

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 1, 1955. 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. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Vest, General Counsel  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Young, Director, Division of Research and Statistics  
Mr. Johnson, Controller, and Director, Division of Personnel Administration

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

Letter to the Commissioner of Internal Revenue, U. S. Treasury Department, Washington, D. C., reading as follows:

Reference is made to the Acting Commissioner's letter of January 25, 1955, regarding the subject of levy on salary or wages of Federal employees for delinquent taxes due the Internal Revenue Service.

Mr. M. B. Daniels, Assistant Controller, has been designated as the officer of the Board of Governors of the Federal Reserve System upon whom notices of levy should be served in the event the Internal Revenue Service finds it necessary to institute levy proceedings against the salary of an employee of the Board.

Pay periods for employees of the Board are biweekly, commencing on Sunday. The first such biweekly period in

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1955 began Sunday, January 2, and ended Saturday, January 15. In order to accomplish the required salary levy for any pay period, notice should be served on or before the last business day (Friday) of the pay period.

Approved unanimously.

Letter to the Board of Directors, Wilmington Trust Company, Wilmington, Delaware, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at 220 Delaware Street, New Castle, Delaware, by the Wilmington Trust Company, Wilmington, Delaware, incident to the merger of The New Castle Trust Company, New Castle, Delaware, with and into the Wilmington Trust Company, provided the merger is carried out substantially in accordance with the agreement between the parties dated January 20, 1955, and is effected within six months from the date of this letter.

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

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

Reference is made to your letter of February 17, 1955, advising of the proposal of the Bank of Dearborn, Dearborn, Michigan, to move its in-town branch office now located at 22293 Michigan Avenue to 22199 Michigan Avenue, which is one block from the present temporary location.

The Board concurs in your view that this proposal constitutes a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served, and, therefore, the approval of the Board of Governors is not necessary.

Approved unanimously.

Letter to Mr. Heath, Assistant Cashier, Federal Reserve Bank of Chicago, reading as follows:

This refers to your letter of February 17, regarding penalties for deficiencies in reserves incurred by the

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First State Bank, Britt, Iowa, a newly organized bank which was admitted to membership on October 1, 1954 and which, during the first few months of membership, had a good deal of difficulty in understanding how to compute and maintain reserve requirements.

It is noted that the subject bank incurred deficient reserve penalties during the first two semi-monthly periods of membership, which were waived under the provisions of paragraph B, applicable to new member banks, of the Board's rules; the bank maintained excess reserves in the following three periods; and in the next two periods, ending December 31, 1954 and January 15, 1955, it was again deficient with resulting penalties of \$23.01 and \$17.26, respectively, both of which were assessed. It is noted further that, due to a misunderstanding of the term "Due from banks," the bank's semi-monthly reports of deposits had inadvertently understated the amount of net demand deposits, and that on the basis of correct reports penalties of \$64.73 and \$79.78 (estimated) were incurred, during the periods ending January 15, 1955 and December 31, 1954, rather than the amounts already assessed; and, if corrected reports were required beginning with the bank's admission to membership, an estimated penalty of \$23.01 would be indicated for the period ended November 30, 1954, and the penalties waivable by your Bank during the first two periods of membership would be higher than the amounts waived. It is also noted that officials of the member bank have assured you that they now understand how to compute reserve requirements; and that you feel that to ask the bank to submit corrected deposit reports for back periods, on the basis of which an additional penalty might have to be assessed unless waived by the Board, might be regarded as harassment.

In the circumstances and in view of your recommendation, the Board authorizes your Bank to waive assessment of the additional penalty otherwise assessable for the period ending January 15, 1955, and any other penalty which might have been incurred if corrected reports were to be required for the periods ending October 15 to December 31, 1954.

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

In your letter of February 15, 1955, you asked whether section 32 of the Banking Act of 1933, as amended, would

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prohibit the proposed service of Mr. H. B. Null as an officer and director of the First National Bank of Grand Island, Nebraska. It was indicated that Mr. Null wishes to continue at the same time to serve as president of the Harold Null Investment Company, a so-called "family company", of which he is principal stockholder. You enclosed a copy of a letter from Mr. Null dated February 9, 1955.

It appears that the Harold Null Investment Company has been acting principally as a dealer or underwriter of municipal securities in Kansas, but that its license to so act in Kansas will expire March 1, 1955, and will not be renewed. Except for the completion, by around September 1, 1955, of certain existing contracts with Kansas municipalities which require the Company to furnish "fiscal agency services, such as guiding and advising the municipalities about new issues and the preparation of issues", it appears that after March 1, 1955, the Company will be continued only as a "personal holding company for securities owned by the Null family". Mr. Null stated that: "Presently the Company has not contracted to purchase any new issues of Kansas municipal bonds and does not have any inventory of securities for sale, and will not acquire henceforth any securities for sale".

As you know, section 32 does not prohibit interlocking relationships of the kind described in the statute unless the individual or organization concerned is "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities".

While not entirely clear from the information submitted, it would seem that neither Mr. Null nor any organization for which he is an officer, director, or employee or in which he may be a partner is now, or will be after March 1, 1955, engaged in Kansas or elsewhere in any of the businesses specified in the statute. On the basis of this understanding, it does not appear that the statute would prohibit him from accepting at this time the proposed service with the member bank in question. However, if you have any further doubts about the matter, the Board will be glad to consider such additional, detailed information as may be available concerning the activities which the Company expects to continue.

Of course, you will appreciate that any change in the situation might raise again some question as to Mr. Null's eligibility to serve both the Company and the member bank

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and that, accordingly, your Bank may wish to review the matter from time to time during any continuance of the contemplated dual services.

Approved unanimously.

Reference was made to the following draft of telegram to Mr. Irons, President of the Federal Reserve Bank of Dallas, which had been circulated to the members of the Board prior to this meeting along with a memorandum from Mr. Leonard dated February 23, 1955, and other pertinent papers:

Reurlet February 14 advising that Directors have unanimously approved authorizing the Bank's architect to proceed further with development of preliminary plans for addition to head office building on basis of revised 15-year proposal, subject to approval of Board of Governors. Board approves development of preliminary plans on basis proposed.

In discussing the matter Mr. Leonard said that the program now proposed, which was designed to provide for expansion over a 15-year period and would cost an estimated \$5,700,000 (including \$800,000 for alterations to the existing head office building), appeared to represent a substantial improvement over the program originally suggested by the Dallas Reserve Bank, which was designed to cover a 20-year expansion and would have cost approximately \$800,000 more.

At the conclusion of a discussion based on Mr. Leonard's comments, the telegram to President Irons was approved unanimously.

Pursuant to the understanding at the meeting on February 25, 1955, there was a discussion of the responsibilities of Federal Reserve

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Bank branch directors with respect to branch building programs.

At the request of the Board, Mr. Vest cited the provisions of the Federal Reserve Act concerning the duties of head office and branch boards of directors. In so doing he pointed out that the Act does not clearly define the division of responsibilities; a Federal Reserve Bank is given certain powers to be administered through a board of directors, but there is no similar language with respect to branches, where the legal responsibility of the directors is simply to operate the branch subject to rules and regulations of the Board of Governors. Reference was also made in this connection to the pertinent portions of the Board's regulations relating to Federal Reserve Bank branches.

With regard to branch building programs, Mr. Leonard stated that in 13 of the 18 projects instituted within the past few years local architects were employed, while in another case (Buffalo) the assignment was a joint undertaking of architects located in the head office and branch cities. He also understood that local consulting architects were to be retained in connection with the building programs at Birmingham and Nashville.

Governor Robertson referred to the benefits obtainable from local supervision of building projects and expressed the opinion that in all cases in the future the Board of Governors should require (1) that the branch board of directors be given a full share of responsibility continuing over the life of the project, and (2) that the Reserve Bank employ an architect, or at least a consulting architect, located in the branch

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city to assure close supervision of planning and construction. None of the other members of the Board indicated that their views differed from those stated by Governor Robertson.

There followed a discussion of the further employment by the Atlanta Reserve Bank of the architect retained in connection with the Jacksonville Branch building in the light of the defects found in the air conditioning system at that branch and certain other defects of a more minor character. Mr. Leonard pointed out that the same architect was employed for the current building projects at the head office, Birmingham, and Nashville and that a substantial amount of work already had been done in each instance. From his conversations with representatives of the Atlanta Bank, he surmised that if the question were raised, the answer would be given that the Atlanta directors considered the matter carefully, that the architect enjoyed a reputation as being one of the foremost in the area, that in performing services for the Atlanta Bank at various times in the past he had acquired a special knowledge of Reserve Bank problems and needs, and that in the opinion of the directors any blame for the defects in and inadequacy of the Jacksonville Branch air conditioning system should attach more to the engineering firm than to the architect.

Chairman Martin concluded the discussion by expressing the view that with the areas of responsibility of Reserve Bank branch directors not clearly defined, it would appear that the Board of Governors should

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take the initiative in encouraging the head office directors to make full use of the branch boards.

At the meeting of the Board on February 25, 1955, there was a discussion of the appointment of industrial advisory committees at the Federal Reserve Banks for the purpose of passing upon applications for loans under section 13b of the Federal Reserve Act and it was suggested that it might be possible to select the members of such committees from among the Federal Reserve Bank directors. There was also agreement at that time with a suggestion that the matter of the industrial advisory committees be mentioned to the Chairman of the Conference of Presidents of the Federal Reserve Banks with a view to discussing the subject at the next meeting of the Board with the Presidents.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Vest dated February 25 which indicated that the appointment to the advisory committees of Reserve Bank directors engaged in some industrial pursuit would not be contrary to the letter of the law, but that in view of the legislative history of section 13b and statements made at the time of its enactment there would seem to be a question whether such a practice would be in accord with the spirit and purpose of the statute, which appeared to contemplate that the committees would be independent of the Federal Reserve Banks.

After reviewing his memorandum of February 25, Mr. Vest suggested as an alternative that since the law requires only three committee members, consideration might be given to reducing the committees to that



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numerical strength in the future and to continuing the present members in office as far as possible. Such a procedure, he felt, would have the advantage of keeping to a minimum the awkwardness involved in approaching industrialists to serve on committees that have little or no activity under current conditions.

Governor Robertson raised the question whether it was necessary under the law to appoint committees at Reserve Banks in the absence of industrial loan applications and Mr. Vest responded that it probably was not essential but that if an application were received, it would of course be necessary to appoint a committee to process the application. It was his opinion that the failure to appoint the committees therefore might make the System vulnerable to criticism.

After a description by Governor Balderston of the procedures followed at the Federal Reserve Bank of Philadelphia in handling applications for section 13b loans, during which he referred to the administrative difficulties encountered in bringing the industrial advisory committee into all stages of the negotiations, Governor Mills said it continued to be his feeling that under present conditions the method of appointing the committees should be changed and that it would be helpful to have the views of the Reserve Bank Presidents.

Mr. Carpenter said that Mr. Young, Chairman of the Presidents' Conference, had been informed of the Board's desire to have the subject discussed at the joint meeting of the Board and the Presidents later this week.

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Mr. Leonard withdrew from the meeting at this point.

In its report to the Congress in 1954, the Committee on Retirement Policy for Federal Personnel (the Kaplan Committee), of which Chairman Martin was a member with Governor Mills as his alternate, recommended among other things that civilian Federal retirement systems be funded where practicable on a "normal cost plus interest" basis. With a letter to Chairman Martin dated February 21, 1955, Mr. Philip Young, Chairman of the Civil Service Commission, transmitted two alternative draft bills dealing with the recommendation, one of which would establish an appropriation procedure comparable to that for interest on the public debt and the other of which would require each agency to pay into the fund the cost in respect to its employees subject to the Civil Service Retirement Act, which amounts would have to be included in the agency's appropriation requests. Chairman Young's letter stated that prior to submitting proposed legislation for formal clearance in the regular manner he thought it desirable for members of the Committee on Retirement Policy for Federal Personnel to review the problem, and he invited Chairman Martin or an alternate to attend a meeting at the Civil Service Commission on March 3, 1955, for that purpose.

Copies of Chairman Young's letter had been sent to all of the members of the Board prior to this meeting along with copies of a memorandum from Mr. Vest dated February 25 regarding the appropriateness of Board participation in the proposed meeting. The memorandum stated that the

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Board apparently would not be affected by the first of the alternative legislative proposals since it does not operate with appropriated funds, and that under the second proposal it apparently would be the intent to have the Board deposit with the Treasury the amounts necessary to cover current deductions and contributions of its employees subject to the Civil Service Retirement Act, although there might be some technical question on this point in view of references to appropriations in the draft. Except in this respect, the two drafts were believed to be of little direct concern to the Board.

Governor Mills pointed out that the Kaplan Committee accomplished the main purpose for which it was created by submitting its report to the Congress and that the report, which presented broad policy recommendations, contained no legislative proposals intended to effectuate the recommendations. He understood that there were differences of opinion among the agencies of the Government regarding the draft bills transmitted with Mr. Young's letter and he was of the opinion that even informal participation in the discussion of them would inject the Board into a problem of little or no direct concern to the Board or to the System.

There was general agreement that the circumstances were such as to make it unnecessary for Chairman Martin or Governor Mills to participate in the meeting and although it was suggested that attendance by a member of the staff as an observer might be productive from the standpoint of obtaining information, particularly concerning the status of Board

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employees who are members of the Civil Service Retirement System, it was the consensus that, as Governor Mills had suggested, the problem outlined in Mr. Young's letter was one for determination by the executive branch of the Government.

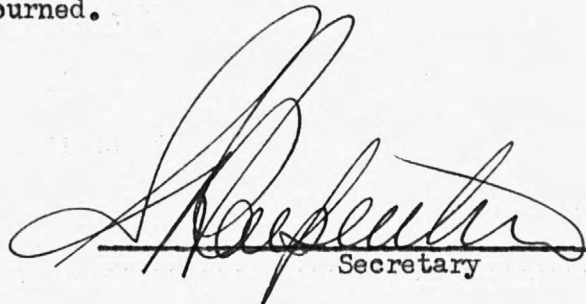
Accordingly, it was agreed that no action need be taken with regard to the letter from Mr. Young.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 28, 1955, were approved unanimously.

The members of the staff then withdrew from the meeting and the Board went into executive session.

Thereafter, the Secretary was informed by the Chairman that during the executive session the Board, for reasons stated in a memorandum dated February 28, 1955, from Mr. Riefler, Assistant to the Chairman, authorized Mr. Riefler to accept invitations to attend the Real Estate Round Table to be held in New York, New York, on March 17, 1955, and a meeting of Housing Securities, Inc., to be held in the same city on March 10, 1955.

The meeting then adjourned.



Secretary