

Minutes for January 9, 1957

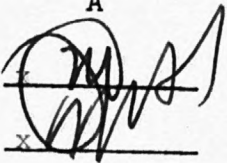
To: Members of the Board

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		_____
Gov. Szymczak	x _____	_____
<u>1/</u> Gov. Vardaman	_____	x _____
Gov. Mills	x _____	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x _____	_____
Gov. Shepardson	x _____	_____

1/ The attached set of minutes was sent to Governor Vardaman's office in accordance with the procedure approved at the meeting of the Board on November 29, 1955. The set was returned by Governor Vardaman's office with the statement (see Mr. Kenyon's memorandum of February 12, 1957) that hereafter Governor Vardaman would not initial any minutes of meetings of the Board at which he was not present. Therefore, with Governor Shepardson's approval, these minutes are being filed without Governor Vardaman's initial.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 9, 1957. 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. Kenyon, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research
 and Statistics
 Mr. Sloan, Director, Division of Examinations
 Mr. Johnson, Controller, and Director, Division of Personnel Administration
 Mr. Hackley, Associate General Counsel
 Mr. Masters, Associate Director, Division of Examinations
 Mr. Daniels, Assistant Controller
 Mr. Molony, Special Assistant to the Board
 Mr. Thompson, Supervisory Review Examiner, Division of Examinations
 Mr. Stetson, Personnel Assistant, Division of Personnel Administration

There had been sent to the members of the Board copies of a memorandum from the Division of Examinations dated January 3, 1957, with regard to a request from Hillsboro Enterprises, Inc., Nashville, Tennessee, for a determination that it was not engaged as a business in holding the stock of, or managing or controlling, banks, in accordance with section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935. While the recommendation of the Federal Reserve Bank of Atlanta was favorable, the Division of Examinations recommended that the

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request be denied because: (1) Hillsboro's ownership of bank shares represented approximately 24 per cent of its total assets; (2) its ownership of in excess of 40 per cent of the outstanding shares of two banks and nearly 25 per cent of such shares of one other bank removed it from the "one-bank" class; and (3) its controlling shareholders were officers and directors of banks and exerted an influence upon the policies of the two banks in which Hillsboro had held in excess of a 40 per cent interest since 1954. The Division recommended, however, that if the request for a section 301 determination was denied, the Board approve the issuance of a limited voting permit to Hillsboro to enable it to vote its shares of The Harpeth National Bank of Franklin, Franklin, Tennessee, since Hillsboro owned more than 50 per cent of the shares voted at the 1956 election of directors. The memorandum stated that in telephone conversations Vice President Denmark of the Atlanta Reserve Bank had advised the Division of Examinations that he realized this was a questionable case, that he felt a limited voting permit should be granted if the section 301 determination was not made, and that in the event of adverse action on the request for determination, Hillsboro would like to have a limited voting permit. On January 7, Mr. Denmark notified the Division by telegram that an application for limited voting permit had been filed.

Following a discussion of the matter, the recommendations of the Division of Examinations were approved unanimously. In accordance with this action, approval was given to a telegram to Mr. Mitchell, Federal

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Reserve Agent at the Federal Reserve Bank of Atlanta, authorizing the issuance of a limited voting permit, pursuant to section 5144 of the Revised Statutes of the United States, to Hillsboro Enterprises, Inc., Nashville, Tennessee, entitling such organization to vote the shares which it owns or controls of The Harpeth National Bank of Franklin, Franklin, Tennessee, at any time prior to April 1, 1957, to elect directors of such bank at the annual meeting of shareholders, or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

Approval was also given to a letter to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

This refers to your letter of December 21, 1956, regarding the request made by Hillsboro Enterprises, Inc., Nashville, Tennessee, for a determination by the Board that such company is not a holding company affiliate (except for the purposes of Section 23A of the Federal Reserve Act).

It is understood that Hillsboro Enterprises, Inc., is engaged principally in the business of purchasing, acquiring, owning, exchanging, selling, or otherwise dealing in securities, real estate, and personal property, and other incidental and related activities; that Hillsboro Enterprises, Inc., is a holding company affiliate of The Harpeth National Bank of Franklin, Franklin, Tennessee, by reason of the fact that it owns more than 50 per cent of the number of shares voted at the latest election of directors of such bank; that Hillsboro Enterprises, Inc., also owns and will continue to own a substantial percentage of shares of stock of each of two other banks; and that ownership of bank shares represents and will continue to represent over 20 per cent of the total assets of Hillsboro Enterprises, Inc.

As you know, section 2(c) of the Banking Act of 1933, as amended, excludes from the definition of "holding company affiliate" (except for the purposes of section 23A of the

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Federal Reserve Act) any company which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. Although Hillsboro Enterprises, Inc., is a holding company affiliate only with respect to one bank, it appears to be engaged substantially in the business of holding bank stocks.

On the basis of all of the facts of the case as presented to the Board, and in view of the nature of the Company's business, the Board has concluded that it would not be warranted in making the determination requested, and it will be appreciated if you will so advise the Hillsboro Enterprises, Inc. Consequently, the Company will not be in a position legally to vote the stock of The Harpeth National Bank of Franklin unless a voting permit is obtained from the Board.

Messrs. Sloan, Masters, and Thompson then withdrew from the meeting.

There had been sent to the members of the Board under date of November 8, 1956, copies of the draft text of a handbook proposed for distribution to Board employees. Also, there had been circulated to the members of the Board a dummy make-up of the booklet.

In response to a question by the Chairman, the members of the Board indicated that they had no changes to suggest in the design or text of the handbook. It was also stated that the material had been reviewed by Mr. Molony and was considered satisfactory.

Thereupon, the Division of Personnel Administration was authorized to proceed with steps looking toward the issuance of the handbook when it was in a form satisfactory to Governor Shepardson.

Mr. Stetson then withdrew from the meeting.

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At the request of the Chairman, Mr. Young discussed certain questions that had arisen in connection with the publication and distribution of the consumer instalment credit study. He said that the study would comprise six volumes, that the Government Printing Office would have five of the volumes available by about March 15 and would like to distribute them promptly, and that the sixth volume, dealing with the survey of new car purchasers in 1954 and 1955, would not be ready to go to the Government Printing Office until about the time the other volumes were ready for release.

Mr. Young then referred to an understanding with Mr. Burns, former Chairman of the Council of Economic Advisers, that the completed or substantially completed study, with the exception of the one volume, would be delivered to the Council by the first of February. He indicated that if this deadline was to be met the alternatives would be to send galley proof to the Council or to prepare mimeographed copies, which would require the cutting of a large quantity of new stencils. It was his understanding that the Council intended to distribute copies of the study to the President and members of the Cabinet, following which the Administration would transmit the study to the Congress, either with or without a recommendation. A related question, Mr. Young said, was whether copies of the study should be sent to the appropriate committees of the Congress for committee and staff review on a confidential basis prior to the date of general release.

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In a discussion of the problem, Governor Mills brought out the arguments in favor of arranging for the members and staffs of the Council of Economic Advisers and the Congressional committees to have an opportunity to review the study in advance of public release. The public relations aspects of the matter were discussed by Mr. Molony, who emphasized that any distribution of copies of the study outside the Board before the general release date involved the possibility of "leaks" which might lead to inquiries that would be difficult to handle, especially in view of the length and nature of the study and the unavailability of any brief summary.

The possibility was suggested by Governor Balderston of sending to the Council and the Congressional committees, labeled as an unfinished working draft, mimeographed copies of the chapter that draws upon the various parts of the study.

Chairman Martin then stated that if the Board so desired, he would discuss the matter with Mr. Saulnier, present Chairman of the Council of Economic Advisers, to determine whether some arrangements could be worked out which would be satisfactory to the Council and yet avoid the mechanical and public relations problems that had been mentioned at this meeting.

Chairman Martin's suggestion
was approved unanimously.

During the foregoing discussion Mr. Fauver, Assistant Secretary, joined the meeting, and at its conclusion Messrs. Vest, Young, Hackley and Molony withdrew.

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Mr. Fauver stated that responses from the Federal Reserve Banks to Chairman Martin's telegram of December 28, 1956, indicated that Wednesday, February 20, would be a generally satisfactory date on which to invite newly-appointed Reserve Bank and branch directors to visit the Board's offices. In this connection, he reported that two Reserve Banks had inquired informally whether certain directors appointed prior to the initiation of the annual directors' day programs, but who had never visited the Board's offices for such a program, might receive invitations.

With reference to the last point mentioned by Mr. Fauver, Governor Shepardson said that the Board might also wish to consider arranging another meeting this year for all Reserve Bank and branch directors who had not yet visited the Board's offices for a directors' day program or for a meeting such as the Chairmen's Conference. He said there had been some indications that the directors in this category would welcome the opportunity. At his request, Mr. Fauver reviewed the number of directors that would be involved and it appeared that it would not be feasible to invite them along with the newly-appointed directors on February 20.

Following further discussion, it was agreed unanimously to fix finally Wednesday, February 20, as the date of the meeting for newly-appointed Federal Reserve Bank and branch directors, with the understanding that appropriate letters would be sent to the Federal Reserve Banks. It was also agreed that, in line with the practice followed in the past, invitations would

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be extended to the two other directors on whose behalf requests had been made, and that any similar requests also should be complied with. It was further agreed that after February 20 the Board would consider again whether a meeting or meetings should be arranged, possibly in the fall, for the remaining directors who had not yet participated in the annual directors' day programs.

Messrs. Kenyon and Fauver then withdrew from the meeting.

With a memorandum dated December 26 the Office of the Controller submitted the proposed budget of the Board for the year 1957. Prior to the submission of the combined budget the Controller had discussed the various tentative division budgets with the respective division heads and during these discussions adjustments were agreed upon. Subsequently a review memorandum was prepared by the Controller covering each division budget and these memoranda were presented to Governor Shepardson who then held budget meetings with each division head, and the budget submitted to the Board was in the amounts agreed upon at these meetings.

The memorandum of December 26, in addition to discussing the major items of increase, stated in part as follows:

The proposed regular budgets for 1957 amount to \$6,519,391 and the estimates for special projects aggregate \$469,191, the combined budgets totaling \$6,988,582 for the year. This is approximately \$1,750,000 over 1956 estimated expenses.

Principally this increase results from: (1) an estimated \$1,500,000 for an expected special payment to the Retirement System to fund increased benefits in the Board

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Plan, and \$96,000 additional to be paid the Retirement System and the Civil Service Commission for 1957 current contributions including cost of the increased retirement benefits; (2) \$286,000 for the electronic computer; (3) \$200,000 for additional salary costs, mainly increases in salaries of present employees; and (4) \$99,000 more for printing and binding than in 1956 (including \$24,500 for the "All Bank" statistics book, \$28,700 for reprinting the System booklet, and \$44,500 to publish the results of the Consumer Instalment Credit Study).

Partially offsetting are expenses of 1956 that are not recurring in 1957, in the approximate amounts of: (1) \$308,000 for the Consumer Instalment Credit Study, (2) \$65,000 for conversion of elevators, and (3) \$45,000 expected reduced costs of security clearance investigations.

Personnel requirements of the 1957 budget total 602 1/2 positions on a full-time basis (seven part-time positions included as one-half each). This is an increase of 14 over the number provided for in the 1956 budget; however, there are only two new positions anticipated in 1957, as 12 were established during 1956.

In the opinion of this Office, the proposed budgets have been conservatively prepared by the Divisions to provide for the programs proposed in 1957.

Since the tentative budgets had been prepared the Board had approved a number of salary increases for members of the Board's official staff in a total amount for 1957 of \$23,791. With these increases the total budget for the year would amount to \$7,012,373.

At this meeting of the Board the various division budgets and the combined budget were reviewed in detail both in terms of the anticipated needs of the respective divisions during 1957 and justification for the proposed special expenditures.

At the conclusion of the discussion, upon recommendation by Governor Shepardson, the budget was approved unanimously as follows:

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PERSONAL SERVICES

Salaries.....	\$3,600,110
Retirement Contributions.....	1,853,479
Employee Insurance.....	<u>13,575</u>
TOTAL PERSONAL SERVICES.....	\$5,467,164

NONPERSONAL SERVICES

Traveling Expenses.....	\$ 302,226
Postage and Expressage.....	54,045
Telephone and Telegraph.....	81,707
Printing and Binding.....	289,713
Stationery and Supplies.....	37,778
Furniture and Equipment.....	263,098
Rentals.....	27,207
Books and Subscriptions.....	14,839
Heat, Light and Power.....	41,900
Repairs and Alterations (Building and Grounds).....	17,475
Repairs and Maintenance (Furniture and Equipment).....	15,801
Medical Service and Supplies.....	1,562
Insurance.....	5,674
All Other.....	<u>392,184</u>
TOTAL NONPERSONAL SERVICES.....	\$1,545,209
TOTAL BUDGET.....	\$7,012,373

The meeting then adjourned.

Secretary's Note: On January 8, 1957, Governor Shepardson approved on behalf of the Board memoranda from appropriate individuals concerned recommending that the basic annual salaries of the following employees be increased in the

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amounts indicated, effective January 13,
1957:

<u>Name and Title</u>	<u>From</u>	<u>To</u>
<u>Research and Statistics</u>		
Margaret R. Hauser, Clerk	\$3,755	\$3,840
Gloria J. Hile, Economist	5,710	5,845
<u>Examinations</u>		
Francis J. McGarvey, Assistant Federal Reserve Examiner	5,440	5,575

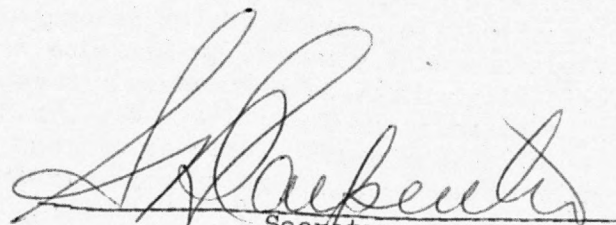
Secretary's Note: Governor Shepardson
today approved the following letters on
behalf of the Board:

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

In accordance with the request contained in your
letter of January 4, 1957, the Board approves the
designation of Thomas Phillips Hall as a special
assistant examiner for the Federal Reserve Bank of
Boston.

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 January 3, 1957, the Board approves the
designation of Martin F. Byrne as a special examiner
for the Federal Reserve Bank of New York.


Secretary