

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 30, 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. Vest, General Counsel

Governor Szymczak said that Mr. Earhart, President of the Federal Reserve Bank of San Francisco, when in Washington earlier this week informed him that Mr. Wilbur, Chairman of the San Francisco Reserve Bank, had been asked to make a survey of the Mutual Security Agency organization in Indochina, and that subsequently Chairman Wilbur called on the telephone to inquire whether the Board would send a member of its staff to San Francisco to brief him on conditions in Indochina before he left in the near future to undertake the assignment. Governor Szymczak said that Mr. Hersey, Chief of the Special Studies Section in the Division of International Finance, appeared to be the person on the staff best qualified to brief Chairman Wilbur.

It was agreed that Governor Szymczak should tell Chairman Wilbur that the Board would send Mr. Hersey to San Francisco during the period February 1-7, 1953, for the purpose mentioned.

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Pursuant to the understanding at the meeting on December 22, 1952, there had been prepared and sent to the members of the Board a draft of letter to Mr. William McCauley, Director of the Bureau of Employees' Compensation, Department of Labor, requesting him to review the question of the application of the Federal Employees' Compensation Act, as amended, to the members of the Board and employees of the Board.

Following a discussion of the draft, unanimous approval was given to a letter to Mr. McCauley in the following form:

"Prior to 1933 the United States Employees' Compensation Commission had approved claims arising out of injuries to employees of the Federal Reserve Board (now the Board of Governors of the Federal Reserve System). However, in an exchange of correspondence in 1938 the Commission ruled that employees of the Board were not 'civil employees' of the United States within the meaning of the Federal Employees' Compensation Act. The change in the position of the Commission, as stated in its letter of May 27, 1938, was apparently based on the provision contained in section 10 of the Federal Reserve Act, as amended by the Act of June 16, 1933, which states that funds derived from assessments on Federal Reserve Banks 'shall not be construed to be Government funds or appropriated moneys.'

"Since this decision of the Commission in 1938 the Board has carried an insurance policy for its employees which provides substantially the same benefits as are provided under the Longshoremen's and Harbor Workers' Compensation Act. Until 1949 these were also substantially the same as those payable under the Federal Employees' Compensation Act. Amendments to the latter Act in 1949 changed the benefits payable thereunder, and also enlarged the definition of the term 'employee' to include civil officers as well as employees of all branches of the Government of the United States.

"In the circumstances, the Board would appreciate it if you would review the question of the application of the amended

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"Federal Employees' Compensation Act to the members of the Board of Governors and employees of the Board. The Board will, of course, be glad to supply any additional information which you may desire in connection with this question."

The following requests for travel authorization were presented:

<u>Name and Title</u>	<u>Duration of Travel</u>
S. R. Carpenter, Secretary of the Board	February 12, 1953

To proceed to Richmond, Virginia, to attend a meeting of the directors of the Federal Reserve Bank of Richmond.

Lowell Myrick, Assistant Director, Division of Bank Operations	January 28-30, 1953
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To attend, as an associate member, a meeting of the Presidents' Conference Subcommittee on Cash, Leased Wire, and Sundry Operations, to be held at the Federal Reserve Bank of Richmond.

Approved unanimously.

At this point Mr. Vest withdrew from the meeting, and Messrs.

Thurston, Assistant to the Board; Riefler, Assistant to the Chairman; and Thomas, Economic Adviser to the Board, entered the room, along with the following members of the staff of the Division of Research and Statistics:

- Mr. Young, Director
- Mr. Garfield, Adviser on Economic Research
- Mr. Williams, Assistant Director
- Mr. Noyes, Assistant Director
- Mr. Youngdahl, Assistant Director
- Mr. Jones, Chief, Consumer Credit and  
Finances Section
- Mr. Koch, Chief, Banking Section

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Mr. Schmidt, Chief, Business Finance and  
Capital Markets Section  
Mr. Leach, Acting Chief, Government Finance  
Section  
Mr. Allen, Economist  
Mr. Culbertson, Economist  
Mr. Trueblood, Economist  
Mr. Wood, Economist

At the request of Chairman Martin, the members of the staff of the Division of Research and Statistics summarized various aspects of the economic situation.

Following a discussion based on this presentation, the members of the staff withdrew and the Board went into executive session.

Thereafter, the Secretary was informed by the Chairman that during the executive session unanimous approval was given to an increase in the annual salary of Dwight L. Allen, Director of the Division of Personnel Administration, from \$11,000 to \$12,500, effective February 1, 1953.

During the day the following additional actions were taken by the Board, with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 29, 1953, were approved unanimously.

Telegrams to the Federal Reserve Banks of Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on January 26, by the Federal Reserve Bank of San Francisco on January 27, and by the Federal Reserve Banks of Atlanta, Chicago, and Kansas City on January 29, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Memorandum dated January 23, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Lyla McKaig Cole as Clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,950 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective February 1, 1953:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	<u>Memoranda from Mr. Young, Director, Division of Research and Statistics</u>		
1/15/53	Edwin J. Swindler, Economist	\$4,580	\$5,060
1/22/53	Peter M. Cody, Economist	5,435	5,940
1/22/53	Sylvia L. Edelson, Economist	5,310	5,940
1/22/53	Helmut F. Wendel, Economist	4,455	5,060
1/23/53	Ralph Leach, Acting Chief, Govern- ment Finance Section	9,600	9,800
	Louis Weiner, Acting Chief, National Income, Moneyflows, and Labor Section	9,600	9,800

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Date of MemorandumSalary Increase  
From      ToName and TitleMemoranda from Mr. Young, Director,  
Division of Research and Statistics

1/23/53

Daniel H. Brill,  
Economist      \$9,600      \$9,800John Culbertson,  
Economist      5,940      6,140Marjorie Capps,  
Clerk-Stenographer      3,255      3,335Joan R. Winter,  
Clerk      2,950      3,030

1/28/53

Charles H. Schmidt,  
Chief, Business Finance  
and Capital Markets  
Section      9,600      10,800

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Grace R. Sahn,  
Draftsman      4,160      4,285Memorandum from Mr. Marget, Director,  
Division of International Finance

1/19/53

Arthur C. Bunce,  
Chief, Far Eastern Sec-  
tion      10,000      10,200Nancy J. Smith,  
Research Assistant      3,785      3,910Memorandum from Mr. Sloan, Director,  
Division of Examinations

1/9/53

R. W. Cooke,  
Federal Reserve Examiner      6,540      6,740J. M. Poundstone,  
Assistant Federal Reserve  
Examiner      4,620      4,745C. P. Sturges,  
Assistant Federal Reserve  
Examiner      5,435      5,560Memorandum from Mr. Leonard, Director,  
Division of Bank Operations

1/21/53

Ruth B. Willard,  
Clerk-Stenographer      3,415      3,495

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<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
<u>Memoranda from Mr. Bethea, Director, Division of Administrative Services</u>			
1/21/53	Henry Tidwell, Cafeteria Laborer	\$2,552	\$2,632
1/25/53	Sarah Corbin, Charwoman	2,840	2,910
	William H. Drake, Messenger	3,032	3,112
	William E. Pinn, Messenger	3,032	3,112
<u>Memorandum from Mr. Kelleher, Assistant Director, Division of Administrative Services</u>			
12/16/52	Robert H. Craft, Operator (Key Punch)	2,990	3,110

Approved unanimously.

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

"In accordance with the request contained in your letter of January 27, 1953, the Board approves the appointment of Martin S. Depper as an assistant examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to the Board of Directors, Peoples Union Bank, McKeesport, Pennsylvania, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment and operation of a branch at Irwin, Pennsylvania, by Peoples Union Bank provided the absorption of The First

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"National Bank of Irwin, Irwin, Pennsylvania, is effected substantially as proposed and prior formal approval of the appropriate State authorities is obtained.

"In connection with the proposed absorption of The First National Bank of Irwin by Peoples Union Bank, the Board of Governors hereby gives its consent to the transaction as required under Section 18(c) of the Federal Deposit Insurance Act provided (a) the banking house, furniture and fixtures acquired from The First National Bank of Irwin are not placed on the books of the Peoples Union Bank at an amount in excess of depreciated value computed for Federal income tax purposes, and (b) Peoples Union Bank agrees to strengthen its capital structure through the sale of additional common stock for \$880,000 not later than June 30, 1953."

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

Letter to Mr. Heflin, Counsel, Federal Reserve Bank of Richmond,

reading as follows:

"This refers further to your letter of November 5, 1952, regarding the operation by the Union Trust Company of Maryland, Baltimore, Maryland, of a so-called 'Saf-T-Way Check Plan' on the premises of the Bladensburg branch of Sears, Roebuck & Company in Washington, D. C. As indicated in our letter of November 10, in view of the possible applicability of certain provisions of the Code of Laws of the District of Columbia, this matter was referred to the Comptroller of the Currency with a request for his views.

"We have now been advised by the office of the Comptroller of the Currency that it is the opinion of that office that, as presently constituted, the plan under consideration constitutes a branch operation under both section 5155 of the Revised Statutes and Section 26-103(b) of the District of Columbia Code. However, the letter from the Comptroller's office states that that office has not objected to the use of plans of this kind 'where it is made clear, both in form and in method of presenting the plan to the public, that the store, or other distributor of the checks, is the agent of the customer (drawer) rather than



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"of the bank, since operation of the plan would otherwise be a violation of the branch banking laws'. The letter also states that the decisions of the Comptroller's office in matters of this kind have followed the principle that actions of the store and the bank which lead the customer to believe that the store is acting on behalf of the bank are sufficient to give rise to an agency relationship between the store and the bank; and that that office has accordingly insisted that measures be taken to make clear to the customer that the seller is his agent, rather than the agent of the bank. One method for accomplishing this purpose mentioned in the Comptroller's letter is the printing of the following inscription on the back of each check:

"In making the check available to you and receiving the face amount thereof, \_\_\_\_\_ is acting as your agent and not as agent for the drawee bank, and agrees with you to transmit to such bank an equal amount for the purpose of providing the bank with funds to pay the check when properly presented.'

"In conjunction with an inscription of this kind, the Comptroller's office feels that there should also be a provision in the agreement between the bank and the store to the effect that the bank is not obligated to honor any check unless funds for that check have been transmitted by the store. Moreover, from the standpoint of sound banking practice, the Comptroller's office feels that it is essential that the entire procedure and operation of the plan be embodied in a written agreement which would contain provisions regarding such matters as liability for loss of funds, provisions for stopping payment of checks and for reimbursement for checks not used by the customer, and provision that the bank will not be obligated to pay a check unless funds have been transmitted to it.

"The Board is in agreement with the Comptroller that, unless the store legally is the agent of the customer and not of the bank in this transaction, the plan constitutes the operation of a branch within the meaning of section 5155 Revised Statutes. It is very doubtful under the facts as we understand them that the store is legally the agent of the customer and, accordingly, the Board feels that if the Union Trust Company wishes to continue this arrangement it should be made clear, either by the use of the inscription suggested by the Comptroller's letter or some other appropriate wording on the check, that the store is acting as the agent of the drawers of the checks rather than as the agent of the member bank.

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"The same would be true, of course, with respect to the operation of similar plans by Union Trust Company through department stores or other outlets in other localities.

"It will be appreciated if you will transmit a copy of this letter to the President of the Union Trust Company of Maryland and request his bank to take such measures as may be necessary to conform to the views herein expressed. It will also be appreciated if you will advise us of the steps taken by the bank in this connection."

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

"We acknowledge your letter of December 22, 1952, submitting a request that an investment in bank premises exceeding the amount of capital stock of The First State Bank, Stroud, Oklahoma, be approved under Section 24A of the Federal Reserve Act. The carrying value of bank premises, as disclosed by the report of examination of the subject bank dated November 15, 1952, and enclosed with your letter, is \$30,335 which exceeds the amount of capital stock by \$5,335. However, at the time the bank building improvement was completed, the book value of bank premises was \$35,948.91, consisting of the original book value of \$2,650 plus alterations of \$33,298.91. This total carrying value exceeded the amount of capital stock by \$10,948.91. On December 29, 1951, the institution charged off \$3,998.91 and regular depreciation amounting to \$1,615 was deducted, leaving a balance at the time of the examination, as shown above, of \$30,335.

"While correspondence and discussions between you and the bank in 1951 previous to the expenditures for building improvements would appear to have clearly informed the institution of the requirements of Section 24A, it is apparent that a misunderstanding developed resulting in this excessive carrying value. After consideration of all the facts and your recommendation the Board approves the investment by The First State Bank, Stroud, Oklahoma, of \$35,948.91 in bank premises which is now reduced to \$30,335."

Approved unanimously.

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Letter to Mr. Walter M. Spradley, Jenkins and Bowen, 1201 Main Street, Dallas, Texas, reading as follows:

"This refers to your letter of January 9, 1953, requesting on behalf of Lamar Investment Company, Atlantic Life Insurance Company, and Southwestern States Production Company a determination as to the status of such companies as holding company affiliates.

"From the information supplied, the Board understands that Lamar Investment Company, which was organized and is operating as a financing vehicle solely for the purpose of purchasing and holding shares of stock of The First National Bank of Paris, Paris, Texas, owns 11,600 of the 12,500 outstanding shares of common stock of the national bank but does not own or control, directly or indirectly, any other bank stock; that Atlantic Life Insurance Company, which was organized for the purpose of and is now engaging in the life insurance business, owns all of the outstanding common stock of Lamar Investment Company and thereby indirectly controls a majority of the stock of The First National Bank of Paris, and holds small amounts (in no case in excess of 5 per cent of the outstanding shares) of the stock of certain other banks as a part of its investment portfolio but does not own or control, directly or indirectly, any other bank stock; that Southwestern States Production Company, which was organized primarily as an oil company with broad, general corporate powers, is the registered owner under a loan agreement of the 11,600 shares of stock of The First National Bank of Paris owned by Lamar Investment Company, that Southwestern States Production Company does not own or control, directly or indirectly, any other bank stock; and that Lamar Investment Company, Atlantic Life Insurance Company and Southwestern States Production Company do not manage or control, directly or indirectly, any banking institution other than The First National Bank of Paris.

"In view of these facts, the Board has determined that the Lamar Investment Company, Atlantic Life Insurance Company, and Southwestern States Production Company are not engaged, directly or indirectly, as a business, in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933 as amended, and, accordingly,

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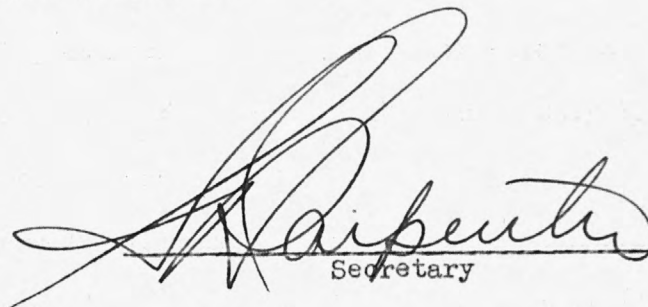
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"the Lamar Investment Company, Atlantic Life Insurance Company, and Southwestern States Production Company are not deemed to be holding company affiliates except for the purposes of section 23A of the Federal Reserve Act.

"If, however, the facts should at any time differ from those set out above to an extent which would indicate that the Lamar Investment Company, Atlantic Life Insurance Company, and Southwestern States Production Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

"There are enclosed three copies of this letter in order that you may furnish each company covered by this determination a copy for its records."

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



Secretary