

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 22, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics

The following draft of telegram to Mr. Bryan, President of the Federal Reserve Bank of Atlanta, which had been circulated to the members of the Board along with an explanatory memorandum from Mr. Leonard dated November 15, 1955, was presented for consideration:

Reurlet October 27. Board authorizes the calling of bids for alterations of and additions to the Birmingham Branch on the basis of detailed plans and specifications referred to in that letter.

In accordance with customary procedure, a summary report of the bids should be forwarded to Board together with recommendation of Bank as to acceptance.

Approved unanimously.

Mr. Leonard then withdrew from the meeting.

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Pursuant to the understanding at the meeting on November 15, 1955, there had been prepared under the same date a revised draft of statement on monetary policy and the real estate markets for presentation by Chairman Martin at a round table discussion of the residential construction and mortgage financing field to be conducted by the Subcommittee on Housing of the Senate Banking and Currency Committee on November 28 and 29, 1955. In view of subsequent comments by members of the Board, revised drafts were prepared under dates of November 18 and 21, respectively.

The November 21 draft was discussed and the only suggestions for further changes were of an editorial nature.

Accordingly, the statement was approved unanimously with the understanding that the editorial changes suggested at this meeting would be made and that Mr. Thurston was authorized to make other minor revisions in the interest of bringing statistical information up to date.

Secretary's Note: In accordance with this action, the following letter was sent over the signature of Chairman Martin to The Honorable John J. Sparkman, Chairman of the Subcommittee on Housing, Committee on Banking and Currency, United States Senate, on November 23, 1955:

In response to the request contained in your letter of October 12, I am sending you with this letter 75 copies of the statement of the Board of Governors in connection with the round table discussion of the residential construction and mortgage financing field which is to be held on November 28 and 29 and in which you have asked me to participate.

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During the foregoing discussion Messrs. Koch, Assistant Director, and Wood, Economist, Division of Research and Statistics, entered the room, and at this point Messrs. Johnson, Controller, and Director, Division of Personnel Administration, and Sprecher, Assistant Director, Division of Personnel Administration, also joined the meeting.

At Governor Balderston's request, there had been sent to the other members of the Board copies of a memorandum addressed to him by the Secretary under date of November 15, 1955, submitting, in accordance with informal discussions at recent meetings of the Board, a draft of a proposed entry for the minutes which would amend the official travel regulations of the Board. The effect of the amendments would be to provide that travel within the continental United States which heretofore required the approval of the Board would hereafter require the approval of the Vice Chairman, or his alternate designated for that purpose. The proposed amendments would also change the existing regulations to incorporate (1) a clarification that members of the Board traveling outside the United States may claim per diem in lieu of subsistence in accordance with the provisions of the Standardized Government Travel Regulations, and (2) new language covering existing procedures with respect to the authorization of travel by consultants and applicants for positions on the Board's staff. The amended regulations would continue to require that travel by members of the staff outside the continental United States be approved by the Board; and the change in procedure provided by the revised

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regulations would not change the existing arrangement under which all members of the senior staff get the advance approval of the Chairman when they plan to be away from the office on official business or otherwise for an entire day or longer.

Governor Balderston stated that the proposed amendments to the travel regulations were agreeable to him. He suggested, however, that if a member of the staff customarily travels on the basis of actual necessary transportation expenses and a per diem in lieu of subsistence, he (Governor Balderston) would be inclined to feel that travel on the basis of actual necessary travel expenses should only be approved in unusual circumstances; for example, when an assignment requires a staff member to stay at an expensive hotel. He knew of no way to spell this out in the travel regulations without unduly complicating them.

The point raised by Governor Balderston was discussed and there was general agreement with his views. It was brought out that under the amended travel regulations, authority to approve travel of staff members on the basis of actual necessary travel expenses would rest with the Vice Chairman or his alternate designated for the purpose, and that he would be free to bring any questionable case to the attention of the Board.

Governor Robertson referred to a section of the proposed regulations which would provide, like the present regulations, that when a single bedroom is not available, a member of the Board may be allowed the extra expense necessary to enable him to obtain Pullman accommodations the cost

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of which does not exceed that of a compartment. He suggested striking the last clause so as to provide that in such circumstances a member of the Board would be allowed the extra expense to enable him to obtain such Pullman accommodations as are available. There was agreement with Governor Robertson's suggestion.

In response to a question, Mr. Sloan said that he understood the Board's field examining staff was experiencing no problems in obtaining transportation under the current travel regulations.

By unanimous vote, the Board's travel regulations were amended to read as follows:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
TRAVEL REGULATIONS ADOPTED DECEMBER 15, 1937
As Amended Effective November 22, 1955.

Reimbursement for expenses of persons traveling on official business of the Board shall be as follows:

Section A. Members of the Board

1. Members of the Board shall be allowed either (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$15, except when traveling outside the continental United States per diem in lieu of subsistence may be claimed in accordance with the provisions of the Standardized Government Travel Regulations, as amended; or (b) their actual necessary travel expenses. Members of the Board shall also be allowed reasonable expenses for telephone, telegraph, cable and radio service, and miscellaneous items, including stenographic and other clerical service, when such expenditures are necessary for the transaction of official business while in a travel status.

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Section B. Members of the StaffTravel within the continental United States

1. Heads or assistant heads of divisions of the Board's staff (who shall include Assistants to the Chairman or the Board, the Economic Adviser to the Board, the Legislative Counsel, the Adviser on Economic Research, and the Chief Federal Reserve Examiner), upon specific authorization of the Vice Chairman of the Board or his alternate designated for that purpose, shall be allowed either (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$12 or (b) their actual necessary travel expenses.

2. All other employees of the Board traveling pursuant to authorization by the head of the division, shall be allowed (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$12 or (b) upon specific authorization of the Vice Chairman of the Board or his alternate designated for that purpose, their actual necessary travel expenses.

Travel outside the continental United States

3. Travel on official business of the Board outside the continental United States shall be undertaken only when specifically approved by the Board in advance. Reimbursement for expenses of such travel shall be in accordance with the provisions of the Standardized Government Travel Regulations, as amended.

Section C. Other Persons

1. All other persons traveling on official business of the Board, including consultants traveling pursuant to authorization by the head of the Division concerned and applicants for positions traveling pursuant to authorization concurred in by both the head of the Division concerned and the Director of the Division of Personnel Administration, shall be allowed (a) actual necessary transportation expenses and a per diem in lieu of subsistence not to exceed \$12 or (b) upon specific authorization of the Vice Chairman of the Board or his alternate designated for that purpose, their actual necessary travel expenses.

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Section D. Definitions and Miscellaneous Provisions

1. The term actual necessary transportation expenses includes the cost of all necessary official travel by railroad, airline, steamer, bus, streetcar, taxicab, automobile, and other means of conveyance. In the case of railroad travel, it also includes standard lower berth, roomette, or seat in a sleeping or chair car, except that a superior Pullman accommodation obtainable in connection with a single fare may be allowed when notation is made on the travel voucher that, at the time reservation was made, this was the lowest priced first-class accommodation available.

Persons referred to in Section A-1 and B-1 may be allowed any Pullman accommodations obtainable in connection with a single fare, and, when a single bedroom is not available, any member of the Board may be allowed the extra expense necessary to enable him to obtain such Pullman accommodations as are available.

The term "actual necessary transportation expenses" also includes reasonable expenditures for the ordinary incidentals to transportation which are not covered by the definition of per diem in lieu of subsistence, such as cost of baggage transfer; official telegraph, telephone, radio, and cable messages relating to transportation; and the usual taxicab, streetcar, or bus fares from or to transportation terminal and place of abode or business while in a travel status. In addition to the actual taxicab fare, reimbursement may be allowed for tip of 10¢ where the fare is \$1 or less or 10% of the fare increased to the next multiple of 5¢ where the fare exceeds \$1. When claimed, such tip shall be shown as a separate item in the expense voucher.

When authorized to use a privately-owned automobile in official travel, the traveler may be allowed mileage at a rate not to exceed 10¢ per mile in lieu of actual operating expenses.

When savings can be effected by the purchase of round trip or special rate tickets, they shall be obtained.

Extra expense incurred by persons referred to in Section B by reason of travel on extra-fare trains and planes, or unusual means of conveyance, will be allowed only when

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the travel voucher is accompanied by a satisfactory explanation of the necessity therefor, or shows that the cost thereof, less the amount of subsistence allowance saved by more expeditious travel and the amount of salary of the traveler for the time thus saved, does not exceed the standard cost of rail and Pullman or airline fare between the points of travel.

2. The term per diem in lieu of subsistence includes all meals; lodgings; personal use of room during daytime; all fees and tips to waiters, porters, baggagemen, bell-boys, hotel maids, etc.; telegrams and telephone calls reserving hotel accommodations; laundry; cleaning and pressing of clothing; and transportation between places of lodging or where meals are taken and places of duty.

When meals are included in the cost of passage ticket on vessels, per diem in lieu of subsistence will not be allowed while traveler is on shipboard, but for such period the traveler will be reimbursed on the basis of actual necessary travel expenses.

When a member of the Board's staff finds it necessary to take leave of absence on account of illness while in travel status, he may, with the approval of the Vice Chairman of the Board or his alternate designated for the purpose in the case of those referred to in Section B-1, and with the approval of the head of the division in the case of those referred to in Section B-2, be allowed per diem in lieu of subsistence during such absence, except that for employees referred to in paragraph B-2, if the illness extends beyond one week, the traveler may be allowed per diem in lieu of subsistence for such additional period as may be approved by the Vice Chairman of the Board or his alternate designated for the purpose.

3. The term actual necessary travel expenses includes all actual necessary expenditures covered by the definitions of (a) actual necessary transportation expenses and (b) per diem in lieu of subsistence. The items of expense shall be shown in detail in the travel voucher and shall be supported by satisfactory receipts.

When hotel or other accommodations are shared by the traveler, the fact should be stated in his expense voucher and he may claim an amount not to exceed the cost of single occupancy of such accommodations.

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4. Whenever travel by others than members of the Board is contemplated, a memorandum in a form provided for the purpose shall be submitted in advance of the trip for the approval of the Vice Chairman of the Board or his alternate designated for the purpose, or to the Division head, whichever is necessary to comply with Section B.

5. Reimbursement for expenses for official travel within the continental United States not specifically covered by these regulations shall be in accordance with the provisions of the Standardized Government Travel Regulations, as amended.

There had been sent to the members of the Board copies of a memorandum from the Division of Personnel Administration dated October 31, 1955, summarizing outside business and teaching activities reported as of September 15, 1955, by 52 employees of the Board. The reports were submitted by the employees in conformance with the statement of rules approved by the Board on July 21, 1954.

Governor Balderston said he concurred in the recommendation of the Division of Personnel Administration that permission for the reported outside activity be granted in each case. In this connection, he expressed himself as looking with favor on some academic activity by members of the staff who are invited to teach. He also said that none of the outside business activities which were reported seemed to be such as to require special consideration by the Board.

Thereupon, the recommendation contained in the memorandum from the Division of Personnel Administration was approved unanimously.

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Messrs. Johnson and Sprecher then withdrew from the meeting.

Pursuant to the understanding at the meeting on November 14, 1955, memoranda from the Legal Division and the Division of Examinations had been circulated to the members of the Board having to do with a request made of Chairman Martin through Senator Payne, of Maine, for review of a condition imposed in connection with approval of the absorption of Lewiston Trust Company, Lewiston, Maine, by Depositors Trust Company, Augusta, Maine. The condition stipulated that the banking house and furniture and fixtures acquired in the absorption would be placed on the books of Depositors Trust Company at an amount not in excess of the depreciated value computed for Federal income tax purposes for Lewiston Trust Company.

Chairman Martin inquired of Governor Robertson whether he knew of any exceptions to the general policy followed by the Federal bank supervisory agencies, and Governor Robertson's response was in the negative.

Governor Vardaman reiterated the view he had expressed at the meeting on November 14, that is, that the principle involved was sound in many respects but that adherence to the policy might create an injustice in certain individual cases.

Governor Mills said that he shared some of Governor Vardaman's misgivings with respect to the practice followed by the bank supervisory agencies, and that the establishment of a general policy allowed the agencies to escape a responsibility to make supervisory decisions in

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cases where a different answer might be justified. He went on to say that in the case of a merger it seemed clear that there should not be a write-up of real property values, but that in the case of a bank acquiring assets and assuming deposit liabilities of another bank there is a contract at an agreed-upon price which takes into account marketable assets and also property which has an ascertainable value. He noted that the supervisory policy apparently grew out of a reasonable doubt on the part of the supervisory agencies that a reliable appraisal of real property could be obtained: in the absence of such an appraisal the acquiring bank might write the property up to a value that would hide the actual premium paid by the absorbing bank. He said that it might not always be possible to get reliable appraisals, but at the same time it seemed to him that a prohibition against writing up a property acquired in a bona fide purchase, where such write-up could be traced back to a reliable appraisal, might in some cases do an injustice to the parties concerned.

Governor Shepardson said that the arguments in the memoranda which had been circulated to the members of the Board seemed logical and that he was inclined to accept them. Governor Szymczak expressed a similar view.

Governor Balderston commented that in times of stable real estate values the standards suggested in the memoranda seemed reasonable. In a time of rapidly increasing values, if a bank had acquired a building

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at a lower cost level, that building might be worth much more. He was not sure, however, that exceptions could be made in such cases without drawing the supervisory authorities into some difficult situations.

Governor Vardaman made a further statement that the only reason he could go along with the current policy was that the very nature of the bank supervisory function compels some inflexibility. If there were deviations from the general policy, the supervisory agencies might become involved in questionable transactions and they would be subject to many kinds of pressure. He suggested that any injustice in the current policy would come to light principally in cases of outright purchase and that this aspect might deserve further study by the bank supervisory agencies. While he did not know that the application of the general rule would result in any injustice in the Depositors Trust Company case, he felt that an injustice might occur when the purchasing bank is not permitted to put assets on its books at their true values. He also suggested the possibility of obtaining the views of the American Bankers Association.

At the request of the Board, Mr. Sloan then reviewed the circumstances surrounding the Depositors Trust Company case, making reference to correspondence with the Federal Reserve Bank of Boston and discussions with officers of the member bank. He said that in one discussion the president of the bank expressed himself as being satisfied if permission should be given to go ahead with the absorption on a basis which would

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include the condition imposed by the Board with respect to the carrying value of acquired fixed assets. With regard to the general principle involved, he said that from a supervisory standpoint mergers are preferable in several respects to absorptions involving the purchase of assets and assumption of liabilities. If banks are not permitted to write up acquired real property in the case of a merger, he suggested that there was a question whether they should be permitted to do so in a purchase and sale transaction.

Governor Mills said he recognized that the Division of Examinations and the other bank supervisory agencies had had long experience with matters of this kind. If this experience had led them to conclude that the current policy should be followed, he would accept that position, although with reservations of the nature which he had outlined during this discussion.

Governor Vardaman concurred in Governor Mills' statement.

In response to a question by Chairman Martin, Governor Robertson said that the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation both felt that the current policy was a proper one and should be followed.

After a further discussion, it was understood that Chairman Martin would advise Senator Payne of the reasons underlying the current policy and of the Board's view that an exception should not be made in the case of Depositors Trust Company.

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Mr. Sloan then withdrew from the meeting.

Reference was made to a memorandum from Mr. Carpenter dated October 4, 1955, copies of which had been sent to the members of the Board, submitting a draft of the record covering policy actions taken by the Board in the first six months of 1955. The memorandum suggested that the Board might wish to consider approving the entries on a tentative basis, with the understanding that, if desirable, changes might be made at the time of approval of the Board's Annual Report for 1955.

Following a brief discussion, the record of policy actions for the first six months of 1955 was approved unanimously, subject to the understanding stated in the memorandum.

Mr. Young distributed copies of a draft of statement concerning the interest of the Federal Reserve System in mortgage warehousing at banks which might be used by Chairman Martin in connection with his testimony before the Senate Housing Subcommittee on November 28 and 29. He said that the draft was of a preliminary nature, that it would be revised, and that copies of the revised draft would be sent to the members of the Board.

It was understood that consideration would be given to the revised draft at the meeting tomorrow.

There was a brief discussion of arrangements for a group photograph of the members of the Board and it was agreed that plans should be made on a basis satisfactory to all of the members of the Board.

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 21, 1955, were approved unanimously.

The meeting then adjourned.

Secretary's Note: Pursuant to the understanding at the meeting of the Board on November 21, 1955, the following telegram was sent today to Mr. Irons, President of the Federal Reserve Bank of Dallas:

Reurtel today. Board approves effective November 23, 1955, rates of 2-1/2 per cent on discounts for and advances to member banks under Sections 13 and 13a, and 3 per cent on advances to member banks under Section 10(b). Otherwise, Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule. Board is announcing change immediately.



Secretary