

Minutes for April 13, 1965.

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

TM

Gov. Robertson

RR

Gov. Balderston

CCB

Gov. Shepardson

SSD

Gov. Mitchell

MM

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, April 13, 1965. The Board met in the Board Room at 2:00 p.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Farrell, Director, Division of Bank Operations
Mr. Daniels, Assistant Director, Division of Bank Operations

Mr. Treiber, First Vice President, and Mr. Bilby, Vice President, Federal Reserve Bank of New York

New York building program. Pursuant to the understanding at the Board meeting on March 31, 1965, Messrs. Treiber and Bilby were present to discuss the circumstances surrounding the New York Reserve Bank's letter of March 11, 1965, requesting authorization to arrange for the termination or substantial shortening of any of the tenancies in certain buildings across Maiden Lane from the Reserve Bank that had been acquired as a building site, or for any other action that would reduce the cost of ultimately obtaining possession of the buildings, where it appeared advantageous to do so and where the cost involved in each instance did not exceed \$25,000.

In his comments on the matter Mr. Treiber reviewed developments leading up to the acquisition of the proposed building site last year,

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and subsequently to the Reserve Bank's March 11 letter. He referred particularly to two instances where it might have been possible to terminate longer-term leases at modest cost if the Reserve Bank had been able to act promptly through its agent, and to the much greater cost that might be involved if advantage was not taken of such opportunities.

Mr. Treiber then inquired whether there was a broader question involved in terms of when the Reserve Bank should undertake the construction of a building. He referred to crowded conditions within the present main building and to the fact that the so-called annex building was being used for working purposes as well as storage.

In reply to a question, Mr. Treiber said there were 20 leases involved in the property across Maiden Lane, but only 13 or 14 that it appeared might be bothersome. The authorization the Reserve Bank had requested should be sufficient to take care of the smaller leases, but the termination of a couple of larger leases might run into substantial figures. The pending request was thought of as an interim arrangement. From the Reserve Bank's point of view, the preferable thing to do would be to move forward, terminate leases, and begin to make plans for a construction program. The modest pending request reflected deference to the view expressed by the Board in its October 26, 1964, letter that there should be some deferment in building plans until the impact of automation on Reserve Bank operations became more clear.

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Mr. Treiber went on to refer to the study of projected space needs the Reserve Bank had made several years ago and to the re-examination currently being conducted, in which connection the Bank had engaged the services of a management consultant firm to review the Reserve Bank's conclusions in terms of the impact of automation on longer-run space requirements. He also enumerated developments in the Bank's operations that had led to greater space requirements, alternatives that the Bank had considered for solving the problem, and the current crowded situation within the building. On the basis of the Bank's studies and the prevailing conditions, he hoped the Board would agree with the Reserve Bank's conclusion that it should be moving forward with reasonable dispatch toward the construction of a new building.

Governor Balderston observed that the immediate question before the Board was not whether a new building should be authorized but whether and how fast existing leases should be terminated in the buildings across Maiden Lane. The choice appeared to be between picking up the leases over a period of two or three years at some saving of money or paying sizable amounts of money for quick occupancy at some later time.

Mr. Treiber said the Reserve Bank would like to be able to move forward on a basic plan that would involve the concept of terminating all of the leases in a couple of years, while at the same time

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working on plans for the type of building that might be constructed. He noted that the entire building project would extend over quite a long period of time. If the Board was agreeable, the Bank would like to be working with its agent on a program for terminating the large leases over the next couple of years as well as the small ones.

In further discussion Governor Mitchell noted that the Board had said in the October 26, 1964, letter that it was not committing itself on whether a new building should be constructed or when this should be done. The question of the degree of urgency of a new building seemed to have a bearing on the matter of terminating the leases. If the Reserve Bank was thinking of constructing a new building two years hence and putting architects to work this year, this concept would involve more acceleration of the project than contemplated by the Board's letter.

Mr. Treiber said the Bank did not think it proper to wait five years, and Governor Mitchell noted that this question had not been presented to the Board. But the decision, when it was made, had relevance to the lease problem. If the Reserve Bank was going to build in two years, this would be a different proposition than if it was going to wait at least five years.

Governor Daane asked whether in any event the Bank felt it wise to move promptly toward cancellation of the leases, and Mr. Treiber replied in the affirmative. Governor Mitchell asked whether a judgment in this regard was not affected to some extent by the time the Reserve Bank might

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want to start construction. Mr. Treiber agreed, but noted that 13 of the leases extended for five years or more.

Mr. Bilby made certain comments at this point relative to the length of time that would be involved, even if plans were begun fairly promptly, before a new building could be occupied. He also discussed the cramped space situation within the main building and indicated that it would become necessary to move certain functions to the annex building. In his opinion, the morale problem involved in such moves could be alleviated if the affected employees understood that plans were in process looking toward the provision of new quarters.

Governor Mitchell commented that he felt the Reserve Bank had done about as much as possible to utilize working space within the main building efficiently. However, he did not agree that progress was necessarily going to be as slow as might have been indicated in reaching the time when it could be seen whether space requirements at the Federal Reserve Banks and branches would be reduced considerably due to various factors such as automation, changes in check collection or other operating procedures, or changes in Federal Reserve functions.

Mr. Treiber replied by indicating that nevertheless it seemed prudent for a Reserve Bank to be prepared to operate on the basis of what were regarded as reasonable space needs in the light of the best information presently available.

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Governor Daane commented that the question of the need for constructing a new building could hardly be settled at today's meeting. The question to be answered today was whether it would be advisable for the Reserve Bank to be authorized, with reasonable flexibility, to move ahead in terminating leases, with the Board perhaps retaining authority to look at larger expenditures. In his opinion the New York proposal seemed reasonable.

Other members of the Board indicated general agreement with Governor Daane's views and at the same time reiterated that the Board should have the benefit of the Reserve Bank's current study before a decision was reached on constructing a new building.

Governor Balderston inquired whether Messrs. Treiber and Bilby felt that the authorization requested in the March 11 letter was sufficient or whether some authorization greater than \$25,000 should be provided, to which Mr. Treiber replied that the Reserve Bank would like to be able to deal expeditiously with lease termination possibilities involving larger payments if the Board saw fit to give the Reserve Bank additional authorization. Governor Daane commented that it would be his view that additional authorization should be provided; he was convinced that over a period of time the values involved could go in only one direction.

Chairman Martin concluded the discussion by stating that he felt the Board had gotten the information that was needed for the moment

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and that later the Board and the Reserve Bank would have to concentrate on resolving the construction question.

Mr. Treiber said that the New York Bank should be able to have its current study of space requirements, including the views of the management consultant firm, in the Board's hands within a matter of two or three months.

In response to a question, Mr. Bilby reviewed the difficulty that the Reserve Bank had encountered in connection with the proposed renovation and expansion of its gold vault facilities, which difficulty had been occasioned by discovery of financial weakness on the part of the firm to which the job was to have been contracted. In the circumstances, bids were now being sought from three other contractors, and in the meantime the Reserve Bank was following temporary procedures to cope with the gold storage problem.

Messrs. Treiber and Bilby then withdrew from the meeting.

Authorization to waive assessment of penalties (Item No. 1).

There was presented a draft of telegram to the Federal Reserve Banks of Cleveland, Chicago, and Minneapolis authorizing those Banks to waive the assessment of penalties for deficiencies in required reserves of member banks that might result from present flood and tornado disaster conditions in portions of the respective Reserve districts. After communications and transportation had returned to normal, the Reserve Banks would be expected to submit a list of penalties waived under this special authorization.

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After discussion, during which it was pointed out that similar authorizations had been given on occasions in the past when disaster conditions were involved, the telegram was approved unanimously. A copy is attached as Item No. 1.

Member bank borrowing. Governor Balderston referred to current statistical data prepared by the Division of Bank Operations from which he had noted substantial continued borrowing by certain banks in the Sixth District in relation to required reserves. At his request Mr. Farrell reported a conversation he had had with President Bryan earlier today regarding these cases, from which it appeared that Mr. Bryan was not aware of unusual circumstances to which the individual borrowings might be attributed.

It was suggested that President Bryan might be asked to have the Reserve Bank's discount officer look over the cases with a view to providing any further relevant information. However, there was an alternative suggestion that a letter might be sent to all Federal Reserve Banks describing circumstances of member bank borrowing in which the Board, as a standard procedure, would appreciate receiving advice concerning the justification. It was understood that such a letter would be drafted for the Board's consideration.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

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Appointment

Charlotte T. Breckenridge as Editorial Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$7,050 per annum, effective the date of entrance upon duty.

Transfers

Walter Jordan, Jr., from the position of Messenger in the Board Members' Offices to the position of Cook-Trainee in the Division of Administrative Services, with an increase in basic annual salary from \$4,055 to \$4,410, effective April 25 1965.

Phyllis Mulcahy, from the position of Assistant Legal File Clerk in the Legal Division to the position of Clearing and Recording Clerk in the Division of Examinations, with an increase in basic annual salary from \$4,780 to \$5,165, effective upon assuming her new duties.


Secretary

T E L E G R A M
LEASED WIRE SERVICEItem No. 1
4/13/65BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

April 13, 1965.

HICKMAN - CLEVELAND

SCANLON - CHICAGO

STROTHMAN - MINNEAPOLIS

Board authorizes your Bank to waive the assessment of penalties for deficiencies in reserves of member banks which may result from present disaster conditions in portions of your District.

After communications and transportation have returned to normal, please submit list of penalties waived under this special authorization.

(Signed) Merritt Sherman

SHERMAN