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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

RECORDS SECTION
MAR 9 1970
322.3(2)
Date February 11, 1970.

Office Correspondence

To Board of Governors

From Division of Federal Reserve
Bank Operations (Mr. McIntosh)

Subject: Real Estate Transactions

at New York

CONFIDENTIAL (FR)

JAM

12/4/69 12/24/69

The purpose of this memorandum is to bring to the Board's attention certain real estate transactions at New York (discussed in the attached correspondence between Vice President Braun and me) which appear to go beyond approval that the Board has given in connection with the proposed annex.

Issues

1. On March 10, 1969, the New York Bank purchased real estate at 24--26 Maiden Lane for \$400,000 in cash without submitting the matter to the Board for approval. The Bank feels that the outstanding instruction (F.R.L.S. #15.02) which provides that the purchase of real estate is subject to Board approval, is not applicable in this case because the acquisition was in connection with lease terminations in properties previously purchased with the Board's approval. The Division feels that there is nothing in the record to support the view that any real estate purchase may be made without prior approval by the Board.
2. The Board's records indicate that, when the question of lease terminations involved in the site for the proposed annex was last considered by the Board, it was agreed that the New York Bank could spend up to approximately \$100,000 per lease without further reference to the Board. Vice President Braun indicates a feeling that this limitation was in effect nullified by the Board's letter of January 10, 1968, which authorized New York to proceed with planning for the annex. The Division feels that this interpretation goes beyond any intention underlying the January 10, 1968, letter.
3. Recent information gathered during the examination at New York indicates that the Bank is considering lease termination negotiations which may involve costs by the Bank of approximately \$6,500,000.

12/11/69 filed 322.3 8-1518

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Recommendation

In the light of the foregoing indications that there is some misunderstanding between the New York Bank and the Board with regard to matters involving the proposed annex site which need Board approval, the Division recommends that these misunderstandings be brought to the attention of President Hayes for the purpose of setting the records straight and to avoid any further misunderstandings.

If the Board agrees with this recommendation, there is attached a draft of a letter which might serve its purpose.

Attachments.

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

This refers to an exchange of correspondence between Vice President Braun of your Bank and Mr. McIntosh of the Board's Division of Federal Reserve Bank Operations concerning your acquisition of real estate at 24--26 Maiden Lane.

After considering this matter carefully, it is the Board's feeling that:

1. The language of outstanding regulations makes no distinction between real estate acquired for Bank-use and that purchased for other purposes and, therefore, all real estate acquisitions require specific Board approval.
2. The outstanding limitation of approximately \$100,000 per lease termination referred to in Mr. Sherman's letter of August 12, 1966, to Mr. Bilby was not superseded by the Board's letter of January 10, 1968, since the latter simply authorized your Bank to move ahead with the planning for your building program and, in the absence of any specific reference to the lease

Mr. Alfred Hayes

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termination problem, it was intended that the program move ahead in accordance with outstanding regulations and instructions.

3. The lease termination program, as it is now developing, should be considered by the Board before your Bank incurs any obligations in connection with the three troublesome leases described by Mr. Braun.

The Board also feels that misunderstandings of the type referred to above might be avoided in the future if closer coordination is established between the Board and the Bank with respect to this building program.

The Board would appreciate any comments you might care to make with regard to the above matters.

Very truly yours,

Robert C. Holland,
Secretary.