

Minutes for August 8, 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 | x <u>M</u> | <u>MM</u> |
| Gov. Szymczak | <u> </u> | x <u> </u> |
| Gov. Vardaman | x <u> </u> | <u> </u> |
| Gov. Mills | x <u> </u> | <u> </u> |
| Gov. Robertson | x <u> </u> | <u> </u> |
| Gov. Balderston | x <u> </u> | <u> </u> |
| Gov. Shepardson | x <u> </u> | <u> </u> |

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 8, 1956. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Johnson, Controller, and Director, Division of Personnel Administration
Mr. Solomon, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Stetson, Personnel Assistant, Division of Personnel Administration

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:

Telegram to Mr. Bryan, President, Federal Reserve Bank of Atlanta, reading as follows:

Re your letter of July 5 and Mr. Patterson's letter of April 20, 1956. Board authorizes the calling for bids for the proposed new building for the Nashville Branch on the basis of detailed plans and specifications referred to in those letters.

8/8/56

-2-

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

Approved unanimously.

Letter to the Board of Directors, Depositors Trust Company, Augusta, Maine, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors approves the establishment of a branch by the Depositors Trust Company at the intersection of Capitol and Grove Streets in Augusta, Maine, provided the branch is established within nine months from the date of this letter and the approval of the State banking authorities is in effect at the time the branch is established.

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

Letter to Mr. Wayne, First Vice President, Federal Reserve Bank of Richmond, reading as follows:

This refers to your letter of July 27 regarding the penalty of \$28.34 incurred by the University National Bank, Chapel Hill, North Carolina, on a deficiency of 9.5 per cent in its required reserves for the semimonthly period ended June 30, 1956.

It is noted that the deficiency resulted from the fact that the subject bank, a relatively new institution not sufficiently familiar with the process of redeeming maturing securities pledged as collateral, failed to make proper arrangements for the redemption of \$50,000 of Treasury Certificates maturing on June 22, 1956, pledged as security for State of North Carolina deposits; and that, as a result, there was a delay of four days in the redemption of the Certificates and in the crediting of the proceeds to the subject bank's reserve account.

8/8/56

-3-

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in this case.

Approved unanimously.

Mr. Leonard then withdrew from the meeting.

At the meeting on August 2, 1956, there was a preliminary discussion of an application of The Michigan Bank, Detroit, Michigan, for permission to establish a branch in Grosse Pointe Park. The file on this matter subsequently completed circulation to the members of the Board and, in addition, Governor Robertson had received a copy of a letter from the president of the member bank to the Federal Reserve Bank of Chicago discussing the plans of the bank for expanding operations branchwise along with the bank's program for keeping its capital funds in proper ratio to risk assets. Copies of this letter, which was written as the result of a suggestion made by Governor Robertson to Mr. Harris, First Vice President of the Chicago Reserve Bank, had been sent to the members of the Board prior to this meeting.

Governor Robertson stated that in view of the information now available, he would be willing to approve the branch application. He felt, however, that the operations of the bank should be followed closely by the Board in the light of recent developments. After referring to the purchase of the institution several months ago by interests associated with The Michigan National Bank of Lansing, Michigan, who had previously endeavored unsuccessfully to enter the

8/8/56

-4-

Detroit area through a branch, he said it seemed possible that The Michigan Bank would attempt to expand throughout the portion of Michigan not covered by the Lansing institution and that it would be operated on the basis of relatively low capitalization. He noted from The Michigan Bank's letter that another branch application was under consideration and said that while he was not too much concerned about this additional branch, he felt that the Board should be cautious about permitting the institution to establish other branches and that the bank should be held to a high standard of operations.

In response to a question by Governor Vardaman as to whether the bank's capital position appeared to be such that steps should be taken at the present time, Governor Robertson responded that no action seemed to be called for at present but that developments in respect to the bank should be watched closely.

Thereupon, unanimous approval was given to a letter to the Board of Directors, The Michigan Bank, Detroit, Michigan, reading as follows, for transmittal through the Federal Reserve Bank of Chicago:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch by The Michigan Bank, Detroit, Michigan, at 15008-12 East Jefferson Avenue, Grosse Pointe Park, Wayne County, Michigan, provided the branch is established within nine months from the date of this letter and the approval of the State banking authorities is in effect at the time the branch is established.

8/8/56

-5-

Chairman Martin reported that in a recent telephone conversation Mr. Fred Lazarus, President of the Federated Department Stores, Inc., Cincinnati, Ohio, inquired whether the Board's research staff would prepare an outline of a possible study of the bank capital problem which might be conducted by the Research Committee of the Committee for Economic Development through one of its study groups. He said that Mr. Lazarus appeared to be concerned about the adequacy of bank capital to sustain economic growth, that the Board's staff had prepared a set of questions relating to the problem as a basis for a possible study, and that this material was being transmitted by letter to Mr. Lazarus. He also said that the letter would be circulated to the members of the Board for their information.

Governor Mills indicated that he had received an inquiry along the same lines and that there appeared to be a growing concern as to whether current developments in bank lending operations, reflected in the relationship of risk assets to capital, would have the effect of causing the banks to reduce the rate of their loan expansion.

At the meeting on June 22, 1956, consideration was given to a draft of letter to International Banking Corporation, New York, New York, which would inquire about steps being taken pursuant to the Board's request that the Corporation dispose of its stock in The County Trust Company, White Plains, New York. This matter had been

8/8/56

-6-

the subject of discussion at a meeting of the Board with Mr. Howard C. Sheperd, Chairman of the Board of International Banking Corporation, on May 25, 1956. It was decided at the June 22 meeting to defer the sending of a letter for approximately one month in the thought that advice might be received from the Corporation by that time.

The view was expressed that inasmuch as no advice of developments had been received, appropriate inquiry should now be made. As to the form of the inquiry, Governor Balderston suggested that a letter of an informal nature might be suitable, and a draft of such a letter was distributed. In this connection, it was suggested that language be avoided which would indicate that the Board endorsed the proposed plan under which The First National City Bank of New York would spin off the stock of International Banking Corporation, as discussed by Mr. Sheperd at the meeting on May 25.

In view of the comments made at this meeting, certain suggestions were made for changes in the draft of letter to Mr. Sheperd considered at the meeting on June 22, following which unanimous approval was given to a letter reading as follows:

This is in further reference to the previous correspondence between the Board and International Banking Corporation concerning the purchase and holding by IBC of stock of The County Trust Company, a State member bank at White Plains, New York, and to the meeting which you and Mr. Henry Harfield had with the Board on May 25, 1956.

8/8/56

-7-

At the meeting just mentioned, there was discussed a plan which you had outlined in your letter of March 14, 1956, and had described as being designed to meet the request in the Board's letter of August 16, 1955, that your Corporation promptly dispose of the shares which it owns of County Trust Company.

It will be appreciated if you will let us know what is being done with respect to the disposition of the County Trust stock.

Messrs. Hostrup, Nelson, Goodman, and Shay then withdrew from the meeting.

Prior to this meeting there had been sent to the members of the Board copies of a memorandum from Mr. Johnson dated August 2, 1956 concerning amendments to the Civil Service Retirement Act which were made by Public Law 854 of the 84th Congress, effective October 1, 1956. Attached to the memorandum was a digest of the significant changes made in the Civil Service retirement benefits by this law. The memorandum called attention to the funding procedure increasing the employees' contribution rate to 6-1/2 per cent and providing for the various agencies to make payments to the Civil Service Retirement Fund after June 30, 1957, equal to the 6-1/2 per cent contributions of their employees. (This provision would apply to the Board only in relation to its employees already under the Civil Service Retirement System.) It was estimated that such payments required of the Board to cover the Board's employees who are under Civil Service

8/8/56

-8-

Retirement would approximate \$60,000 a year. The memorandum also called attention to the resolution of the Board dated November 2, 1943, which provided that any future changes in the Civil Service Retirement System benefits and rates would be embodied automatically in the Board Plan of the Retirement System of the Federal Reserve Banks unless formal action to the contrary was taken by the Board.

The memorandum recommended:

1. That the Board take no action to prevent the incorporation into the Board Plan of the changes in the Civil Service Retirement System as contained in Public Law 854.
2. That the Board authorize the necessary payments to the Civil Service Retirement Fund after June 30, 1957.
3. That the cost of funding these additional benefits be obtained from the actuaries of the Federal Reserve Retirement System but that action on the method of payment be deferred until receipt of the actuarial report.
4. That the Board approve an extension of employment for any of its employees due to retire July 31, August 31, or September 30, thus setting the date of separation for these employees as October 31, 1956.
5. That an opportunity be given to the 12 Board employees now in the Bank Plan of the Federal Reserve Retirement System to change to the Board Plan on an individual basis, and that opportunity for such change extend from the date of Board approval of this recommendation to the time of Board action on the recommendations of the System committee now reviewing the report of Industrial Relations Counselors Service, Inc., on the Bank Plan.

In conclusion, the memorandum pointed out that there was presently under consideration by a committee of the Board (Governors Szymczak and Shepardson) a report of Industrial Relations Counselors Service

8/8/56

-9-

recommending that Board Plan employees be placed under the Civil Service Retirement System.

Following comments by Mr. Johnson in amplification of the material contained in his memorandum, the view was expressed by members of the Board that the over-all goal should be an appropriate modification of the current retirement setup applicable to employees of the Board under which three separate plans are now in effect.

Governor Shepardson then commented on the work done to date by the Board's special committee, pointing out that the progress of that work had been delayed due to the fact that until the time Governor Szymczak went on vacation the amendments to the Civil Service Retirement Act had not been enacted and therefore could not be appraised as to their effect. In addition, no report was yet available from the committee studying the report of Industrial Relations Counselors Service pertaining to the Bank Plan of the Federal Reserve Retirement System. He pointed out that if it were decided that it would be desirable to transfer Board employees into the Civil Service Retirement System a number of questions would have to be resolved, including the policy question involved in such integration and the matter of funding prior credit. After indicating the nature of other problems which would have to be studied, he

8/8/56

-10-

suggested that recommendations numbered 1, 4, and 5 in Mr. Johnson's memorandum be approved since they would settle immediate questions and would not appear to complicate further any fundamental policy questions which might come before the Board in the future. On the other hand, he felt that action on recommendations numbered 2 and 3 might well be deferred until such time as the Board's special committee was able to bring in further recommendations. He indicated that the committee had in mind entering into informal explorations with the Civil Service Commission of the problems involved to determine what the Commission's attitude would be as to various alternatives.

At the conclusion of a further discussion, Governor Shepardson's recommendations were approved unanimously. This action was taken with the understanding that the members of the Board would be considering the implications of a decision to place Board employees under the Civil Service Retirement System, with a view to further discussion of this question when the Board's committee had carried its studies far enough to permit making recommendations to the Board.

Messrs. Solomon and Stetson then withdrew from the meeting.

There had been circulated to the members of the Board a memorandum dated July 24, 1956, from Mr. Marget, Director, Division of International Finance, requesting that in connection with his forthcoming trip to Mexico to lecture at the Center for Latin American

8/8/56

-11-

Monetary Studies, the Board approve the same rate of per diem in lieu of subsistence that would be applicable to travel within the continental United States.

Following comments concerning the apparent inadequacy of the per diem rate specified for travel in Mexico by the standardized Government travel regulations, (\$9), to cover expenses in Mexico City, the request was approved unanimously.

Mr. Carpenter stated that he had communicated with Mr. Powell, Special Counsel for the Board in the matter of The Continental Bank and Trust Company, Salt Lake City, Utah, and that Mr. Powell would be available to meet with the Board tomorrow, rather than Friday, August 10, on the question of issuing a warning to certain executive officers of the bank under section 30 of the Banking Act of 1933. However, he said, Mr. Powell was undecided as to the propriety of his meeting with the Board in this connection in view of the separation of the prosecuting and adjudicatory functions in this case. It was understood that Mr. Powell would confer with Messrs. Hexter and Chase, Assistant General Counsel, and would reach a decision on this point before meeting with the Board.

Mr. Carpenter also said that Mr. Powell had expressed the personal view that the Board should consider issuing a section 30 warning independent of any considerations relating to the proceeding under section 9 of the Federal Reserve Act.

8/8/56

-12-

Members of the Board expressed the opinion that there would seem to be no compelling reason why Mr. Powell should not discuss with the Board the possible issuance of a section 30 warning, particularly if the warning was to be considered as an action independent of the proceeding under section 9 of the Federal Reserve Act.

The meeting then adjourned.

Secretary's Note: On August 7, 1956, Governor Shepardson approved the following items on behalf of the Board:

Memorandum dated August 6, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Altha O. Best as Operator, Key Punch, in that Division, on a temporary basis for a period of two weeks, with basic salary at the rate of \$3,430 per annum, effective when she assumes her duties.

Memorandum dated August 2, 1956, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Patricia M. Dini, Stenographer in that Division, be accepted, effective August 10, 1956.

Governor Shepardson today approved the following items on behalf of the Board:

Memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following members of the staff be increased in the amounts indicated, effective August 12, 1956:

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|-------------------------------|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| | <u>Legal</u> | | |
| Margaret E. Rauber, Secretary | | \$4,890 | \$5,025 |

8/8/56

-13-

Salary increases effective August 12, 1956. (Continued)

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|---|---------------------------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| | <u>International Finance</u> | | |
| Margaret R. Garber, Economist | | \$5,335 | \$5,575 |
| | <u>Bank Operations</u> | | |
| Harold F. Stone, Analyst | | 5,980 | 6,115 |
| | <u>Personnel Administration</u> | | |
| Margaret H. Wolverton, Personnel Technician | | 5,845 | 5,980 |
| | <u>Administrative Services</u> | | |
| Andrew Fassino, Assistant Foreman, Laborers | | 3,285 | 3,370 |

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

In accordance with the request contained in your letter of August 6, 1956, the Board approves the designation of George T. Gearty and John C. Parker as special assistant examiners for the Federal Reserve Bank of New York.

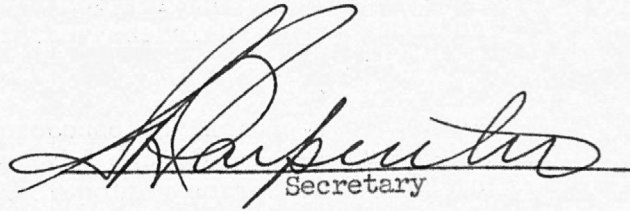
Letter to Mr. Morrill, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request in your letter of August 3, 1956, the Board approves the designation of D. L. Staley as a special assistant examiner for the Federal Reserve Bank of San Francisco for the purpose of participating in the examinations of State member banks only.

8/8/56

-14-

The authorization heretofore given your Bank to designate Mr. Staley as a special assistant examiner is hereby cancelled.



Secretary