

Minutes for March 29, 1956

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	<u>MM</u>	x <u>M</u>
Gov. Szymczak	x <u>MS</u>	
Gov. Vardaman	x <u>[Signature]</u>	
Gov. Mills	x <u>[Signature]</u>	
Gov. Robertson	x <u>R</u>	
Gov. Balderston	x <u>CCB</u>	
Gov. Shepardson		x <u>[Signature]</u>

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 29, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel

Reference was made to memoranda from appropriate individuals concerned, which had been circulated to the members of the Board, recommending actions with respect to the Board's staff as follows:

Salary increases, effective April 8, 1956

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Research and Statistics</u>		
Colin D. Campbell, Economist		\$6,820	\$7,035
Vivian C. Howard, Clerk		3,500	3,585
Lucile MacLean, Librarian		4,660	4,795
Paul F. Smith, Economist		8,215	8,990
	<u>International Finance</u>		
Jacquelyn Haas, Clerk		3,515	3,600
Davita C. Leister, Clerk-Stenographer		3,175	3,260
Mary F. Miller, Statistical Assistant		4,210	4,345

3/29/56

-2-

Salary increases, effective April 8, 1956 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Examinations</u>		
J. P. Donovan, Assistant Federal Reserve Examiner		\$4,930	\$5,065
	<u>Administrative Services</u>		
Herbert E. Haney, Operator, Tabulating Equipment		4,080	4,215
Lois M. Moye, Stenographer		3,415	3,500
Rudolph Reece, Laborer		3,210	3,295
William J. Smith, Cafeteria Laborer		2,745	2,830
Dorothy M. Taylor, Clerk-Stenographer		3,500	3,585
Abner Thompson, Mail Clerk		3,215	3,300

Transfer

Thomas F. Gearin, from the position of Analyst in the Division of Bank Operations to the position of Economist in the Division of International Finance, with no change in his present basic salary at the rate of \$4,930 per annum, effective as of the date of assuming his new duties.

In a discussion of the foregoing recommendations, Governor Vardaman expressed dissatisfaction with the current procedure for circulating memoranda relating to Board personnel matters. He favored returning to the practice followed for some time prior to the fall of 1954 whereby the Director or Assistant Director of the Division of Personnel Administration

3/29/56

-3-

discussed such memoranda with each member of the Board individually, stating that in his opinion the current practice did not give the Board members adequate information concerning the proposed actions before they were presented to the Board for approval. For this reason, he said, he did not wish to vote on the recommendations submitted for approval at this meeting or on any other such recommendations pending further consideration by the Board of the procedure now followed.

In response to a question from Governor Vardaman, it was stated that the practice under which the Director or Assistant Director of Personnel took personnel memoranda to each member of the Board for discussion was superseded as an outgrowth of the change in procedure approved by the Board on September 29, 1954, whereby all matters requiring Board action were to be circulated among the members of the Board for their individual review and then placed on the agenda for consideration and action at a meeting. In further discussion of the question, the suggestion was made that this subject be placed on the agenda for consideration at a meeting when Chairman Martin could be present.

There being agreement with this suggestion, the recommendations presented at this meeting were approved, Governor Vardaman not voting.

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 stated:

3/29/56

-4-

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the requests contained in your letters of March 20, 1956, the Board approves the designation of Gaylord Bernahl and Gerald F. Hines as special assistant examiners for the Federal Reserve Bank of Chicago. Please advise as to the dates upon which the designations are made effective.

It is noted that Mr. Bernahl is indebted to The First National Bank of Springfield, Springfield, Illinois, in the amount of \$400, but that he will liquidate the indebtedness prior to his designation as a special assistant examiner.

Approved unanimously.

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

In accordance with the request contained in your letter of March 19, 1956, the Board approves the designation of Maurice H. Strothman, Jr. as a special examiner for the Federal Reserve Bank of Minneapolis. The approval heretofore given the appointment of Mr. Strothman as a regular examiner for the Federal Reserve Bank of Minneapolis is hereby cancelled.

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

This is in response to your letter of March 20, 1956, enclosing a copy of a letter received by your Bank from Mr. A. B. Edgerton, President of The Northfield National Bank, Northfield, Vermont, regarding the question whether certain funds of a municipality may be classified as savings deposits under the Board's Regulation Q.

It is understood that in the present case the deposit would consist of reserve funds which the municipality wishes to set aside out of the earnings of its electric department in order that it may be in a better position to meet the unusual requirements of an emergency such as a flood or a hurricane.

3/29/56

-5-

Under the Board's Regulation Q a deposit may not be classified as a "savings deposit" unless it evidences funds of an individual or of an organization operated "primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit." The Board has taken the position that a municipality cannot be regarded as operated primarily for any of these purposes and, consequently, that a deposit in the name of a municipality may not be classified as a savings deposit (1936 Bulletin 247).

If the regulation were amended to permit municipal funds of the kind in question to be classified as savings deposits, such an amendment would doubtless give rise to suggestions for further extensions to permit funds of other organizations in similar circumstances to be classified as savings deposits; and any such extensions of the regulation would tend to break down the distinction between deposits of funds accumulated for savings purposes and deposits of funds normally used for commercial purposes. In the circumstances, the Board would not be disposed to consider a modification of Regulation Q such as that suggested by Mr. Edgerton.

As you have apparently already pointed out to Mr. Edgerton, deposits of the funds in question could properly be carried in the form of a time certificate of deposit or a time deposit, open account. In the event of any emergency such as that described in Mr. Edgerton's letter, it would be possible for funds in such deposits to be paid before maturity, provided there is compliance with the requirements of section 4(d) of Regulation Q, although in such a case, as provided by the regulation, accrued and unpaid interest for a period of not less than three months would be forfeited with respect to any amount so withdrawn before maturity.

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 at 252 Avenida Ponce de Leon in the Hato Rey section of the City of San Juan,

3/29/56

-6-

Puerto Rico, 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 April 1, 1957, all rights granted hereby shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date.

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, together with a letter to the Secretary of the Treasury, Commonwealth of Puerto Rico, advising of the Board's action.

Letter to Mr. Jensen, Manager, Accounting Department, Federal Reserve Bank of New York, reading as follows:

This refers to your letter of March 21, regarding the penalties of \$17.94, \$125.83, and \$182.34 incurred by the Unadilla National Bank, Unadilla, New York, as a result of deficiencies in reserves for the semi-monthly periods ended February 15, February 29, and March 15, 1956.

It is noted that the deficiencies were attributable to the fact that, following the death of the president of the member bank, the bank's accounting operations, including control of its reserve position, had become entangled because of lack of proper supervision; that the new president, elected several months after the death of his predecessor, has made a close review of the bank's affairs and has, in general, brought the various accounts into good order; and that the bank normally maintains ample reserves and has not had a reserve deficiency since June 1950. It is also noted that your Bank can waive the penalty for the first half of February under Paragraph E of the provisions (S-1123-a) for waiver of penalties.

3/29/56

-7-

In the circumstances and in view of your recommendation, the Board authorizes your Bank to waive assessment of the penalties for the periods ended February 29 and March 15, 1956.

Approved unanimously.

Letter to Mr. Deming, First Vice President, Federal Reserve Bank of St. Louis, reading as follows:

This refers to your letter of March 9, 1956, regarding the question raised by a State member trust company as to whether its note secured by "temporary notes" of a local public housing authority would be eligible for an advance by your Bank under section 13 of the Federal Reserve Act.

It is understood that the temporary notes in question are issued by the local public housing authority to finance the construction of housing projects under an arrangement with the Public Housing Administration whereby the latter is unconditionally obligated to lend the local authority funds sufficient to pay the interest and principal of the temporary notes upon maturity.

Advances under the eighth paragraph of section 13 of the Federal Reserve Act may be made on the promissory note of a member bank secured by any notes which are eligible for rediscount by the Reserve Banks under the Act. The third paragraph of section 24 of the Act provides that notes representing loans made to finance the construction of residential or farm buildings and having maturities of not exceeding nine months shall be eligible for discount as commercial paper under section 13 of the Act, "if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by an individual, partnership, association, or corporation acceptable to the discounting bank."

The legislative history of this provision of section 24 contains nothing to indicate whether or not the required agreement may be entered into by an agency of the Federal Government such as the Public Housing Administration. However,

3/29/56

-8-

the report of the House Banking and Currency Committee with respect to this provision stated that the temporary paper evidencing loans under this paragraph of section 24 was made eligible for discount as commercial paper at the Federal Reserve Banks "in the event responsible arrangements have been made for permanent financing." It would seem that a binding agreement entered into by the Public Housing Administration to pay the interest and principal of the temporary notes of the local housing authority upon maturity would meet this objective of the statute. Moreover, it is understood that the Public Housing Administration has been held by the courts to be a "corporation" for purposes of the venue provisions of Federal law (Sigona v. Slusser, 124 Fed. Supp. 327 (D. C. Conn., 1954)).

In the Board's opinion, therefore, the Public Housing Administration may be regarded as coming within the scope of the phrase "individual, partnership, association, or corporation", as used in the third paragraph of section 24, and temporary notes issued by a local housing authority under an arrangement with the Administration of the kind described would be eligible for discount and as collateral for advances under section 13, provided the paper otherwise complies with all requirements of the law, including the requirement of section 24 that the funds be advanced under such agreement upon "completion of the building."

Approved unanimously.

Telegram to the Federal Reserve Agent at San Francisco authorizing the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to Transamerica Corporation, San Francisco, California, entitling such corporation to vote the stock which it owns or controls of Southern Arizona Bank and Trust Company, Tucson, Arizona, at any time prior to June 1, 1956, to increase the capital structure of such bank by a minimum of \$1,000,000 at a special meeting of shareholders of such bank or any adjournments thereof, subject to the following condition:

Prior to the issuance of the limited voting permit authorized herein, Transamerica Corporation shall furnish to you a letter stating that, in receiving this permit, it understands that under section 5144 of the Revised Statutes of the United States a voting permit may be issued solely

3/29/56

-9-

upon certain conditions and that it accepts those conditions and enters into the agreements and makes the representations which the law requires as a part of an application for a voting permit.

The telegram also contained the following sentences:

Please advise Transamerica Corporation that following Board's usual practice, the issuance of a new limited voting permit has been authorized rather than an extension of the time for voting stock of Southern Arizona Bank and Trust Company, authorized in limited voting permit dated January 4, 1956. It will not be necessary to obtain a resolution of the board of directors of Transamerica Corporation authorizing the furnishing of the letter required as a condition to the issuance of the permit authorized herein.

Approved unanimously.

There had been sent to the members of the Board copies of a memorandum from Mr. Leonard dated March 28, 1956, which stated that Mr. Mangels, President of the Federal Reserve Bank of San Francisco, had raised informally a question of interpretation of a paragraph in the Board's letter of June 12, 1953, to all Federal Reserve Banks regarding rental of space in Federal Reserve buildings. The paragraph read as follows:

In connection with the question of tenants, the Board is of the opinion that, as a general policy, space in a Federal Reserve Bank building should not be rented to banks, savings or loan associations, investment houses, security dealers, or other similar financial organizations dealing with the public.

Mr. Leonard's memorandum indicated that Mr. Mangels had raised the question because of the possibility that the Portland Branch could rent to the

3/29/56

-10-

Oregon Telephone Employees Credit Union for \$250 a month a small building at the rear of the branch parking lot which was purchased in 1954 to round out the branch property and to forestall undesirable occupancy of the building.

During a discussion of the matter, inquiry was made as to whether it might be preferable to demolish the building and use the space for parking or other purposes, particularly since the rental to be obtained from the credit union would not be significant. The view was expressed in this connection that if the Reserve Bank should decide to demolish the building, it would not seem necessary for the Bank to obtain the Board's approval.

It was then suggested that since Governor Balderston was to be in Portland on Tuesday of next week and no doubt would see President Mangels at that time, if not earlier, he might discuss the matter with Mr. Mangels, view the property, and obtain a better opinion as to the most suitable course of action in all the circumstances.

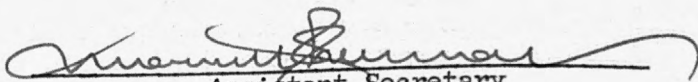
There was unanimous agreement with this suggestion, it being understood that, if there seemed to be any reason for doing so, Governor Balderston would suggest to President Mangels that he call Mr. Leonard on the telephone from Portland in order to request any action on the part of the Board that might be required.

The meeting then adjourned.

3/29/56

-11-

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated March 28, 1956, from Mr. Marget, Director, Division of International Finance, Governor Balderston today approved on behalf of the Board the appointment of Frances T. Martin as Clerk-Typist in that Division, with basic salary at the rate of \$3,175 per annum, effective as of the date she assumes her duties.


Assistant Secretary

- Mr. Marget
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]
- Mr. [unclear]