Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 20, 1955. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Shepardson

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. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Stone, Personnel Technician, Division of Personnel Administration

Governor Vardaman referred to a letter which had been received from Congressman Yates, Chairman of a Subcommittee of the Select Committee To Conduct a Study and Investigation of the Problems of Small Business, asking that he be furnished by July 22, 1955, any memoranda or other data relating to a series of conversations in March 1951 involving a proposed application for a guaranteed loan (a V-loan) by the Harvey Machine Company of California for the purpose of expanding aluminum production.

In reviewing the file on the matter, Governor Vardaman said that no financing institution would extend the credit at the time except with a 100 per cent guarantee and a net return to the lender of three per cent, whereas the company was unwilling to pay more than a total of three per cent to obtain credit. He went on to say that while no V-loan application
was actually filed, representatives of the company requested a waiver of the guarantee fee. This request was discussed with officials of the appropriate guaranteeing agencies and it was agreed that no exception should be made in this case to the policy against waiving the guarantee fee. Subsequently, a letter was received from General William H. Harrison, Administrator of the Defense Production Administration, suggesting that the guarantee fee be waived and a response was sent on March 22, 1951, over the signature of Mr. McCabe, then Chairman of the Board, stating why the request could not be granted. Later, at the request of representatives of the company, a meeting was arranged for them with members of the Board's staff and staff members of General Services Administration. Afterwards, it was understood that the company had obtained funds through some medium other than a V-loan.

Governor Vardaman stated that he had discussed the request of Congressman Yates with Messrs. Vest, General Counsel, Cherry, Legislative Counsel, and Boothe, Administrator, Office of Defense Loans, none of whom saw any objection to making available to the Congressman copies of the correspondence with General Harrison and copies of memoranda relating to conversations which took place in 1951 with reference to the matter. Therefore, he said, if there was no objection on the part of the Board he would contact Congressman Yates and arrange to provide him the pertinent memoranda.

Chairman Martin noted that the procedure proposed by Governor
Vardaman would involve the furnishing of Board records without their having been subpoenaed, to which Governor Vardaman responded that he had taken this into consideration but felt that the nature of the request and the nature of the documents which would be furnished made it seem proper that the material be made available.

No objection was interposed to the procedure suggested by Governor Vardaman and it was understood that he would take the necessary steps to supply the requested information.

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

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

**Appointments, effective upon the respective dates of assuming duties**

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nellie-Mae Robinson, Clerk-Stenographer</td>
<td>Research and Statistics</td>
<td>$3,500 per annum</td>
</tr>
<tr>
<td>Elizabeth Palmira Vanni, Clerk-Stenographer</td>
<td>International Finance</td>
<td>3,500 per annum</td>
</tr>
<tr>
<td>Curtis B. Morrow, Assistant Federal Reserve Examiner 1/</td>
<td>Examinations</td>
<td>4,485 per annum</td>
</tr>
<tr>
<td>Emilie C. Gleason, Substitute Telephone Operator</td>
<td>Administrative Services</td>
<td>14 per day, when actually employed</td>
</tr>
</tbody>
</table>

1/ Official headquarters: Dallas, Texas
Transfers

David C. Crockett, from the position of Analyst, Division of Bank Operations, to the position of Economist, Division of Research and Statistics, with an increase in his basic salary from $5,710 to $6,390 per annum, effective July 31, 1955.

Daniel H. Brill, from the position of Economist, National Income, Moneyflows, and Labor Section, to the position of Chief, Business Finance and Capital Markets Section, Division of Research and Statistics, with no change in his present basic salary of $11,880 per annum, effective upon his return to the Board from his current trip to Europe.

Margaret H. Rhudy, from the position of File Clerk, Office of the Secretary, to the position of Clerk, Division of International Finance, with no change in her present basic salary of $3,345 per annum, effective on date of assuming her new duties.

Approved unanimously.

Letter for the signature of Chairman Martin to the Honorable Guy M. Gillette, Special Counsel, Committee on Post Office and Civil Service, United States Senate, Washington, D.C., reading as follows:

This is in reference to your letter of June 7, 1955, and Mr. Humphrey's telephone conversation with Mr. Johnson regarding costs of operation of the security program.

The estimates given below are believed to reflect fairly well a reasonable allocation of cost to the program. Answers are given in sequence of your questions.

I. Civilian.

A. Expenses for administration and adjudication were approximately $4,000 for the July 1, 1954, to June 30, 1955, period.

B. Investigative.

(1) No investigations of a security nature were performed by us during this period.

(2) All of our full-field investigations and national agency checks were made through the offices of the United States Civil Service.
Commission. Our total payment to that agency during the period mentioned above was $5,310. We also understand that we are liable for supplemental billing for work done during the period March 1 through June 30, 1955, because of the retroactive pay increase granted for this period. It is not believed that the amount will be large, however, as our total payment during this particular four-month period was $745.

(3) We had no contract employees engaged in security investigations.

II. Military. This question is not applicable.

III. Other. There were no other expenses incurred by us for security investigations during this period.

Approved unanimously.

Letter to Mr. Campbell, Assistant Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

In accordance with the request contained in your letter of July 11, 1955, the Board approves the appointment of Harold Edwin Ikeler, Jr. as an assistant examiner for the Federal Reserve Bank of Philadelphia.

Please advise as to the date upon which the appointment is made effective.

Approved unanimously.

Letter to Mr. Hall, Federal Reserve Agent, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with the request contained in your letter of July 12, 1955, the Board of Governors approves the appointment of Mr. Robert J. Cunningham as Federal Reserve Agent's Representative, Omaha Branch, effective August 1, 1955, to succeed Mr. E. O. Streeter.

This approval is given with the understanding that Mr. Cunningham will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during
a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the Omaha Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

Mr. Cunningham should execute the usual Oath of Office which should be forwarded to the Board of Governors.

Approved unanimously.

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

In accordance with the request contained in your letter of July 8, 1955, the authorizations heretofore given your bank to designate the following employees as special assistant examiners are hereby cancelled:

R. S. Terrill R. J. Colthurst
D. B. Atkins J. V. Dennis
W. H. Lewis R. C. Dunn
G. R. Sherman G. L. Evans
R. Maurer, Jr. R. L. Krause

The Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of San Francisco:

W. A. Craig L. E. Reilly
T. A. Flowers R. S. Skinner
R. F. Gee L. W. Zidek
R. G. Lambert C. E. Firestone
E. M. Lund A. B. Austin
R. S. Terrill

The Board also approves the designation of the following as special assistant examiners for the specific purpose of rendering assistance in the examination of State member banks only:

D. B. Atkins J. F. Danaher
W. H. Lewis F. R. Hallock
G. R. Sherman W. H. Hutchins
The Board also approves the designation of the following as special assistant examiners for the purpose of participating in the examinations of State member banks except the bank listed immediately above their names:

California Bank, Los Angeles, California
H. A. Erne

American Trust Company, San Francisco, California
T. S. Carson
M. E. Lile
R. P. Luthy
R. Maurer, Jr.

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 7, 1955, regarding the request of The Plainfield Trust Company, Plainfield, New Jersey, for an extension of time within which it may establish a branch on Martine Avenue between South Avenue and LaGrande Avenue, Borough of Fanwood, New Jersey. It is noted that the delay in establishing the branch has been occasioned by changes in the plans for its building and by difficulty in obtaining a builder.

After consideration of the information submitted, the Board concurs in your recommendation and extends to January 3, 1956, the time within which The Plainfield Trust Company may establish the above described branch.

Approved unanimously.

Letter to The First National City Bank of New York, New York, New York, reading as follows:

The Board of Governors of the Federal Reserve System authorizes The First National City Bank of New York, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Beirut, Lebanon, and to operate and maintain such branch subject to the provisions of such section; upon condition that unless the branch is actually established and opened for business on or before July 1, 1956, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date.
7/20/55

Upon the opening of the branch, please advise the Board as to the location of the branch in the city of Beirut. It is understood, of course, that no change will be made in the location of such branch without the prior approval of the Board of Governors.

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

Letter to Mr. L. N. Shaw, Vice President, International Banking Corporation, New York, New York, reading as follows:

This refers to your letter of May 12, transmitted through the Federal Reserve Bank of New York, advising that your Corporation is considering the acquisition of the business of Bank of Monrovia, a corporation organized under the laws of New Mexico and doing business in Monrovia, Liberia.

It is noted that you propose, if satisfactory arrangements can be made, to cause the organization under the laws of Liberia of a wholly-owned subsidiary of your Corporation, which will acquire the business and property of Bank of Monrovia for cash and conduct such business in Liberia and elsewhere outside the United States.

It is noted that you will keep the Board advised with respect to this project. When your plans have been formulated, the Board would appreciate being advised regarding the details, before final action is taken on the matter. This request is being made at this time in the light of certain proposed changes under consideration with respect to the regulation of foreign banking corporations.

Your courtesy in bringing this matter to the attention of the Board is appreciated.

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.
7/20/55

Letter to the Board of Directors, Peoples Union Bank, McKeesport, Pennsylvania, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the absorption of the First National Bank of West Newton, West Newton, Pennsylvania, by Peoples Union Bank, McKeesport, Pennsylvania, and approves the establishment by the continuing bank of a branch at the present location of the national bank, provided (1) the absorption is carried out substantially in accordance with the agreement between the parties dated January 18, 1955, (2) the capital structure of Peoples Union Bank is increased in the amount of at least $520,000 from the sale of common stock prior to the absorption and the establishment of the branch, (3) fixed assets acquired from the national bank are not placed upon the books of the Peoples Union Bank in amounts in excess of their depreciated value for Federal income tax purposes, (4) formal approval of the State authorities is obtained, and (5) the transactions are completed within six months from the date of this letter.

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

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

Reference is made to your letter of July 8, 1955, and enclosures advising of the proposal of the California Bank, Los Angeles, California, to remove its branch at 558 South Western Avenue to a new location at 3728 Wilshire Boulevard, Los Angeles, California, a distance of approximately two blocks.

From the information submitted, it appears that this proposal would constitute a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or customers served and, accordingly, we concur in your view that the approval of the Board of Governors is unnecessary.

Approved unanimously.
Letter to the Comptroller of the Currency, Treasury Department, Washington, D. C., (Attention: Mr. G. W. Garwood, Deputy Comptroller of the Currency), reading as follows:

Reference is made to a letter from your office dated April 26, 1955, enclosing photostatic copies of an application to organize a national bank at Lubbock, Texas, 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 an examiner for the Federal Reserve Bank of Dallas, is generally favorable with respect to the factors usually considered in connection with such proposals, although there may be some question as to the need for an additional banking facility in the community. After considering all of the factors the Board of Governors recommends approval of the application.

The Board's Division of Examinations would be glad to discuss any aspects of this case with representatives of your office, if you so desire.

Approved unanimously.

There was presented a request from Mr. Myrick, Assistant Director, Division of Bank Operations, for authority to undertake the travel necessary to visit the Federal Reserve Bank of San Francisco and its Los Angeles, Portland, and Seattle branches during the period from July 25 through August 19, 1955, in connection with the program of surveys being made by the Division of Bank Operations concerning the preparation of claims for reimbursement of fiscal agency expenses.

Approved unanimously.

Reference was made to a memorandum from Mr. Johnson dated June 30, 1955, which stated that the Civil Service Commission had amended the regulations relating to the Federal Employees' Group Life Insurance Act of 1954,
effective July 1, 1955, to provide that an employee who filed a waiver of life insurance coverage before January 1, 1955, may revoke such waiver by filing a written notice of revocation with his employing office prior to September 1, 1955. The employee would become insured on the first day following the day of receipt of his notice of revocation by his employing office.

Attached to the memorandum, which had been circulated to the members of the Board, was a draft of notice proposed to be sent to those employees of the Board who declined the Federal Employees' Group Life Insurance coverage prior to January 1, 1955. In accordance with the Board's decision at the time that insurance became effective, any employee who elected to accept insurance coverage under that plan would cease to be covered under the System group policy with the Connecticut General Life Insurance Company.

In the course of comments by Mr. Johnson, Governor Vardaman suggested that any notice to eligible Board employees be so worded as to require a signed response from each employee to indicate that he had been made aware of his privilege to revoke his waiver of coverage under the Federal Employees' Group Life Insurance Act regardless of whether he chose to exercise that privilege.

At the conclusion of the discussion, the procedure proposed in Mr. Johnson's memorandum was approved unanimously, with the understanding that the notice sent to eligible Board employees would be so worded as to incorporate the suggestion made by Governor Vardaman.

Messrs. Johnson and Stone then withdrew from the meeting.
The following draft of letter for the signature of Chairman Martin to the Honorable W. Randolph Burgess, Under Secretary of the Treasury for Monetary Affairs, had been circulated to the members of the Board and was presented for consideration:

Since my letter to you of December 22, 1954, regarding the suggestion that the function of verifying and destroying unfit Federal Reserve notes be transferred from the Treasury to the Federal Reserve Banks, the Board and the Conference of Presidents of the Federal Reserve Banks have given much thought to the matter. As pointed out in your letter of December 14, 1954, such a change would require enabling legislation.

Under existing procedures, unfit Federal Reserve notes are cancelled at the Federal Reserve Banks and shipped to the Treasury, where they are verified and destroyed by employees completely independent of the Federal Reserve Banks and at an entirely separate location. If the entire operation were performed at the Federal Reserve Banks, this inherent protection would be lost and substitute safeguards and controls would, of course, have to be established. This could undoubtedly be done in such manner as to provide reasonable audit control. The new safeguards would not, however, provide the protection that the present procedure now affords.

Studies made of the costs involved under the present and proposed procedures indicate that the change would result in a net savings to the Federal Reserve Banks of approximately $186,000 yearly, nearly one-half of which would be in postage.

These estimated savings are predicated on the fact that the Reserve Banks would make a 100 per cent verification of cancelled Federal Reserve notes. Currently, the U. S. Treasurer's Office is making a 100 per cent count of the lowers of Federal Reserve notes received from Federal Reserve Banks, and the Office of the Comptroller of the Currency is making a 100 per cent count of the uppers of 50's and over and a smaller percentage count of other denominations. Presumably if only a 100 per cent verification count were made in the Treasury, the estimated savings would be somewhat less than $186,000.
The Board and the Banks strive continually for economies in operations. The potential savings under the suggested change, however, should not be looked upon solely as an opportunity to reduce expenses, since the savings would result from a change involving the loss of certain protective features in the handling of the currency. The basic question is whether the potential savings would compensate adequately for that loss. The cost involved is, in a sense, payment for additional protection in the verification and destruction of unfit Federal Reserve notes running in amounts around $6 billion a year.

With respect to your suggestion that the Board might wish to follow through with a recommendation to Congress for the necessary changes in the law to accomplish the proposal, the Presidents of the Federal Reserve Banks feel, as does the Board, that any such recommendation that the Federal Reserve Banks be authorized to destroy unfit Federal Reserve notes should come, more appropriately, from sources other than the Federal Reserve System. The Presidents also feel that if the operation is to be undertaken, it should be on a fiscal agency basis.

Should the Federal Reserve Banks, under appropriate legislation, be called upon to undertake the verification and destruction of unfit Federal Reserve notes, the Banks would, of course, accept the responsibility and discharge it to the best of their abilities.

Following a discussion, during which reference was made to the views expressed by the Federal Reserve Bank Presidents at the joint meeting with the Board on June 22, 1955, the letter was approved unanimously, with the understanding that copies would be sent to the Presidents of all Federal Reserve Banks for their information.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 19, 1955, were approved unanimously.

All of the members of the staff then withdrew from the meeting and the Board went into executive session.
Following the meeting, the Secretary was informed that during the executive session consideration was given to filling the Class C vacancy on the Board of Directors of the Federal Reserve Bank of Kansas City and that the suggestion was made that Mr. Albert K. Mitchell, rancher, Albert, New Mexico, be considered for the position. It was stated that Mr. Mitchell was a member of the Republican National Committee but that he had been made a member to meet a special situation and was not an active politician, so that if he were willing to resign as a national committeeman his appointment as a Class C director of the Kansas City Bank would not be contrary to the Board's resolution of December 23, 1915. Accordingly, it was agreed unanimously that if Mr. Mitchell resigned as a member of the Republican National Committee so that his appointment would be in accordance with the policy of the Board, he would be tendered appointment as a Class C director of the Federal Reserve Bank of Kansas City for the unexpired portion of the term ending December 31, 1956.

The meeting then adjourned.