

Minutes for May 17, 1956.

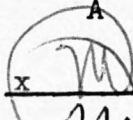
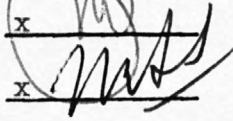

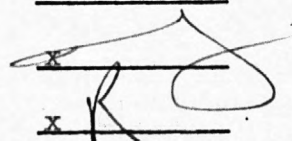
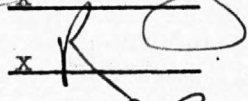
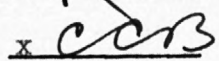
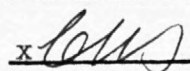
To: Members of the Board

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>x</u>  | _____ |
| Gov. Szymczak | <u>x</u>  | _____ |
| Gov. Vardaman | _____ | <u>x</u>  |
| Gov. Mills | <u>x</u>  | _____ |
| Gov. Robertson | <u>x</u>  | _____ |
| Gov. Balderston | <u>x</u>  | _____ |
| Gov. Shepardson | <u>x</u>  | _____ |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 17, 1956. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Riefler, Assistant to the Chairman
 Mr. Leonard, Director, Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Noyes, Adviser, Division of Research and Statistics
 Mr. Hackley, Assistant General Counsel
 Mr. Hexter, Assistant General Counsel
 Mr. Williams, Assistant Director, Division of Research and Statistics
 Mr. Cherry, Legislative Counsel

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:

Memorandum dated May 10, 1956, from Governor Robertson recommending, in connection with the defense planning program and activation of the Board's relocation site, that full field investigations be instituted for the following employees of the Board to clear them for access to classified security information:

Cornelia A. Bates
 Doreen Dippre

Daniel H. Brill
 James B. Eckert

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Margaret Jane Dougherty
 M. Elizabeth Jones
 Jean Crosby
 Wilson L. Hooff
 Margaret E. Rauber
 Jerome W. Shay

Athens J. Messick
 Donald C. Miller
 Louis Weiner
 Charles N. Griffin
 J. Frank Holahan
 Esther Severud

Approved unanimously.

Letter to the Board of Directors, Irving Trust Company, New York, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch by Irving Trust Company, New York, New York, at the northwest corner of East 54th Street and Park Avenue, Borough of Manhattan, New York, New York, provided the branch is established within 18 months from the date of this letter and the approval of appropriate State authorities is in effect at the time of establishment of the branch.

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

Letter to Mr. John J. McCloy, Chairman of the Board of Directors, The Chase Bank, New York, New York, reading as follows:

Reference is made to your letter of April 16, 1956, acknowledging receipt of the report of examination of the Home Office of The Chase Bank, New York, made as of December 6, 1955, by examiners for the Board of Governors of the Federal Reserve System.

It is noted that a General Reserve for Investments in the amount of \$200,000 was established as of December 31, 1955, which, as you indicate, is more than the amount required to cover the LOSS classification in the stock of Interamericana de Financiamiento e Investimentos, S. A. in the net amount of \$65,273.53. (The LOSS classification was \$205,214.98, against which \$139,941.45 of the Reserve for Exchange Fluctuations in Investments in Foreign Currency was applicable.)

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This action by your Bank has been noted with approval with the understanding that in any published statements of the Bank the reserves will be treated as valuation allowances and deducted from the related assets, which deductions, however, need not be shown on the face of the balance sheet.

It is requested that, in future reports of condition submitted to the Board of Governors, such reserves be shown in this manner.

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

Letter to the Board of Directors, Security Trust Company of Rochester, Rochester, New York, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of The First National Bank of Greenwood, Greenwood, New York, into Security Trust Company of Rochester, Rochester, New York, and approves the establishment by Security Trust Company of Rochester of a branch at the present location of The First National Bank of Greenwood, provided that (1) the transaction is effected substantially in accordance with the Merger Agreement dated March 15, 1956, (2) formal approval is obtained from appropriate State authorities, and (3) the merger and establishment of the branch are accomplished within six months from the date of this letter.

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

Letter to Mr. Stetzelberger, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

In view of the information submitted in your letter of May 8, 1956, and the Reserve Bank's favorable recommendation, the Board of Governors extends until October 18, 1956,

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the time within which The Central Trust Company, Cincinnati, Ohio, may establish a branch on Beechmont Avenue one block east of Salem Road, Anderson Township, Hamilton County, Ohio, under the authorization contained in its letter of May 18, 1955.

Approved unanimously.

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

In accordance with the recommendation contained in your letter of May 8, 1956, the Board of Governors extends to August 24, 1956, the time within which The Louisville Trust Company, Louisville, Kentucky, may establish a branch at 2450 Bardstown Road, within the corporate limits of Louisville, under the approval given by the Board in its letter of August 24, 1955. Please advise the trust company accordingly.

The photostatic copy of the letter of the Commissioner of the State Department of Banking to which you refer appears to have been inadvertently omitted from your letter. It will be appreciated if you will forward a copy to complete the Board's file in this matter.

Approved unanimously.

Letter to the Board of Directors, Webster Groves Trust Company, Webster Groves, Missouri, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment of a branch by Webster Groves Trust Company, Webster Groves, Missouri, near the intersection of Gore and Moody Avenues in Webster Groves, provided the branch is established within six months from the date of this letter.

The Board also approves the additional investment of \$13,000 in bank premises, proposed in connection with the establishment of the branch, as required under the provisions of Section 24A of the Federal Reserve Act.

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

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Letter to The Honorable H. E. Cook, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

Reference is made to your letter of May 3, 1956, concerning the application of The Holgate State Bank, Holgate, Ohio, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank or agreed to by it which, in the opinion of the Board of Governors, would be considered desirable to incorporate as conditions to the continuance of deposit insurance.

Approved unanimously.

There had been sent to the members of the Board copies of a memorandum from Mr. Vest dated May 15, 1956, which stated that the Subcommittee on Antitrust and Monopoly Legislation of the Senate Committee on the Judiciary intended to hold hearings beginning Wednesday, May 23, on three bank merger bills, including H. R. 9424, introduced by Congressman Celler and passed by the House of Representatives, which would subject acquisitions of bank assets to the provisions of section 7 of the Clayton Act and require that 90 days' advance notice of any bank mergers be given to the Board and to the Attorney General. Since it was understood that the Board would be asked to testify, a draft of testimony was submitted with the memorandum. The draft was intended to be generally consistent with the position taken last year by the Board in testimony before the Congress, and also with the position taken in the Board's letter of April 10, 1956, to the Bureau of the Budget regarding a bill

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proposed by the Treasury Department which would amend section 18(c) of the Federal Deposit Insurance Act to require advance approval of bank mergers by the respective Federal bank supervisory agencies.

Governor Robertson reported having been advised that the Budget Bureau had now sent a letter to the Treasury stating that the proposal to amend section 18(c) of the Federal Deposit Insurance Act was in accord with the program of the President. He understood that letter also contained a statement that the Attorney General and the Federal Trade Commission were opposed to the proposed legislation. Since he also understood that a bill reflecting the proposal would be introduced within the next few days, he suggested that the draft of Board testimony be revised to incorporate a reference to the new bill. Such a revision of the testimony would indicate that the Board preferred the approach contained in the new bill, namely, advance approval of bank mergers by the respective bank supervisory agencies. It was Governor Robertson's opinion that in view of the most recent developments the hearings before the Senate Judiciary Subcommittee might not take place, particularly because the Chairman of the Senate Banking and Currency Committee reportedly had written the Chairman of the Judiciary Subcommittee to the effect that his Committee wished to deal with proposed legislation in the field of bank mergers.

Following further discussion, during which Mr. Vest suggested a change in one paragraph of the draft of testimony, Chairman Martin

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suggested that the Board approve the draft of testimony in general terms, with the understanding that it would be revised to the extent appropriate in view of the developments mentioned by Governor Robertson.

There was unanimous agreement with Chairman Martin's suggestion.

Governor Robertson reported on a meeting at the Board's offices yesterday with a group of selected leading bankers to discuss the organization of a program designed to assure continued operation of the commercial banking system in the event of a national emergency. This meeting was called pursuant to responsibilities delegated to the Board by Defense Mobilization Order I-20. He felt that the next logical step would be for the Board to set up a steering committee, which in turn would designate a group of top commercial bank operating officers to develop the program in detail. It was his suggestion that the Board ask to serve on the steering committee all of the bankers who participated in yesterday's meeting except Mr. Joseph M. Dodge (who currently is performing duties within the Government), along with Mr. Merle E. Selecman, Executive Manager of the American Bankers Association, and Mr. John J. McCloy, who was unable to attend the meeting.

Following a discussion, the procedure suggested by Governor Robertson was approved unanimously.

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In connection with the foregoing action, Governor Szymczak inquired whether steps were contemplated to keep the State bank supervisors informed concerning the program.

Governor Robertson replied that the program had been discussed with the Interagency Committee on Bank Supervisory Matters, on which the State bank supervisors are represented, and that appropriate steps would be taken to inform all of the supervisors concerning the program as it developed.

Governor Robertson then reported on a recent meeting attended by Mr. Leonard and representatives of the Treasury Department, General Services Administration, and the Defense Department to consider further the construction of vaults at military posts for the storage of currency for use in the event of a national emergency. He said that Defense Department representatives felt the best site for such a vault would be Fort Riley, Kansas, that the military would be agreeable to making land available for such a vault on a suitable basis, that the Treasury was willing to proceed, and that plans were being made for representatives of the interested agencies to visit Fort Riley in the early part of June to inspect the site. General Services Administration would then undertake to estimate the cost of constructing an appropriate vault. He suggested that the Board authorize Mr. Leonard to accompany the inspecting group to Fort Riley, with the understanding that Mr. Leonard would then make a report to the Board.

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Governor Robertson went on to say that the Treasury representatives who had participated in the interagency discussions felt that the plan required legislative authority. Since this might involve delay, he had asked the Legal Division to look into the legal questions involved if the project were undertaken by the Federal Reserve System. It was his thought that if this procedure were followed, the Federal Reserve Bank of Kansas City would have charge of the vault construction and would later provide such personnel as might be appropriate. He then referred to a memorandum which he had received from Mr. Vest on the subject and said that as he read the memorandum he understood that although there were some questions that would have to be considered, there seemed to be no legal reasons why the project could not be undertaken in this manner. He also understood that such a procedure was agreeable to the Treasury staff that had been considering the matter, subject to formal clearance with superiors in that Department, provided there was an understanding that the vault might be used to store Treasury securities as well as currency. Under such a plan, some arrangement would have to be worked out pursuant to which the Treasury would issue Federal Reserve notes to the Federal Reserve Agent at Kansas City on behalf of all of the Federal Reserve Agents, or perhaps would issue the notes to the Kansas City Agent for reissuance when and if necessary. It was his view that problems of this kind could be dealt with by the Board through regulations

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and that special legislation probably would not be required. At the same time, he felt that the matter should be discussed informally with the Chairmen of the House and Senate Banking and Currency Committees. If there was any feeling on their part as to a need for legislation, the plan would be dropped and steps would be instituted to obtain legislative authority.

In a further discussion, it was stated that under a lease agreement covering land on a military post, it appeared that the vault would revert to the United States Government upon expiration of the lease. In this connection, reference was made to the arrangements in respect to the Treasury vault at Fort Knox, Kentucky, which were covered by specific legislation. It was suggested that material be obtained and placed in the Board's files for future reference regarding the Fort Knox arrangement.

Mr. Vest said that, as Governor Robertson had indicated, there were a number of legal questions. While some of them created a degree of doubt, he felt that they could be worked out satisfactorily. He pointed out that an arrangement such as Governor Robertson had suggested would require the consent of all the Federal Reserve Banks since they would be asked to contribute to the cost of the vault. As to ownership of the vault, he brought out that any improvement to property on a military post automatically becomes the property of the United States Government

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if the land is vacated by the armed services, subject to any permit or lease. Therefore, it would seem desirable to enter into a long-term lease arrangement.

Governor Mills suggested that at some stage attention should be given to the possibility of amortizing the cost of the vault construction over the term of the lease or perhaps over a shorter period. There was agreement that this phase of the matter should be explored.

Thereupon, it was agreed unanimously that Mr. Leonard should serve as the Board's representative on the inspection trip to Fort Riley and that he would make a report to the Board before any further steps were taken on the matter.

Messrs. Leonard, Hexter, and Cherry then withdrew from the meeting.

There had been sent to the members of the Board copies of a memorandum dated May 14, 1956, from the Divisions of Examinations and Personnel Administration stating that a study had been made, at the Board's request, of the adequacy of compensation for members of the field force of examiners in the Division of Examinations, with the result that the following actions were recommended, effective as of the beginning of the first pay roll period following approval by the Board:

1. That the starting rate for Assistant Federal Reserve Examiners be raised from the present Group M level (\$3,670) to Group P (\$4,080) with an increase by the end of two years to Group Q (\$4,525), with an intervening regular progress step to \$4,215 at the end of one year. This increase pattern would not be considered as restricting reclassification to Group Q prior to two years, if warranted.

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In connection with this recommendation, it will be necessary to raise the starting salary of four recently appointed Assistant Federal Reserve Examiners (Messrs. Harry G. Felix, Alex J. Harris, Jr., John F. O'Donnell, and L. Waite Waller) from \$3,670 per annum to the proposed minimum of \$4,080.

2. That a flat amount of \$600 per annum be allowed as a salary differential to each member of the force including the Chief Federal Reserve Examiner (and also the Special Assistant Federal Reserve Examiners with the elimination of the present special travel allowance of \$480), to be paid only during the incumbency of field force positions.

In commenting on the matter, Mr. Johnson said that the \$600 differential represented about 10 per cent of the average salary of the examiners currently serving on the field force, that the differential would be considered salary for the purposes of income tax, terminal leave payments, etc., and that it would be paid only while an employee was serving as a member of the field examining staff, after which it would be eliminated.

Governor Robertson stated that he was completely satisfied with the recommendations, and that approval of the salary differential and higher starting salary rate should help the Board to hire and retain competent examining personnel.

Thereupon, the recommendations contained in the memorandum were approved unanimously, effective May 20, 1956.

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Consideration was given to a memorandum from Mr. Young, Director, Division of Research and Statistics, dated May 16, 1956, copies of which had been distributed to the members of the Board, relating to a proposed revision of the consumer credit series. The memorandum stated that when the Board undertook the current study of consumer credit it was thought that the revision of the series might be postponed until 1957 because of pressures on time and manpower, but that certain data had since become available which made it appear that it would not be feasible to proceed with and complete the consumer credit study without making the revision. This, however, would mean that it would be necessary to make some further adjustment in the series next year, after certain data from the 1954 Census of Business became available. The memorandum stated that in order to complete the revision by October 1, certain changes in staff assignments within the Division of Research and Statistics would be made and that it might be necessary to obtain the services of two additional persons on a temporary basis. Therefore, it was recommended that two additional temporary positions be authorized at the Group P level, with the understanding that the appointments would be based on the qualifications and experience of the persons recruited.

Following explanatory comments by Mr. Noyes, Governor Balderston expressed the view that the Board might be placed in an embarrassing situation if, with knowledge in its possession that the consumer credit

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statistics were in need of revision, it nevertheless proceeded with the consumer credit study and submitted a report. Subsequent revision of the series, he pointed out, might raise questions concerning the validity of the study.

Governor Shepardson noted from Mr. Young's memorandum that the proposed revision of the series would accomplish about 90 per cent of the needed adjustment. He inquired concerning the nature of the remaining adjustment which would have to be made next year.

Mr. Williams responded that the remaining adjustment would apply principally to retail receivables. He said that the staff would have liked to defer the entire revision until all of the necessary data were available but that, as stated by Governor Balderston, it would be difficult to go forward with the consumer credit study when it was known that certain statistics were in need of rather substantial adjustment.

Thereupon, the recommendation contained in Mr. Young's memorandum was approved unanimously.

At this point Mr. Eckert, Chief, Banking Section, Division of Research and Statistics, entered the room.

The next item discussed was a second memorandum from Mr. Young dated May 16, 1956, copies of which also had been sent to the members of the Board, submitting for consideration a proposal that the current

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study of consumer credit be augmented to include certain additional information, particularly concerning credit purchases of used cars, by attaching to the questionnaire of the Census Bureau's Current Population Survey for August 1956 a few questions on the number of cash and credit purchasers of new and used cars, and new and used houses, over the past 2-1/2 years. This possibility had been suggested by a representative of the Budget Bureau and was later explored with the Census Bureau. A copy of a letter containing the Census Bureau's proposal was attached to the memorandum. The letter indicated that the cost to the Board was tentatively estimated at \$25,000, but the memorandum suggested that to be on the safe side, especially in connection with special tabulations and collations, and to allow for contingencies, the Board probably should think in terms of a total cost of \$30,000 to \$35,000. No recommendation was made in the memorandum, the proposal merely being submitted to the Board for consideration.

In commenting on the proposal, Messrs. Noyes and Williams stated that the procedure should provide some helpful, although not necessarily vital, information, and that some hesitation was felt in bringing the matter to the Board because of projects previously approved in connection with the study of consumer credit. They said that the undertaking probably would not add a great deal to the staff burden arising out of the study.

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In response to questions, Mr. Williams expressed the view that the information obtained would serve to a certain extent as a check on data being obtained through other sources for the study. He also felt that the results might throw light on the accuracy of parts of the Survey of Consumer Finances, particularly in view of the larger sample (27,000 households).

Thereupon, the proposal described in Mr. Young's memorandum was approved unanimously.

There were distributed copies of a third memorandum from Mr. Young, prepared under today's date, recommending that the Division of Research and Statistics be authorized to expend an additional \$25,000 to finish processing the data collected in the business loan survey which was conducted as of October 5, 1955. The memorandum stated that additional tabulations were needed for the completion of special analyses in a number of important areas, such as lending to small business, the structure of interest rates, and the extent and character of out-of-town lending. It also stated that the proposed program had been carefully screened and had been reduced to minimum essential requirements. Included in the estimate were an allowance of \$15,000 for 200 hours of UNIVAC rental and an allowance of \$10,000 for programming services. The processing would be performed on the Census Bureau UNIVAC and a contract

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would be entered into with Ernest E. Blanche and Associates to undertake the necessary programming. The memorandum stated that about half of the estimated cost was attributable to the preparation of district data for the respective Federal Reserve Banks.

Mr. Noyes stated that the Board's previous authorization of funds proved sufficient to process enough data from the survey to complete the article which appeared in the March issue of the Federal Reserve Bulletin and to furnish the Federal Reserve Banks essential information, some of which they had used as the basis for articles in their monthly reviews. The current proposal was of a minimum nature, he said, in the sense that it would provide only that part of the survey results which, in view of the staff, should be obtained in the light of the work that went into the basic questionnaire. This would include information which the Reserve Banks had indicated was most important to them.

Mr. Eckert then discussed the difficulties that had been encountered in processing the survey data, indicating that they arose principally from inadequate programming advice and from trouble in obtaining UNIVAC time until Governor Balderston worked out an arrangement for free use of the duPont Company's electronic computer.

Chairman Martin expressed the view that, having gone this far with the processing of the survey data, it seemed advisable to complete the job.

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Governor Mills then inquired whether existing budgetary controls constituted an adequate check on the expenditure of funds for projects of this kind.

In response, Mr. Johnson referred to the budget for special projects that was set up in connection with the Board's budget for 1956 and said that through this mechanism controls were available with regard to expenditures on the various projects approved by the Board. As far as he could see, the business loan survey project was being handled as economically as possible, taking into consideration the difficulties that had been encountered.

Chairman Martin stated that the question raised by Governor Mills called attention to the fact that the Board should maintain a close watch over expenditures in connection with all special projects.

Thereupon, the recommendation contained in Mr. Young's memorandum was approved unanimously.

Messrs. Noyes, Williams, and Eckert then withdrew from the meeting.

Reference was made to a memorandum from Mr. Hackley dated May 16, 1956, copies of which had been sent to the members of the Board, discussing a telegram of the same date from Mr. Treiber, First Vice President of the Federal Reserve Bank of New York, which raised the question whether it would be inconsistent with the Board's resolution of December 23, 1915, regarding the holding of political or public office by officers

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or directors of Federal Reserve Banks, for Mr. Lansing P. Shield, a Class B director of the New York Reserve Bank, to file for election as a presidential elector from the State of New Jersey. It appeared that candidates for presidential elector in New Jersey are nominated in conventions by the political parties and that the New Jersey statute refers to the position as an "office". Consideration of the question at the earliest possible time was requested because Mr. Shield was required to file his certificate of qualification and consent to serve not later than today. Mr. Hackley's memorandum stated that on the basis of past precedents involving somewhat similar questions, it would appear that the office involved would be regarded as a "political" office. This position was in line with the tone of Mr. Treiber's telegram, which indicated that the office was not entirely free from party politics and expressed the opinion that the service of a Reserve Bank director in this capacity might be inconsistent with the Board's 1915 resolution.

Mr. Hackley stated that the matter was entirely one of policy for the Board's determination and that the exact question apparently had not come before the Board previously.

Mr. Vest said that from telephone conversations with Mr. Tiebout, General Counsel for the New York Reserve Bank, he gathered Mr. Tiebout

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felt that service in this position would be inconsistent with the Board's resolution but that he thought there might be some doubt about it. Mr. Vest also said that in his own view the holding of the position would be rather clearly contrary to the Board's resolution.

Following a discussion, it was agreed unanimously that a telegram in the following form should be sent to First Vice President Treiber after Mr. Vest had advised Mr. Tiebout by telephone of the views stated in the telegram:

Confirming Mr. Vest's conversation with Mr. Tiebout this morning, Board has considered circumstances set forth your wire May 16 and has come to conclusion that it would be contrary to Board's resolution of December 23, 1915 for Mr. Shield to file for election as a presidential elector while he is serving as a director of the Federal Reserve Bank of New York. It was understood that Mr. Tiebout is advising Mr. Shield accordingly.

Chairman Martin referred to the Board's decision of May 9, 1956, with respect to the question raised concerning the deposit of public funds in banks in North Carolina and said it appeared that the State Treasurer had not been properly informed concerning the Board's position, which was transmitted to the State Commissioner of Banks by Mr. Vest on behalf of the Board.

At the Chairman's request, Mr. Vest summarized his conversation with the Commissioner of Banks (Mr. W. W. Jones), as reported at the meeting on May 10, and emphasized that the latter had indicated that he would report to the Governor and the State Treasurer. He also said

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that Mr. Carpenter had informed Senator Ervin's office of the Board's decision, since the question originally was raised with Chairman Martin by the Senator.

Later, Mr. Vest said, the State Treasurer called on the telephone for information, stating that Mr. Jones had returned with only a legal opinion which had been given to him at the offices of the Federal Deposit Insurance Corporation. The Treasurer was informed, Mr. Vest said, that the legal opinion was not the basis for the Board's action. He went on to say that it appeared from the conversation that Mr. Jones had not reported the Board's position adequately and that there seemed to be a question as to Mr. Jones' authority to represent the Governor and State Treasurer in the matter. Mr. Vest also reported that Mr. Jones tried yesterday to reach him, and also Governor Balderston, by telephone.

Governor Balderston suggested that it would be desirable for Mr. Vest to return Mr. Jones' call.

Chairman Martin concurred and suggested that it would also be advisable to send appropriate letters to Senator Ervin and the Governor of North Carolina as a matter of information.

There was unanimous agreement with these suggestions.

Secretary's Note: Pursuant to this action, the following letters were sent over Chairman Martin's signature today:

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Letter to The Honorable Sam J. Ervin, United States Senate

Some days ago you telephoned me regarding the matter of the interest payable on deposits of State funds in North Carolina. You pointed out that under the State law it was necessary for the State officials to obtain interest on such public deposits at a rate not less than the current rate payable on United States Treasury bills, but that the maximum rate payable on time deposits by member banks of the Federal Reserve System as well as other insured banks is 2-1/2 per cent per annum. Accordingly, the State authorities were confronted with the problem of withdrawing some \$91 million from banks in the State.

The Board recognized clearly the importance of the problem involved and discussed it with the Presidents of the Federal Reserve Banks when they were here at a meeting last week. Subsequently the Board considered the matter from all angles, including the possibility of making some change in its regulations relating to the maximum rate of interest payable on time deposits. After a thorough study, the Board decided that it would not be advisable for it to make any change in its regulations on the subject at this time.

We notified your office by telephone promptly after the Board reached its decision in this matter, but I am writing this letter to confirm to you that the Board before reaching its decision gave most careful consideration to all aspects of this matter. I appreciate your bringing this problem to my attention.

Letter to The Honorable Luther H. Hodges, Governor of the State of North Carolina, Raleigh, North Carolina

Under date of May 2, 1956, you telegraphed the Board regarding the investment of funds of the State of North Carolina in bank certificates of deposit and the rate of interest payable on such certificates. The Board already had this matter under consideration at the time your telegram was received.

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The Board recognized clearly the importance of the problem involved and discussed it with the Presidents of the Federal Reserve Banks when they were here at a meeting last week. Subsequently the Board considered the matter from all angles, including the possibility of making some change in its regulations relating to the maximum rate of interest payable on time deposits. After a thorough study, the Board decided that it would not be advisable for it to make any change in its regulations on the subject at this time.

We were glad to have the expression of your views regarding this matter, and I wish to assure you that the Board took into account all aspects of the problem before reaching its decision.

Consideration was given to a suggestion which had been made that photographs be obtained of persons in the employ of the Board. The legal aspects of this proposal were summarized in a memorandum dated April 30, 1956, from Mr. Young, Assistant Counsel, copies of which had been sent to the members of the Board. The substance of the memorandum was to the effect that there appeared to be no statutory provision or executive order or regulation in the Code of Federal regulations relating specifically to the obtaining of photographs, either of applicants for positions or of employees. However, the Federal Personnel Manual of the Civil Service Commission states that photographs must not be obtained in connection with any forms submitted to the Commission and that the Commission urges all agencies not to require photographs in connection with forms used within the agency. According to the memorandum, it

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was not entirely clear whether the Civil Service statements were intended to apply only in connection with applicants for positions or to photographs of actual employees as well. In any event, the requirement was not believed to be technically applicable to the Board of Governors.

At the request of the Chairman, the Secretary made a statement in which he said that the matter was important only in the event of a charge of discrimination, that the important thing was not the photographs themselves but whether there was actual discrimination, and that there could be discrimination whether or not photographs were taken. Nevertheless, he said, any person who felt that he had been discriminated against would use any shred of evidence to support his claim. He went on to say that the question was whether the Board felt that a practice of taking photographs of employees was sufficiently vital to take the risk of creating any possible appearance of discrimination. He also said that inquiry of certain other agencies indicated that they do not take photographs of any kind except for security cards, which are in the possession of the employees. In the circumstances, any reason the Board might give for taking pictures after employment might be countered by asking why this was done when other agencies do not find it necessary. All things considered, he felt that it would be better if the Board did not do anything which might raise a question.

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Mr. Johnson said that he had been asked to consider the matter on the basis that the photographs would be used as an instrument of good personnel administration and in connection with the maintenance of records at the Board's relocation site. It would be understood that appointment documents would not require photographs, and it was felt that in view of the small size of the Board's organization, which makes personal contact with all members of the staff possible, a question would not be likely to arise. It was not clear to him that the obtaining of photographs of persons following employment would be out of line with Governmental restrictions against the use of photographs in connection with employment forms. He then described how the photographs would be taken, stated the estimated cost of the project, and commented that copies of the photographs would be sent to the Board's relocation site.

There followed a general discussion of the matter from the standpoint of the usefulness of the photographs in the area of personnel administration and the possibility of criticism arising out of a misunderstanding of the purposes for which the photographs would be obtained. It was suggested that the possibility of criticism might be substantially reduced if the matter were handled on a voluntary basis. It was also suggested that while the photographs might be of benefit from a management standpoint, the desired objectives probably could be achieved in other ways.

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Chairman Martin then suggested that in view of the considerations which had been stated by Mr. Carpenter, action on the proposal be deferred until the matter had been explored further.

In connection with Chairman Martin's suggestion, Governor Balderston stated that consideration of the maintenance of records at the Board's relocation site might afford an appropriate occasion for the Board to discuss the subject again.

At the conclusion of the discussion, there was unanimous agreement with Chairman Martin's suggestion that action on the proposal be deferred.

During the foregoing discussion, Governor Mills withdrew from the meeting to keep another appointment and Mr. Hackley also withdrew.

Chairman Martin reported a discussion in his office last week with Mr. Sprague and Mr. Erickson, Chairman and President, respectively, of the Federal Reserve Bank of Boston, during which Mr. Sprague stated that a public relations problem had arisen in the Boston District because of the Board's action of July 21, 1955, in approving the establishment of a branch in the Town of Weymouth by Quincy Trust Company, of Quincy, Massachusetts. It appeared that a competing trust company (Granite Trust Company, also of Quincy) objected strongly to the Board's action and maintained that, like Quincy Trust Company, it should have been given an opportunity to meet with the Board and express its views. It

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also appeared that rumors had been circulating to the effect that a Washington attorney who was retained by Quincy Trust Company was influential in arranging a meeting of the trust company's representatives with the Board, and that the Board granted the branch despite an adverse recommendation by the Federal Reserve Bank of Boston. Chairman Martin said he told Mr. Sprague that without having gone into the merits of the case and without having checked the record, he was inclined to feel personally that the Board's procedure might have been expanded to afford Granite Trust Company an opportunity to be heard and to clear the matter more completely with the Boston Reserve Bank. However, he indicated to Mr. Sprague that he would not want to furnish a letter on the subject until he had taken the matter up with the Board and the record had been checked.

There followed a review of the developments which led up to approval of the branch application during which Mr. Sloan, Director, Division of Examinations, was called into the room. From this review it appeared that although the Reserve Bank first recommended unfavorably and the Division of Examinations submitted a similar recommendation to the Board, Granite Trust Company subsequently applied for a branch in another part of the Town of Weymouth before action was taken on the matter. In view of this, a representative of the Boston Reserve Bank

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indicated to the Division of Examinations in a telephone conversation that the Reserve Bank would have no further objection to the granting of a branch for Quincy Trust Company if the Board felt that the application should be approved. In these circumstances, and on the basis of a favorable recommendation from the Division of Examinations, the Board had approved both applications.

In this connection, Governor Robertson summarized a visit to his office by the President of Granite Trust Company during which he (Governor Robertson) indicated that if the trust company had made a request, it would have been given an opportunity to meet with the Board and express its views, this being a privilege granted to interested parties who make such a request. He said he also informed the visitor that the Board could hardly follow the practice of inviting all parties who might be interested in a matter of this kind to be heard in the absence of a request on their part. He went on to say that while this conversation appeared to have clarified the situation, the President of Granite Trust Company subsequently expressed dissatisfaction concerning the Board's procedure to the Federal Reserve Bank of Boston and the trust company later withdrew from the System. It was his suggestion that a letter be written to Chairman Sprague stating that if the Board had known that Granite Trust Company wanted to be heard, an invitation

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would have been extended, that the Board could not follow the practice of inviting all interested parties to appear before making decisions on such matters as branch applications, but that it should be definitely understood, and made known, that if any interested party in such a case were to express a desire to be heard, the request would be granted.

Following a further discussion of the matter, Chairman Martin suggested that a letter be drafted along the lines proposed by Governor Robertson and that the Division of Examinations prepare a memorandum covering fully the procedure followed in connection with the Quincy Trust Company's application. He also said that if the circumstances warranted, he would then be willing to go to Boston and meet with the Reserve Bank's Board of Directors to discuss the matter.

It was agreed unanimously that a letter and memorandum of the kind suggested by Chairman Martin should be prepared.

In this connection, Governor Shepardson suggested that whenever the Board was considering action contrary to the recommendation of a Federal Reserve Bank, it might be a good practice to check with the Bank before action was taken.

Chairman Martin concurred in this point of view. He went on to say that his own thinking now had come to the point that he felt the

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Board should very rarely act contrary to the recommendation of a Reserve Bank, perhaps only in cases where the Board itself had made a field investigation to ascertain all of the facts. It was his view that the Board should build up the record carefully in any such cases.

The meeting then adjourned.

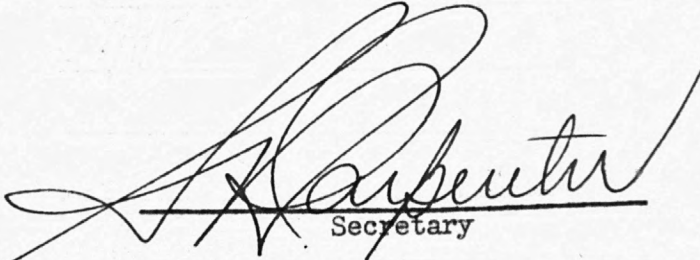
Secretary's Note: Pursuant to the recommendation contained in a memorandum dated May 8, 1956, from Mr. Carpenter, Secretary of the Board, Governor Balderston today approved on behalf of the Board attendance by Ruth W. Franta, Supervisor, Bank and Miscellaneous Records, Office of the Secretary, at the Institute on Records Management to be held in Washington, D. C., June 18-29, 1956, under the sponsorship of The American University and the National Archives. This action was taken with the understanding that the tuition of \$50 would be paid by the Board, that no charge would be made against annual leave for the 10 working days involved, that Mrs. Franta would transmit information obtained through the course to her colleagues, and that the approval established no precedent.

On the basis of a memorandum dated May 14, 1956, from Mr. Noyes, Adviser, Division of Research and Statistics, Governor Balderston also approved on behalf of the Board the appointment of George D. Bailey of Touche, Niven, Bailey and Smart, Detroit, Michigan, as a consultant to the Board for work in connection with the current study of consumer instalment credit, on a temporary contractual basis with compensation at the rate of \$50 per day for each day worked for the Board,

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either in Washington, D. C., or outside the city, plus a per diem in lieu of subsistence at the rate of \$12 for the time spent in a travel status in connection with his assignments and transportation in accordance with the Board's travel regulations. For purposes of travel, Mr. Bailey's headquarters would be Detroit, Michigan. The memorandum from Mr. Noyes stated that Mr. Bailey had indicated that from time to time he might wish to utilize the services of a member of his own staff in connection with his work as consultant to the Board. Governor Balderston's approval of the memorandum was given subject to the understanding that if Mr. Bailey wished to use the services of a member of his staff in this manner, the basis of compensation would be made definite before any services actually were rendered by a member of Mr. Bailey's staff.



A. Carpenter
Secretary