

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 22, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Sprecher, Assistant Director, Division
of Personnel Administration

Secretary's Note: Governor
Miller died of a heart at-
tack at about 9:30 yesterday
morning.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Kansas City and San Francisco on October 20, and by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on October 21, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

The following matters, which had been circulated among the members of the Board, were presented for consideration and action taken as indicated:

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Memoranda from appropriate individuals concerned recommending personnel actions with respect to members of the Board's staff as follows:

Appointment, effective upon the date of assuming duties

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
Albert C. Bain Telegraph Operator	Administrative Services	\$3,410	

Salary increases, effective October 24, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Philip M. Webster, Economist		\$5,560	\$5,940
	<u>International Finance</u>		
Winifred J. Black, Clerk-Stenographer		3,255	3,410

Salary increases, effective November 7, 1954

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Philip T. Allen, Economist		\$7,640	\$7,840
Lela V. Dieffenbauch, Clerk		3,415	3,495
Mary J. Harrington, Economist		5,185	5,310
Elinore G. Magee, Clerk		3,030	3,110
A. Jane Moore, Economist		5,310	5,435
Rita I. Ryhal, Clerk		4,035	4,160

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Salary increases, effective November 7, 1954 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>International Finance</u>			
Samuel I. Katz, Economist		\$8,760	\$8,960
<u>Examinations</u>			
M. Patricia McShane, Clerk-Typist		3,495	3,575
<u>Bank Operations</u>			
Pearle E. Randour, Statistical Clerk		4,035	4,160
<u>Administrative Services</u>			
Davis H. Wilson, Chief, Machine Tab- ulation Section		6,540	6,740
Arthur S. Myers, Electrician-Operating Engineer		4,240	4,365
Arad B. Shipp, General Mechanic- Operating Engineer		3,835	3,935
Saul Clanton, Gardener		2,830	2,910
Peter Black, Laborer		2,552	2,632

Approved unanimously.

Memorandum dated October 13, 1954, from Mr. Marget, Director, Division of International Finance, recommending that Mr. Katz, Economist in that Division, be authorized to accept an invitation to prepare an article on Canada's experience with a fluctuating currency for publication in the monthly Bulletin of the National Bank of Belgium.

Approved unanimously.

Memorandum dated October 13, 1954, from Mr. Thomas, Economic Adviser to the Board, requesting permission to accept an invitation to

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participate in a panel discussion of the economic situation and outlook at the regular Outlook Conference of the Department of Agriculture, to be held the last week of this month.

Approved unanimously.

Memorandum dated October 13, 1954, from Mr. Young, Director, Division of Research and Statistics, reading as follows:

For the past two years, the Board has authorized a contract with the Bureau of the Census to provide information on charge account and instalment receivables held by retail dealers at the end of 1952 and 1953. It was indicated in the Board's action on October 26, 1953 that if this arrangement proved to be satisfactory it would be continued as a substitute for the Retail Credit Survey which had previously been used as a basis for year-end adjustments in the retail components of the consumer credit estimates. The arrangement has been highly satisfactory and we believe it is vastly preferable to the Retail Credit Survey approach. We have, therefore, discussed with representatives of the Census arrangements with respect to and the cost of obtaining similar data in the coming year.

The cost of obtaining this information from the 1954 Census survey, to be conducted early next year, has been estimated at \$13,500, the same as the cost for the 1953 survey. The Division believes that the cost estimate for obtaining information on instalment and charge account receivables in connection with the Census Bureau's 1954 survey of retail trade is a reasonable estimate of the cost involved. This cost is substantially below that which would be involved if the Federal Reserve System were to resume its conduct of the Retail Credit Survey. The Division recommends that authorization be given for entering into a contract with the Census Bureau on this basis for 1955 and for continuing arrangements with the Bureau of the Census at approximately this rate in subsequent years.

Approved unanimously.

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

In accordance with the request contained in your letter of October 8, 1954, the Board approves the appointment of Bertram M. Breit as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date

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upon which the appointment is made effective and as to salary rate.

The Board also approves the designation of James A. Leighton as a special assistant examiner.

Approved unanimously.

Letter to Mr. Allen, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the circumstances described in your letter of October 5, 1954, the Board of Governors approves the payment of salaries to the employees shown below at the rates indicated, which exceed the maximums established for the grades in which their respective positions are classified.

<u>Name</u>	<u>Title</u>	<u>Annual salary</u>
<u>For a period of six months beginning October 26, 1954</u>		
Hermina Ganner	Multigraph Operator	\$2,756
Beverly Ann Hatter	Junior Typist	2,574
Gertrude R. Smola	Plate File Control Clerk	2,756
Florence Voelzow	Inscription Plate File Clerk	2,808
<u>For a period of six months beginning November 11, 1954</u>		
A. Arthur Berndt	Assistant Night Cleaning Foreman	\$4,134

Approved unanimously.

Letter to Mr. Snead, Chief Examiner, Federal Reserve Bank of Richmond, reading as follows:

In accordance with the request contained in your letter of October 11, 1954, the Board approves the designation of Freeman L. Moore, Jr., as a special assistant examiner for the Federal Reserve Bank of Richmond to participate in the examination of all State member banks except The Bank of Virginia, Richmond, Virginia.

The authorization heretofore given to your bank to designate him as a special assistant examiner is hereby cancelled.

Approved unanimously.

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

In accordance with the request contained in your letter of October 7, 1954, the Board approves the appointment of Raymond H. Peiser as an examiner for the Federal Reserve Bank of San Francisco. Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

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

This refers to your letters of September 24 and 29, and especially to the views of the special committee appointed by your Board of Directors to review the question of the establishment of additional branches of the Federal Reserve Bank of Chicago.

After discussion of the matters mentioned in your letters and other factors, the Board of Governors appointed an ad hoc committee consisting of Messrs. Szymczak and Balderston to look into this entire subject in the light of recent developments.

The restudy by the ad hoc committee is under way, and it appears quite likely that, as one step in its review, the committee will wish to send a representative to Chicago to obtain additional data. Further information in this respect will be furnished when plans become more definite.

Approved unanimously.

Letter to the Board of Directors, Long Branch Trust Company, Long Branch, New Jersey, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by the Long Branch Trust Company, on the south side of Brighton Avenue in the building formerly occupied as a passenger station by the Central Railroad of New Jersey, at Long Branch, New Jersey, provided the branch is established within one year from the date of this letter.

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

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

Reference is made to your letter of October 6, 1954, submitting request of the Randallstown Bank, Randallstown, Maryland, for a nine-month extension of the period in which to establish a branch in a shopping center at Woodmoor on the south side of Liberty Road in Baltimore County, Maryland.

In view of the circumstances outlined in your letter and your favorable recommendation, the Board of Governors extends until July 19, 1955, the time within which the branch may be established under the authorization contained in its letter of April 19, 1954.

Approved unanimously.

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

In accordance with the recommendation contained in your letter of October 11, 1954, the Board of Governors extends to January 18, 1955, the time within which the Union Bank & Trust Company, Montgomery, Alabama, may establish a branch at 1903-05 Mt. Meigs Road, Montgomery, Alabama, under the approval given by the Board in its letter of May 18, 1954. Please advise the bank accordingly.

Approved unanimously.

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

Reference is made to your letter of October 8, 1954, enclosing a certified copy of a new resolution adopted by the Board of Directors of the Commercial State Bank of Melvin, Melvin, Illinois, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal. Also enclosed was a letter from the president of the bank setting forth reason for withdrawal, and copy of opinion of Counsel regarding the resolution. It is noted that the bank has applied to the Federal Deposit Insurance Corporation for continuance of insurance of its deposits, and also that previous plans to withdraw from membership were not consummated within the stipulated eight-month period, necessitating the filing of the new request.

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In accordance with the bank's request the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

Approved unanimously.

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

Pursuant to the suggestion contained in your letter of September 10, 1954, the Board has given further consideration to the proposal set forth in your letter of October 22, 1951, concerning the examination of State member banks.

The Bills before the Congress to which you refer provide that examiners appointed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall examine every national bank twice in each calendar year but permit the Comptroller in his discretion, to waive one such examination with the further proviso that such waiver shall not be exercised more frequently than once during each two year period. Thus, each national bank, regardless of its rating, would be examined not less than three times in each two year period.

Your proposal made in 1951 contemplated that highly rated State member banks would be examined by the Reserve Bank only every other year (once in each two year period).

Information available to the Board indicates that the examinations and supervisory processes in approximately half of the States are of such character that they might be consistent with the standards which the Federal Reserve System endeavors to maintain. About half of these States do not have the funds and examining man power available to maintain such a standard without the assistance of the Federal Reserve and the FDIC.

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Therefore, it does not appear that the policy with respect to frequency of examinations by the Reserve Bank which you propose for the one full State and the portions of two States included in the Second Federal Reserve District would be desirable with respect to approximately three-fourths of the States. The Board does not feel that it would be desirable to adopt a policy with respect to the frequency of examinations of State member banks in any one State or group of States which could not be applied in all States.

Chairman Martin stated that in discussing the foregoing letter with Mr. Carpenter the question had been raised as to whether it might be desirable to have a review made of the procedure concerning the examination of State member banks, including the matter of frequency of examinations and related questions raised by Mr. Sproul. Chairman Martin went on to say that it might be desirable to appoint an ad hoc committee to make such a review.

Following discussion, the letter to Mr. Sproul was approved unanimously in the form set forth above, with the understanding that Governor Balderston would look into the question along the lines suggested by Chairman Martin and report back to the Board.

Letter to The Honorable S. L. Descartes, Secretary of the Treasury, The Commonwealth of Puerto Rico, San Juan, Puerto Rico, reading as follows:

Section 25 of the Federal Reserve Act authorizes national banks to establish branches in foreign countries or dependencies or insular possessions of the United States, with the approval of the Board of Governors of the Federal Reserve System and upon such conditions and under such regulations as the Board may prescribe. Pursuant to authorizations heretofore

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given, The National City Bank of New York operates seven branches in Puerto Rico, two of which are situated in San Juan.

In a letter dated March 7, 1949, and prior to the establishment of the branch in the Santurce area of San Juan on May 21, 1951, National City Bank advised the Board as follows:

"For your information, and to keep you advised of certain developments in the business of our Puerto Rican branches, it has happened that for some time, and more so in recent years, the City of San Juan has been spreading out over a large area, particularly eastward along some three miles of Ponce de Leon Avenue. As a result, retail business, factories, etc. are now located at some distance from the banking center of the City, but over such an extended area that neither our San Juan branch nor a sub-branch at any one location can adequately serve our clients. We have accordingly arranged to place in use a specially armored vehicle to operate over this area and to deliver payrolls and at the same time to provide a Day Depository under requirements similar to those where a Night Depository service is extended. The car crew will not have access to the depository compartment.

"We hope in this way to solve some of the unique problems created by the irregular extension of the City."

Upon considering the facts presented, the Board of Governors took the position that the operation of the limited armored truck service did not constitute the operation of an additional branch within the meaning of section 25 of the Federal Reserve Act, and that since the Board had not prescribed any contrary condition or regulation pursuant to its authority under section 25, the operation was permissible at that time. However, the question has again been raised with the Board as to the appropriateness of the Armored Truck Day Depository Service rendered by the San Juan Branch of National City Bank.

The bank has advised that the principal business avenue leading from San Juan is Ponce de Leon which winds out five miles to the suburb of Rio Piedras; that business is all fronted on this street with no depth to sustain branches of competing banks; that Fernandez Juncos parallels Ponce de Leon about 2-1/2 miles, that there is some business on this street but it is minor, and that there is only one bank

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(Bank of Nova Scotia) with a small branch on this street. The bank has further advised that parking and transit problems have caused its clients to place branches along Ponce de Leon principally and there is only business to take care of a small sub-branch or two every 8 or 10 blocks; and that the armored truck allows the bank to give service to its few clients — 41 in number — through this area. The bank feels that the service is a necessary adjunct to proper banking service in San Juan, because of the unique development of the city, located on two islands and a small section of the mainland.

The bank has informed the Board that the operations of this truck have been strictly limited to the city limits of San Juan. The bank reports that the truck has a locked-control slot in one side of the truck body similar to a night depository slot employed by banks and the deposits are placed therein by the customers themselves in locked bags; that there is no teller service and the truck and contents of bags deposited in the truck are verified at the San Juan Branch. The bank in a recent letter stated: "We have scrupulously avoided any semblance of general branch-bank services by limiting the functions of the truck as described above." The bank has advised that, because of the limited number of customers served, well spread out over a five mile area, separate branches would not be a substitute answer to the problem.

It is understood that the Armored Truck Day Depository Service is rendered under two plans:

Plan A: Provides for the depository bag to be held unopened under bank custody until claimed by the depositor either the same or following business day at which time it will be delivered to him or his accredited representative against receipt.

Plan B: Provides for the depository bag to be opened by the bank and the contents verified and credited to the depositor's account. The opening of the bag and counting of its contents must be done by the head teller in the presence of another witnessing teller.

The Armored Truck Depository Agreement, when the bank is to open the bag, contains the following provisions, among others:

"3. Prior to the locking of a bag, the undersigned shall prepare or cause to be prepared, on printed forms supplied by you, an ITEMIZED DEPOSIT SLIP in TRIPLICATE

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with respect to the contents of the bag, two copies of which (and, if desired, the passbook pertaining to the account) shall be placed in the bag prior to locking the same, and the third copy thereof shall be handed to your Guard who accompanies the Depository Truck;

"4. On each occasion, the undersigned shall (either personally or by his duly authorized representative (a) close and lock the bag, which shall contain only the intended deposit, the mentioned two deposit slips and possibly the passbook pertaining to the Account; (b) place the bag in the slot of the Depository Truck provided therefor, and (c) ascertain to the best of his/her knowledge that the same has dropped through the chute into the compartment of the Depository Truck — it being understood that none of your Guards is authorized to close or lock any bag, to place the same in the slot or otherwise to handle the same;

"5. The placing of any bag in the Depository Truck in the manner aforesaid shall be deemed to constitute a bailment (depositum) or a locked article, but not a deposit to the Account;

* * * * *

"7. If, upon your opening of any bag, it should appear to you that the contents thereof are in conformity with the indications of the accompanying deposit slips, you are authorized and instructed (a) to terminate the bailment (depositum) and to credit the amount thereof to the Account subject to the provisions appearing on the said deposit slips; (b) to receipt for the deposit on one of the accompanying deposit slips and/or, if included, by the customary entry in the passbook; (c) to replace the receipted deposit slip and/or the passbook in the bag, lock the same and return it with reasonable promptness to the undersigned, it being understood that a deposit to the credit of the Account shall be conclusively deemed to have been made as of the time of your receipt for the same in the manner as herein provided and not prior thereto;"

The Board of Governors has been informed by the Federal Deposit Insurance Corporation that two Puerto Rican banks have requested permission to conduct similar activities for their clients, but that the operation of such Armored Truck Day Depository Service constitutes the operation of a branch within its interpretation of the definition of deposits contained in the Federal Deposit Insurance Act.

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In view of the fact that National City Bank operates two branches in San Juan in competition with local Puerto Rican banks, the Board, in connection with its further study of the question, would wish to consider the matter of competition involved in the operation of the Armored Truck Day Depository Service. Accordingly, the Board would very much like to have the benefit of your views, including both your conclusions and reasons therefor, as to whether or not Armored Truck Day Depository Service of the kind offered by National City Bank in San Juan should be considered to be (1) an essential and necessary banking facility in order to serve adequately the needs of the bank's commercial and industrial clients, and (2) a desirable banking activity from the standpoint of bank supervision in Puerto Rico.

The Board would also appreciate an expression as to the attitude of Puerto Rican authorities on the general subject of branch banking, including the relationship of Armored Truck Day Depository Service to the operation of ordinary banking offices, as well as any other comments you may care to offer.

Approved unanimously, with the understanding that the letter would be sent after informal discussion with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency and in the absence of substantial objection from those offices.

Secretary's Note: The letter was mailed to Mr. Descartes under date of November 4, 1954, in the form set forth above, except that the second paragraph was changed to avoid making a direct quotation from the letter of National City Bank of New York dated March 7, 1949.

The following resignations were presented:

Marian E. Gochenour, Clerk, Division of International Finance, effective October 22, 1954.

Harold B. Savage, Operator (Tabulating Equipment), Division of Administrative Services, effective October 15, 1954.

Approved unanimously.

Mr. Sprecher then withdrew and Messrs. Leonard, Director, and Daniels, Chief, Reserve Bank Operations Section, Division of Bank Operations, entered the room.

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Before this meeting there had been sent to the members of the Board a memorandum from the Division of Bank Operations dated October 21, 1954, recommending that, for reasons stated in the memorandum, the Federal Reserve Bank of Kansas City be authorized to spend \$1,775,383, net, including architect-engineer fees, for constructing an addition to and remodeling the Omaha Branch building of that Bank, on the basis of the bids which the Bank proposed to accept. The memorandum stated that this amount was after deduction of \$55,000 to be reimbursed to the Bank by owners of adjacent property for the estimated cost of a retaining wall. In addition, it described in some detail the bids, particularly those for heating, ventilating, air conditioning, and plumbing; elevator construction; and electrical work, for which acceptance of the second-low bids was recommended.

At Chairman Martin's request, Mr. Leonard commented on the reasons why the Bank and architect had not felt that the low bidders for the three items specified should be awarded contracts.

Following discussion, unanimous approval was given to a telegram to Mr. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

Reurtel October 20, 1954, the Board of Governors authorizes your Bank to proceed with construction of an addition and remodeling the Omaha Branch building, on the basis of acceptance of bids as outlined in your telegram and approved by your Bank's executive committee and Branch building advisory committee, at a total cost of approximately \$1,830,383 less \$55,000, which amount adjacent property owners have agreed to pay for additional retaining wall structure.

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Chairman Martin presented a draft of letter prepared for his signature to Arthur Andersen & Co., 777 14th Street, N. W., Washington, D. C., reading as follows:

It is requested that your firm undertake, as promptly after January 1, 1955, as is convenient, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1954.

As in previous audits, no restrictions have been or will be placed by the Board upon your firm as to the scope of the audit or the manner in which it is to be conducted, and you will make the audit as extensive and in such manner as appears to you to be desirable in accordance with generally accepted auditing standards. Compensation will be on the same basis as for the audit for the year 1953.

The Board will appreciate written confirmation that you will undertake the audit on these terms.

In commenting on the proposed letter Chairman Martin said it had been understood previously that Arthur Andersen & Co. would be requested to make an audit of the Board's accounts and that this letter was submitted for formal approval and transmittal to the firm. In the discussion that followed, there was unanimous agreement that the intent of the letter was to give the auditors freedom to make as complete an audit as they felt to be appropriate and desirable, and that there was no intent to limit the scope of the audit in any way.

Approved unanimously.

Chairman Martin also presented a draft of letter prepared for his signature to The Honorable Henry O. Talle, Decorah, Iowa, in response to an inquiry from Mr. Talle regarding the possibility of establishing a branch office of the Federal Reserve Bank of Chicago in Des Moines, Iowa.

Following a brief discussion, during which a minor revision in

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language was made, the letter was approved unanimously as follows:

This letter is in reply to yours of October 8, 1954, in which you state that your friends in Iowa oppose the establishment of a branch of the Federal Reserve Bank of Chicago in that state.

From time to time the situations prevailing in the various Federal Reserve Districts are reviewed to see whether the Federal Reserve Bank branch organization and branch zones are adequate to serve the needs of the various districts most effectively. Such a review is being made at this time with respect to the Federal Reserve Bank of Chicago. As you know, Iowa is one of the largest and most economically important states in which a Federal Reserve Bank or branch is not located, and parts of the state are at some distance from Chicago where the Federal Reserve Bank is located.

You may be assured that before a decision is made with respect to the establishment of a branch in the State of Iowa, the views expressed by you and your constituents will be carefully weighed.

Chairman Martin stated that Messrs. Hodgkinson and Meinel, Chairmen of the Boston and Philadelphia Federal Reserve Banks, respectively, and members of the executive committee of the Chairmen's Conference, would be in the Board's building this afternoon for the purpose of discussing the agenda for the forthcoming meeting of the Chairmen's Conference to be held in Washington on December 2, 1954. He commented on topics which might be included in the agenda for the meeting, stating that these comments were preliminary and informal in view of the fact that the matter had not been discussed with Messrs. Hodgkinson and Meinel. All of the members of the Board agreed that primary responsibility for the agenda should rest with the executive committee of the Chairmen's Conference and that the Board should assist in any way desired.

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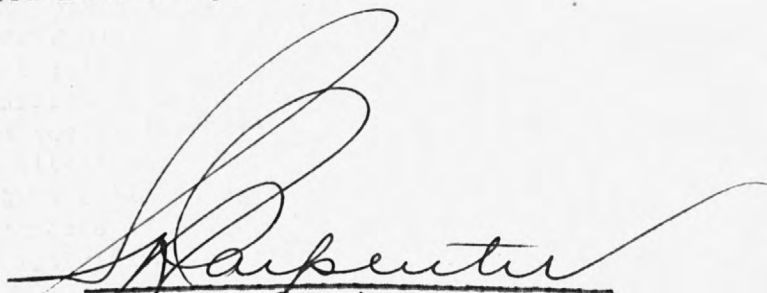
Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 18, 1954, were approved unanimously.

The meeting then adjourned. During the day the following additional action was taken by the Board with all of the members except Governors Vardaman and Balderston present:

Telegram to Mr. Leedy, President, Federal Reserve Bank of Kansas City, reading as follows:

Reurtel today regarding subpoena received by your Bank from Federal District Court for production of certain documents, including reports of examinations of Farmers and Merchants State Bank, Hill City, Kansas, in criminal proceedings against Martin Legere. It is understood that arrangements have been made under which District Attorney will be satisfied with production of line sheet records of investment accounts of member bank in question made in connection with examinations for the years 1948-1953 in lieu of production of examination reports. Board has no objection to production of such line sheet records in response to subpoena to be used in connection with testimony of representative of your Bank to be given in these proceedings.

Approved unanimously.



Secretary