

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 7, 1953. 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. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Bethea, Director, Division of  
Administrative Services  
Mr. Vest, General Counsel  
Mr. Allen, Director, Division of  
Personnel Administration

The following requests for travel authorization were presented:

Charles H. Schmidt, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics. To proceed to New York, New York, and return January 15-16, 1953, to present a paper on "Growth and Capital Expenditures" at a meeting of the National Industrial Conference Board, to participate in a discussion of capital markets prospects sponsored by Salomon Brothers and Hutzler, and to discuss business finance and capital markets prospects with representatives of several life insurance companies.

Eleanor J. Stockwell, Economist, Division of Research and Statistics. To proceed to New York, New York, and return January 15-16, 1953, to discuss the corporate finance and capital markets outlook for 1953 with the staff of the Federal Reserve Bank of New York and with the staff of the Bankers Trust Company, and to discuss business finance and capital markets prospects with representatives of several life insurance companies.

Approved unanimously.

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Reference was made to prospective visits to the Board's offices by officers of State bankers associations, under the sponsorship of the American Bankers Association, on dates beginning the latter part of this month, and it was suggested that programs be arranged for the visitors similar to those arranged on the occasion of similar visits in 1952, which included luncheon with the members of the Board and members of the staff, followed by informal discussion with the available members of the Board.

The suggestion was approved  
unanimously.

Chairman Martin referred to a telegram dated December 26, 1952, from Mr. McCormick, Chairman of the Federal Reserve Bank of Richmond, stating, in response to the Board's telegram dated December 24, 1952, that Mr. M. C. Stone, of Spartanburg, South Carolina, had indicated that he would be unavailable for appointment as a director of the Charlotte Branch of the Federal Reserve Bank of Richmond because of a previous commitment to serve on the board of a new commercial bank. He said that he had discussed with Chairman McCormick the possible appointment of Mr. William H. Ruffin, President and Treasurer of the Erwin Mills, Inc., Durham, North Carolina, who also was recommended by Mr. W. A. L. Sibley, director of the Charlotte

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Branch whose term expired December 31, 1952, that Chairman McCormick was agreeable to the appointment of Mr. Ruffin, and that in the circumstances he (Chairman Martin) was disposed to favor the appointment.

Thereupon, it was voted unanimously to appoint Mr. Ruffin as a director of the Charlotte Branch for the unexpired portion of the three-year term beginning January 1, 1953, provided Chairman McCormick first ascertained and advised the Board that Mr. Ruffin would accept the appointment if tendered.

In accordance with the understanding at the meeting on December 31, 1952, there was a full discussion of the salary level of the Board's chauffeurs in the light of the services performed by these employees and the salaries paid for comparable positions at other Government agencies. Reference also was made in this connection to the salaries of other groups of lower-salaried employees on the Board's staff, particularly guards and building maintenance personnel.

In response to questions by members of the Board, Mr. Allen stated that, if an adjustment were to be made, the most equitable solution would appear to be through a revision of the Board's salary structure which would be applicable to all classes of employees. He explained that such a revision would not be permissible under the current wage and salary stabilization regulations, but that the

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regulations would expire on April 30, 1953, unless extended by Congressional action.

At the conclusion of the discussion, it was agreed that no action should be taken at the present time, with the understanding that further consideration would be given at the end of April to a possible revision of the salary structure should the status of the wage and salary stabilization regulations be such as to permit a revision at that time.

There was also a full discussion, again pursuant to an understanding at the meeting on December 31, 1952, of the use of United States Government license plates on the Board's automobiles and the display on such vehicles of the official Government shield and agency identification. The discussion was based on an expression of opinion by Governor Vardaman to the effect that the confidential nature of the business of those using the Board's automobiles on some occasions might justify removing the identifying insignia and substituting District of Columbia license plates for Government tags.

The review of the matter covered previous discussions by the Board and the reasons why it had been decided to follow the existing practice, reference being made particularly to the discussion at the meeting on January 17, 1952, concerning Personal Property Management

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Regulation No. 24, issued by General Services Administration on July 23, 1951, and Supplement No. 1 thereto dated October 24, 1951, promulgating rules for identification of vehicles purchased for official use. It was recalled that the Legal Division was of the opinion that the amendment to the Federal Property and Administrative Services Act of 1949, under which Regulation No. 24 was issued, was applicable to the Board, and that the Board decided in favor of full compliance with the regulation through use of the official Government shield and the lettering, "Federal Reserve", on all of its cars.

At the conclusion of the discussion it was agreed that no change should be made in the existing practice.

At this point Mr. Bethea withdrew from the meeting.

Reference was made by Chairman Martin to a statement handed to each member of the Board by the Secretary suggesting possible changes in the procedures for functioning personnel actions affecting members of the staffs of the Board and the Federal Reserve Banks.

Governor Robertson suggested that consideration be given to this matter in conjunction with consideration of the reports on the Board's organization and accounting procedures which were submitted by Price, Waterhouse and Company in 1950 and by Arthur Andersen and



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Company in 1952. He also suggested that the members of the Board be advised in advance of the meeting when the discussion would be held so that they might have an opportunity to review the contents of the documents.

It was agreed that the procedure suggested by Governor Robertson would be followed.

Reference was made to the discussion at the meeting of the Board on July 2, 1952, regarding the salaries of persons appointed as Assistant and Alternate Assistant Federal Reserve Agents and Federal Reserve Agent's Representatives at the Federal Reserve Banks and branches, and to the understanding at that time that the matter would be discussed further at a meeting when all of the members of the Board were present.

The Secretary noted from a statement prepared by the Division of Personnel Administration as of October 15, 1952, that the salaries of such persons ranged from \$3,240 in the case of an Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis to \$17,500 in the case of an Alternate Assistant Federal Reserve Agent at the Chicago Bank, this variation being accounted for by the fact that most of the persons holding the positions in question devote only a small part of their time to this function and are compensated

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according to the classification of the job in which they are principally occupied.

Governor Vardaman said that although he recognized that the functions involved are of a more or less routine nature, he thought it might be worth while for the Board to consider whether it was appropriate to appoint persons below a certain salary level to such positions in view of the fact that they are technically the representatives of the Board at the respective Reserve Banks and branches. He also suggested that the Board take steps to assure that the procedures followed at the Federal Reserve Banks are adequate from the standpoint of efficiency and protection against irregularities in the issuance and retirement of Federal Reserve notes.

Following a discussion, it was suggested that the Chief Federal Reserve Examiner be requested to make a special review of the situation at each Federal Reserve Bank and branch during the course of examinations in 1953 and include comments on the matter in his report on the examination of each of the Banks.

This suggestion was approved  
unanimously.

In accordance with the request made at the meeting of the Board yesterday, Messrs. Thurston, Carpenter, and Vest had prepared

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a further revision of the reply to be made to the letter received under date of December 29, 1952, from Mr. Larson, Administrator of General Services Administration, with regard to a payment of \$400,000 to Dillon, Read & Co., Inc., for the account of itself and Reynolds and Company, for "financial services and out-of-pocket expenses" out of the proceeds of the V-loan to Reynolds Reduction Company guaranteed by General Services Administration.

The revised draft had been read over the telephone to Mr. Phelan, Vice President of the Federal Reserve Bank of New York, but at the time the matter was taken up at this meeting Mr. Phelan had not indicated what, if any, changes the officers of the Bank might wish to suggest.

The staff draft, which had been further changed to incorporate certain changes proposed by Governor Robertson, was read at this meeting and approved unanimously, with the understanding that it would not be sent to Mr. Larson until after it had been cleared with Mr. Phelan.

Question was raised whether the Board should call a meeting of all of the guaranteeing agencies to obtain their views regarding the possible promulgation by the Board of regulations covering similar



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payments in the future.

It was agreed that the advisability of taking such action should be considered at a subsequent meeting of the Board.

It was also agreed that a letter should be sent to the Federal Reserve Bank of New York requesting that Bank to prepare and forward to the Board for its files a detailed narrative statement regarding the history of the V-loan to Reynolds Reduction Company based on the records of the Bank and the recollections of the Bank's staff, such statement to cover all aspects of the case, including negotiations leading up to the loan and guarantee insofar as representatives of the New York Bank participated.

Governor Robertson referred to his statement at the meeting of January 2, 1953, regarding the request contained in a letter dated December 18, 1952, from the Comptroller of the Currency for the Board's recommendation with respect to an application to organize a national bank in Richfield, Minnesota, all of the stock of which, except directors' qualifying shares, would be owned by Northwest Bancorporation, a holding company affiliate, of Minneapolis, Minnesota. He said that Mr. Joseph F. Ringland, Chairman and President of the Northwestern National Bank of Minneapolis, which is controlled by

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Northwest Bancorporation, told him in a telephone conversation yesterday that, according to the Comptroller's Office, the only thing holding up the chartering of the bank was that the Board's recommendation had not been received, and that he told Mr. Ringland he would attempt to have the recommendation sent to the Comptroller this week.

In view of the fact that he was to be away from Washington tomorrow and Friday, Governor Robertson presented his views on the matter. He brought out that the Federal Reserve Bank of Minneapolis, in a letter to the Board dated December 22, 1952, recommended approval of the application. He also said that the Northwest Bancorporation already controls a substantial percentage of the deposits in the Minneapolis area, that, if the bank in Richfield should be established, the Board would be called upon to consider a request from the holding company affiliate for a voting permit covering its stock in the bank, and that, according to the Minneapolis Reserve Bank, an application had been made recently for a charter for an independent State bank to be located about two miles south of the location proposed for the national bank. Governor Robertson made the further statement that he would recommend a favorable reply to the Comptroller of the Currency on the grounds that there would be competition in the area from nearby

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banks, the population of the area to be served was about 18,000, there seemed to be no question but that the bank could operate profitably and would have a substantial volume of business, and the individuals who were now applying for the State charter earlier had opposed the establishment of the national bank on the grounds that there was not enough business in the area to enable a bank to operate profitably.

It was agreed that the matter should be placed on the agenda for further consideration at the meeting of the Board tomorrow, following circulation to the members of the Board of pertinent correspondence and staff memoranda.

The meeting then recessed and reconvened at 4:25 p.m., with the same attendance as at the conclusion of the morning session except that Messrs. Boothe, Administrator, Office of Defense Loans, and Hackley, Assistant General Counsel, were present, while Messrs. Sherman and Allen were not present.

The Secretary stated that following the morning session, Mr. Phelan, Vice President of the Federal Reserve Bank of New York, read over the telephone a suggested draft, prepared at the Federal Reserve Bank of New York, of the proposed reply to Mr. Larson, Administrator

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of General Services Administration, regarding the V-loan to Reynolds Reduction Company, that members of the Board's staff, after studying the draft suggested by Mr. Phelan, discussed the matter with him by telephone, and that at the conclusion of the discussion, Mr. Phelan stated that the draft approved at the meeting of the Board this morning with three changes would be satisfactory to him.

The draft, revised to include the changes proposed by Mr. Phelan was read, and after commenting on the changes, Governor Robertson withdrew from the meeting to catch a train.

Following a discussion, the changes suggested by Mr. Phelan were accepted, and unanimous approval was given to the reply to Mr. Larson in the following form:

"Receipt is acknowledged of your letter of December 29, 1952, received by the Board on January 2, 1953, with respect to your V-loan guarantee agreement GSA(2)-20 et seq., Reynolds Reduction Company.

"Under the provisions of the Defense Production Act of 1950 and Executive Order 10161 delegating to the Board of Governors powers vested in the President by that Act, the Board has issued regulations with respect to guarantee fees and with respect to rates of interest, commitment fees and termination fees charged the borrower by the financing institutions. The Board's regulations do not and should not extend to the subsequent use of funds advanced in accordance with the terms of a V-loan agreement which complied with the Board's regulations. You will appreciate, of course, that the Board cannot issue retroactive regulations.

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"This is the only case which has come to the Board's attention involving a disbursement similar to the one to which you refer.

"While the Federal Reserve Banks, under authority of the statute, act as fiscal agents for guaranteeing agencies, the Federal Reserve Bank of New York as your agent did not decide the terms of the loan agreement in this case. In this connection we also understand that General Services Administration had previously informed the Federal Reserve Bank of New York that in view of the close familiarity of General Services Administration with all the legal aspects of the proposed credit, the latter would review and pass upon the adequacy and acceptability of the various loan documents including the Mortgage and Deed of Trust which, we are advised, permitted charges for out-of-pocket expenses for financial services. Furthermore, the representatives of the Federal Reserve Bank did not participate in all of the negotiations.

"Consequently, the responsibility for determining whether this disbursement is properly chargeable against the proceeds of the V-loan, or is within the bounds of reasonableness, rests with the guaranteeing agency and not with the Board of Governors or the Federal Reserve Bank.

"As you know, the Board stands ready at all times to discuss with the guaranteeing agencies any problems that may arise in connection with the V-loan program."

At this point all of the members of the staff except Messrs. Carpenter and Kenyon 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 January 6, 1953, were approved unanimously.



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Telegram to Mr. Harry Smith, Winter Garden Ornamental Nurseries, Inc., Winter Garden, Florida, prepared pursuant to action taken by the Board on December 31, 1952, and reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta for three-year term beginning January 1, 1953, and will be pleased to have your acceptance by collect telegram. Public announcement of appointment will be made upon receipt of your acceptance.

"It is understood that you are not a director of a bank and do not hold political or public office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Atlanta."

Approved unanimously.

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

"In accordance with the request contained in your letter of January 2, 1953, the Board approves the designation of Bennett A. Brown as a special assistant examiner for the Federal Reserve Bank of Atlanta, for the specific purpose of rendering assistance in the examinations of State member banks only."

Approved unanimously.

Letter to the Board of Directors, Bankers Trust Company, Des Moines, Iowa, reading as follows:



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"Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment and operation of a branch in Grimes, Iowa, by the Bankers Trust Company, Des Moines, Iowa, following the purchase of certain assets and the assumption of certain deposit liabilities of the Des Moines Bank & Trust Co., Des Moines, Iowa, provided the transaction is carried out substantially in accordance with the plan submitted with your application, except that the securities purchased be placed upon the books of the Bankers Trust Company at a value which does not exceed the market value of such securities on the date of actual acquisition, and with the understanding prior formal approval of the appropriate State authorities has been obtained."

Approved unanimously, for  
transmittal through the Federal  
Reserve Bank of Chicago.

Telegram to Mr. Dearmont, Chairman, Federal Reserve Bank of St. Louis, authorizing him to issue a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to The First National Bank of Louisville, Louisville, Kentucky, entitling such organization to vote the stock which it owns or controls of the First National Bank of Buechel, Buechel, Kentucky, subject to the following conditions stated in the telegram:

1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190), except that paragraph numbered 3 shall be modified in manner stated in paragraph numbered (3) of S-964.
2. Simultaneously with issuance of general voting permit authorized herein, there shall be issued to Trustees

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Under Trust Agreement With Reference To Stock In First National Bank of Louisville, Kentucky, And Other Corporations, dated July 1, 1925, Louisville, Kentucky, and to First Kentucky Company, Louisville, Kentucky, general voting permits authorized in Board's telegrams of this date.

Approved unanimously.

Telegram to Mr. Dearmont, Chairman, Federal Reserve Bank of St. Louis, authorizing him to issue a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to First Kentucky Company, Louisville, Kentucky, entitling such organization to vote the stock which it owns or controls of First National Bank of Buechel, Buechel, Kentucky, subject to the following conditions stated in the telegram:

1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).
2. Simultaneously with issuance of general voting permit authorized herein, there shall be issued to Trustees Under Trust Agreement With Reference To Stock In First National Bank of Louisville, Kentucky, And Other Corporations, Dated July 1, 1925, Louisville, Kentucky, and to The First National Bank of Louisville, Louisville, Kentucky, general voting permits authorized in Board's telegrams of this date.

Approved unanimously.

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Telegram to Mr. Dearmont, Chairman, Federal Reserve Bank of St. Louis, authorizing him to issue a general voting permit, under the provisions of section 5114 of the Revised Statutes of the United States, to Trustees Under Trust Agreement With Reference To Stock in First National Bank of Louisville, Kentucky, And Other Corporations, Dated July 1, 1925, Louisville, Kentucky, entitling such trustees to vote the stock which they own or control of First National Bank of Buechel, Buechel, Kentucky, subject to the following conditions stated in the telegram:

1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190).
2. Simultaneously with issuance of general voting permit authorized herein, there shall be issued to The First National Bank of Louisville, Louisville, Kentucky, and to First Kentucky Company, Louisville, Kentucky, general voting permits authorized in Board's telegrams of this date.

Approved unanimously.

The three above-mentioned voting permits were granted on the basis that the Board consented to waive, as requested by the applicants, the execution of Exhibit L (Form P-3), Agreement to Permit Examinations, and Exhibit N (Form P-4), Authorization to Furnish Information, by certain companies in which the applicants, through a member bank, the Kentucky Trust

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Company, of Louisville, Kentucky, held a majority of the voting stock in a fiduciary capacity. Recommendations that the execution of the exhibits be waived were contained in a memorandum dated December 24, 1952, from the Division of Examinations, and in a memorandum of the same date from Mr. Hooff, Assistant Counsel.

Unanimous approval also was given to the recommendation in Mr. Hooff's memorandum that the requirement for the execution of Exhibits L and N by all affiliates of member banks be eliminated from future applications for voting permits inasmuch as they are subject to examination by the Board under section 9 of the Federal Reserve Act.

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

"This refers to the letter of October 29, 1952, addressed to you by Mr. H. Y. Offutt, Secretary, First National Bank Trustees, Louisville, Kentucky, which was transmitted with your letter of November 3. Mr. Offutt's letter requested further consideration of the views stated in the Board's letter to you of September 18, 1952, concerning the deficiency in the required reserve of readily marketable assets of Trustees, First National Bank, Louisville, at December 31, 1951.

"The information in Mr. Offutt's letter regarding a firm offer for stock of the First Kentucky Company and an increase in the book value of the Trustees Certificates outstanding, presented matters which have been considered previously in connection with other situations.

"In regard to firm offers received by a holding company affiliate for the stock of subsidiary nonbanking organizations, the Board has applied the principle that an opportunity to



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"sell through such specially negotiated transactions would not warrant the treatment of such stock as readily marketable for the purposes in question. There would appear to be no justification for departing from this principle merely because the amount of the reserve required may not be large or because of any other matter disclosed by Mr. Offutt's letter.

"With respect to an increase by a holding company affiliate in the book value of its own shares outstanding, the view has been expressed that such increase should have no retroactive effect upon the establishment and maintenance of the reserve of readily marketable assets required prior to such increase. In this connection also, a full consideration of the information presented reveals no reason which would justify the application of a different principle to the case in question.

"In advising Trustees, First National Bank, Louisville, of the foregoing and of the Board's reaffirmation of the views stated in its letter of September 18, 1952, please express the Board's appreciation of the cooperation indicated by Mr. Offutt's letter of October 29 with respect to this matter."

Approved unanimously.

Letter to the Aetna Life Insurance Company, Hartford, Connecticut, reading as follows:

"On April 18, 1952, Mr. S. B. Crocker, of your local group department, was advised by letter that the Board of Governors of the Federal Reserve System would permit group policy No. 8042 to expire on April 30, 1952, the end of the 13th year of the policy.

"A substantial cash refund for the final policy year was expected; however, when it was not received, the matter was discussed with Mr. Crocker by telephone. We were advised by his letter of August 5, 1952, that he had been informed by you that it was not your general practice to make any experience rating adjustment with respect to policies that have been discontinued.

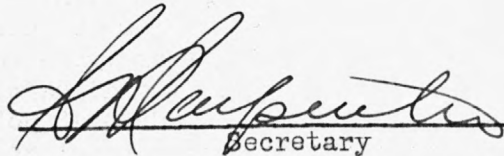
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"A review of the discounts granted by your company on this policy indicates that our expectation of a refund would seem to be justified. In the light of favorable experience under this policy, your Company granted an experience discount of 20 per cent, for the first policy year (which commenced May 1, 1939), and increased the rate until it reached 47 per cent for the 7th policy year (commencing May 1, 1945). This rate then continued through to the termination of the policy. In addition, beginning with the 8th policy year, cash refunds were made by you in lieu of a higher discount rating; and, at the end of the 9th policy year, benefits payable were increased by 30 per cent, applicable to the subsequent policy year. This continued through the 12th policy year (commencing May 1, 1950). After provision for the 30 per cent additional coverage (applied to the 13th policy year) the cash refund amounted to \$579.82, or 9.9 per cent of net premium for the 12th year.

"It appears, therefore, that the favorable experience during the final policy year would justify at least the same 9.9 per cent cash refund of net premium that was granted for the preceding year, plus an amount in lieu of the 30 per cent additional coverage, since there is no subsequent year to which this bonus could be applied.

"We consider our position in this matter to be entirely reasonable and therefore request that your Company again consider the question."

Approved unanimously.

  
Secretary