

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 28, 1955. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Fauver, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Daniels, Assistant Controller, Office of the Controller

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:

Salary increases, effective January 1, 1956

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
Gladys I. Trimble, Index Clerk	Office of the Secretary	\$3,755	\$3,940
Paula G. Hauprich, Stenographer	Examinations	3,345	3,500

Transfer and salary increase

Jane Donohoe, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in

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Governor Szymczak's office with basic annual salary of \$3,940, effective January 1, 1956.

Acceptance of resignation

Ernest C. Olson, Economist in Charge of the Latin American Section, Division of International Finance, effective December 31, 1955.

Approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

In accordance with the request contained in your letter of December 15, 1955, the Board approves the appointments of Eugene P. Emond and Allen F. Peterson as examiners for the Federal Reserve Bank of New York effective December 8, 1955.

The Board also approves the designations of William A. Anttila and Michael M. Mulligan as special assistant examiners for the Federal Reserve Bank of New York effective December 8, 1955.

It is noted that Mr. Emond is indebted to the Industrial Bank of Commerce, New York, New York and Mr. Peterson to the Ridgewood Savings Bank, Ridgewood, New York, nonmember banks. It is assumed that they will not be authorized to participate in any examinations of the banks to which they are indebted.

Approved unanimously.

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

In accordance with your letter of September 15, 1955, the Board of Governors approves the following minimum and maximum salaries for the respective grades at the various offices in your District effective January 1, 1956:

Grade	Head Office and Los Angeles Branch		Portland and Seattle Branches		Salt Lake City Branch	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	\$ 2,220	\$ 2,940	\$ 2,100	\$ 2,820	\$ 2,100	\$ 2,580
2	2,400	3,180	2,280	3,000	2,160	2,820

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Grade	Head Office and Los Angeles Branch		Portland and Seattle Branches		Salt Lake City Branch	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
3	\$ 2,640	\$ 3,480	\$ 2,460	\$ 3,180	\$ 2,280	\$ 3,060
4	2,880	3,820	2,760	3,600	2,520	3,300
5	3,180	4,220	3,060	4,040	2,760	3,600
6	3,480	4,620	3,360	4,440	3,000	3,980
7	3,780	5,020	3,660	4,840	3,240	4,380
8	4,160	5,560	4,040	5,340	3,600	4,840
9	4,560	6,160	4,440	5,840	3,940	5,340
10	5,100	6,800	4,890	6,500	4,400	5,900
11	5,600	7,400	5,300	7,100	4,900	6,500
12	6,120	8,120	5,800	7,700	5,400	7,200
13	6,620	8,820	6,420	8,520	5,900	7,900
14	7,320	9,720	7,200	9,500	6,520	8,730
15	7,920	10,520	7,800	10,300	7,200	9,500
16	8,640	11,440	8,400	11,100	7,900	10,400

The Board understands that provision has been made in the 1956 budget of the Federal Reserve Bank of San Francisco for increased salary costs resulting from this adjustment in salary structures.

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is understood that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than April 1, 1956.

Approved unanimously.

Letter to the Board of Directors, Riverside Trust Company, Hartford, Connecticut, reading as follows:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 673 Maple Avenue in the Barry Square area of Hartford, Connecticut, by the Riverside Trust Company, Hartford, Connecticut, provided the branch is established within one year from the date of this letter and that the approval of the State authorities is effective as of the date the branch is established.

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It is understood that the quarters of the branch will be separate and distinct from those of the Society for Savings of Hartford located in the same building.

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

Letter to Mr. McConnell, Vice President, Federal Reserve Bank of Minneapolis, reading as follows:

Reference is made to your letter of December 5, 1955, in which you recommended that the Board of Governors approve a \$1,500,000 investment, directly and indirectly, in bank premises by the Montana Bank, Great Falls, Montana.

The various plans enumerated in the architect's prospectus have received careful consideration, and it is the opinion of the Board of Governors that Plans A, B, and C, all of which would require an investment greater than the bank's capital structure, are overly ambitious. These plans call for the completed structure to have either five or three floors of office space that will be rented to suitable tenants by an affiliate which was expressly created for the purpose of owning and operating the bank building. It is believed expenditure of so large a sum is unjustifiable as the resulting investment in bank premises would be excessive.

Although the member bank's plan to finance the bulk of the cost of the building through an affiliate would result in limiting the bank's legal liability, the bank's desire to protect its equity in the building would undoubtedly result in its advancing sufficient funds to operate the building and to service the debt should these funds not be forthcoming from rentals. The architect's estimate that the annual cost to the bank will be nominal would, of course, be incorrect should a substantial number of vacancies exist as his estimate presupposes a continuing occupancy of ninety per cent of the rental offices.

You may advise the member bank that the Board does not feel justified in approving an investment in bank premises to the extent outlined by Plans A, B, and C of the prospectus as prepared by Mr. Ephraim A. Tyler.

Approved unanimously.

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Letter to the Board of Directors, California Bank, Los Angeles, California, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch at the southwest corner of the intersection of Spadra Road and Whiting Avenue, Fullerton, California, by California Bank, Los Angeles, California, provided the branch is established within six months from the date of this letter and that the approval of the State authorities is effective at the time the branch is established.

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

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

This is in further reference to your letter of October 28, 1955, concerning whether the practices disclosed by reports of recent examinations of three national banks at Lubbock, Texas, constitute indirect payments of interest on deposits contrary to section 19 of the Federal Reserve Act and the Board's Regulation Q.

It appears that two of the banks, the Lubbock National Bank and the Citizens National Bank, are depositories for Lubbock County funds, while the First National Bank at Lubbock, the third bank, is depository for funds of the Texas Technological College. In order to obtain these deposits, each of the banks offered to pay interest at the maximum rates permissible under the regulation on time deposits and, in addition, two of the banks offered to make loans to the depositor at low interest rates or in some instances without any interest, while all three offered to the depositors various services without charge. The benefits and services so offered by each of the banks are described briefly in the excerpts from the examiners' reports contained in your letter.

In considering any question as to whether a particular practice constitutes an indirect payment of interest, it is important that the Board have before it all of the pertinent facts and circumstances insofar as it is possible to obtain

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them; and, accordingly, the Board feels that a further development of the facts and circumstances of the practices mentioned in your letter of October 28 is needed for the Board's further consideration of this matter. It will be appreciated, therefore, if you will obtain and furnish to the Board information with respect to the following points:

(1) The amount of demand deposits and the amount of time deposits received since the acceptance of the bids of the several banks (a) by the Lubbock National Bank from the County; (b) by the Citizens National Bank from the County; and (c) by the First National Bank from the Texas Technological College, together with the average amounts of such County or College deposits held by each bank since that time.

(2) The number and amount of loans made to the County either at no interest or at low rates of interest, as indicated in the examiners' reports, by (a) the Lubbock National Bank, and (b) the Citizens National Bank, and the rate of interest, if any, charged in each such case.

(3) The rate of interest which it is believed would normally be charged to other customers in connection with loans of a character similar to those made to the County.

(4) What evidence, if any, is there that the apparently preferential loan terms to the County are to be attributed to the credit standing of the County, rather than to its agreement to deposit funds with the bank?

(5) How frequently and to what extent does each of the banks in question actually provide free armored car service to the County or the College?

(6) Do the banks own such armored cars or are they rented? If rented, what is the amount of out-of-pocket expense to the bank?

(7) Do the banks provide similar armored car service to any other customers free of charge? If so, to what extent and for what types of customers?

(8) Do the County and the College actually avail themselves of the free parking facilities offered by the banks?

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If so, to what extent are such facilities normally used by the County or the College?

(9) Are such parking facilities owned by the banks, leased by the banks, or do the banks pay the parking charges incurred by the County or the College at public parking facilities? If the latter, what is the amount of out-of-pocket expense to the bank?

(10) Is the privilege of free parking facilities extended to customers other than the County or the College? If so, to what extent and for what types of customers?

(11) With respect to each of the other services that the banks offered free to the County or the College (safety deposit boxes, printed checks, etc.), please indicate (a) the extent to which each such service has been or actually is being provided by the banks to the County and the College, and (b) whether and to what extent each such service is being provided on a similar basis to all customers of the banks or to particular types of customers of the banks.

(12) What is the estimated amount of expense which has been saved to the County or the College by reason of the furnishing by the banks of each of the free services described in the examination reports?

Further information with respect to the questions raised above will be greatly appreciated.

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

Consideration was given to a memorandum from Mr. Sloan, dated December 22, 1955, recommending the appointment of nine examiners at the Federal Reserve Bank of New York as examiners for the Board to assist the Division of Examinations in an examination of the Bank of America, New York, New York. Governor Robertson commented that every effort should be

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made to streamline the examining procedures so that if possible it would not be necessary for members of the Board's staff to spend more than one week in New York.

Mr. Sloan stated that Mr. Goodman, Assistant Director, Division of Examinations, who will have charge of the examination, was working in that direction and it was hoped that at least one week could be saved in the total time required for the current examination by streamlining procedures and obtaining less detailed information.

The recommended appointments
were approved unanimously.

Mr. Sloan withdrew from the meeting at this point.

The following letter to Mr. Newman, Assistant Vice President, Federal Reserve Bank of Chicago, was then considered:

In reference to your letter of November 28, 1955, the Board of Governors approves the payment of salaries to the within-named building maintenance positions at the following rates effective on the dates shown:

<u>Title</u>	<u>Annual Salary Effective</u> <u>October 3, 1955</u>	<u>Annual Salary Effective</u> <u>October 1, 1956</u>
Janitor	\$4,108.00	\$4,212.00
Janitress	3,120.00	3,182.40
Janitress	3,057.60	3,120.00
(under 6 months)		
Matron	3,120.00	3,182.40
Paper Baler	4,243.20	4,347.20
Metal Polisher	4,243.20	4,347.20
Scrubbing Machine Operator	4,243.20	4,347.20

This approval is granted in accordance with the Board's letters of February 18 and June 2, 1954.

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Governor Robertson stated that a question which he had regarding the approval of salaries effective October 1, 1956, had been answered and he was prepared to approve the letter.

The letter was approved unanimously.

Reference was then made to a memorandum dated December 19, 1955, from the Division of Bank Operations regarding estimated Reserve Bank earnings and expenses during 1955. The memorandum recommended 1955 year-end closing entries to the profit and loss accounts of the various Reserve Banks.

The Board approved this recommendation and in accordance therewith, the following telegrams were approved unanimously:

Telegram to the President of the Federal Reserve Bank of Boston and similar telegrams to the Presidents of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City

Board has considered results of year's operations of the twelve Federal Reserve Banks, and notes without objection proposed closing entries of your Bank as shown by statement accompanying December 14 letter from Mr. Strong.

Telegram to the President of the Federal Reserve Bank of Dallas and similar telegram to the President of the Federal Reserve Bank of San Francisco

Board has considered results of year's operations of the twelve Federal Reserve Banks, and notes without objection proposed closing entries of your Bank as shown by statement accompanying your December 9 letter.

It is noted that your surplus (Section 7) account is below subscribed capital. In accordance with established procedure, allowance will be made for bringing such surplus to

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100 per cent of subscribed capital before computation of payment to Treasury of interest on Federal Reserve notes.

Before this meeting there had been distributed to the members of the Board a revised draft of reply to the request from Chairman Spence of the House Banking and Currency Committee for the Board's views on H. R. 569, a bill to increase to 12 the number of members of the Board and to make other changes in System organization, which had been discussed previously at the meeting on December 23, 1955.

After a discussion of the draft it was agreed that Mr. Thurston would prepare a further revision in the light of the suggestions at this meeting for further consideration by the Board.

Messrs. Thurston and Vest withdrew from the meeting at this point.

Governor Balderston then reported for the Budget Subcommittee consisting of himself, Governor Szymczak, and Governor Shepardson concerning its review of the proposed 1956 budget for the Board. He referred to a memorandum of December 23, 1955, from the Subcommittee, which had been circulated to the Board prior to this meeting, pointing out the items in the regular 1956 budget involving significant increases over the 1955 budget. These items included an increase in the cost of printing the Federal Reserve Bulletin (\$40,050), part of which would be offset by higher subscription charges for the Bulletin; expenses for Emergency Relocation activities (\$22,673); increase in cost of leased wire expenses

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(\$17,900); estimated cost of a charting machine (\$15,337); an increase in the cost of the Retail Trade Survey conducted by the Bureau of the Census (\$11,500); estimated cost of caulking windows on east side of building (\$9,000); provision for appointing consultants on classification and official salaries (\$3,500); provision for leasing automobiles (\$1,500); and estimated cost for improving appearance of employees' Recreation Room (\$350).

Six special projects were provided for in the proposed budget as follows: (1) printing of the Federal Reserve Act (\$13,000); (2) purchase of an electronic computer (\$162,500); (3) improvements in savings statistics (\$24,300); (4) evaluation of the Survey of Consumer Finances (\$33,990); (5) printing the All Bank Series (\$31,500); and (6) conversion of elevators to automatic operation (\$64,838).

Governor Balderston said the committee was unanimous in its agreement on that portion of the budget involving the so-called regular expenses of the Board and recommended its approval. He also suggested that the special projects be considered individually on their merits.

In connection with reprinting the Federal Reserve Act, it was agreed that since the supply of the Act was completely exhausted, it should be reprinted as soon as Congress adjourned in 1956.

Governor Mills stated that the important questions in connection with the electronic computer were whether if the equipment were purchased

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now it would very shortly become obsolete, whether it should be purchased during the year when other important special projects were being undertaken, and whether it would be possible for the Special Committee of the Board considering the matter to be ready to make a recommendation in time to permit purchase of the computer in 1956. In the light of these considerations it was agreed unanimously that the item should be dropped from the budget for the coming year.

It was pointed out that the Board had already approved the additional expenditures involved in the assumption of central responsibility for savings statistics, the conversion of the elevators to automatic operation, and the evaluation of the Survey of Consumer Finances.

In connection with the printing of the all-bank series, Governor Robertson inquired as to the need for 6,000 copies. It was stated in response that the Budget Committee had changed the original proposal to have all of the copies bound in buckram and that it was now contemplated that only 1,000 would be so bound and the remaining 5,000 would have paper covers. It was also stated that of the 6,000 copies, approximately 3,200 were for distribution at Board expense, that the remainder would be available for sale and would provide a partial offset to the original cost, and that the proposal was in line with the experience of the Board in connection with the distribution of "Banking and Monetary Statistics". It was agreed that the printing of the 6,000 copies on this basis should be approved.

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Thereupon, the Board approved unanimously a budget for 1956 as shown below:

<u>Division</u>	<u>1956 Budget</u>
Board Members	\$ 305,858
Secretary	206,228
Legal	161,634
Controller	84,194
Research and Statistics	1,123,885
International Finance	299,123
Examinations	748,118
Bank Operations	324,082
Personnel Administration	112,770
Administrative Services	978,314
Defense Loans	19,473
Emergency Relocation	22,673
Employee Retirement and Insurance Benefits	271,703
Total Regular Budget	<u>\$4,658,055</u>
Special Projects:	
Legal:	
Printing Federal Reserve Act	\$ 13,000
Research and Statistics:	
Savings Statistics	24,300
Evaluating Survey of Consumer Finances	33,990
Bank Operations:	
Printing All Bank Series	31,500
Administrative Services:	
Elevator Conversion	<u>64,838</u>
GRAND TOTAL	<u><u>\$4,825,683</u></u>

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The Board then considered a memorandum from Mr. Johnson, dated December 21, 1955, recommending that an assessment of two hundred and forty-eight thousandths of one per cent (.00248) of the total paid-in capital and surplus of the Federal Reserve Banks as of the close of business December 31, 1955, be levied on the Federal Reserve Banks for the estimated expenses of the Board in the first half of 1956, and that the Banks be instructed to pay the assessment in two installments, the first on or before January 13, 1956, and the second on March 1, 1956.

It was pointed out that the recommendation contemplated an annual budget of \$4,988,183 and that the assessment should be changed to cover the budget in the reduced amount approved at this meeting.

Thereupon, the Board adopted by unanimous vote the following resolution levying an assessment of two hundred and forty thousandths of one per cent (.00240), with the understanding that copies of the resolution would be transmitted by the Controller to the Presidents of all Federal Reserve Banks:

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1956, it is necessary that a fund equal to two hundred and forty

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thousandths of one per cent (.00240) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and forty thousandths of one per cent (.00240) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business December 31, 1955.

(2) Such assessment, rounded to the nearest hundred dollars, shall be paid by each Federal Reserve Bank in two equal installments, the first on or before January 13, 1956, and the second on March 1, 1956.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

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

The Secretary was later informed that during the executive session the Board took the following unanimous actions, effective January 1, 1956:

1. The title of Jerome W. Shay was changed from Assistant Counsel to Assistant General Counsel and his salary was increased from \$11,395 to \$12,000 per annum.

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2. Salaries of members of the Board's staff were increased as follows:

	<u>From</u>	<u>To</u>
Alfred K. Cherry	\$13,975	\$14,250
Merritt Sherman	13,975	14,250
Kenneth A. Kenyon	11,000	11,250
Howard H. Hackley	13,975	14,500
David B. Hexter	13,975	14,500
Frank R. Garfield	14,515	15,000
Kenneth B. Williams	13,975	14,250
Susan S. Burr	13,975	14,250
Guy E. Noyes	14,515	15,000
George S. Sloan	15,500	16,000
Arthur H. Lang	13,440	13,750
Robert C. Masters	13,440	13,750
Glenn M. Goodman	12,900	13,250
Henry Benner	13,440	13,750
H. F. Sprecher, Jr.	11,825	12,250
Liston P. Bethea	13,440	14,000
Edwin J. Johnson	13,440	14,000
M. B. Daniels	10,750	11,250

It was agreed that the 1956 budgets of the respective divisions as approved by the Board at this meeting would be increased by the amounts necessary to cover the above salary increases.

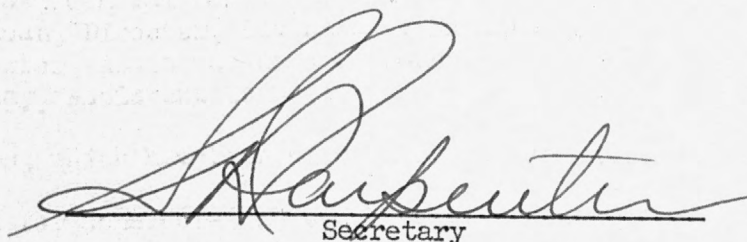
The meeting then adjourned.

Secretary's Note: It having been ascertained, pursuant to the action taken by the Board on December 20, 1955, that Mr. Robert C. Sprague would accept, if tendered, designation as Chairman of the Federal Reserve Bank of Boston and as Federal Reserve Agent for 1956, that Dr. James R. Killian would accept appointment as Deputy Chairman of the

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Boston Reserve Bank for 1956, and that Mr. Harvey P. Hood would accept appointment as a Class C director of that Bank for a three-year term beginning January 1, 1956, appropriate telegrams were sent to Messrs. Sprague, Killian, and Hood under date of December 27, 1955.



Secretary

Enclosed for the Division of Administration, Massachusetts, is a letter from the Board of Directors, dated December 15, 1955, recommending the appointment of Mr. David P. Killian as a Class C director of the Boston Reserve Bank, effective December 15, 1955.

Letter to Mr. David P. Killian, dated December 15, 1955, is also enclosed, reading as follows:

The Board of Directors of the Boston Reserve Bank, Inc., has the honor to inform you that you have been elected as a Class C director of the Bank for the period January 1, 1956, to December 31, 1958, as the will of the stockholders, as reflected in the vote cast by the Board of Directors on December 15, 1955.