

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 16, 1952.

PRESENT: Mr. Martin, Chairman
Mr. Vardaman
Mr. Mills

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

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

"This refers to your letter of July 1, 1952, concerning the proposed purchase of the property approximating 180 feet on Union Street by 330 feet on Eighth Avenue, North, as a site for a future branch building at Nashville.

"You advise that the boards of directors of the Nashville branch and of the Federal Reserve Bank of Atlanta have recommended purchase of the three parcels making up the property at the prices set forth in your letter totalling \$414,000.

"The Board will interpose no objection to the purchase of the properties at the prices stated."

Approved unanimously.

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

"In all of the Federal Reserve Banks it is the practice of the Examination Departments to use employees of other departments to lend clerical assistance to the regular examiners and assistant examiners when a large staff is required to examine some of the larger State banks. These employees are designated as special examiners or special assistant examiners with the approval of the Board of Governors, and recently a question arose regarding the indebtedness of such employees to member banks.

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"In connection with the selection of regular members of the examining staffs of the Reserve Banks, the Board has stated (FRIS #9180) that men should not be selected who are involved financially, are heavily in debt or are indebted to banking institutions, particularly to member banks.

"In addition to such restrictions imposed as a matter of policy, the criminal provisions of law regarding the granting of loans to examiners and assistant examiners who examine or have authority to examine member banks are rather strict and could be held applicable by the Department of Justice to a bank loan obtained by any special examiner after his appointment. Therefore, at the time of designation as a special examiner or special assistant examiner the employee should be informed of the provisions of law (U.S. Code, Title 18, sec. 217 and 218) which make it a criminal offense for an officer, director, or employee of a member bank to make or grant any loan to an examiner or assistant examiner who examines or has authority to examine such bank, and subject the examiner to criminal action if he accepts a loan from any bank examined by him. Any officer or employee now designated as a special examiner or special assistant examiner should be advised of the provisions of law if the matter has not been called to his or her attention previously. Also, all employees so designated should be required to submit annual reports of indebtedness as described in the Board's letter of March 24, 1948 (FRIS #9054)."

Approved unanimously.

Letter to Mr. Walter P. Marshall, President, The Western Union Telegraph Company, 60 Hudson Street, New York, New York, reading as follows:

"This is in response to your letter of June 16, 1952, acknowledging receipt of the Board's letter dated March 31, 1952.

"We appreciate the service and cooperation which your Company has given to us over the past twelve years. However, after careful consideration by the Board and the several Federal Reserve Banks of possible means of improving the System's communication facilities, it was decided that the service

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"provided under a proposal submitted by the American Telephone and Telegraph Company would best meet the System's needs.

"As you know, Western Union and AT&T were requested to suggest improvements either in more modern equipment or improved methods which would keep the Federal Reserve System abreast of the most recent developments in the communications field. Since the surveys involved a review of requirements at all Reserve Banks and Branches as well as at the Board, the request for the surveys was made by the Presidents' Conference Subcommittee on Cash, Leased Wire and Sundry Operations. Pursuant to the Subcommittee's request, representatives of your Company met with the Subcommittee in the Board's offices on January 16, 1951. You may recall that other meetings were held thereafter which were, likewise, attended by representatives of your Company.

"Your letter states that the installation of Western Union's system did not represent the replacement of a then existing system of your competitor. The Federal Reserve Leased Wire System as now constituted is still not a fully integrated system; it utilizes the facilities of both Western Union and AT&T and is composed of single, duplex and telemeter circuits, and TWX service. The decision which resulted in the installation of Western Union equipment beginning in 1940 to a large extent in replacement of AT&T equipment, as the reverse is true in the present instance, was made after long and careful analytical consideration on the basis of merit. We appreciate that Western Union took a calculated risk and in the light of the long period of service that the installation has been in use, it would appear that the arrangement has been mutually beneficial.

"The representations made with respect to additional costs to insure efficient operations for the Federal Reserve System is not a matter which has heretofore been brought to our attention. We are aware, however, that over the years certain equipment items for which no charge was made originally have since been covered by published tariffs and that charges on other equipment have been increased from time to time. In no instance have we taken exception to the new or increased charges for equipment or circuits. On the other hand, one of the decisive factors influencing a change from

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"Western Union to AT&T equipment has been that the AT&T system selected will cost less to install and operate than would the fully integrated modern network offered by Western Union.

"As previously stated, the communications companies were requested to submit proposals which in their judgment were best suited to fit the needs of the Federal Reserve System. The idea of having a single switching center in Richmond originated with Federal Reserve personnel since it is desirable in connection with defense planning to have the center located in a non-target area. Mr. Manning was informed of this and, upon looking into the matter, advised us that Richmond was not a city at which Western Union was in a position to furnish adequate facilities for Federal Reserve use at reasonable cost. He said that no telemeter circuit would be available in Richmond and that at best only a single or duplex wire could be made available and that even these facilities would be jeopardized by priorities for (1) military establishments, and (2) Western Union's commercial message traffic. Mr. Manning concluded by saying that Western Union does not have sufficient business in Richmond to qualify it for a 'hubbing' city as is the case, for example, with Washington, Philadelphia, Cincinnati and Atlanta.

"Since you state that Western Union has urgent need for every piece of equipment and every trained employee to protect the expanding military and general defense program, every effort will be made to shorten the 18-months' period referred to in the Board's letter of March 31 and to give your Company three months' advance notice of the cutover date.

"In view of the decisions and commitments which have been made after prolonged and careful consideration and consultation, the Board feels that the matter has been thoroughly explored and concluded."

Approved unanimously, together
with the following letter to the Presidents of all Federal Reserve Banks:

"There are enclosed for your information copy of a letter dated June 16, 1952 from Mr. Walter P. Marshall, President of The Western Union Telegraph Company, together with the Board's reply of this date.

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"In view of the tenor of Mr. Marshall's letter a draft of the Board's response was discussed with the Presidents' Conference Subcommittee on Cash, Leased Wire and Sundry Operations at a meeting held in Chicago on July 1, 1952. Suggestions made by members of the Subcommittee were accepted and the draft of the letter met with the approval of the Subcommittee."

Letter to Mr. Wotawa, Vice President, Federal Reserve Bank of St. Louis, in regard to City Motor Sales, Inc., St. Louis, Missouri, a registrant under Regulation W, Consumer Credit, reading as follows:

"Replying to your letter of July 8, 1952 regarding the above matter in which you refer to the fact that three related cases were referred to the Department of Justice because of apparent violations of Regulation W, this is to advise you that the file in connection with the above matter was included in the material which was sent to the Department of Justice since it helped establish a pattern of operation by the Fitzgibbon Discount Corporation. However, no recommendation was made with respect to City Motor Sales, Inc., since there did not appear to be any direct evidence that it had procured the commission of the violations by Fitzgibbon Discount Corporation. Accordingly, the Board is closing its file with respect to City Motor Sales, Inc."

Approved unanimously.

Memorandum dated July 15, 1952, from Mr. Hooff, Assistant Counsel, recommending that there be published in the Law Department of the July issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

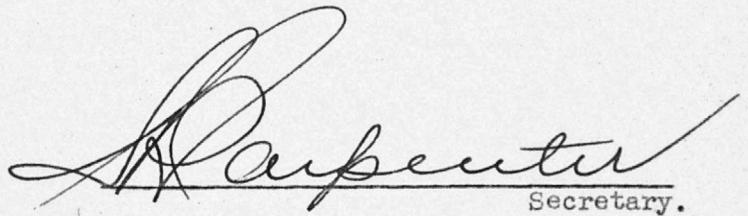
Purchase of Government Obligations by Federal Reserve Banks
Amendment to Section 14(b)

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Defense Production Act Amendments of 1952
Credit Controls
Banks Dealing in Obligations of Central Bank for Cooperatives
Amendment to Section 5136

Approved unanimously.



A. Carpenter
Secretary.