Minutes for July 30, 1958

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 [X] [W]
Gov. Szymczak [X] [W]
Gov. Wardaman [X] [X]
Gov. Mills [X] [X]
Gov. Robertson [X] [C]
Gov. Balderston [X] [CCB]
Gov. Shepardson [X] [ ]
Minutes of the Board of Governors of the Federal Reserve System on Wednesday, July 30, 1958. 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. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Masters, Director, Division of Examinations
Mr. Shay, Legislative Counsel
Mr. Farrell, Associate Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations

Discount rates. The Board approved unanimously telegrams to the Federal Reserve Banks of Boston and Atlanta approving the establishment without change by those Banks on July 28, 1958, of the rates on discounts and advances in their existing schedules.

Items distributed to the Board. The following items, which had been distributed to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:
Letter to the Federal Reserve Bank of New York regarding the program for examination of Edge Act corporations, Agreement corporations, and foreign branches of State member banks which was recently approved by the Board.

Letter to Valley Bank and Trust Company, Springfield, Massachusetts, approving the establishment of a branch at Seymour Avenue and Boston Road. (For transmittal through the Federal Reserve Bank of Boston)

Messrs. Hostrup and Goodman then withdrew from the meeting and Messrs. Thomas, Economic Adviser to the Board, Johnson, Director, Division of Personnel Administration, and Molony, Special Assistant to the Board, entered the room.

Personal Finance Company case. Mr. Solomon reported receipt of a telephone call from Vice President Bilby of the Federal Reserve Bank of New York, who stated that the U. S. Attorney's Office had informed the Reserve Bank that the Personal Finance Company case, involving alleged violations of Regulation W, Consumer Credit, was now being made ready for trial and sought the Bank's assistance in interviewing witnesses. In this connection, Mr. Solomon pointed out that Personal Finance Company is a subsidiary of Beneficial Loan Corporation, one of the largest personal loan companies in the country, and that the case involved a large number of apparent violations of the law. When the matter came up several years ago, the Board therefore gave serious consideration to it and at one time authorized the New York Reserve Bank to make substantial personnel assignments to the case. Subsequently, the Board decided to turn the case
over to the Department of Justice for prosecution, but on various grounds
counsel for Personal Finance Company had managed to get the case put over
and it had never come to trial. According to Mr. Bilby, it was the plan
of the U. S. Attorney's Office to present the case on the basis of
alleged violations at one of the company's branches in the Poughkeepsie,
New York, area, and it appeared that there were about 150 witnesses to be
interviewed. While the Reserve Bank had no particular enthusiasm for
conducting interviews at this time, neither did it want to shirk any
responsibility that might be regarded as attaching to the Bank.

Mr. Solomon went on to say that there were practical reasons why
it would be difficult for the New York Reserve Bank to render the requested
assistance. For example, the Bank's Regulation W staff had been disbanded
and records relating to the case were at the U. S. Attorney's Office.

Chairman Martin asked Mr. Solomon whether the System continued to
have a responsibility in a matter of this kind now that the pertinent
statute was no longer on the books, and Mr. Solomon replied that,
technically speaking, the answer probably would have to be in the negative.
If the law were still in effect, it would be quite clear that the
administering agency should cooperate in every practical way with the
enforcing agency, but with the statute no longer on the books there would not
be much of a direct legal responsibility. Notwithstanding this fact,
however, the Justice Department probably would feel that the System ought
to cooperate in the prosecution of a Regulation W case. If the Reserve Bank
had support from the Board, Mr. Solomon felt that it would argue against doing anything and that it probably could persuade the U. S. Attorney's Office.

In response to a further question by Chairman Martin, Mr. Solomon said he thought that a reasonable case probably could be made for refusing to render the desired assistance, particularly because a long period of time had elapsed, during which the Reserve Bank's Regulation W staff had been disbanded. It would not seem proper for the Bank to say that this matter was of no interest to it, but on the other hand the Bank would appear to have practical reasons for not assisting in the prosecution of the case at this time.

Governor Vardaman expressed the opinion that the matter ought to be dropped in view of the time that had elapsed. He said that he would favor leaving to the discretion of the Federal Reserve Bank of New York the question of complying or not complying with the request that it had received from the U. S. District Attorney's Office.

Governor Mills recalled that he had asked Mr. Chase of the Board's Legal Division about this case two or three months ago and that it appeared from inquiry of the Federal Reserve Bank of New York that the Department of Justice had dropped the case. According to his recollection, Governor Mills said, this was one of the most serious cases involving violations of Regulation W. He then turned to Mr. Fauver, who confirmed this recollection and said that in turning the case over to the Justice Department the Board
had felt and hoped that it would be prosecuted vigorously. It appeared that Personal Finance Company had been successful so far in avoiding actual prosecution of the case and this raised a question whether prosecution at this late date would be feasible. However, failure to prosecute would mean that Personal Finance had been successful in its maneuvers.

Governor Robertson expressed the view that the question presented by Mr. Solomon should be left to the Federal Reserve Bank of New York for decision; in other words, that the Board should not tell the Reserve Bank whether or not it should render the requested assistance. Then, if the Reserve Bank could develop the necessary staff, it would be free to work with the U. S. Attorney's Office if in the Bank's judgment that seemed appropriate.

After Governor Balderston had expressed agreement with the views of Governor Robertson, Governor Vardaman cited public relations problems and other aspects of the situation which would tend to make prosecution of the case difficult at this time. He indicated that, in such circumstances, he concurred in what Governor Robertson had said.

Chairman Martin stated that Governor Mills had raised a moral point which concerned him somewhat. On the other hand, he recognized that a period of seven years had now elapsed since the matter was turned over to the Department of Justice. The Reserve Bank, he noted, could not have been expected to retain its Regulation W staff intact for that period of time.
Accordingly, he deemed it appropriate to leave the matter to the discretion of the Reserve Bank, for the Bank was in the position of having to deal with the enforcement agency in its area.

Governor Mills stated that he would not be too unhappy about disposition of the matter along those lines. However, he could not escape the feeling that a shadow, even though not deserved, might be cast upon the System in view of the fact that the case had extended over a long period of time. While this was the responsibility of the Department of Justice, nevertheless the alleged violations on the part of a large institution had attracted prominence and it might be charged that the Federal Reserve System had not worked aggressively for the prosecution of the case. While seven years is a long period of time, a party wishing to criticize the System might seize the opportunity to allege that the System had gone after the small cases and had passed up the big ones.

In further discussion, Governor Robertson said the record should show that the Board considered it deplorable that extension of this case over a period of seven years had been permitted.

Thereupon, it was agreed to advise the Federal Reserve Bank of New York informally that the Board would leave to its discretion the question of dealing with the request that the Bank had received from the U. S. Attorney's Office. This action was taken with the understanding that the matter would be brought back to the Board for further consideration if
there were any developments which made such further consideration seem desirable.

**Occupancy of space in Reserve Bank buildings by bankers' associations.** In a letter dated June 30, 1958, addressed to Chairman Martin, Congressman Multer referred to information indicating that the New York State Bankers Association was occupying space in the building of the Federal Reserve Bank of New York and that the Maryland State Bankers Association was occupying space in the Baltimore Branch of the Federal Reserve Bank of Richmond. He asked to be advised whether the Board intended to have this practice discontinued.

Following receipt of this letter, the New York and Richmond Reserve Banks were asked for their comments concerning the amount of space rented to the bankers' associations, the rental rate, the reasons for the arrangement, any views with regard to the use of "Federal Reserve Bank Building" in the address on the letterhead of the bankers' associations, and any other appropriate information. On the basis of the replies received, there had been distributed to the members of the Board copies of a memorandum from Mr. Farrell dated July 28, 1958. This memorandum indicated that the New York State Bankers Association had been a tenant in the building of the Federal Reserve Bank of New York since 1930. The New York Bank indicated that much of the work of the association was designed to further better banking practices and to strengthen the banking system, and that frequent discussions between officers of the association and of
the Reserve Bank on matters of mutual interest were facilitated by having the association's office in the building. The current lease, on a month-to-month basis, provided for occupancy of 2,550 square feet at a rate of $1.60 per square foot per annum. Thus, the rate per square foot was considerably less than that charged the Treasury Department for space used for fiscal agency operations. It was the same rate as that charged the Chief National Bank Examiner for the District but less than that charged the International Bank for Reconstruction and Development. The inconsistencies in the rates charged the various tenants were considered reconcilable by the Reserve Bank in light of its traditional relationships with the respective tenants and its general policy of restricting tenants to those whose relations with the Reserve Bank make it convenient to have them in the building.

According to the information received from the Federal Reserve Bank of Richmond, the use of space in the Baltimore Branch building by the Maryland Bankers Association arose solely from the fact that the Executive Manager of the Baltimore Clearing House Association also serves as Secretary of the Maryland Bankers Association and is permitted by the Clearing House to perform his bankers' association duties in the quarters which the Clearing House rents from the Baltimore Branch. The lease, covering 1,700 square feet at a rental cost of $600 per annum, was solely with the Clearing House. It was noted that a number of other Reserve Banks and branches provide space for the local Clearing House associations, such
arrangements being advantageous to the Reserve Banks because they eliminate the necessity to transport city checks to other locations and permit items received only a short time before the exchange hour to be cleared on the date of receipt.

In discussing the matter at the request of the Board, Mr. Farrell mentioned that Congressman Multer had not referred to the question of the rental rate, his comments having been directed solely to the propriety of permitting a State bankers' association to occupy space in a Federal Reserve Bank building. At the same time, Mr. Farrell said, the Board's staff was not completely satisfied with the reasons given by the New York Reserve Bank for the favorable rate at which space was being made available to the New York State Bankers Association.

Comments by members of the Board disclosed that they questioned seriously the propriety of providing space at a more favorable rate to a bankers' association than to the Treasury Department. Furthermore, the members of the Board expressed serious reservations about the furnishing of space in Reserve Bank buildings to State bankers' associations regardless of the rate charged. It was recognized that the tenancy of the New York State Bankers Association in the building of the New York Reserve Bank represented an arrangement of long standing which it might be unreasonable to terminate abruptly and also that the use of space in the Baltimore Branch building by the Secretary of the Maryland Bankers Association resulted from rather unusual circumstances. Despite
these admittedly unusual circumstances, it was suggested that the Board must be consistent in dealing with the two situations and that the arrangements in Baltimore therefore should be taken up with the President of the Richmond Reserve Bank with a view to their termination.

At the conclusion of the discussion, it was agreed unanimously that before the Board made a reply to Congressman Multer, Governor Balderston would get in touch with the New York and Richmond Banks by telephone and express to them the view of the Board that arrangements should be made whereby the bankers' associations would acquire quarters for their activities outside of the Reserve Bank buildings. This action was taken with the understanding that because of the occupancy of Reserve Bank quarters for an extended period in the New York case and because of the unusual circumstances in the Baltimore case, some leeway would be allowed in which the respective bankers' associations could make other arrangements. In this connection it was suggested that a period not to exceed one year might be appropriate.

Meeting arranged by Center for Latin American Monetary Studies (Item No. 3). There had been distributed to the members of the Board copies of a memorandum from Mr. Marget, Director, Division of International Finance, dated July 28, 1958, recommending that the Board interpose no objection to proposed attendance of Thomas O. Waage, Assistant Vice President of the Federal Reserve Bank of New York, at the Fourth Operative Meeting of the Center for Latin American Monetary Studies to be held in
Rio de Janeiro, Brazil, between November 24 and December 5, 1958.

According to a letter dated July 23, 1958, from Mr. Hayes, President of the New York Reserve Bank, this technical meeting would deal with operating problems related to central bank currency functions.

Pursuant to Mr. Marget's recommendation, unanimous approval was given to a letter to the Federal Reserve Bank of New York stating that the Board would interpose no objection to Mr. Waage's participation in the meeting. A copy of the letter sent pursuant to this action is attached as Item No. 3.

Official salaries at Federal Reserve Banks. In a memorandum dated July 24, 1958, which had been distributed to the members of the Board, the Division of Personnel Administration discussed an inquiry from President Allen of the Federal Reserve Bank of Chicago regarding the Board's position toward the payment to Reserve Bank officers of annual salaries in excess of the amounts approved by the Board, due to the occurrence of 27 paydays (biweekly) in a calendar year. It appeared that the Chicago Reserve Bank had paid officers on a biweekly basis since 1950, computing the salary paid each payroll period by dividing the officer's annual salary by 26, so that in effect the fixed annual salary is fully paid in 260 work days.

Because of the fact that there are more work days in some years (261 or 262), at the Chicago Bank a total of 27 paydays would actually occur in 1959. It also appeared from the memorandum that the Atlanta Reserve Bank, which likewise pays officers on a biweekly basis, would have a 27th payday
occurring in about four years. The Minneapolis Reserve Bank recently changed to a biweekly pay period for employees and had expressed interest in conversion to a biweekly payroll basis for officers if the problems of possible overpayment were resolved. However, a poll taken at the May 1958 Conference of Personnel Officers indicated that the majority of the Bank representatives in attendance favored retaining a semi-monthly pay basis for all officers; only two representatives of the ten Banks using that basis favored a change to a biweekly basis, and one of them indicated he would favor restricting the payments in any one year to the amount approved by the Board of Governors.

The memorandum stated that in the opinion of the Division of Personnel Administration it would be advisable to indicate to the Federal Reserve Banks that salary payments to officers in a calendar year should not exceed the amounts approved for that year by the boards of directors of the respective Banks and by the Board of Governors. In connection with Reserve Bank employees' salaries, it was recommended that payments in excess of grade maxima occasioned by the occurrence of a 27th payday under a biweekly pay schedule not be considered as overpayments for which specific approval by the Board of Governors is required.

In a discussion of the matter, Governor Balderston suggested that one apparent solution would be to provide for the payment of salaries to Reserve Bank Presidents and First Vice Presidents on a semi-monthly basis, which would place them in this respect on a basis comparable to the members
of the Board of Governors. It appeared to him clear that no President or First Vice President should draw more salary in any calendar year than the amount approved by the Board of Governors. As to the other Reserve Bank officers, he would feel a little less strongly, particularly in the case of junior officers whose salaries are lower in certain cases than those paid in the higher brackets of the employees' salary structure.

Governor Robertson expressed the view that the Board of Governors should not intervene except when necessary in matters of administration at the Federal Reserve Banks. He would favor allowing the Reserve Banks to work out the administrative details in any way that they saw fit, provided salary payments to an officer in any given calendar year did not exceed the annual salary approved for him by his Board of Directors and by the Board of Governors.

Chairman Martin then turned to Mr. Johnson, who said that since the Bank's directors and the Board of Governors approve a certain amount of salary for each Reserve Bank officer for a given year, it appeared to the Division of Personnel Administration that that salary should be the maximum paid. After commenting on the views expressed informally by System personnel officers, as summarized in his memorandum, which indicated that the majority would be disposed to make payments to officers on a semi-monthly basis, Mr. Johnson said he agreed that in the case of the Presidents and First Vice Presidents, particularly, it seemed very
clear that they should not draw more salary in a calendar year than the rate approved for the year by the Board of Governors.

At the conclusion of the discussion, unanimous agreement was expressed with the view stated in the memorandum from the Division of Personnel Administration that salary payments to a Reserve Bank officer in a calendar year should not exceed the amount approved by the Board of Directors of his Bank and by the Board of Governors. It was understood that this view would be communicated to the Federal Reserve Banks.

The meeting then adjourned.

[Signature]

Assistant Secretary
Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

The Board of Governors has approved the program for "Examination of Edge Act Corporations, Agreement Corporations, and Foreign Branches of State Member Banks" outlined in Governor Robertson's memorandum of July 2, 1958, a copy of which was forwarded to you in his letter of July 11, 1958.

It is understood from your telephone conversation with Governor Robertson that your Bank Examinations Department is prepared to undertake the program to the extent applicable to your bank. Accordingly, you are authorized and directed to proceed with the program and to instruct your examiners:

(1) To examine the head office of each Edge Act Corporation and Agreement Corporation and to examine the information available at head office in order to make a survey of the activities and operations of each of its overseas branches; and

(2) To examine the information available at the head office of each State member bank in order to make a survey of the activities and operations of each of its overseas branches.

It is requested that your Bank Examinations Department advise the Board's Division of Examinations as to the examining personnel selected to participate regularly in the program. Upon receipt of the names of the persons to be assigned either regularly or occasionally to the examination of Edge Act and Agreement Corporations, commissions will be issued to them as examiners for the Board of Governors, as such examinations should be conducted in their capacity as Board examiners.
To: Mr. Hayes

Upon completion of the various reports of examinations and surveys, you are requested to furnish a copy thereof to the bank or corporation concerned, at the same time the report is submitted to the Board, and during the experimental period to initiate correspondence with the banks and corporations with respect to such reports, furnishing copies of all correspondence to the Board's Division of Examinations.

It is understood that your Bank Examinations Department will schedule the examinations and surveys so as to complete the first round within a period of approximately nine months, if practicable. Upon completion of all the surveys, it is planned to review the whole program in the light of the views and recommendations of your Bank Examinations Department and the Board's Division of Examinations and to revise the program where necessary or desirable.

There are listed below the Edge Act Corporations and Agreement Corporations to be examined:

**Edge Act Corporations**

- American Overseas Finance Company, New York
  (and its parent: American Overseas Investing Company, Inc., New York, to be examined by agreement)
- Bank of America, New York
- Chase International Investment Corporation, New York
- The First Bank of Boston (International), New York

**Agreement Corporations**

- Bankers Company of New York, New York
- International Banking Corporation, New York

The Board of Governors appreciates the cooperation of your bank in undertaking this program, and it is assumed that your Bank Examinations Department will keep in close touch with the Board's Division of Examinations in order that the Board may have the benefit of your views currently as experience is gained in the program.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Valley Bank and Trust Company,
Springfield, 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 by Valley Bank and Trust Company of a branch at the corner of Seymour Avenue and Boston Road, in the Pine Point area of Springfield, Massachusetts, provided the branch is established within six months from the date of this letter, and approval of the State authorities is effective as of the date the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

With reference to your letter of July 23 regarding attendance of Mr. Waage at the Fourth Operative Meeting of the Center for Latin American Monetary Studies to be held in Rio de Janeiro between November 24 and December 5, 1958, the Board of Governors interposes no objection to Mr. Waage's participation in the meeting, which, it is noted, has been approved by your directors.

Sincerely yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.