

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 27, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Allen, Director, Division of
Personnel Administration

Before this meeting there had been sent to each member of the Board memoranda from the Division of Personnel Administration dated September 3 and September 12, 1952 relating to proposed salary adjustments by eight of the Federal Reserve Banks for officers of those banks, submitted in response to the Board's letter of June 2, 1952. The memoranda brought out the fact that the proposed increases involving 45 officers and totaling \$51,050 per annum were submitted by the Reserve Banks for the purpose of correcting individual inequities in officers' salaries, some of which resulted from adjustments made by the banks last spring under the authority of the Board's letter of February 26, 1952. The memoranda also recommended that all of the proposals be approved except those submitted by the Federal Reserve Bank of Chicago, in which case it was suggested that before approving the increases proposed by that bank, the Board review the study of officers' compensation at the Chicago Bank being made by the firm of Booz, Allen and Hamilton. It was also recommended that the increases be effective

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retroactively to April 1, May 1, or June 1, 1952, depending on the date on which approval by the Board of the general list of officers' salaries at the respective banks became effective. In addition, the memorandum of September 12 called attention to the Federal Reserve Bank of New York proposal for a salary of \$30,000 per annum for Vice President Rouse, who is also Manager of the System Open Market Account, although the Board previously had declined to approve such a salary for Mr. Rouse.

At Chairman Martin's request, Mr. Allen commented on the proposals, stating that they had been invited by the Board in its letter of June 2, 1952, as a means of correcting inequities that had developed subsequent to the Board's letter of February 26, 1952, that he favored prompt action in connection with the Reserve Bank proposals subject to approval of the new levels by the Salary Stabilization Board, that in an informal discussion with representatives of that agency he had gained the impression that its approval would be forthcoming if the Board acted favorably on the requests of the Reserve Banks, and that the only reservation he had concerning any of the proposals was in connection with the list submitted by the Chicago Bank which established new maxima for certain positions. Since that Bank had employed an outside firm to make a study of its salary structure, Mr. Allen felt it might be desirable to defer action until the results of the study were available.

During the ensuing discussion it was the consensus that proposed

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increases in salaries for Messrs. Rouse and Miller, Vice President and Assistant Vice President, respectively, of the Federal Reserve Bank of New York, should not be acted upon pending completion of the study now being conducted by a special committee of the Federal Open Market Committee, inasmuch as their duties were largely connected with the operation of the System Open Market Account.

Governor Vardaman stated that he was not satisfied with the procedure followed for consideration of Reserve Bank officer salaries, that he felt the Board should evaluate each individual officer position, and that the Reserve Banks should then be permitted within some lump sum approved in their budgets to fix individual officer salaries at whatever level their directors felt was appropriate. It was stated that the special committee appointed by the Board on June 6, 1952 was studying the problem referred to by Governor Vardaman and would submit a report to the Board shortly.

With respect to the proposed increases at the Federal Reserve Bank of Chicago, Governor Szymczak suggested that it would be undesirable to defer action pending availability of a salary study being made by that Bank since to do so would, in effect, penalize the Bank for having proceeded to ask an outside firm to make a study of its internal salary structure.

There was also discussion of whether the increases in salaries, if approved, should be retroactive to the beginning of the current salary

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year of the respective banks, and it was the unanimous view of members of the Board that any increase approved at this time should be effective November 1, 1952.

Following the discussion, unanimous approval was given to the salaries as fixed by the Federal Reserve Bank directors as listed in the memorandum from the Division of Personnel Administration dated September 3, 1952, except that no action was taken with respect to the salaries proposed for Messrs. Rouse and Miller of the New York Bank. In taking this action, it was understood that the proposed salaries would be submitted by Mr. Allen to the Salary Stabilization Board for approval and that when such approval was received the Federal Reserve Banks should be advised by letter accordingly.

Secretary's note: On October 29, 1952, the Salary Stabilization Board approved the proposed salary levels and the following letters to the Federal Reserve Banks were mailed under date of November 3, 1952:

Letter to Mr. Stevens, Chairman, Federal Reserve Bank of New York

"Reference is made to your letter of June 13, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers of the Federal Reserve Bank of New York.

"The Board of Governors approves the payment of salaries to the following named officers for the period November 1, 1952, through March 31, 1953, at the rates indicated, if fixed by your Board of Directors at such rates:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
T. C. Tiebout	Assistant General Counsel	\$20,000
H. L. Sanford	Assistant Vice President	17,500

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"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter we received from that Office.

"The Board is giving further consideration to the salary proposals for Messrs. Rouse and Miller and you will be advised in due course of the decision concerning them.

"Your letter also contained a salary proposal for Mr. Sproul. As you know, the Board has been giving consideration to the level of salaries for presidents and first vice presidents of the Federal Reserve Banks. If any change is made in existing policy, the Board of Directors of the Reserve Banks will be informed promptly of such change."

Letter to Mr. Gidney, President, Federal Reserve Bank of Cleveland

"Reference is made to your letter of June 20, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers of the Federal Reserve Bank of Cleveland and its Branches.

"The Board of Governors approves the payment of salaries to the following officers for the period November 1, 1952, through April 30, 1953, at the rates indicated, if fixed by your Board of Directors at such rates:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
H. E. J. Smith	Assistant Vice President	\$11,500
G. H. Emde	Assistant Cashier	10,000
H. M. Boyd	Chief Examiner	10,000
C. F. Ehninger	General Auditor	12,000
L. M. Hostetler	Manager, Research Department <u>Cincinnati Branch</u>	10,500
W. D. Fulton	Vice President	\$16,500
P. J. Geers	Assistant Cashier	10,000
Clyde Harrell	Assistant Cashier <u>Pittsburgh Branch</u>	10,000
J. W. Kossin	Vice President	\$17,500
A. G. Foster	Cashier	13,000
J. A. Schmidt	Assistant Cashier	10,000

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your

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"records, there is enclosed a copy of the letter which we received from that Office."

Letter to Mr. Leach, President, Federal Reserve Bank of Richmond

"Reference is made to your letter of June 11, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers of the Federal Reserve Bank of Richmond.

"The Board of Governors approves the payment of salaries to the following officers for the period November 1, 1952, through May 31, 1953, at the rates indicated, if fixed by your Board of Directors at such rates:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Upton S. Martin	Assistant Vice President	\$ 10,600
R. S. Brock, Jr.	General Auditor	11,500

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter which we received from that Office."

Letter to Mr. Bryan, President, Federal Reserve Bank of Atlanta

"Reference is made to your letter of June 16, 1952, requesting the approval of the payment of salaries at increased rates to certain officers assigned to branches of the Federal Reserve Bank of Atlanta.

"The Board of Governors approves the payment of salaries to the following officers for the period November 1, 1952, through May 31, 1953, at the rates indicated, if fixed by the Board of Directors at such rates.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
	<u>Birmingham Branch</u>	
H. C. Frazer	Assistant Manager	\$9,300
	<u>New Orleans Branch</u>	
E. P. Paris	Vice President	15,750
M. L. Shaw	Assistant Manager	10,500

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter which we received from that Office."

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Letter to Mr. Young, President, Federal Reserve Bank of Chicago

"Reference is made to your letters of June 6 and June 20, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers of the Federal Reserve Bank of Chicago and the Detroit Branch.

"The Board of Governors approves the payment of salaries to the following named officers for the period November 1, 1952, through March 31, 1953, at the rates indicated, if fixed by your Board of Directors at such rates:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office:</u>		
A. T. Sihler	Vice President	\$19,500
A. M. Black	Vice President	16,000
Mark A. Lies	Assistant Vice President	13,500
F. A. Lindsten	Assistant Vice President	13,000
C. P. Van Zante	Chief Examiner	11,500
J. J. Endres	General Auditor	17,000
Paul C. Hodge	General Counsel	15,500
<u>Detroit Branch:</u>		
H. J. Chalfont	Vice President	15,500
R. W. Bloomfield	Assistant Vice President	11,500
H. L. Diehl	Cashier	11,000
A. J. Wiegandt	Assistant Cashier	10,000
G. W. Lamphere	Assistant General Counsel	9,500

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter we received from that Office."

Letter to Mr. Powell, President, Federal Reserve Bank of Minneapolis

"Reference is made to Mr. Peyton's letter of June 9, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers of the Federal Reserve Bank of Minneapolis and the Helena Branch.

"The Board of Governors approves the payment of salaries to the following officers for the period November 1, 1952, through May 31, 1953, at the rates indicated, if fixed by your Board of Directors at such rates:

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<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
Head Office:		
O. R. Preston	Vice President	\$16,000
M. E. Lysen	Operating Research Officer	9,500
O. W. Ohnstad	Auditor	10,000
J. Marvin Peterson	Director of Research	12,000
F. L. Parsons	Associate Director of Research	10,500
Houston Branch:		
H. A. Berglund	Assistant Cashier	8,000

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter which we received from that Office."

Letter to Mr. Gilbert, President, Federal Reserve Bank of Dallas

"Reference is made to your letter of June 13, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers assigned to the Houston Branch of the Federal Reserve Bank of Dallas.

"The Board of Governors approves the payment of salaries to the following officers for the period November 1, 1952, through May 31, 1953, at the rates indicated, if fixed by the Board of Directors at such rates.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
	<u>Houston Branch</u>	
W. H. Holloway	Vice President	\$ 12,500
H. K. Davis	Cashier	8,100
B. J. Troy	Assistant Cashier	7,200

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter which we received from that Office."

Letter to Mr. Wilbur, Chairman, Federal Reserve Bank of San Francisco

"Reference is made to Mr. Wallace's letter of June 10, 1952, requesting the Board's approval of the payment of salaries at increased rates to certain officers assigned to the Los Angeles Branch.

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"The Board of Governors approves the payment of salaries to the following officers for the period November 1, 1952, through April 30, 1953, at the rates indicated, if fixed by your Board of Directors at such rates.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
	<u>Los Angeles Branch</u>	
W. F. Volberg	Vice President	\$17,000
Fred C. Bold	Assistant Manager	14,000

"The payment of salaries at the above rates has been approved by the Office of Salary Stabilization. For your records, there is enclosed a copy of the letter which we received from that Office."

Governor Vardaman suggested that it be the policy of the Board that no meetings be held in the absence of the Chairman unless the absence was an extended one.

This suggestion was discussed and it was the consensus that the Board should meet whenever necessary to act on matters requiring prompt consideration.

At this point Mr. Allen withdrew from the meeting and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 24, 1952, were approved unanimously.

Letter to Mr. Slade, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of September 18, 1952, requesting the Board's opinion as to whether the Farmer's and Merchant's Bank, Provo, Utah, may invest in new shares of stock and appreciation debenture bonds of its wholly owned subsidiary, the Taylor Investment Company. It is understood

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"that the affiliate relationship arose through acquisition by the bank of a majority of the Company's stock in satisfaction of debts previously contracted. The bank now plans to erect a bank building on a piece of property owned by the Company and, in order to finance construction of the building, proposes to supply the greater portion of the funds by investments in the new issues of stock and debentures of the affiliate.

"As you know, section 23A of the Federal Reserve Act prohibits investments by member banks in stock or debentures of an affiliate in an amount which will exceed 10 per centum of the capital stock and surplus of the member bank. The amount of the proposed investment will greatly exceed this limitation. However, the third paragraph of section 23A, among other things, provides that the provisions of this section shall not apply to any affiliate 'where the affiliate relationship has arisen out of a bona fide debt contracted prior to the date of the creation of such relationship'.

"A literal reading of the language of the statute would appear to exclude investments in an affiliate created under circumstances such as those covering the Taylor Investment Company and permit the member bank to make loans to or investments in such an affiliate without limitation. This exception to the law was added by the Banking Act of 1935, and, although the legislative history of that Act reveals no statement explaining the exemption, in a report by a Congressional Committee on a bill under consideration in 1934 which became the basis for the 1935 Banking Act, it was stated with regard to this exception that the purpose was 'to avoid the severe loss that may be occasioned by banks under the present law where they control an affiliate through having obtained its stock by foreclosure or otherwise in satisfaction of a previously contracted debt'. The Report went on to say that 'it is frequently found necessary to advance funds to such an affiliate either for the purpose of continuing its operation or of assisting its liquidation, so as to salvage the real value out of the assets and reduce or avoid loss by the bank on the debt which had been secured'.

"The Board has heretofore considered a situation in which a member bank had made seasonal loans to a company affiliated through the liquidation of debts previously contracted, in order for the company to continue operations. The Board's position contained in a letter dated October 24, 1941 (S-385, F.R.L.S. #6741), was that 'in view of the circumstances

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"described the affiliate would clearly come within the provisions of the exemption'. The present case is distinguishable from the case considered in 1941 in that the proposed investments in Taylor Investment Company would not be for the purpose of continuing operations in order to salvage the real value out of the assets and reduce or avoid loss by the bank on the debt which had been secured, but to enable the Company to branch out into new fields.

"Although a literal interpretation of the exception would remove the Taylor Investment Company from classification as an affiliate of the member bank for purposes of section 23A, the Board does not believe such an interpretation would be consistent with the intent and purpose of the section as a whole. That section was enacted to place rigid restrictions on investments by member banks in affiliated companies. Certain specific exceptions were made, including the one pertinent to the relationship with Taylor Investment Company. However, Congress, in commenting on this type of exemption, indicated that the only loans or investments intended to be exempted were those for the purpose of continuing the affiliate's operations as a salvage proposition or assisting in its liquidation. This would not be true in the case under consideration. Furthermore, to permit investments of this kind would appear to be inconsistent with the purpose and intent of section 23A, since conceivably it would make it possible for a member bank to evade the requirements of the statute by making an unsound loan collateralized by stock of a company with the intent of later acquiring such stock in satisfaction of the loan and thereafter pouring unlimited amounts of money into the company for its operations in wholly unrelated activities.

"Accordingly, the Board is of the opinion that section 23A prohibits the Farmers' and Merchants' Bank, Provo, Utah, from making the proposed investments in the stock and appreciation debenture bonds of its affiliated Taylor Investment Company."

Approved unanimously.


Secretary.