

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 5, 1954. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board

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

Memorandum dated October 29, 1954, from Mr. Bethea, Director, Division of Administrative Services, recommending that Lura Jean Mull, Clerk in that Division, be granted permission to work part-time in the Arlington, Virginia, Post Office during the 1954 Christmas season.

Approved unanimously.

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

Reference is made to your letter of October 26, 1954, submitting the request of The Merchants Trust Company of Red Bank, N. J., Red Bank, New Jersey, for an extension of time within which it may establish a branch at 568 River Road, Borough of Fair Haven, New Jersey.

It is noted that due to the truckers' strike, the vault equipment which was to be shipped from Canton, Ohio, on October 13, 1954, has not been delivered; therefore there will be a considerable delay in completing the branch banking quarters.

On the basis of the information submitted and in accordance with your recommendation, the Board of Governors extends to January 27, 1955, the time within which the subject bank may establish a branch at the location stated above.

Approved unanimously.

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Letter to Mr. Sherman Drawdy, President, First Railroad & Banking Company of Georgia, Augusta, Georgia, reading as follows:

This refers to your letter of September 23, 1954, addressed to Mr. J. E. Denmark, Vice President of the Federal Reserve Bank of Atlanta, requesting a determination as to the status of First Railroad & Banking Company of Georgia as a holding company affiliate.

From the information supplied, the Board understands that First Railroad & Banking Company of Georgia, in connection with the reorganization of Georgia Railroad & Banking Company, will acquire 9,796 of the 10,000 outstanding shares of common stock of Georgia Railroad Bank & Trust Company, and will acquire an additional 5,000 shares of such bank stock when issued, but that First Railroad & Banking Company of Georgia will not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution except four shares of common stock of Northern Augusta Banking Company owned by Georgia Railroad & Banking Company. It is also understood that approximately 73-1/2 per cent of the assets of First Railroad & Banking Company of Georgia will be invested in all of the outstanding shares of common stock of Georgia Railroad & Banking Company, which Company is engaged in the business of owning railroad properties operated by lessees.

In view of these facts, the Board has determined that First Railroad & Banking Company of Georgia will not be engaged directly or indirectly as a business in holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, the First Railroad & Banking Company of Georgia will not be deemed to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that First Railroad & Banking Company of Georgia might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

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

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Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

Page 15 of a September 28, 1954, examination report indicates that the Peoples State Bank of Rocksprings, Rocksprings, Texas, is carrying a balance of \$12,327.50 with the Charles Schreiner Bank, Kerrville, Texas, a private bank. Each of several previous reports show that it is apparently customary to maintain sizeable balances with that bank.

While the Board of Governors has heretofore ruled that the 10 per cent limitation on deposits provided by Section 19 does not apply to private banks, it has also indicated that the carrying of such balances with such banks is a violation of the spirit and purpose of the Federal Reserve Act and should be discouraged. In this connection your attention is invited to Board letters of August 27, 1935, addressed to Mr. C. C. Walsh, Federal Reserve Agent, and of August 19, 1941, to Mr. W. J. Evans, Vice President of your bank concerning deposits carried by The Security Bank and Trust Company, Wharton, Texas, and the City State Bank and Trust Company of McAllen, Texas, both of which had reference to similar situations.

It is suggested you advise the member bank of the Board's view in the matter, and suggest to it that the balance be reduced to an amount not in excess of \$7,500 which is 10 per cent of the capital and surplus.

Approved unanimously.

Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. L. A. Jennings, Deputy Comptroller of the Currency) reading as follows:

Reference is made to a letter from your office dated July 21, 1954, enclosing photostatic copies of an application to organize a national bank at Fort Benning, Georgia, 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 a representative of the Federal Reserve Bank of Atlanta, indicates that the proposed capital structure of the bank may be inadequate even though it should be determined that, based upon the population of the area, it meets the legal requirements for the establishment of a national bank. The prospects for earnings of the institution

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are reported to be fair, and the management would be satisfactory if the proposed directors and officers are permitted under the Clayton Act to serve the applicant as well as the affiliated Fourth National Bank of Columbus, Georgia. It appears, however, that the proposed directors and officers may be ineligible to serve the applicant, and therefore the management factor in this case cannot be determined as satisfactory at this time. The report indicates that the present existing banking facilities at Fort Benning are adequate and that the establishment of the proposed bank may result in the removal of the present offices of Columbus banks and an inconvenience to personnel housed in the remote areas of the reservation. In view of these unfavorable factors, the Board of Governors does not feel justified in recommending 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. In connection with this action, the other members of the Board agreed with a statement by Governor Mills that the recommendation to the Comptroller of the Currency was based solely on the unfavorable factors discussed in the letter and was not related to the majority stock ownership of Trust Company of Georgia Associates, Atlanta, Georgia, in The Fourth National Bank of Columbus, Columbus, Georgia.

There was presented a memorandum dated November 2, 1954, from Mr. Young, Director, Division of Research and Statistics, recommending that the resignation of Thelma M. Grabowski, Library Assistant in that Division, be accepted, effective at 11:45 a.m. November 5, 1954.

Approved unanimously.

The following requests for authority to travel on official business of the Board were presented:

Mr. Noyes, Assistant Director, Division of Research and Statistics. To travel to New York, New York, November 8 and 9, 1954, to confer with

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Mr. Martin Gainsbrugh of the National Industrial Conference Board with respect to the evaluation of business expectations data to be made pursuant to the request of the Talle Subcommittee.

Mr. Myrick, Assistant Director, Division of Bank Operations. To travel to Boston, Massachusetts, November 16-18, 1954, to attend a meeting of the Presidents' Conference Subcommittee on Accounting.

Approved unanimously.

In connection with the approval of Mr. Noyes' travel to New York, Chairman Martin referred to the authority given by the Board to Governor Mills on November 1, 1954, to approve the incurring of various expenses related to the studies for the Talle Subcommittee, and he suggested that Governor Mills likewise be authorized to approve travel by any member of the Board's official staff performed in connection with the work being done for the Subcommittee.

Chairman Martin's suggestion was approved unanimously.

At this point Messrs. Bethea, Director, and Kelleher, Assistant Director, Division of Administrative Services, and Johnson, Controller, entered the room.

In accordance with the procedure requested by Chairman Martin for consideration of special projects proposed for inclusion in the budget of the Board for 1955, memoranda had been circulated to the members of the Board prior to this meeting concerning four projects for which tentative budgetary provision had been made by the Division of Administrative Services, the Legal Division, the Division of Examinations, and the Division of Bank Operations, respectively.

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The memorandum from the Division of Administrative Services, submitted by Mr. Bethea under date of October 20, 1954, concerned a proposal to convert the manually operated elevators in the Federal Reserve Building to automatic operation. (This would include the bank of three elevators on the C Street side of the building, the manually operated elevator on the Constitution Avenue side of the building, and the freight elevator.) After consultation with the Controller, who approved the conversion plan, the Division of Administrative Services had tentatively provided \$40,000 in its budget for 1955, with the expectation that an additional \$30,000 would be provided in the 1956 budget to complete the work. When the memorandum was in circulation to the members of the Board, Governor Vardaman indicated that he was opposed to the conversion of the elevators to automatic operation.

During a discussion of the plan, Messrs. Bethea, Johnson, and Kelleher commented on the long-run savings anticipated as a result of the conversion of the elevators and on the successful operation of automatic elevators in the buildings of other Government agencies. The thought was expressed by members of the Board that the best way of demonstrating the effectiveness of automatically operated elevators in the Federal Reserve Building might be to convert the single passenger elevator and the freight elevator and observe the results. In response to questions on this point, Mr. Bethea stated that it would be possible, without additional cost, to break down the program so as to convert the two elevators mentioned but defer converting the bank of three elevators

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on the C Street side of the building. He added, however, that the two single elevators might not operate quite as effectively, if converted, as the bank of three elevators, since the latter would be equipped with a selectomatic control which would provide for supervised automatic traffic patterns.

The suggestion then was made that the Division of Administrative Services be authorized to proceed with arrangements for converting the single passenger elevator and the freight elevator but that a decision with respect to converting the bank of three elevators be deferred until the matter could be discussed at a meeting when all the members of the Board were present.

This suggestion was approved
unanimously.

Messrs. Bethea and Kelleher then withdrew and Messrs. Vest, General Counsel, and Hackley, Assistant General Counsel, entered the room.

Consideration was given to Mr. Hackley's memorandum dated October 18, 1954, which stated that there had been included in the preliminary budget of the Legal Division for 1955, on a tentative basis, the amount of \$12,000 to cover the estimated cost of printing a new and revised edition of the Federal Reserve Act. This estimate was based on obtaining 15,000 paper-bound copies of the new edition and 1,000 loose-leaf copies (without binders). As to volume, the requirement for copies of the new edition was based on the assumption that there would be a complimentary distribution to various parties, including member banks. In

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this connection, the memorandum pointed out that the supply of copies of the current edition of the Act was at a level which would soon call for replenishment on the basis of recent distribution figures.

During a discussion of the matter, reference was made, among other things, to the technical reasons for producing a revised edition of the Act, the demand for copies of the Act, and the policy followed with respect to distribution of the current and previous editions. These factors were considered in the light of the Board's desire to eliminate all nonessential expenditures and to keep the 1955 budget at as low a level as practicable.

At the conclusion of the discussion, it was suggested that the Legal Division be authorized to proceed with the preparation of a revised edition of the Federal Reserve Act, but with the understanding that there would be no complimentary distribution to member banks, libraries, etc., except in response to requests from such organizations, and with the further understanding that the printing order for the new edition would include only cloth-bound copies and loose-leaf copies (without binders) and would be limited to a total number of copies consistent with the restricted distribution policy.

This suggested procedure was
approved unanimously.

At this point Governor Mills referred to the action taken by the Board on October 15, 1954, in advising the Conference of Presidents of the Federal Reserve Banks, the Board of Trustees of the Retirement System

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of the Federal Reserve Banks, and the Chairman of the Retirement Committee of the Retirement System that it was inclined to favor an amendment to the Rules and Regulations of the Retirement System along the lines envisaged by the Presidents of the Federal Reserve Banks to overcome objections which had been raised by the Internal Revenue Service regarding the last paragraph of section 9 of the Rules and Regulations. Under date of October 25, 1954, the special committee appointed to consider this problem (Governor Mills, Mr. Wurts, Chairman of the Retirement Committee, and Mr. Johns, President of the Federal Reserve Bank of St. Louis) submitted a report which included the recommendation that the Executive Committee of the Board of Trustees be requested to prepare appropriate amendments to the Rules and Regulations for submission to the Board of Trustees. Governor Mills noted that a copy of the report had been sent to each member of the Board of Governors and he stated that in a letter dated October 29, 1954, Mr. Wurts had advised him of the opinion of Mr. Young, Chairman of the Presidents' Conference, that it would not be necessary to await formal approval of the report by the Conference before submitting the amendments to the Board of Trustees for approval. The letter from Mr. Wurts also suggested formal acceptance of the special committee's report by the Board of Governors. Accordingly, Governor Mills recommended that a letter in the following form be sent to Mr. Wurts, as Chairman of the Retirement Committee, with copies to Mr. Bryan, Chairman of the Executive Committee of the Board of Trustees, and to President Johns:

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Governor Mills has presented to the Board of Governors the report of the Special Committee on Section 9 of the Rules and Regulations of the Retirement System and the Board is in agreement with the recommendations which the Committee has made.

It is understood that in accordance with the third recommendation, the Executive Committee of the Board of Trustees of the Retirement System will prepare the proposed amendments to the Rules and Regulations which will be submitted to the Board of Trustees and then to the Board of Governors for approval.

Approved unanimously.

Messrs. Vest and Hackley then withdrew and Messrs. Leonard, Director, and Horbett, Assistant Director, Division of Bank Operations, and Sloan, Director, Division of Examinations, entered the room.

Discussion then reverted to special projects proposed for inclusion in the 1955 budget of the Board and reference was made to a memorandum from Mr. Sloan dated October 19, 1954, in which it was stated that \$10,000 was being provided in the budget of the Division of Examinations to cover the anticipated cost of a survey by the auditing firm, Arthur Andersen and Co., concerning the adequacy of the procedures in connection with the examination of a selected Federal Reserve Bank by the Board's field examining staff, thus continuing the practice followed in 1953 and 1954.

Following a discussion, it was agreed unanimously that provision should be made in the budget for such a survey, it being understood that the actual cost of the survey would depend to some extent on such factors as a decision regarding the specific examination to be surveyed and the instructions issued to the auditing firm.

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Mr. Sloan then withdrew from the meeting and Mr. Young, Director, Division of Research and Statistics, entered the room.

Reference was made to a memorandum from Mr. Leonard dated October 29, 1954, in which it was stated that the proposed budget of the Division of Bank Operations for 1955 included \$32,000 to cover the cost of printing 6,000 copies of the revised all-bank balance sheet statistics for the period beginning with 1896.

The project was discussed at some length from the standpoint of the work which had gone into the preparation of the statistics and the desirability of their publication in view of the indicated demand for them. These factors were weighed against the Board's feeling that all postponable expenditures should be deferred in order to avoid budget increases. It was then suggested that a decision on the publication of the statistics be deferred until such time as they had been put in final form, which it was understood might be about the middle of 1955, and that the matter be considered further at that time in the light of existing circumstances.

This suggestion was approved
unanimously.

In connection with the foregoing discussion it was noted from Mr. Leonard's memorandum of October 29 that some of the demand for the new series might be met by placing an article in the Federal Reserve Bulletin covering the United States data and reprinting that article. Agreement was expressed with this suggested procedure.

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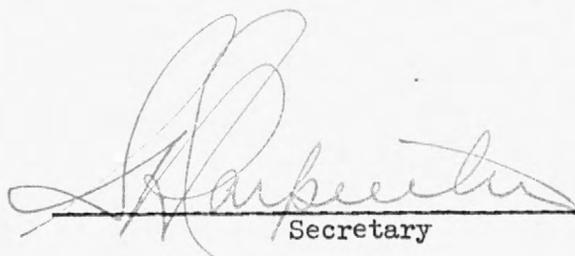
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There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco approving the establishment without change by the Federal Reserve Banks of Kansas City and San Francisco on November 3, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on November 4, and by the Federal Reserve Bank of St. Louis on November 5, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 4, 1954, were approved unanimously.

The meeting then adjourned.



Secretary