

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 19, 1955. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Cherry, Legislative Counsel
Mr. Vest, General Counsel
Mr. Johnson, Controller, and Director,
Division of Personnel Administration
Mr. Kelleher, Assistant Director, Division
of Administrative Services
Mr. Chase, Assistant General Counsel

Reference was made to a memorandum from Mr. Kelleher dated December 2, 1955, which had been circulated to the members of the Board before this meeting recommending that the Board authorize the Division of Administrative Services to award a contract to The Hampshire Corporation for the installation of fissured mineral acoustic tile in the center portion and on the outer flat band of the Board Room ceiling at a cost of \$1,000.

At Chairman Martin's request, Mr. Kelleher reviewed the information that had been obtained from the firm of Bolt, Beranek and Newman, Inc., the National Bureau of Standards, and Mr. William H. Livingston, Architect,

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pursuant to the authorization of the Board at its meetings on September 21 and October 26, 1955, that the Division of Administrative Services be requested to contact the aforementioned consultants to obtain advice on the means of improving the acoustical conditions in the Board Room. After reviewing the suggestions made by the acoustical engineers and the architect, Mr. Kelleher said that on the basis of discussion with Governors Balderston and Robertson, his recommendation was made as the first step that seemed appropriate in the attempt to correct acoustical shortcomings of the Board Room without materially altering the appearance of the room. He noted, however, that Mr. Livingston would prefer not to have acoustic tile placed on the outer flat band of the Board Room ceiling until after it was determined that the placement of tile on the inner panel of the ceiling was inadequate.

Governor Balderston stated that he had come to the conclusion that the treatment of the ceiling as recommended in Mr. Kelleher's memorandum was the best way to proceed since it would be relatively moderate in cost, would not, in his opinion, noticeably affect the appearance of the Board Room, and might sufficiently correct the acoustical problem.

During the ensuing discussion, Governor Vardaman stated that he would dislike any change in the Board Room if it could be avoided. He raised questions as to possible changes in the seating arrangement and also suggested that the Board table might be covered with felt or some other material.

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Governor Robertson stated that the various suggestions made by Governor Vardaman had all been considered and that the suggested treatment of the ceiling seemed to be the first step to be taken although it represented only a part of the recommendations which had been submitted by the consultants.

Chairman Martin suggested that, inasmuch as some of the members of the Board were reluctant to do anything that would change the appearance of the Board Room and since there was doubt as to how effective the suggested treatment would be in correcting the acoustical deficiencies of the room, it might be desirable to defer taking any action at this time. Later during the meeting, Governor Robertson suggested that the Board give further thought to the other recommendations that had been submitted by the acoustical engineers, and it was understood that the matter would be considered again at a later meeting of the Board.

Mr. Kelleher then withdrew from the meeting.

There was presented a letter to C. O. Moore, Esq., Shearman & Sterling & Wright, New York, New York, which had been circulated to the members of the Board prior to this meeting and reading as follows:

This is in further reference to your letter of April 14, 1955, concerning whether arrangements for the purchase by The First National City Bank of New York, New York City, from Allied Building Credits, Inc., of instalment notes arising from the repair or modernization of real property, involve the creation of deposit liabilities against which reserves must be maintained by

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the bank under section 19 of the Federal Reserve Act and the Board's Regulation D. These arrangements are provided for in the Letter-Agreement between the bank and Allied of April 22, 1954, a copy of which has been received from the Federal Reserve Bank of New York.

Under the agreement, Allied sells and conveys to the bank on each "Settlement Date" (a business day in each calendar month not later than the 20th day thereof) notes acquired by Allied from its customers during the immediately preceding "Accounting Period" (calendar month). On the same date the bank pays to Allied, except as noted below, 90 per cent of the aggregate amount owed on the notes by the makers (if the notes are FHA insured notes), and credits a so-called "Reserve Account" with a sum equal to the remaining 10 per cent. (These percentages are 80 and 20, respectively, in the case of uninsured notes.) The agreement defines "Reserve Account" to mean a memorandum account maintained by the bank for the purpose of computing the amount remaining unpaid to Allied at any time on account of the purchase price of notes sold to the bank.

Allied agrees to collect, as agent for the bank and at Allied's own expense, all payments on notes sold to the bank and to hold such collections in trust for the bank. On each Settlement Date, Allied pays to the bank an amount equivalent to the total collections received by it during the immediately preceding Accounting Period on all outstanding notes previously sold to the bank; and, in the event of a default by the maker of any such note, a sum equal to the amount owing on the note may be charged by the bank to the Reserve Account. If on the particular Settlement Date the credit to the Reserve Account is less than the greater of (1) \$400,000 or (2) 10 per cent of the aggregate amount remaining to be paid to the bank on insured notes previously acquired by it (20 per cent for uninsured notes), the bank will (a) deduct the amount of the deficit from any payment it would otherwise make for new notes purchased from Allied on that date, (b) credit to the Reserve Account a sum equal to such deduction, and (c) pay to Allied any remainder. On the other hand, if the amount to the credit of the Reserve Account exceeds the greater of (1) and (2) above, the bank will pay to Allied an amount equal to such excess and debit the Reserve Account accordingly.

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On the basis of the formula described above, it is understood that the bank does not receive any funds from Allied which it retains as a liability to Allied or credit to the Reserve Account on any Settlement Date any amount which represents funds received by the bank from Allied. On the contrary it is understood that a credit to the Reserve Account will be made only when there is a deduction on a Settlement Date from payments which would otherwise be made for new notes then purchased, and the credit is in the amount of such deduction. On the basis of this understanding of the provisions of the Letter-Agreement summarized above, the Board is of the view that the transactions in question do not give rise to a deposit liability against which reserves must be maintained under the law and regulation. It should be recognized, of course, that if at any time payments should be received by the bank either from Allied or from the borrowers themselves prior to the Settlement dates, the situation would be different.

Another aspect of this matter must be noted. The Letter-Agreement also provides that, as to defaulted notes, Allied may deposit with the bank for credit to a "Defaulted Account", the unpaid amount of such defaulted notes. Such a defaulted account, therefore, represents funds paid to the bank by Allied as to which the bank has the ultimate obligation to repay or use for the account of Allied. Accordingly, such Defaulted Accounts must be considered deposits requiring reserves.

Approved unanimously, with
a copy to the Federal Reserve
Bank of New York.

There were presented telegrams to the Federal Reserve Banks listed below approving the establishment without change, on the dates indicated, of the rates of discount and purchase in their existing schedules:

St. Louis	December 12
New York	December 15
Philadelphia	December 15
Chicago	December 15

Approved unanimously.

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Chairman Martin referred to a letter which Mr. Riefler had received from Mr. Milton Friedman of the Department of Economics at the University of Chicago dated December 10, 1955, copies of which had been sent to the members of the Board before this meeting, inviting Mr. Riefler to participate in a workshop discussion at the University of Chicago around the middle of February, preferably February 9 or 16, 1956. Chairman Martin stated that Mr. Riefler had said that he would be willing to participate in the workshop, that it would be understood that he would not accept the honorarium offered, and that he (Chairman Martin) would suggest that Mr. Riefler be authorized to take part in the workshop.

Chairman Martin's suggestion was approved unanimously, with the understanding that the Board would pay Mr. Riefler's travel expenses.

Consideration was then given to a memorandum from Mr. Chase dated December 14, 1955, reporting receipt of a telephone call from the United States Marshal's Office advising that, as anticipated by Mr. Vest at the meeting of the Board on November 30, 1955, Mr. William Leighton had filed suit, naming as defendants the American Express Company, its treasurer, and the Board of Governors. The memorandum stated that, in accordance with past procedure, it was expected that this case would be handled in conjunction with the United States Attorney's Office which has a division assigned to cases against Government officers or agencies. Mr. Oliver Gasch, who

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is in charge of this division, had been contacted and he suggested that when the papers were received, they be forwarded to him so that he could handle the matter. The memorandum also stated that it was likely that the case would be disposed of by a motion, which would mean that there would be no trial but merely a brief oral argument on the motion. It recommended that the Secretary's Office be authorized to forward the papers concerning the suit to Mr. Gasch and that the Legal Division be authorized to assist him in any legal research which his office may need to do in preparing the defense.

The recommendations contained in the memorandum were approved unanimously.

Mr. Chase then withdrew from the meeting and Mr. Hackley, Assistant General Counsel, entered the room.

Before this meeting a memorandum from Messrs. Carpenter and Fauver dated December 14, 1955, had been circulated to the members of the Board transmitting a letter from the Federal Reserve Bank of New York regarding the eligibility of Robert C. Tait for continued service as a director of the Buffalo Branch until the end of 1956 when his present term expires, in view of the fact that he became a director of Lincoln Rochester Trust Company, Rochester, New York, in June 1955. The memorandum indicated that the question before the Board might be considered in terms of whether it would be consistent to permit Mr. Tait to continue as a director of the

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Branch until the end of his current term, in view of the actions taken by the Board in 1953, suggesting that, in two other cases, Reserve Bank Branch directors be informed that if they accepted commercial bank directorships, they should resign as directors of the Reserve Bank Branches.

In response to a question from Chairman Martin, Mr. Vest stated that there was no legal question involved in the inquiry before the Board and that the matter was one of Board policy.

Governor Szymczak stated that while he would prefer that directors of Reserve Bank Branches not be directors of commercial banks, primarily on the grounds that it was desirable to obtain representation from nonbank activities, in this case he would inform the New York Bank that the Board would not object to Mr. Tait continuing to serve as a director of the Buffalo Branch until the end of 1956. This was partly because Mr. Tait was tentatively scheduled to become Chairman of the Buffalo Branch board of directors during his last year as a director and partly because, if the Board requested Mr. Tait to make a choice before the end of 1955 and if he should decide to resign as a director of the Reserve Bank Branch, the Board would be confronted with the problem of appointing an additional director of the Buffalo Branch in the immediate future.

Governor Robertson stated that he also would concur in a decision to permit Mr. Tait to complete his present term, although as a general practice he was reluctant to have a commercial bank director as a director of a Reserve Bank Branch.

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It was agreed unanimously that the Federal Reserve Bank of New York should be informed by wire that while the Board preferred that Reserve Bank Branch directors not serve as commercial bank directors, it would not object to Mr. Tait continuing to serve as a director of the Buffalo Branch to the end of his current term.

There was presented a memorandum from the Division of Personnel Administration dated December 9, 1955, recommending that merit increases in the basic salaries of the following employees be approved effective January 1, 1956:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Board Members' Offices</u>		
Virginia J. Ogilvie, Secretary		\$4,930	\$5,200
	<u>Office of the Secretary</u>		
Kathryn H. Fortunato, Minutes Clerk		3,500	3,585
Margaret J. Molster, Review Classifier		4,075	4,210
	<u>Research and Statistics</u>		
Murray Altmann, Economist		6,390	6,605
Arthur L. Broida, Economist		9,205	9,420
Rose C. Cassidy, Statistical Assistant		4,075	4,210
Faye C. First, Clerk-Stenographer		3,585	3,670

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Salary increases, effective January 1, 1956 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Clayton Gehman, Chief, Business Con- ditions Section		\$12,420	\$12,690
William F. Hellmuth, Jr., Economist		8,990	9,205
Milton Moss, Economist		8,990	9,205
JoAnn L. Murray, Clerk-Typist		3,175	3,260
Orville Thompson, Economist		8,430	8,645
Philip M. Webster, Economist		6,390	6,605
Louis Weiner, Chief, National Income, Moneyflows, and Labor Section		11,880	12,150
Helmut F. Wendel, Economist		6,390	6,605
Ramsay Wood, Economist		10,965	11,180
<u>International Finance</u>			
Stephen H. Axilrod, Economist		6,390	6,605
Rosa Ernst, Economist (Editorial)		5,980	6,115
Jacquelyn Haas, Clerk		3,430	3,515
Yves Maroni, Economist		8,000	8,215
Floyd L. Whittington, Chief, Far Eastern Section		10,965	11,180

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Salary increases, effective January 1, 1956 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Examinations</u>			
John P. Donovan, Assistant Federal Reserve Examiner		\$4,795	\$4,930
Loretta S. Hallman, Stenographer		3,175	3,260
<u>Bank Operations</u>			
Stella M. Cornell, Clerk-Stenographer		3,175	3,260
Ralph E. Massey, Technical Assistant		8,215	8,430
Barbara J. Pessagno, Statistical Clerk		3,175	3,260
Ruth B. Willard, Clerk-Stenographer		3,840	3,925
<u>Personnel Administration</u>			
Jane Donohoe, Clerk-Stenographer		3,670	3,755
Billie Jo Hickman, Personnel Clerk		4,210	4,345
<u>Administrative Services</u>			
Margaret C. Caldow, Stenographer		3,840	3,925
Helen M. Capozio, Utility Clerk		4,210	4,345
Saul Glanton, Gardener		3,210	3,295
Helen L. Hulen, Publications Clerk		5,200	5,335
James R. Jordan, Messenger		2,860	2,945

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Salary increases, effective January 1, 1956 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
Esmond C. Langley, Messenger		\$3,115	\$3,200
W. Dale Trimmer, Assistant Manager, Cafeteria		3,670	3,805
<u>Office of the Controller</u>			
Sampson H. Bass, Chief, Fiscal Section		8,990	9,205
Joseph H. Hoyle, Payroll Clerk		4,620	4,755

Approved unanimously.

Mr. Johnson then withdrew from the meeting.

Chairman Martin referred to a memorandum from Mr. Hackley dated December 14, 1955, which had transmitted a letter from Under Secretary of the Treasury Burgess dated December 10, 1955, asking for Chairman Martin's comment on a memorandum proposing that legislation be drafted to authorize repayment by the Federal Reserve Banks to the Treasury of the more than \$27,000,000 heretofore advanced by the Treasury to the Reserve Banks for the purpose of making industrial loans under section 13b of the Federal Reserve Act. The proposed legislation would also provide that Treasury funds would continue to remain available to the Federal Reserve Banks at their call for use in making industrial loans. It was indicated that if

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this proposal were approved, it would be of assistance to the Treasury in balancing the budget. The memorandum presented three possible alternatives that would be open to the Board in replying to Mr. Burgess' request: (1) that no legislation on this subject would be desirable at this time; (2) that the Board might endorse the proposed legislation; and (3) that the Board might wish to suggest that the whole matter of Federal Reserve authority for making industrial loans be reconsidered at this time.

In response to Chairman Martin's request, Mr. Hackley commented on the memorandum. He stated that of the three alternative procedures outlined, the second one might be elaborated to provide that in addition to favoring the return by the Reserve Banks of the \$27,000,000 to the Treasury, the Reserve Banks would be entirely willing to have repealed the authority for making such payments to the Reserve Banks in the future in connection with any 13b loans that the Banks might make.

Mr. Leonard, Director of the Division of Bank Operations, entered the room at this point.

During the ensuing discussion, Chairman Martin outlined factors which he felt would make the situation difficult at this time, both from the standpoint of the Board and from the standpoint of the Treasury, in connection with legislation on this matter. He questioned whether any legislation should be introduced although he said that the Treasury might be informed that the Board would not object to legislation which the Treasury might have introduced favoring the return of \$27,000,000 to the Treasury.

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There was some discussion of the positions the Board had taken in the past in connection with section 13b authority, it being noted that prior to 1951 certain proposals which would have enlarged the Board's authority in this field were approved, whereas since 1951 the Board had taken the position that the authority for making industrial loans under section 13b might well be repealed.

Chairman Martin suggested that in the circumstances the Board inform the Treasury that it would not object to legislation along the lines of the Treasury's letter.

This suggestion was approved unanimously.

Secretary's Note: Pursuant to the foregoing action, a letter prepared for Chairman Martin's signature under date of December 19, 1955, was sent to Mr. Burgess, Under Secretary of the Treasury, in the following form:

This refers to your letter of December 10, enclosing a memorandum from Mr. Heffelfinger suggesting legislation to authorize repayment by the Federal Reserve Banks to the Treasury of the amounts, totaling somewhat more than \$27,500,000, which have been paid by the Treasury to the Reserve Banks under the provisions of section 13b of the Federal Reserve Act. It is understood that the proposed legislation would also include a provision under which the funds appropriated for this purpose would continue to remain available in the Treasury to the Federal Reserve Banks for use, if needed, in making industrial loans.

The matter has been discussed with the Board and the Board would not object to the introduction of a bill along the lines of that suggested. The Board's staff will, of

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course, be glad to work with Mr. Heffelfinger and his associates, as suggested by him, in connection with the drafting of any legislation which the Treasury might desire to accomplish this purpose.

The meeting then adjourned.

[Handwritten signature]
Secretary

- Mr. Tolson
- Mr. Boardman
- Mr. Nichols
- Mr. Belmont
- Mr. Ladd
- Mr. Clegg
- Mr. Glavin
- Mr. Harbo
- Mr. Rosen
- Mr. Tracy
- Mr. Egan
- Mr. Gurnea
- Mr. Hendon
- Mr. Pennington
- Mr. Quinn
- Mr. Nease
- Mr. Gandy

The following matters, which were

presented to the Board, were presented for consideration
such matters were as indicated

Memorandum dated November 11, 1955
Division of Research and Statistics, Department
of the Secretary in the Division of Research
present to the Division of Research