

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 29, 1947. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem
Mr. Draper
Mr. Evans
Mr. Vardaman

Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director, Division of
Examinations
Mr. Baumann, Assistant Counsel
Mr. Millard, Assistant Director, Division
of Examinations
Mr. Hostrup, Examiner, Division of
Examinations

Prior to the meeting there had been circulated among the members of the Board a memorandum prepared by the Division of Examinations under date of August 28, 1947, with respect to applications submitted by the Republic National Bank of Dallas and Republic National Company, both of Dallas, Texas, requesting permission to vote the stock owned or controlled by them in certain affiliated banks, and a draft of a telegram to the Federal Reserve Bank of Dallas in which it was stated that the Board would not feel it could approve the applications for general voting permits until Republic National Company provided additional capital funds or made other appropriate arrangements for holding bank stocks now carried with city funds.

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The memorandum stated that applications from both of the applicants were necessary because the majority of two of the subsidiary member banks' shares were owned by Republic National Company and were at the same time controlled by Republic National Bank under an arrangement whereby the shares of Republic National Company were held by trustees for the benefit of the shareholders of Republic National Bank.

Mr. Szymczak stated that the question of granting voting permits to the applicants was complicated by the fact that Fred F. Florence, who was President of both Republic National Bank and Republic National Company, was also Treasurer of the City of Dallas in which capacity he, as an individual, received the use of two million dollars of city funds, that he had placed funds thus obtained with Republic National Company for handling, that a portion of the funds was being employed to carry bank stocks, and that, in the judgment of both the Executive Committee of the Federal Reserve Bank of Dallas and of the Board's Division of Examinations, the carrying of bank stocks in this manner was not a sound means of financing.

At the request of Mr. Szymczak, Mr. Baumann reviewed the legal considerations involved, stating that the principal legal question was whether Republic National Company was engaged in the

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business of receiving deposits in violation of the provisions of section 21(a)(2) of the Banking Act of 1933, and that in the opinion of the Legal Division, set forth in a memorandum prepared by Mr. Baumann under date of June 9, 1947, there was no violation of this provision of law, an opinion concurred in by counsel for the Federal Reserve Bank of Dallas.

Mr. Baumann stated that there was also a question as to the legality of the arrangement under which Mr. Florence served as City Treasurer, that the answer to the question turned on the applicability of laws of the State of Texas to city depository arrangements, that the only means of obtaining a decision on this question was by court test in Texas, and that it would not seem necessary or appropriate for the Board to raise this question in connection with the applications for the voting permits since the only effect of a decision that the arrangement was illegal would be that the city could terminate it at any time, which would mean that Republic National Company would then have to be in position to repay the funds to Mr. Florence, the City Treasurer.

In response to an inquiry from Mr. Vardaman, Mr. Baumann stated that there was no evidence of any violation of other Federal statutes such as the antitrust laws, and he added that there was no indication of any improper practices on Mr. Florence's part in

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obtaining the contract at biennial intervals to be City Treasurer and to receive the use of the city funds.

Mr. Draper suggested that the draft of the wire should be revised so that, in addition to stating that voting permits would not be issued until Republic National Company provided additional capital funds or made other appropriate financial arrangements for holding bank stocks now carried with city funds, it would provide that the permits would not be issued until the Company possessed Government securities or other assets which, in the judgment of the Dallas Bank and of the Board of Governors, were of a kind appropriate to meet, and were equal in amount to, the Company's liability for city funds.

Mr. Leonard stated that the alternative wording suggested by Mr. Draper would make specific what was contemplated in the draft and noted that the telegram was intended to indicate to the applicants that upon fulfillment of the specified condition general voting permits would be granted, provided no adverse changes in existing facts and circumstances took place in the meantime.

There was a further discussion of the conditions to be met before voting permits would be issued and, upon motion by Mr. Vardaman, the telegram to the Federal Reserve Bank of Dallas was approved unanimously in the following form:

"Reference is made to applications of Republic

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"National Bank of Dallas and Republic National Company, Dallas, Texas, for voting permits entitling them to vote stock owned or controlled of Oak Lawn National Bank of Dallas, National City Bank of Dallas, and Fair Park National Bank of Dallas, all of Dallas, Texas.

"Contracts with respect to City of Dallas funds create demand liability of such peculiar and unusual character that the liability and the investment of the City funds require special consideration apart from other operations of Republic National Company. The liability is one which the Company should be prepared to meet at any time from assets which can be easily and quickly realized upon without possible ill effects upon the banks of the group, rather than by resort to investments of a permanent character, such as the Company's investments in bank stocks.

"For the reason indicated above, the Board is in general agreement with your Executive Committee's recommendation and requests that you advise applicants that the Board feels that further consideration of the applications should be deferred until Republic National Company provides additional capital funds or makes other appropriate financial arrangements for holding bank stocks now carried with City funds and the Company possesses Government securities or other assets which in the judgment of your Bank and of the Board of Governors are of a kind appropriate to meet, and are equal in amount to, the Company's liability for City funds.

"When such action has been taken, and applications have been amended as set forth below, further consideration will be given to granting of general voting permits. Subject to consideration of manner in which Republic National Company accomplishes the financial arrangements referred to above, and any other changes in the existing facts and circumstances, the Board does not contemplate prescribing any conditions other than that each applicant shall execute the standard voting permit agreement (S-964-a), with usual amendment of agreement to be executed by Republic National Bank, as shown in paragraph (3) of Board's letter S-964.

"Prior to granting of permits, applications should be amended as follows:

(1) There should be added to both applications Exhibits L and N covering The Howard Corporation, unless these exhibits

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"are no longer required.

(2) Exhibit D of application of Republic National Company should be amended by submission of a current balance sheet, as of a date subsequent to the accomplishment by Company of the previously mentioned financial arrangements. Balance sheet should be supported by detailed schedules of assets and by statements showing Company's liabilities to City Treasurer and manner in which City Treasurer's funds are invested.

(3) Full information should be furnished regarding any other substantial changes from facts and circumstances disclosed by information submitted with applications or amendments thereof, or by annual report of Republic National Bank on Form F. R. 437 for 1946, or by correspondence between applicants and Reserve Bank.

"It is noted that Republic National Company has acquired 29 per cent of stock of The State National Bank of Garland, Garland, Texas, and that analysis of applications prepared in your Bank indicates that Company contemplated acquisition of majority of stock of such bank. If Company has acquired majority of stock, or if it otherwise is a holding Company affiliate of the bank, Exhibit A of each application should be amended to include such bank, and relevant information regarding it, such as would appear in Exhibits G, H, J, and K, should be added to one application and incorporated by reference in the other."

At this point Messrs. Vest, Leonard, Baumann, Millard, and Hostrup withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 28, 1947, were approved unanimously.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco, stating that the Board

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approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on August 27, by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Kansas City on August 28, 1947, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"In connection with the establishment of the 'Plan of Job Classification and Salary Administration for Federal Reserve Banks', the Board of Governors approves the following minimum and maximum salaries for the respective grades at the Federal Reserve Bank of St. Louis, including the Little Rock, Louisville, and Memphis Branches, as submitted with your letter of August 22, 1947, with the understanding that these salary rates have been or will be formally adopted by your board of directors.

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1200	\$1620
2	1320	1800
3	1440	1980
4	1620	2160
5	1800	2460
6	2040	2760
7	2280	3060
8	2520	3420
9	2760	3800
10	3060	4100
11	3420	4600
12	3800	5100
13	4200	5700
14	4800	6500
15	5600	7500
16	6500	8800

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"The Board approves the payment of salaries to employees, other than officers, within the limits specified for the respective grade in which the position of each employee is classified. The management of your Bank is responsible for the proper classification of positions under the procedure outlined in the plan submitted with your letter of August 22, 1947, subject to review, from time to time, by the Board's Division of Personnel Administration.

"All employees now receiving salaries below the minimum of their respective grades should be brought within the appropriate range as soon as practicable and not later than the end of this year. Your report indicates that you have a special problem in increasing those employees who are receiving salaries substantially less than the minimum salary for their grade. The Board feels that action to increase these employees should not be delayed. In the event that all employees cannot be increased to the minimum salary of their grade by the end of the year, a list of such employees, as of January 1, 1948, should be submitted for specific approval of the Board, with the reason in each case for deferring the payment of the minimum salary. With respect to employees whose salaries are now in excess of the maximum of their respective grades, the Board approves the payment of salary in the amount indicated opposite the name of each employee listed in the schedule submitted. Any increases in these salaries must have the prior specific approval of the Board.

"Under the plan, it is contemplated that there will be intermediate rates between the minimum and maximum for each grade and that a consistent policy of merit increases within the grades will be adopted. Please furnish the Board with information regarding the Bank's policy in this respect.

"When it is deemed necessary, an employee may be temporarily assigned, for a period not exceeding six months, without change in salary, to a position having a maximum lower than the salary he is receiving or to a position having a minimum higher than he is receiving, without obtaining the approval of the Board. In all lists of employees submitted to the Board the names of such employees should be followed by the letters TA.

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"Specific approval should be obtained as in the past for the payment of salaries to employees designated as Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent, or Federal Reserve Agent's Representative, and requests for changes in compensation for these employees should include information on the grade and salary range of the employee's position.

"Changes in the minimum and maximum salary of the grades must have prior approval of the Board, and requests for such changes should be accompanied by adequate data justifying the proposed change.

"It is urged that a definite assignment of responsibility be made for keeping the descriptions, specifications, evaluation, and grading of jobs current. The benefits of this study should not be lost through failure to maintain the plan. As a necessary part in the process of keeping the plan up to date, a survey of community rates should be made at least once each year."

Approved unanimously.

Letter to the board of directors of the "Citizens State Bank", Anton, Texas, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Dallas.

Approved unanimously, for transmission through the Federal Reserve Bank of Dallas.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of August 20, enclosing a copy of a letter from Louisiana National

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"Bank, Baton Rouge, Louisiana, relating to penalties incurred by it as a result of deficiencies in its reserves during July aggregating \$815.81.

"It is noted that the member bank had not previously incurred a penalty for deficiencies in reserves since 1936, and that the deficiencies in July resulted from its oversight in failing to dispatch a wire transfer from its correspondent to your Bank.

"In the circumstances, the Board authorizes your Bank not to make the assessments of \$430.44 and \$385.37 for the penalties incurred during the periods ended July 15 and July 31, 1947, respectively."

Approved unanimously.

Letter prepared for Mr. Szymczak's signature to the Honorable Kenneth C. Royall, Secretary of the Army, reading as follows:

"As you will recall, the wartime program for the financing of war contractors by means of loans guaranteed by the War Department, the Navy Department, and the United States Maritime Commission, was carried on under authority of Executive Order No. 9112, issued by the President on March 26, 1942. That Order authorized the Federal Reserve Banks to act as agents of the War and Navy Departments and the Maritime Commission, and specifically provided that the Federal Reserve Banks should be reimbursed by the War and Navy Departments and the Maritime Commission for all expenses, including attorneys' fees and expenses of litigation, incurred by the Reserve Banks in acting as agents under the Executive Order. The Act of June 11, 1942 authorized the War and Navy Departments and the Maritime Commission to make guarantees 'in accordance with' this Executive Order.

"In 1946, the War Department declined to approve payment by the Federal Reserve Bank of Atlanta of an attorney's fee incurred by the Reserve Bank while acting as agent for the War Department in connection with a particular loan guaranteed under the Executive Order. The War Department's refusal to approve payment of the fee was based upon advice of its Judge

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"Advocate General that, since the legal services involved were rendered after purchase of the guaranteed loan by the War Department, that Department was without legal authority to approve payment of such fee.

"We understand that in November 1946 the legal question involved in this case, as well as in another case of a similar nature, was submitted by the Office of the Judge Advocate General of the War Department to the Solicitor General of the United States for his opinion. We also understand that the Department of Justice has informally indicated that if the question should be resubmitted to it in somewhat different form it would advise that the War Department has authority to pay the fee in this case. While the matter has been the subject of numerous conversations between representatives of the Board and the War Department, we have not yet been advised that the matter has progressed further.

"The Board of Governors feels, as does the Federal Reserve Bank involved in this case, that in view of the Executive Order and the Act of June 11, 1942, there is full authority for the approval by the War Department of the payment of this attorney's fee. For your information, there is enclosed a copy of a memorandum prepared in the Board's Legal Division setting forth the facts in this case and the grounds upon which it is felt that payment of the fee is justified. There is also enclosed a copy of a letter with respect to this matter addressed to the War Department on October 24, 1946, by Mr. (formerly Colonel) Paul Cleveland, who, as you know, for a long period served as Chief of the Advance Payment and Loan Branch of the Special Financial Services Division and was closely associated with the administration of the guaranteed loan program during the war.

"In the case in question the employment of the attorney by the Federal Reserve Bank of Atlanta was specifically approved in advance by duly authorized officers of the War Department and was in accordance with formal instructions issued by the Under Secretary of War. The Board feels that it would be unfortunate, now that the war is over and the guaranteed loan program successfully completed, if this case should be permitted to create any impression on the part of

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"financing institutions and others who contributed so much to the success of the program that the Government is reluctant to see that its obligations are fully carried out in accordance with agreements entered into by the parties.

"While the amount involved in the case is not large, the principle involved in the Board's opinion is an important one. For this reason, I am bringing the matter to your attention with the hope that the Government's obligation in this case may be recognized and that some action to this end may be taken in the near future."

Approved unanimously.

Letter to Mr. Gales, Assistant Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This is in reply to your letter of August 19, 1947, regarding the submission of the annual budgets of the Federal Reserve Banks pursuant to the Board's letter of February 4, 1947 (S. 958).

"It is realized, as you point out, that in order to have the budgets for 1948 reach the Board's offices not later than November 1, 1947, it will be necessary to have them ready for approval by the respective boards of directors of the Federal Reserve Banks during October. It is also recognized that, because of changes in accounting procedure, the Reserve Banks will have available actual expense figures on the revised functional expense basis for only about two months of the second half of 1947. This condition, however, could not be avoided in starting the new budgetary procedure and therefore entails the exercise of special judgment, as well as care, in the preparation of the figures for 1947 and 1948.

"Since conditions are not the same at all the Banks it has not appeared to be practicable for the Board to go any further into detail than it has done in the existing instructions. Moreover, conditions which will be met in the various departments of the Banks will not be the same in all respects in 1948 as they were in 1947. It follows that each Federal Reserve Bank will have to determine how best to utilize the available information in

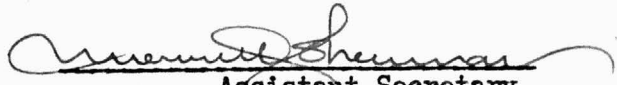
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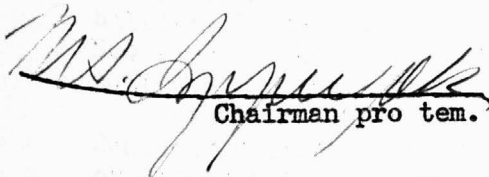
"preparing the figures to be incorporated in Form F.R. 634(a).

"In this connection it will greatly facilitate the Board's review of the budgetary figures if the Bank's estimates for 1947 expenses are shown for each item appearing in Form F.R. 634(a) on a basis comparable with the corresponding item in the 1948 budgets."

Approved unanimously.


Assistant Secretary.

Approved:


Chairman pro tem.