Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, December 19, 1951.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 18, 1951, were approved unanimously.

Memorandum dated December 17, 1951, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending that the resignation of James E. Love, Laborer in that Division, which was to have become effective December 31, 1951, be rescinded.

Approved unanimously.

Memorandum dated December 10, 1951, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of Lloyd M. Schaeffer, currently Assistant Federal Reserve Examiner, as Federal Reserve Examiner in that Division, with an increase in his present basic salary from $5,060 to $5,940 per annum, effective December 23, 1951.

Approved unanimously.
Memorandum dated December 18, 1951, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending the reinstatement of Raymond J. Martin, who had been on military leave, as Operator (Duplicating Devices) in that Division, with basic salary at the rate of $2,830 per annum, effective as of the date upon which he reports for duty after having passed the usual physical examination.

Approved unanimously.

Letter to Mr. Wilbur, Chairman and Federal Reserve Agent, Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in Mr. Mangels's letter of December 13, 1951, the Board of Governors approves, effective January 1, 1952, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:

<table>
<thead>
<tr>
<th>Office</th>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Office</td>
<td>P. M. Stone</td>
<td>Assistant Federal Reserve Agent</td>
<td>$5,460</td>
</tr>
<tr>
<td>Head Office</td>
<td>F. R. Claxton</td>
<td>Alternate Federal Reserve Agent</td>
<td>$5,760</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>L. R. Steffer</td>
<td>Federal Reserve Agent's</td>
<td></td>
</tr>
<tr>
<td>Portland</td>
<td>E. V. Risberg</td>
<td>Representative</td>
<td>$6,480</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>J. B. Anderson</td>
<td>Federal Reserve Agent's</td>
<td>$6,000</td>
</tr>
<tr>
<td>Seattle</td>
<td>F. K. Grimm</td>
<td>Federal Reserve Agent's</td>
<td>$6,300</td>
</tr>
</tbody>
</table>

Approved unanimously.

Letter to Mr. Williams, President, Federal Reserve Bank of Philadelphia, reading as follows:
"The Board of Governors approves the payment of
salaries to the following officers for the period
January 1, 1952 through April 30, 1952, at the rates
indicated, which are the rates fixed by the Board of
Directors as reported in your letter of December 12, 1951.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>George J. Lavin</td>
<td>Assistant Vice President</td>
<td>$9,000</td>
</tr>
<tr>
<td>Evan B. Alderfer</td>
<td>Industrial Economist</td>
<td>$10,000</td>
</tr>
<tr>
<td>Clay J. Anderson</td>
<td>Financial Economist</td>
<td>$10,000</td>
</tr>
<tr>
<td>Fred A. Murray</td>
<td>Manager of Plant</td>
<td>$8,000</td>
</tr>
<tr>
<td>Hugh Barrie</td>
<td>Machine Methods Officer</td>
<td>$7,300</td>
</tr>
<tr>
<td>Harry W. Roeder</td>
<td>Assistant Cashier</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Approved unanimously.

Letter to the Board of Directors, Beaver Trust Company,

Beaver, Pennsylvania, reading as follows:

"Pursuant to a request submitted through the
Federal Reserve Bank of Cleveland under date of
December 10, 1951, the Board of Governors of the
Federal Reserve System approves the establishment and
operation of a branch in Midland, Pennsylvania, by
the Beaver Trust Company, and hereby gives its writ-
ten consent under the provisions of Section 110(c) of
the Federal Deposit Insurance Act to the absorption of
the Midland Bank, Midland, Pennsylvania, without in-
creasing the surplus of the Beaver Trust Company to an
amount which will equal the aggregate surplus of the
two banks involved in the proposed absorption, provided
that prior formal approval is obtained from the appro-
priate State authorities and provided further that the
absorption is effected substantially in accordance
with the plan submitted."

Approved unanimously, for trans-
mittal through the Federal Reserve Bank
of Cleveland, with the understanding
that Counsel for the Reserve Bank would
review and satisfy himself as to the le-
gality of all steps taken to effect the
absorption and establish the branch.
Letter to Mr. Purrington, Assistant Vice President, Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of December 14, regarding the penalty of $60.10 incurred by the State Savings Bank, Lowell, Michigan, on a deficiency in its reserves for the period ended November 30, 1951.

"It is noted that the deficiency resulted from a delay in receiving credit for two transfers of $50,000 each, which the bank had requested its correspondent to make; that the bank usually carries a fairly substantial excess reserve running as high as 25 per cent in some periods; and that the bank has not been deficient in its reserves in the last four years.

"In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty in this case."

Approved unanimously.

Letter to the Honorable Alexander Wiley, United States Senate, Washington, D. C., reading as follows:

"This refers to your letter of December 17, 1951, addressed to the Honorable Thomas B. McCabe, formerly Chairman of the Board of Governors of the Federal Reserve System, requesting consideration of Mr. Omernik's letter of December 14, 1951, with respect to the deposit of bankruptcy funds.

"The Federal Reserve System has no control over the deposit of trust funds by a trustee in bankruptcy proceedings. However, Mr. Omernik might be advised that section 61 of the Federal Bankruptcy Act (U. S. Code, Title 11, sec. 101) provides that the judges of the courts of bankruptcy shall designate banking institutions as depositories for the money of estates, as convenient as may be to the residences of receivers and trustees, and shall require from each such banking institution a good and sufficient bond with surety, to secure the prompt repayment of the deposit. The section
also provides that no security in the form of a bond or otherwise shall be required in the case of such part of the deposits as are insured by the Federal Deposit Insurance Corporation. From these provisions it appears that the designation of banking institutions is entirely within the discretion of the courts of bankruptcy and no particular types of banks are mentioned in the statute.

"As requested, Mr. Omernik's letter is returned for your files."

Approved unanimously.

Letter to Mr. William A. Lyon, Superintendent of Banks,
New York State Banking Department, 270 Broadway, New York, New York,
reading as follows:

"This refers to your recent conversations with Chairman Martin and Governor Powell, in which you raised certain questions as to the effect upon national banks in New York State of changes which are being contemplated by you in your Regulations regarding interest rates payable on deposits by State savings banks and State commercial banks in New York.

"It is understood that one of the changes which is being contemplated is to increase the maximum rate of interest which may be paid by savings banks in New York from 2 per cent to either 2-1/4 or 2-1/2 per cent, but the maximum rate for savings deposits in commercial banks would continue to be 2 per cent. Your question here is whether the 2 per cent maximum would be binding upon national banks in New York.

"Substantially the same question in principle was considered by the Board in 1938, in connection with a regulation of the New York State Banking Board which fixed a maximum rate of 1-1/2 per cent with respect to time and savings deposits in excess of a certain amount received by commercial banks in New York, but which did not change the 2 per cent maximum applicable to savings banks.

"In a letter to the Federal Reserve Bank of New York, dated July 20, 1938, a copy of which was transmitted..."
"on that date to Mr. White who was then State Superintendent of Banks, the Board referred to the provisions of section 2h of the Federal Reserve Act, and section 3(c) of the Board's Regulation Q, under which the rate of interest payable by a national bank upon a time or savings deposit may not exceed 'the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State' in which the bank is located. Observing that savings banks, under the Regulation of the State Banking Board, would be permitted to pay 2 per cent rather than 1-1/2 per cent on savings deposits and that both savings banks and national banks in New York receive savings deposits in substantial amounts, the Board expressed the view that to regard the 1-1/2 per cent maximum as 'the maximum rate authorized by law to be paid * * * by State banks or trust companies' in the State of New York on that part of a savings deposit in excess of the prescribed amount would not be in accord with the intention of the provisions of section 2h of the Federal Reserve Act, and that, therefore, the limitations on the rate of interest payable on such deposits contained in the Regulation of the Banking Board would not be applicable to national banks in New York.

"For the same reasons, it appears that, if the maximum rate payable by savings banks on savings deposits should be increased to 2-1/4 or 2-1/2 per cent, national banks under Regulation Q could also pay interest at the same rate and would not be limited by the 2 per cent rate applicable to savings deposits in State commercial banks.

"Your second question relates to a proposal to add a provision to your Regulations which would fix a maximum rate of one per cent which might be paid by State banks on that part of a deposit which exceeds $10,000, but with an exception in the case of deposits of municipalities. It is assumed that this limitation would be applicable to all State banks, including savings banks as well as commercial banks. On the basis of this assumption, it appears that such a limitation would be applicable to national banks in the State of New York in view of the provisions of section 2h of the Federal Reserve Act and section 3(c) of Regulation Q."
"We understand that this proposal relates to time deposits as distinguished from savings deposits; but it may be that you have in mind the possibility of applying such maximum rates, based on size of deposit, to savings as well as time deposits received by all banks under your supervision.

"If, after considering this matter further, you should have any questions, we shall be glad to have you discuss them with us, or, if you wish, with the Federal Reserve Bank of New York, to which we are sending a copy of this letter."

Approved unanimously.

Letter to Mr. Stuart Bernstein, Meyer, Meyer, Austrian & Platt, Continental Illinois Bank Building, 231 South La Salle Street, Chicago, Illinois, reading as follows:

"This refers to your letter of November 29, 1951, in further reference to Regulation W and the instalment rental of gas-fired water heaters by your client, Illinois Power Company, to its gas service subscribers. In this regard, you referred to the Board's letter of October 15, 1951, and to your subsequent discussions of the matter with certain members of the Board's staff.

"We regret that there was any misunderstanding as to the charges that could be made in connection with such transactions, and we are glad to note that the Company is re-examining its cost position and other factors with a view to appropriately modifying the contract. We appreciate the consideration being given to various alternatives in this connection by you and your client and the efforts being made to work out an appropriate modification expeditiously. As you know, the Board's staff is always available for discussions of such matters and will continue to be of as much assistance in this connection as possible.

"As you indicate, the reference to 'each new rental installation' in the second paragraph of our October 15 letter was not intended to include instances in which a
"gas service subscriber, having already had a heater suitably installed by the company, later has the company substitute another because of a defect or has the company move the heater to the subscriber's new address."

Approved unanimously, with a copy to Mr. Olson, Vice President, Federal Reserve Bank of Chicago.