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.

Chm. Martin
Gov. Szymczak
Gov. Vardaman 1/
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson

1/ In accordance with Governor Shepardson's memorandum of March 8, 1957, these minutes are not being sent to Governor Vardaman for initial.
Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, February 26, 1958. The Board met in the Board Room at
9:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Hackley, General Counsel
Mr. Masters, Director, Division of Examinations
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Solomon, Assistant General Counsel
Mr. Daniels, Assistant Controller

Reserve requirements. At the meetings of the Board on February 21 and 24, 1958, consideration was given to what material, if any, should be furnished in writing to the Committee on Legal Reserve Requirements of the American Bankers Association pursuant to the Committee's request at its meeting with the Board on February 21 concerning possible legislation with respect to reserve requirements. At the February 24 meeting it was decided to send to the Committee only a draft of legislation in the form representing the Board's tentative conclusions, with a transmittal letter to Mr. Daniel W. Bell, Chairman of the Committee, stating that he should feel free to discuss the background of the draft bill with Mr. Thomas if he wished and that the Board would be glad to meet again with the Committee. After the letter was sent, it occurred to Mr. Thomas
that the Board might wish to consider again whether it would not be desirable for him to have a statement available if he should be called upon by Mr. Bell. Accordingly, after discussion with Governor Balderston he prepared a revised version of the memorandum which was discussed on February 24 and copies were sent to the members of the Board. It was understood that Mr. Bell and other representatives of the American Bankers Association were going to meet this morning for a discussion of reserve requirement legislation and the revised memorandum from Mr. Thomas therefore had been placed on the agenda for consideration at this time.

The memorandum was reviewed and there were a number of suggestions for further changes in it. It was then agreed that the memorandum, revised to the extent indicated at this meeting, would be sent to Mr. Bell and that copies also would be sent to the Presidents of the Federal Reserve Banks and the members of the Federal Advisory Council along with a draft of legislation in the form previously transmitted to Mr. Bell.

In this connection, question was raised whether the memorandum should contain a legend indicating that it was not intended for public distribution. After some discussion of this point, it was agreed that the memorandum should carry the following statement: "This memorandum is tentative and preliminary and does not necessarily represent an official position."

Messrs. Thomas, Leonard, and Molony then withdrew from the meeting.
Items circulated to the Board. The following items, which had been circulated to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

- **Item No. 1 - 8**: Letters to eight Federal Reserve Banks approving the appointments of Industrial Advisory Committee members in the respective districts.

- **Item No. 9**: Letter to Norfolk County Trust Company, Brookline, Massachusetts, approving the establishment of a branch in Dedham, Massachusetts. (For transmittal through the Federal Reserve Bank of Boston)

- **Item No. 10**: Letter to the Federal Reserve Bank of New York approving an extension of time for The Chase Manhattan Bank to establish a branch at 80-86 East End Avenue.

- **Item No. 11**: Letter to the Federal Reserve Bank of Cleveland approving an extension of time for The Provident Savings Bank and Trust Company, Cincinnati, Ohio, to establish a branch in Delhi Township, Ohio.

- **Item No. 12**: Letter to Bank of Sturgeon Bay, Sturgeon Bay, Wisconsin, approving the establishment of a branch on Washington Island, Wisconsin. (For transmittal through the Federal Reserve Bank of Chicago)

- **Item No. 13**: Letter to the Federal Reserve Bank of Kansas City approving an investment in bank premises by The Kansas State Bank, Newton, Kansas.

- **Item No. 14**: Letter to Bank of Laramie, Laramie, Wyoming, granting its request for permission to exercise fiduciary powers. (For transmittal through the Federal Reserve Bank of Kansas City)

- **Item No. 15 - 16**: Letter to the Federal Reserve Bank of Dallas waiving six months' notice of withdrawal from System membership for Security State Bank, Littlefield, Texas; and letter to the Federal Deposit Insurance Corporation regarding the bank's application for continuance of deposit insurance after withdrawal from membership.
Review of budget performance. The Office of the Controller had sent to the members of the Board under date of February 20, 1958, copies of a document containing a report on the budget performance of the various offices and divisions of the Board for the year 1957. This document indicated that the Board's expenses for 1957 totaled $7,537,007, which was $524,634 (7 per cent) more than the $7,012,373 budgeted for the year. The excess was reported to be attributable to special contributions to the Retirement System of the Federal Reserve Banks to fund increased benefits, these payments having totaled $733,178 more than the budget of $1,500,000. On the other hand, there was an underexpenditure of $282,379 in the electronic computer special project budget.

Following a statement by Mr. Daniels on the highlights of the budget performance document, Governor Mills said that the Board's budget procedures and performance tend to set the tone and give leadership to the budget function of the Federal Reserve Banks. From an exhibit in the Controller's report, he observed that between 1953 and 1957 the Board's expenses had risen more than 20 per cent, even without taking into account the special contributions to the Retirement System in 1957, and he suggested that it might be helpful to the Board to have a comparison between this trend and the trend of expenses of the Federal Reserve Banks, individually and in total, for the same period. He also expressed concern from the standpoint of his feeling that the budget established at the beginning of a fiscal year should not be exceeded in the absence of
exceptional or urgent circumstances that require additional expenditures. In this connection, he pointed out that special items sometimes are approved by the Board following approval of the annual budget and questioned whether this was a desirable practice in the light of the budget requirements established for the Federal Reserve Banks. He noted that the trend of Board expenses could be followed by the Federal Reserve Banks from the semiannual assessments levied upon them. In conclusion, he said that his feelings on the subject were particularly strong because the scale of Federal Reserve expenditures, unless carefully safeguarded, could bring criticism upon the System.

Governor Balderston commented that outside of the special contributions to the Retirement System the Board's expenses would have been about the same in 1957 as in 1956, to which Governor Mills replied that this was only because certain budgeted expenditures, including those in connection with the electronic computer, had not resulted in actual payments.

Governor Shepardson said it was his understanding that the Board's budgets were looked upon as target rather than appropriation budgets, the attempt being to arrive as accurately as possible at what might be considered the target, recognizing that during the year some items might come up that had not been provided for completely in the budget although they may have derived from commitments which had been entered into by specific action of the Board. A case in point would
be the administrative proceeding against the Continental Bank and Trust Company of Salt Lake City, Utah. In a situation of that kind, one approach would be to make a conservative estimate, even though realizing that the matter must be pursued in any event, while the other approach would be to make a budget estimate providing fully for all possible contingencies. It was his opinion that the latter approach would be more likely to enlarge actual expenditures because it generally provides some leeway and a tendency may develop to make use of all or most of the budgeted funds. When, on the other hand, targets are established and the Board then faces unusual situations as they develop, it seemed to him that the Board is in a better position to control expenditures.

Governor Balderston said that he shared this view, particularly since the Board is not an organization like a municipality or a university, with fixed income that can not be modified. If a budget were to be prepared containing many cushions, it would seem ineffective as a control. Consequently, he would prefer a budget that represented a target, with the understanding that unforeseen circumstances would require special action. Through such a procedure, the Board could be sure that any new and unforeseen projects were considered and discussed by the Board before funds were actually committed.

Governor Mills then made the further statement that the Board, having been given by statute the freedom to spend funds in its own discretion, has an even greater responsibility to follow budgetary
developments and expenditures closely than do Government departments and agencies operating under appropriated funds.

Governor Shepardson agreed but expressed the view that this was essentially what was being done under the current procedures and that the degree of control would be less stringent under an appropriation type of budget.

Following further comments, Chairman Martin said he thought there was full agreement about the Board's special responsibility for controlling its expenditures in such a way as to prevent abuses. From that standpoint, he felt that Governor Mills had correctly stated the nature of the problem.

Governor Shepardson then stated that he would work with the Office of the Controller and the Division of Bank Operations in compiling for the Board comparative information on expense trends such as Governor Mills had mentioned.

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

Trip by Mr. Riefler. Chairman Martin later informed the Secretary that during the executive session the Board, at his suggestion, authorized Mr. Riefler, Assistant to the Chairman, to go to England to testify before the Radcliffe Committee (the Committee on the Working of the Monetary System) and answer such questions as the Committee might ask. This authorization was subject to the understanding that before Mr. Riefler
left for England, Chairman Martin would take the matter up with the Treasury and State Departments to ascertain that there was no objection on the part of the United States Government to Mr. Riefler's making the trip for the purpose stated.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

**Notice of retirement**

Otto H. Branic, Messenger, Board Members' Offices, effective March 1, 1958.

**Transfer**

William E. Pinn, from the position of Assistant Head Messenger in the Division of Administrative Services to the position of Messenger in the Board Members' Offices, with no change in his basic annual salary at the rate of $3,470, effective March 1, 1958.
Mr. Laurence H. Stone,
Secretary and Assistant Counsel,
Federal Reserve Bank of Boston,
Boston 1, Massachusetts.

Dear Mr. Stone:

The Board of Governors approves the appointments of Messrs. John L. Baxter, Wallace E. Campbell, Earl P. Stevenson, Fred C. Tanner, and Harold J. Walter as members of the Industrial Advisory Committee for the First Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of January 27, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. William H. Braun, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Braun:

The Board of Governors approves the appointments of Messrs. Arthur G. Nelson, Edward J. Noble, and William H. Pouch as members of the Industrial Advisory Committee for the Second Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of February 6, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. Richard G. Wilgus, Secretary,  
Federal Reserve Bank of Philadelphia,  
Philadelphia 1, Pennsylvania.  

Dear Mr. Wilgus:  

The Board of Governors approves the appointments of Messrs. George E. Lallou, B. F. Mechling, Harry L. Miller, and Daniel H. Schultz as members of the Industrial Advisory Committee for the Third Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of February 10, 1958.  

Very truly yours,  

(Signed) Merritt Sherman  

Merritt Sherman,  
Assistant Secretary.
Mr. Arthur B. Van Buskirk, Chairman,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Van Buskirk:

The Board of Governors approves the appointments of Messrs. Sam W. Emerson, Herbert P. Ladds, John P McWilliams, and Arthur W. Steudel as members of the Industrial Advisory Committee for the Fourth Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of January 9, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. Bert R. Prall, Chairman,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Prall:

The Board of Governors approves the appointments of Messrs. C. Harvey Bradley, John W. Evers, Edward M. Kerwin, Frederick L. Maytag II, and James L. Palmer as members of the Industrial Advisory Committee for the Seventh Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of February 6, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. H. G. McConnell, Secretary,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. McConnell:

The Board of Governors approves the appointments of Messrs. Sheldon V. Wood, John M. Bush, A. B. Heian, Walter M. Ringer, Sr., and A. H. Daggett as members of the Industrial Advisory Committee for the Ninth Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of January 9, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. D. W. Woolley, Secretary pro tem,  
Federal Reserve Bank of Kansas City,  
Kansas City 6, Missouri.

Dear Mr. Woolley:

The Board of Governors approves the appointments of Messrs. Mason L. Thompson, Thomas McNally, Harold F. Silver, Albert R. Waters, and William N. Deramus as members of the Industrial Advisory Committee for the Tenth Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of January 15, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.
Mr. H. N. Mangels, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Mangels:

The Board of Governors approves the appointments of Messrs. Wakefield Baker, E. S. Dulin, Keith G. Fisken, J. A. Folger, and Walter A. Starr as members of the Industrial Advisory Committee for the Twelfth Federal Reserve District to serve for terms of one year each beginning March 1, 1958, in accordance with the action taken by the Board of Directors as reported in your letter of January 9, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,
Norfolk County Trust Company,
Brookline, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the corner of Washington and Elm Streets, Dedham, Massachusetts, by Norfolk County Trust Company, Brookline, Massachusetts, provided the branch is established within one year from the date of this letter and the approval of the State authorities is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

Reference is made to your letter of February 6, 1958, transmitting the request of The Chase Manhattan Bank, New York, New York, for an extension of time in which to establish a branch at 80-86 East End Avenue, New York, New York.

It is noted construction of the apartment house in which the branch is to be located is well underway and that the delay which has occurred can be attributed largely to uncertainties of the construction business. Therefore, the Board concurs in your favorable recommendation and extends to September 24, 1958, the time within which The Chase Manhattan Bank may establish the above described branch as originally approved in the Board's letter of September 24, 1956.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. Paul C. Stetzelberger, Vice President,  
Federal Reserve Bank of Cleveland,  
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

Reference is made to your letter of February 10, 1957, regarding the request of The Provident Savings Bank and Trust Company, Cincinnati, Ohio, for an extension of time until August 13, 1958, to establish a branch in the Del-Fair Shopping Center at the southeast corner of Delhi Pike and Anderson Ferry Road, Delhi Township, Ohio.

It is noted that the construction program for the building has been started but the project is far from completion and the State Superintendent of Banks has extended his authorization to the above mentioned date.

In view of these circumstances, the Board concurs in your favorable recommendation and extends until August 13, 1958, the time within which the branch may be established under the authorization contained in its letter of March 13, 1957.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Assistant Secretary.
Board of Directors, 
Bank of Sturgeon Bay, 
Sturgeon Bay, Wisconsin.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch by the Bank of Sturgeon Bay, on Washington Island, Wisconsin, provided the branch is established by July 1, 1958.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, 
Assistant Secretary.
Mr. D. W. Woolley, Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Woolley:

Reference is made to your letter of January 29, 1958, submitting with a favorable recommendation, the request of The Kansas State Bank, Newton, Kansas, for approval under Section 24A of the Federal Reserve Act of additional investments in new bank premises, including land and building but excluding furniture and fixtures, amounting to not exceeding $237,376. It is understood that a total of $102,376 of the new building costs have been charged off to date and that the proceeds derived from the sale of the bank's old premises, net of capital gains taxes, will be used to further reduce the carrying value of new bank premises to approximately $100,000, the amount of the bank's common capital stock. It further is understood that the bank's investment in bank premises has not been and will not be carried on its books at an amount in excess of $135,000 at any time.

In the circumstances, the Board of Governors approves the additional investments made or to be made for the above purposes. Please advise the bank accordingly.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Board of Directors,
Bank of Laramie,
Laramie, Wyoming.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to the Bank of Laramie to exercise the fiduciary powers now or hereafter authorized under the terms of its Articles of Incorporation and the laws of the State of Wyoming.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

Reference is made to your letter of February 7, 1958, enclosing copy of a resolution adopted by the board of directors of Security State Bank, Littlefield, Texas, signifying its intention to withdraw from membership in the Federal Reserve System and requesting a waiver of the six months' notice of such withdrawal.

The resolution empowers the president or vice president and the cashier of the bank to accomplish withdrawal from membership. This indicates that either the president or the vice president acting with the cashier must take the necessary action. It is observed that neither the president nor the vice president has taken any steps toward having the bank withdrawn from membership, all papers being executed by the cashier alone. For the bank's protection, it is suggested that the president or vice president address a letter to the Federal Reserve System ratifying action taken by the cashier to effect withdrawal from membership.

In accordance with the bank's request, the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the bank, you are authorized to cancel such stock and make appropriate refund thereon. Under the provision of Section 10(c) of Regulation H, as amended effective September 1, 1952, the bank may accomplish termination of its membership at any time within eight months after notice of intention to withdraw is given. Please advise when cancellation is effected and refund is made.

The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

It is our understanding that the bank has filed a formal application with the Federal Deposit Insurance Corporation for continuance of deposit insurance after withdrawal from membership.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.
Honorable Jesse P. Wolcott,
Chairman,
Federal Deposit Insurance Corporation,
National Press Building,
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of February 6, 1958, concerning the application of Security State Bank, Littlefield, Texas, 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 the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Assistant Secretary.