Solomon and Hackley of the Board's Legal Division about this matter. Messrs. Solomon and Hackley were, of course, careful not to take any position or make any commitment of any kind on behalf of the Board or otherwise.

In the circumstances, however, in order that the Board may keep abreast of this situation, it will be appreciated if you will advise the Board of the court's decision, when rendered, or any other developments in this matter which may come to your attention.

Approved unanimously.


Secretary