

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 3, 1955. The Board met in the Board Room at 11:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Leonard, Director, Division of Bank  
Operations

Mr. Bryan, President, Federal Reserve Bank  
of Atlanta  
Mr. Patterson, Vice President and General  
Counsel, Federal Reserve Bank of Atlanta  
Mr. Baum, Air conditioning consultant to the  
Federal Reserve Bank of Atlanta

At the meeting of the Board on February 10, 1955, consideration was given to a request from the Federal Reserve Bank of Atlanta for approval of an expenditure of \$119,900 for expanding the capacity of, and correcting conditions in, the air conditioning system at the Jacksonville Branch building. No action was taken at that time and pursuant to the invitation of the Board, Mr. Bryan was present at this meeting to discuss the matter.

At the request of the Board, Mr. Bryan made a comprehensive statement concerning the present situation with respect to the Jacksonville Branch air conditioning system, the manner in which the problem developed, the question of responsibility for the defects in the system, and the current proposal of the Atlanta Bank. In the course of his remarks

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President Bryan referred to the discovery of the mechanical defects just before the branch building was opened, the remedial steps taken by the architect and the general contractor, the later realization that the circulation of air in the branch building and other features of the system were not satisfactory, and the contention on the part of the general contractor that any inadequacies in the system were due to faulty design. He went on to say that the air conditioning subcontractor had gone bankrupt so that no recourse could be had against him, and that the Bank then turned to the engineering firm which contended that the system was adequately designed in accordance with recognized standards and that any difficulties were due to faulty installation. After long consideration, he said, the Bank's Board of Directors came to the conclusion that nothing could be accomplished by attempting to force recovery against the architect, the engineering firm, or the general contractor, and the Bank then brought in Mr. Baum who, after evaluating the system, concluded that it was inadequate in several respects and recommended its enlargement and improvement in the manner submitted to the Board of Governors. Mr. Bryan said that the total of the initial cost and the proposed additional expense would be about \$235,000, as against Mr. Baum's estimate that the cost would have been about \$220,000 if the job had been designed and executed satisfactorily in the first instance. This estimate, he pointed out, seemed reasonable in the light of current estimates for the air conditioning work at Birmingham and Nashville.

Regarding the matter of responsibility, President Bryan expressed

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the opinion that the engineering firm, although large and enjoying an excellent reputation, "just flubbed the job". He pointed out, however, that legal action against the firm would be difficult since, among other things, it would be necessary to obtain expert testimony and that could not readily be done.

Following a general discussion of the terms of employment of the architect, the engineering firm, the general contractor, and the subcontractors, during which it was stated that the local air conditioning subcontractor was recommended by head office director Reinhold (who was from Jacksonville) and by the Jacksonville Branch Board of Directors, Governor Vardaman said he concurred in the view of the directors that it would be inadvisable to institute proceedings against the engineering firm. He then inquired (1) how could it be explained that the architect did not question the proposed air conditioning system when its cost was so low in comparison to that of systems installed elsewhere and (2) as to local supervision while the branch building was under construction.

With respect to the first question, Mr. Bryan and Mr. Baum responded to the effect that the architect could not be criticized in his choice of the engineering firm, which has an excellent reputation, and that if the architect was in any way at fault, it seemed to have been in relying too completely on the proposals of the engineering firm with regard to the design of the air conditioning system. With respect to the second question, Mr. Bryan said that the clerk of the works, who reported to the Reserve Bank through the architect, had a good previous record and performed his duties very satisfactorily except that for some inexplicable reason neither

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he nor the architect inspected the air conditioning installation adequately.

In response to an inquiry by Governor Robertson concerning local supervision of the building programs at Birmingham and Nashville to prevent a repetition of the incident, Mr. Bryan said that the principal architect was being required to employ consulting architects located on these jobs; that, as at Jacksonville, building committees had been selected from the Birmingham and Nashville boards of directors; that these committees were being asked to assist in the selection of the local consulting architects and to review the whole matter of layout; and that they had been informed that no contractor would be employed without their consent.

In response to further questions by Governor Vardaman, Mr. Bryan said that in view of the difficulties at Jacksonville, the head office Board of Directors gave consideration to the employment of some other architect for the Birmingham and Nashville building projects but finally decided to employ the Toombs firm because of his work for the Bank over a long period of years, the special knowledge of bank construction problems which he had acquired, and his general reputation. He also stated that the directors at Birmingham and Nashville were consulted on this point and concurred in the selection of the architect.

There followed a discussion of two other problems encountered at Jacksonville, one of which (the height of the drinking fountains) was corrected immediately by the architect while the other (the noise from machinery located beneath the directors' room) was still not corrected.

At the conclusion of the discussion it was understood that the air

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conditioning matter would be considered further by the Board when Chairman Martin and Governor Mills were present and that the Atlanta Bank would be advised of the Board's views.

Messrs. Bryan, Patterson, and Baum then withdrew from the meeting and Mr. Young, President of the Federal Reserve Bank of Chicago, entered the room along with Mr. Holland, economist for the Chicago Bank, and Messrs. Riefler, Assistant to the Chairman, Thomas, Economic Adviser to the Board, and Young, Director, Division of Research and Statistics.

At the meeting of the Board on February 23, 1955, there was a discussion of the propriety under Regulation A, Advances and Discounts by Federal Reserve Banks, of borrowing by Illinois banks from the Federal Reserve Bank associated with avoidance of the April 1 personal property tax by the member banks' depositors. No conclusions were reached at that time and President Young was invited to meet with the Board to discuss the situation.

At the outset of the discussion Mr. Leonard distributed statistics showing (1) 1955 borrowings of member banks from the Federal Reserve Banks of New York and Chicago; (2) 1955 borrowings by each of two large Chicago banks (the First National Bank of Chicago and the Continental Illinois National Bank and Trust Company); and (3) total outstanding borrowing of central reserve city banks from the Federal Reserve Bank of Chicago on dates in 1955 on which the Continental Illinois National Bank and Trust Company borrowed. President Young distributed a tabulation showing average daily

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borrowing from the Reserve Bank by various Chicago member banks and holdings by such banks of Treasury bills.

The discussion centered principally around the borrowing activity of the First National Bank of Chicago, this being the only Chicago bank which had held April 7 bills for several weeks and had borrowed during the period on notes with maturities of longer than 15 days. The First National Bank's borrowings had been on the basis of notes for the number of days until April 7, 1955. The borrowings, although in quite sizable amounts, were not continuous, the member bank having paid them off fully or partially from time to time and having been out of debt to the Reserve Bank completely for several days in January and in February. On the basis of the average daily borrowing, President Young estimated that the First National Bank was providing out of its own resources about 90 per cent of the funds needed to carry its April 7 bill holdings.

President Young strongly urged that the First National Bank's borrowing during 1955 was a legitimate use of Federal Reserve credit and was in compliance with the general principles of Regulation A. He said that the Reserve Bank had advised First National early in the year that it would make funds available in connection with the member bank's loss of deposits ordinarily associated with the April 1 tax date, and that if there was criticism based on the maturity of the notes it could probably be arranged to put any further advances on a short-term basis, although this would be a formality not appearing to affect the basic considerations. He did not believe that the bank had as an objective protecting itself

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against a possible increase in the discount rate. He added that over the years this bank had not abused its borrowing privilege and that it did not take advantage of the available privilege of allowing its reserves to be deficient in one reserve computation period and making the deficiency up in the succeeding period. President Young also felt that the accumulation of Treasury bills was not of such proportions as to interfere in the bill market or to have any material effect on credit conditions. The Reserve Bank had set up procedures, he said, to watch all borrowing closely from day to day and its form of application for discounts and advances required a statement of the purpose of the borrowing. President Young responded to a question as to whether the First National Bank should be able to anticipate the tax situation and meet it from its own resources by saying that he considered it as an unusual situation, and that there was reported to be an increasing demand from depositors with smaller balances for Treasury bills or for transfer of deposits outside the State, so that it was difficult for the member bank to make adequate provision in advance. In response to a question as to how Continental Illinois National Bank and Trust Company was able to take care of its customers, Mr. Holland said he understood that that bank entered into arrangements with New York banks and dealers to hold Treasury bills of April maturities for sale to the Continental around the end of March and that the bank also expected to go into the market for bills as the April 1 tax date approached.

With regard to a question by Governor Robertson as to whether he would consider it in violation of Regulation A if the First National Bank

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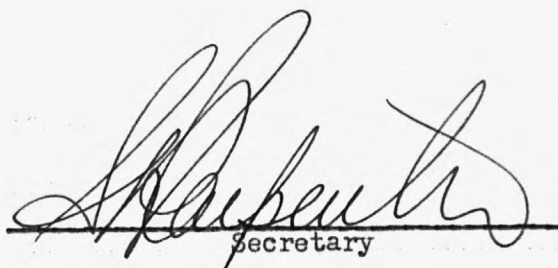
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borrowed from the Reserve Bank all of its estimated \$400 million of requirements, President Young said he did not think the bank should call on the Federal Reserve Bank for its entire needs, that it should rely on its own resources as much as possible, and that the current borrowings seemed to him to be reasonable.

At the conclusion of the discussion it was understood that the Board would give further attention to the matter when Chairman Martin and Governor Mills were present and would then communicate with Mr. Young again.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 1, 1955, were approved unanimously.

The meeting then adjourned.



Secretary