

5/23/49 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 23, 1949.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Draper
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 20, 1949, were approved unanimously.

Memorandum dated May 19, 1949, from Mr. Millard, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, Adrien P. Francoeur be appointed as an Assistant Federal Reserve Examiner, with salary at the rate of \$3,351 per annum, and with official headquarters at Washington, D. C.

By unanimous vote, Mr. Adrien P. Francoeur was appointed an examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of

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the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Washington, D. C., and with basic salary at the rate of \$3,351 per annum, all effective as of the date upon which he enters upon the performance of his duties.

Letter to Mr. Sheehan, Chief Examiner at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of May 17, 1949, submitting the request of the 'Liberty Bank of Buffalo', Buffalo, New York, for permission to establish a branch in the Village of Williamsville, New York.

"It is noted that approval of the appropriate State authorities has been obtained and in view of your recommendation, the Board of Governors approves the establishment and operation of a branch in the Village of Williamsville, New York, by the Liberty Bank of Buffalo, Buffalo, New York, provided such branch is established within six months from the date of this letter. It is understood that counsel for the Reserve Bank has reviewed and is satisfied as to the legality of all steps taken to establish the branch which are complete with the foregoing approval of the Board."

Approved unanimously.

Letter to the Honorable Lister Hill, United States Senate, reading as follows:

"This is in response to your letter of May 7, 1949, addressed to Chairman McCabe, enclosing a letter received by you from Honorable John Brandon, State Treasurer of Alabama, regarding the question whether a bank may absorb the expense of paying fees on postal money orders deposited with the bank by the State Treasurer.

"It is understood that in some instances tax payers have made remittances to the State Treasurer by means of postal money orders payable at post offices other than that located in Montgomery, Alabama, and that under Postal Regulations the depository bank is obliged to pay a fee in

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"obtaining payment of such money orders at the Montgomery Post Office. It is also understood that under Alabama law a State depository bank may not make any charge against the State in connection with an account maintained with it by the State Treasurer. However, the bank in question has advised the Treasurer that it is prohibited from absorbing the expense here involved by provisions of this Board's Regulation Q, but that it would be willing to absorb the expense if the provisions of Regulation Q 'were lifted or amended to permit them to do so.'

"In 1933 Congress amended the Federal Reserve Act by prohibiting any member bank from paying interest on demand deposits, directly or indirectly by any device whatsoever, and the Board was authorized to determine what shall be deemed to be a payment of interest. Following the ordinary meaning given the term by the courts, the Board has defined 'interest' in its Regulation Q as 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit'.

"Some years ago the Board took the position in a specific case, after development of the facts by examination of the member bank involved, that the absorption of exchange charges by the bank under the circumstances of that case constituted a payment of interest in violation of the law. Subsequently the Board advised all member banks that such absorption would not constitute a violation of law if the charges absorbed did not amount to more than \$2 for any one depositor in any calendar month and if the bank keeps proper records of such transactions.

"The absorption by a member bank of the expense of paying fees charged for the payment of postal money orders appears to be analogous to the absorption of exchange charges on checks. The question whether the absorption of such fees is a payment of interest would depend on whether the bank is absorbing them 'as compensation for the use of funds constituting a deposit'. You will appreciate that the Board cannot advise definitely as to whether the practice of any particular bank constitutes a violation until it has all the facts, and these could be developed adequately only through an examination. It is believed, however, that what is said above will show the position of the Board in this matter.

"The provision of Regulation Q in question was adopted only after prolonged and careful consideration. In the light of the intention of the law, we do not believe that

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"it would be desirable to change the regulation so as to permit banks to absorb charges as a means of compensating depositors for the use of their funds.

"With respect to the suggestion made by Mr. Brandon that the Post Office Department should amend its regulations to eliminate payment of two fees on postal money orders, we feel that it would be inappropriate for us to make any comment. However, in this connection, it is our understanding that under Chapter XVI, paragraph 11 of the United States Postal Guide, where out-of-town money orders are deposited in a bank, the bank is at liberty to send such orders to the post offices on which they are drawn and receive payment for the full amount of the orders by means of a check drawn on the Treasurer of the United States. We do not know, of course, whether the depository bank in the present case would wish to collect out-of-town money orders in this manner, but we mention it as a possibility for consideration.

"If Mr. Brandon should have any further questions regarding any phase of this matter, it is suggested that he may wish to take them up with the Federal Reserve Bank of Atlanta. Mr. Brandon's letter is returned to you herewith."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In reply to a recent inquiry concerning Regulation W, the Board has issued the following interpretation.

"The Board has been asked whether certain schedules of instalment payments covering the time balance arising from instalment sales of listed articles are permitted by Regulation W, particularly section 3(b) thereof. One payment schedule calls for twelve monthly payments of \$50 each, plus two so-called 'pick-up' payments of \$25 each, payable, respectively, fifteen days before and fifteen days after the due date of the first \$50 payment. The other payment schedule is different in that it calls for only one 'pick-up' payment of \$100, payable fifteen days after the due date of the first of the twelve \$50 instalment payments.

"It will be noted that the above payment schedules - stated to be for the purpose of strengthening the customer's

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"equity at an early stage of the contract in a convenient manner - do not involve 'balloon' payments in the usual sense, nor do the variations in time and amount of payments cause or occur as significant irregularities throughout the payment schedules. Additionally, the rate of payment under the schedules is greater than required either by the regulation or a schedule calling for only twelve monthly instalments.

"The Board is of the view that payments scheduled as above would not be contrary to the regulation. As indicated at No. 320, Regulation W Service, section 3(b) clearly authorizes a larger first instalment payment, followed by smaller monthly instalments. In the light of the circumstances here related, the use of 'pick-up' payments such as those in question is a reasonable application of that principle. These views, of course, would apply also to similar situations under section 4(c) of the regulation.

"The Board does not intend by the foregoing to indicate that the scheduling of 'pick-up' payments in any manner or in all situations would be permissible. Each case must be considered individually in the light of the foregoing facts and circumstances."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

"For your information one of the Federal Reserve Banks has been advised that lump sum payments for accrued liability under the amendments to rules and regulations of the Retirement System of the Federal Reserve Banks, effective May 6, 1949, should be charged to profit and loss and will be shown in Board's published statement as a deduction from current net earnings against caption 'Retirement System (adjustment for revised benefits).'"

Approved unanimously.

Letter to Mrs. Valerie R. Frank, Secretary, Retirement Committee of the Retirement System of the Federal Reserve Banks, Federal Reserve Bank of New York, reading as follows:

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"Pursuant to the action of the Board of Governors on May 6, 1949 with respect to supplementing the allowances of certain former employees retired under the Bank Plan of the Retirement System of the Federal Reserve Banks the Board authorizes the payment to the Retirement System of the amount necessary to increase the allowances of the following nine annuitants in accordance with the formula prescribed in its letter S-1108:

Addie Burchard	John DeLaMater
Susan U. Snead	George M. Ringen
Mary S. Evans	O. B. Morrissette
Anna Kitzmiller	William Dorsey
(Croxtton)	Courtney Bradley

"As requested in your letter of May 9, 1949, we are returning the duplicate copy of the list of Board employees who are presently receiving retirement allowances under the Bank Plan and have indicated which employees should have their allowances supplemented.

"In the near future a check in the amount of \$11,430.72 will be mailed to you by the Fiscal Section of the Board."

Approved unanimously.

Letter to Mr. R. R. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of May 14, 1949, with respect to an interpretation of the Board's letter dated May 6, 1949, S-1108, authorizing the Federal Reserve Banks, under certain conditions and subject to certain limitations, to make supplemental contributions to the Retirement System to provide increased retirement allowances for retired members.

"The authorization provides in part that no allowance, inclusive of any supplemental benefits previously provided, shall be increased to an amount above that which would have been payable as a retirement allowance if the person concerned had retired under the rules as amended effective May 6, 1949. You advise that two members now on the retirement rolls who were entitled to receive dismissal wages or separation pay at the time of termination of service before age 65, exercised the option of having these payments made to the Retirement System for the purpose of increasing their

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"retirement allowances, and you feel the benefits provided by these supplemental payments should be regarded as benefits provided with the members' own funds and therefore excluded from the calculation of increased benefits that these members are entitled to receive. It is understood that you have some cases where employees retired under comparable circumstances, took their dismissal wages or separation pay in cash, and therefore such employees would receive a greater increase in their retirement allowances under the authorization than the employees who elected to use the separation pay to supplement their retirement allowances.

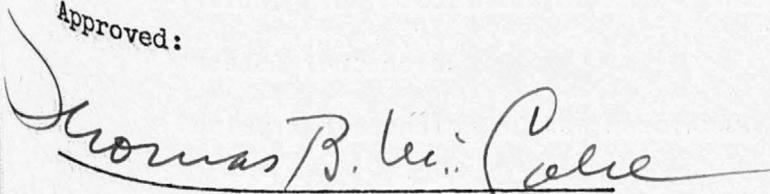
"In any case where an employee was given the option of taking dismissal wages or separation pay in cash or of using such funds to supplement his retirement allowance, the Board will interpose no objection to excluding such supplemental benefits from the calculation of increased benefits under the authorization contained in its letter of May 6, 1949, S-1108.

"The last case mentioned in your letter refers to an officer involuntarily retired before age 60, where a supplemental contribution of \$2,500 was made by the Bank to the Retirement System on his behalf, there being no option to take a payment in cash, and you request that this payment be disregarded in computing the amount of his additional pension under current authority. On the basis of the information which you submitted in this case, the Board does not feel that it would be justified in disregarding the supplemental payment previously made by your Bank."

Approved unanimously, together
with a letter transmitting this
advice to the Presidents of all other
Federal Reserve Banks.


Secretary.

Approved:


Chairman.