Minutes for October 8, 1964.

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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Minutes of the Board of Governors of the Federal Reserve System

on Thursday, October 8, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Kakalec, Controller
Mr. Davis, Acting Director, Division of Data Processing
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mr. Sundberg, Review Examiner, Division of Examinations


Following a suggestion by Governor Mills for the deletion of a portion of the conclusion, the report was approved unanimously for transmittal to the Corporation in a form in which the conclusion read as follows:

There is presently no competition between Washington Mutual Savings Bank, Seattle, and Citizens Savings and Loan Society, Spokane, and the consolidation would not have adverse competitive effects.

Mr. Sundberg then withdrew from the meeting.
Request of Etex Banco (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated October 6, 1964, regarding the request of Etex Banco, Inc., Tyler, Texas, for a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

The memorandum pointed out that Etex was a Texas corporation formed for the purpose of investing and holding stocks in various businesses, that it presently owned a majority of the outstanding shares of The First National Bank of Winnsboro, Winnsboro, Texas, that it was not now engaged in any business except holding the stock of the Winnsboro bank, and that it did not plan to purchase the stock of other banks or corporations in the future. It was noted that two of the principals of the holding company affiliate were directors of the Winnsboro bank. On the basis of the Board's general policy in one-bank cases, the Division recommended approval. Attached to the memorandum was a draft of letter that would grant the requested determination.

The letter to Etex Banco, Inc., was approved, Governor Robertson abstaining. A copy of the letter is attached as Item No. 1.

Acquisition of stock by affiliate of Mercantile Trust (Item No. 2). There had been distributed a memorandum from the Legal Division dated October 6, 1964, with reference to a question raised by the Federal Reserve Bank of St. Louis as to whether the acquisition of stock of Digitronics Corporation by Mercantile-Commerce Company, an affiliate of Mercantile Trust
Company, St. Louis, Missouri, constituted a violation of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act, which prohibit member banks from purchasing corporate stocks for their own account. The stock was purchased with the proceeds of a loan obtained by officers of the affiliate from an unaffiliated bank, Security Trust Company of St. Louis.

Apparently the member bank did not itself own any stock of Mercantile-Commerce Company. The stock of that company was held by trustees for the benefit of the shareholders of the member bank; and the power to appoint trustees and successor trustees was vested in the member bank. Consequently, the member bank undoubtedly controlled Mercantile-Commerce Company.

As pointed out in the memorandum, section 5136 of the Revised Statutes was not directed at "control" by a member bank of another corporation; it merely prohibited the "purchase" of corporate stocks by a member bank "for its own account." As a strictly legal matter it could be argued that the stock was not purchased "for the account" of the member bank, since literally it was purchased by officers of the affiliate and the stock of the affiliate was held for the benefit of the shareholders of the member bank. Even if regarded as a purchase for the member bank's account, it might be even more strongly argued that the stock was not purchased by the member bank, since no funds of the bank were provided, directly or indirectly, for such purchase.
For these reasons, it was the view of the Legal Division that, in the event of litigation, it would be difficult to convince a court that the stock was "purchased" by the member bank "for its own account."

The question being raised at this time differed from the situation considered by the Board on September 21, 1964, in which a wholly-owned subsidiary of Mercantile Trust Company had purchased the stock of several corporations. In both instances the trustees were subject to control by the member bank. The chief difference, however, was that in the earlier case the stock was acquired by a wholly-owned subsidiary of the member bank and therefore with funds indirectly coming from the member bank itself, whereas in the present case the stock was not purchased with funds emanating even indirectly from the member bank.

In the circumstances, the Legal Division recommended that the Board raise no question with respect to Mercantile-Commerce Company's purchase of the stock of Digitronics Corporation. A draft of letter to the Federal Reserve Bank of St. Louis reflecting this conclusion was attached to the memorandum.

At the Board's invitation Mr. Hackley summarized the facts of the case and the reasons for the conclusions reached by the Legal Division.

During discussion, Governor Robertson raised a question as to the position that the Legal Division might take if the affiliate had borrowed from the member bank to purchase the stock. Mr. Hackley responded that such a procedure would be more questionable, but even so it could be
argued that the purchase was not for the account of the member bank but for the account of the affiliate.

Governor Robertson then asked whether the Legal Division would recommend permitting an affiliate to engage in any type of business, and Mr. Hackley replied that the answer would depend on the source of the funds used. As had been pointed out in the Legal Division memorandum, section 5136 of the Revised Statutes was not directed at control by a member bank of another corporation but at the purchase of stock for a member bank's account. Even though the member bank had the power to appoint trustees of the affiliate and thus control the affiliate, it would be difficult to conclude that the purchase of stock of any kind by an affiliate, where the funds did not come from the member bank, would be a purchase of the member bank.

In the course of the discussion, Mr. Solomon noted that the present case was an example of the type of situation that the Board had in mind in its recommendation to the Congress that references in section 2(a) of the Bank Holding Act to "two or more banks" be replaced by "any bank" so that a corporation would become a bank holding company by acquiring 25 percent or more of the stock of any bank.

After further discussion, Governor Robertson expressed the view that the Board should keep this case in mind as an example in connection with any recommendation for legislation to amend the Bank Holding Company Act, such as Mr. Solomon had referred to.
The letter to the Federal Reserve Bank of St. Louis was then approved unanimously. A copy is attached as Item No. 2.

During the foregoing discussion Mr. Brill, Director, Division of Research and Statistics, entered the room.

Individual member bank reports of deposits for reserve purposes (Items 3 and 4). There had been distributed a memorandum from the Division of Data Processing dated October 6, 1964, with reference to a Proposed letter to the Federal Reserve Banks regarding the conversion of individual bank reports of deposits from punched cards to magnetic tape for storage and machine access.

In a letter dated November 24, 1959, the Board requested the Reserve Banks to begin tabulating daily data from reports of net demand and time deposits submitted by member banks for reserve purposes. Reserve Banks using punched cards in preparing the tabulations were asked to retain them for possible future use by the Board. The cards that had been punched were not in a common sort pattern and that factor, together with the heavy volume, precluded their use by high-speed processing techniques.

Approximately 15 million punched cards covering individual bank reports of deposits had accumulated at the Reserve Banks. The cards had not yet been put to use in research or analytical studies and, in order to make the data accessible for studies, and also to solve the storage problem, the Division proposed that the Reserve Banks be advised: (1) to
destroy punched cards for the period prior to January 1960; (2) to convert
to tape the data on cards from January 1960 through the last reserve period
in September 1964; and (3) to sort cards in a prescribed manner beginning
with data for October 1, 1964, in preparation for periodic taping. Reserve
Banks without tape facilities would have the option of shipping their cards
to Washington or of arranging for a local computer service center to per-
form the work. Reserve Banks with tape equipment would also be given the
choice of taping the cards or of sending their cards to Washington for
taping. Preliminary arrangements had been made with the Treasury Depart-
ment to write the cards on tape at a favorable rate. It was estimated
that, if all of the Reserve Banks (except the three that had already
taped the data) shipped their cards to the Treasury, the total cost of
taping them (including the necessary tape) would be about $11,000. The
shipping cost was estimated to be about $2,200.

The Division of Data Processing recommended, and the Division of
Research and Statistics concurred, that the plan outlined in the memorandum
be approved and the cost of accomplishing this work, not to exceed $11,000,
be absorbed by the Board, the shipping costs to be paid by the Reserve
Banks. It was further recommended that approval of the plan also consti-
tute approval of an overexpenditure of like amount in the appropriate
accounts of the Division of Data Processing.

Attached to the memorandum was a draft of letter to the Federal
Reserve Banks advising them of the approval of the plan and outlining
detailed procedures for carrying it out. Also attached to the memorandum
10/8/64

was a draft of letter to the Treasury Department regarding financial arrangements for taping the cards.

After Mr. Langham had commented on the procedures recommended by the Division, Governor Mitchell inquired whether it was contemplated that the tapes would merely be stored for possible future use or whether there were actual plans for using them.

Mr. Davis responded that it was intended that the taped data would be used. For example, during the last three months, in order to support sampling experiments designed to improve current estimates of required reserves figures, it had been necessary to ask the Reserve Banks to send tapes containing daily deposits data. The subsequent processing of these data had turned out to be a fairly sizable job. Also, there was a present need for the back figures to determine how this sample would perform over the critical period of December-January. In a broader sense, it was considered desirable to have the data in a readily accessible form so that they could be meshed in with other data for microanalytical research.

Mr. Brill stated that if individual bank reports of deposits were on tape, they could be meshed in with the weekly series and thereby make it possible to show daily and weekly changes in volatility.

Mr. Solomon commented on another possible use of the data, observing that from time to time it was important to know more about seasonal and intramonthly fluctuations on an individual institution basis.
Governor Mitchell noted that the data had been held for a number of years and had not been used up to this time. He expressed doubt that they would be used in the future and requested that, if the staff recommendation was approved, a report be submitted a year from now describing any studies undertaken. He added that he would be sympathetic with having such studies undertaken.

Mr. Brill noted that some of the data on the punched cards had not been in a form that could be used easily. New statistical techniques had been developed, and trained persons now had an interest in using these data. He went on to say that in his judgment the System would be making a serious mistake if an effort were not made to preserve and use these data.

Governor Shepardson raised a question as to the reason for recommending that cards containing data for the period November 1958 to January 1960 be destroyed. Mr. Davis responded that generally the cards punched for that period were not in as good condition, and figures not as refined, as those for later dates. Also, the January 1960 date was close to the effective date (December 1, 1959) of the Board's amendment to Regulation D that permitted member banks to count part of their vault cash in meeting reserve requirements.

The discussion then turned to the matter of systematizing the collection and processing of data on a current basis (after October 1, 1964). Mr. Davis mentioned that it was planned to tape daily data from
reports of net demand and time deposits on a current basis so that they could be utilized along with other data. He believed that standard procedures for accomplishing this could probably be adopted by the Reserve Banks without much difficulty. In this connection, Governor Robertson suggested that the procedures proposed by the Division at this time might be considered as a device for bringing about uniformity of the statistics in this area.

Governor Shepardson said that he had gathered from discussion that some of the cards punched at the Reserve Banks were not compatible with those of other Reserve Banks. If the data that were being collected were of value from a national standpoint, he saw no reason why they should not be accumulated and processed by a standardized procedure throughout the System.

Governor Daane suggested that the general question of uniformity in such cases was a matter that could appropriately be taken up with the Presidents of the Reserve Banks at some convenient time.

The letter to the Reserve Banks setting forth the procedures recommended by the Division of Data Processing was then approved, along with the letter to the Treasury Department. Copies are attached as Items 3 and 4, respectively.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:
Letters to Mrs. Renee Mikus and Mr. Jean Jacques Lesceux of Washington, D.C., confirming arrangements for them to give instruction in Conversational French to members of the Board and the Board's staff as an activity of the Board's Training and Development Program. The letters stated that the course would be approximately ten weeks in length, with meetings daily from 8:15 to 9:15 a.m. beginning on October 13, 1964, that textbooks and other materials required for participants would be provided by the Board, and that the Board would pay $10 for each session conducted, this fee to include any materials or references needed by each instructor in conducting the program. It was further understood that Mrs. Mikus would be primarily responsible for planning the program and that Mr. Lesceux would conduct the sessions on days when Mrs. Mikus was not available.

Memoranda recommending the following actions relating to the Board's staff:

Salary increases, effective October 11, 1964

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<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
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<td>LeRoy T. Morgan, Staff Assistant</td>
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<td>Jacquelin Bauman, Economist</td>
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<td>James B. Eckert, Chief, Banking Section</td>
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<td>Peter M. Keir, Chief, Capital Markets Section</td>
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<td>Phyllis H. Lockhart, Statistical Clerk</td>
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<td>Denise O'Brien, Statistical Clerk</td>
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<td>Watkins Leigh Ribble, Jr., Economist</td>
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<td>Roberta M. Weil, Economist</td>
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<td>Louis Weiner, Chief, National Income, Labor Force, and Trade Section</td>
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<td>Helmut F. Wendel, Economist</td>
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<td>Murray S. Wernick, Senior Economist</td>
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<td>Joan R. Winter, Statistical Assistant</td>
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Salary increases, effective October 11, 1964 (continued)

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<td>Carol Sullivan, Secretary</td>
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<td>Carol Lee Jones, Secretary</td>
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<td>Adrien P. Francoeur, Federal Reserve Examiner</td>
<td>Examinations</td>
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<td>Charles Hadley Fraser, Federal Reserve Examiner</td>
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<td>John J. Hart, Assistant to the Director</td>
<td>Personnel Administration</td>
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<td>Isaac White, Messenger</td>
<td>Administrative Services</td>
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<td>Susan R. Clark, Statistical Clerk</td>
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<td>Sandra Lee Wolfe, Secretary</td>
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Transfer

Davita C. Hays, from the position of Secretary in the Division of Personnel Administration to the position of Secretary in the Division of International Finance, with an increase in basic annual salary from $5,660 to $6,060, effective October 11, 1964.

Extension of maternity leave

Suzanne D. Courtright, Statistical Assistant, Division of Research and Statistics, from October 12, 1964, through November 6, 1964.
Mr. Gordon Wilkinson, Secretary,
Etex Banco, Inc.,
Tyler, Texas.

Dear Mr. Wilkinson:

This refers to the request contained in your letter of September 10, 1964, submitted through the Federal Reserve Bank of Dallas, for a determination by the Board of Governors of the Federal Reserve System as to the status of Etex Banco, Inc., as a holding company affiliate.

From the information presented, the Board understands that Etex Banco, Inc., is a holding company affiliate by reason of the fact that it owns 8,552 (57%) of the 15,000 outstanding shares of stock of The First National Bank of Winnsboro, Winnsboro, Texas; and that it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Etex Banco, Inc., is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, it is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.
If, however, the facts should at any time indicate that Etex Banco, Inc., might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts, including additional acquisitions of bank stocks even though not constituting control.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. O. O. Wyrick, Vice President, 
Federal Reserve Bank of St. Louis, 
St. Louis, Missouri. 63166

Dear Mr. Wyrick:

This refers to your letter of July 1, 1964, and its enclosure, regarding the acquisition of stock of Digitronics Corporation by Mercantile-Commerce Company, an affiliate of Mercantile Trust Company, St. Louis, Missouri, a member bank.

It is understood that the stock of Mercantile-Commerce Company is held by trustees for the benefit of shareholders of Mercantile Trust Company, and that the member bank indirectly controls the election of directors of Mercantile-Commerce Company by reason of its power to appoint the trustees and successor trustees. It is also understood that the stock in question was purchased by certain officers of Mercantile-Commerce Company with funds borrowed from an unaffiliated bank.

While it appears that the member bank effectively controls Mercantile-Commerce Company, it may be argued that the stock in question was not purchased for "the account" of the member bank. Even if regarded as a purchase for the bank's account, it would be difficult to consider the transaction as involving a "purchase" by the member bank, since no funds of the bank were used directly or indirectly in the acquisition of the stock.

On the basis of the above understanding of the facts, it is the Board's opinion that the acquisition of such stock did not constitute the "purchase" of the stock by Mercantile Trust Company "for its own account" in violation of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act.

Very truly yours,

Merritt Sherman, 
Secretary.
Dear Sir:

The Board's letter dated November 24, 1959 (S-1716) requested the Reserve Banks to begin tabulating daily data from Reports of Net Demand and Time Deposits submitted by member banks for reserve purposes. Reserve Banks using punched cards in preparing the tabulations were requested to retain them for possible future use by the Board.

The Board's staff has been studying means of making these data accessible for research uses and of minimizing the storage problem of the punched cards at the Reserve Banks. It has been concluded that the most feasible method of achieving these purposes would be to convert to tape those cards containing data from January 1960 through the last reserve period in September 1964. Present plans do not include any use of data in punched cards for reserve periods prior to January 1960 and cards containing these data may be destroyed.

It is recognized that the task of writing these cards on tape is a sizable one. However, favorable financial arrangements have been made with the Department of the Treasury to perform taping in Washington for Reserve Banks without tape equipment. In addition, this service would also be available to those Reserve Banks which would have some difficulty in scheduling the necessary time on their own computers or which might encounter some difficulty in processing cards punched some time ago. (Costs of processing cards sent to Washington would be assumed by the Board.) Please advise the Division of Data Processing by wire if your cards will be shipped for taping here.
The multiple card readers in Washington that will be used in the conversion operation are specially designed to process cards that might be in poor condition. In order to take advantage of the Treasury's facilities for doing this work, it will be necessary for the Treasury Department to receive the cards by the end of October. Should any Reserve Bank desire to perform the taping operation on its own equipment, the conversion should be completed and the tapes mailed to the Board by the end of this year if feasible.

In addition to taping back data, it is also planned to write the daily data from Reports of Net Demand and Time Deposits on tape on a current basis beginning with cards for October 1, 1964. For this purpose, cards should be placed in major to minor sort as follows: date, State, and bank number. Tape should be written periodically and shipped to the Board's Division of Data Processing as a 2,400 foot reel is filled or annually, whichever occurs first. Additional instructions for handling cards containing current data will be forwarded later. The taping of current data will not affect the need for daily summary cards by class of bank.

Attached is a statement of detailed procedures to be followed in the card-to-tape conversion of back data as well as instructions for labeling and shipping cards and/or tapes. Questions about these procedures should be directed to the Division of Data Processing.

Very truly yours,

Merritt Sherman,
Secretary.

Attachment.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.
The following are procedures to be used by Banks making arrangements to tape their own cards, and for Banks who ship their cards to be taped centrally in Washington.

**Banks Arranging to Tape Their Own Cards** (ignore if cards are to be shipped)

Cards may be written on magnetic tape without prior sorting. If cards are already in a systematic sort pattern, however, care should be taken to maintain the order in preparing the tape. It will not be necessary to remove total cards representing seven- or fourteen-day aggregates prior to taping. We are assuming that the cards are filed in at least general data order and that terminal dates can be specified for each reel. Tape should be prepared as follows:

1. **Tapes should be written 14 81-character records (including record mark) per tape block without labels. Use either 556 or 200 character per inch density (556 is preferable) move mode and even parity. Padding for the last record in the file should be all nines.**

2. **It is essential that the reels be identified by external label showing terminal dates for each reel. We are assuming that the cards were filed in general date order prior to taping.**

3. **After taping, a sample portion of each reel should be read and the resulting print-out inspected to make sure the tape was written properly.** The tape...
should, however, be read back completely to take a record or block count. This procedure will accomplish two objectives: (1) the entire tape will be checked for valid coding and (2) the count will insure that roughly the expected number of cards for the period covered have been recorded on the tape.

4. Tapes for all back data should be received by the Division of Data Processing by the end of this year if feasible.

5. At the same time the tapes are sent, please send card formats, file order, etc. needed to completely identify the tape-recorded data.

Tapes of back data should begin with January 1960 and end with September 30, 1964. Completed tapes should be forwarded to the Division of Data Processing along with descriptive information requested above.

Existing tapes of these data will be satisfactory regardless of file order or blocking factor as long as they contain the identifying information of the standard card format.

Reserve Banks without tape facilities may arrange for processing through a computer service facility or the cards may be shipped to Washington for processing centrally. If the cards are taped in Washington, processing costs will be absorbed by the Board. We have arranged for limited use of a local computer at reasonable cost which can accommodate up to eight card readers simultaneously.
Shipping Instructions for Cards to be Taped Centrally

Cards should be shipped by express to the following address:

Treasurer of the United States,
Electronic Data Processing Division,
Receiving Branch,
General Accounting Office Building,
Washington, D. C. 20226

It will be noted that the above address is the same one to which Treasury checks from your Bank are presently shipped.

Before packaging, the individual boxes of punched cards should be arranged in general chronological order to the degree known. Labeling on the outside of each box of cards should show the Federal Reserve District number and boxes should be numbered serially beginning at one and continuing through the last box. This information, necessary in order for the Treasury to be able to label properly the tape reels, should be as follows, e.g.:

F. R. District 6
September 4 - 9, 1963
Box 375 of 490

After packaging, the shipping carton should show the words "Daily Demand Deposit Cards," origin, and sequence of cartons, e.g.:

Daily Demand Deposit Cards
F. R. District 6
67 of 100
Mr. William T. Howell,
Deputy Treasurer,
Department of the Treasury,
Washington, D. C.

Dear Mr. Howell:

On September 24 representatives of the Board's Division of Data Processing met with Mr. Roy Conner, Chief, Electronic Data Processing Division, Department of the Treasury, and his associates, to explore the feasibility of having a large volume of punched cards written on tape utilizing equipment operated by the Treasury Department.

It is understood that this work could be done on a reimbursable basis during regularly scheduled working hours using the special purpose equipment designed for processing Treasury checks. The cost to the Board for processing approximately 10 million punched cards was estimated at $8,000, with provisions for an appropriate downward adjustment in the tentative cost if the card volume is appreciably less than anticipated. The Board would supply the tape required for this purpose.

Cards to be processed are currently distributed among the Reserve Banks and since the conversion process has been anticipated for some time, some of the Reserve Banks having tape equipment may have already started an in-house taping operation. However, an accurate estimate of the volume of cards to be converted in Washington will be determined and furnished to you in the near future if this work is agreeable to your Office.

The financial arrangements described herein are satisfactory to the Board. Your early advice as to whether these arrangements are satisfactory to your office will be appreciated. If they are, the Board's Division of Data Processing will be happy to work out the technical details with Mr. Conner.

Very truly yours,

Merritt Sherman,
Secretary.