

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 17, 1953. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Sloan, Director, Division of
 Examinations
 Mr. Hackley, Assistant General Counsel

Governor Evans, who attended the oral argument in the matter of Transamerica Corporation presented yesterday before the United States Court of Appeals for the Third Circuit in Philadelphia, made an informal report on the proceedings.

Prior to this meeting there had been circulated among the members of the Board a draft of letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers further to your letter of February 13, 1953, regarding the practice followed by the Commercial Trust Company of Jersey City, New Jersey, of using armored cars to collect money and checks from, and deliver payroll money to, certain customers of the bank at their places of business, and also to your letter of March 3, with its enclosures, regarding a bill pending in the New Jersey legislature which would expressly authorize a practice of this kind on the part of State banks.

3/17/53

-2-

"It is understood that in the particular case involved the collections are made by a motor vehicle, owned and operated by the bank and manned by armed guards, from approximately 18 business concerns and factories, 14 churches, and one savings bank, and that such collections are received by the motor vehicle in sealed bags in undeclared amounts, subject to count at the banking office; that deliveries of moneys are made by motor vehicle to approximately 33 business concerns and to one savings bank; and that the State banking authorities have criticized the practice as not being authorized by State law and have indicated that they plan to set a date for hearing arguments for and against the practice.

"After careful consideration and on the basis of the facts of this case as stated in your letter, it is the view of the Board that the use by the Commercial Trust Company of New Jersey of motor vehicles to collect moneys and checks from customers of the bank at their places of business constitutes the receiving of deposits by the bank within the meaning and intent of section 5155 of the Revised Statutes at a place other than the regular offices of the bank, and that therefore the practice in question involves the operation of a branch without the approval of the Board in violation of section 9 of the Federal Reserve Act.

"The position heretofore taken by the Board, referred to in your letter, with respect to the operation of armored trucks by a branch of a national bank in Puerto Rico, involved the application of section 25 of the Federal Reserve Act, which, as you know, authorizes national banks to establish branches in foreign countries and dependencies and possessions of the United States with the approval of the Board and upon such conditions as the Board may prescribe. The Board does not regard its position in that case as necessarily controlling in determining whether somewhat similar practices followed by State member banks in this country constitute the operation of a branch within the meaning of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes. However, the Board would be prepared to give the question involved in the Puerto Rican case further consideration if at any time circumstances should seem to require.

3/17/53

-3-

"In your letter of March 3, you request an expression of the Board's views as to the action you should take with respect to the legislative proposal on this subject now pending in the New Jersey legislature. This proposal is a controversial one and relates to a practice as to which member banks apparently have different views. In the circumstances, the Board seriously questions the advisability of a Federal Reserve Bank's taking any position regarding, or active part in, the consideration of this measure. The advisability of the proposal is a matter of legislative policy for the State of New Jersey.

"The Board will be very much interested in any future developments in connection with this matter."

Governor Robertson stated that the Camden Trust Company, of Camden, New Jersey, (a State member bank in the Third Federal Reserve District) and a national bank in Camden, as well as the trust company mentioned in the above letter and a national bank in Jersey City, were maintaining armored car services; that the Commissioner of Banking and Insurance of the State of New Jersey had criticized the practice as constituting the operation of a branch in violation of State law; and that it was the feeling of the Office of the Comptroller of the Currency that the operation of an armored car service by a national bank constitutes an illegal branch operation.

With respect to the Board's letter of July 18, 1952, to the Comptroller of the Currency, in which the position was taken that the operation of armored trucks by a branch of a national bank in Puerto Rico did not constitute a branch operation within the meaning of section 25 of the Federal Reserve Act, Governor Robertson said that, as

3/17/53

-4-

pointed out in the draft of letter to Mr. Wiltse, the two cases were dissimilar in that they involved the application of different statutes, while from a practical standpoint a distinction could also be made because in Puerto Rico there are large areas with no banking facilities. He went on to say that if the letter to Mr. Wiltse were approved it was proposed to follow it up with a letter to the President of each Federal Reserve Bank requesting a survey of the extent of armored car service in each Federal Reserve District. In addition, he said, it was planned to hold a meeting of representatives of the three Federal bank supervisory agencies and the executive committee of the National Association of Supervisors of State Banks when the members of the executive committee are in Washington in April to ascertain the attitude of the State bank supervisors toward the problem.

Governor Robertson stated that the Camden Trust Company was understood to have indicated that it intended to continue the armored car service, if necessary through an affiliate, but that he favored disregarding such statements for the time being. Governor Robertson also pointed out that an application by the trust company for the establishment of an additional branch was currently before the Board. He said that while there might be some feeling that branch applications by the trust company should be held up pending clarification

3/17/53

-5-

of the operation of the armored car service, it was his opinion that any such branch applications should be considered according to the usual criteria.

Governor Szymczak raised the question whether it would be advisable for the Board to reverse its position with regard to the operation of an armored car service by a branch of a national bank in Puerto Rico. Governor Robertson replied that although the Board might want to reconsider that problem later, he would not favor a reversal of the Board's position at this time without further study, there being distinctions, as he had pointed out, between the situation in Puerto Rico and in New Jersey. He also said that he would not favor withholding action in New Jersey pending a review of the Puerto Rican situation.

Mr. Vest said that it was a close question from a legal standpoint whether the use of a motor vehicle to pick up money and checks for deposit constituted a branch operation but that he believed the position taken in the proposed letter to Mr. Wiltse could be supported, and should be supported as a matter of policy.

Thereupon, the letter to Mr. Wiltse was approved unanimously in the form set forth above, with the understanding that a copy would be sent to Mr. Williams, President of the Federal Reserve Bank of Philadelphia.

Before this meeting there had been circulated among the members of the Board a memorandum dated March 10, 1953, from Mr. Carpenter to

3/17/53

-6-

which there were attached memoranda addressed to him by the Directors of the Divisions of Research and Statistics, Bank Operations, Personnel Administration, and Examinations concerning arrangements which they believed would be feasible under which a senior representative from each of the divisions would visit each Federal Reserve Bank at least once each year for the purpose of becoming as thoroughly familiar as possible with the operations in which the respective divisions are interested. The matter originated with a suggestion made by Governor Robertson at the meeting on January 14, 1953, that such a program of visits would be desirable.

The plans outlined in the memorandum from the respective division heads were approved unanimously, with the understanding that the divisions would aim at a goal of one visit to each Federal Reserve Bank each year within the limits that time would permit. In taking this action, the Board agreed with the suggestions made in the memorandum from Mr. Leonard, Director of the Division of Bank Operations, that the visits should be spaced so as not to result in an undue concentration of visits by members of the Board's staff at any Federal Reserve Bank during the same period of time and that the trips should be planned so as to economize on time and expense to the extent practicable by such means as scheduling visits to two or more Reserve Banks on the same trip.

3/17/53

-7-

There was presented a draft of the policy record to be included in the Board's Annual Report covering actions taken by the Federal Open Market Committee during the calendar year 1952. A copy of the draft had been sent to each member of the Board prior to this meeting.

Approved unanimously.

At this point Messrs. Sloan and Hackley withdrew from the meeting and Mr. Allen, Director, Division of Personnel Administration, entered the room.

Prior to this meeting there had been sent to each member of the Board a memorandum dated March 16, 1953, from Governor Szymczak to which there was attached a draft of letter from the Special Committee on Officers' Salary Administration to the Chairmen and Presidents of all Federal Reserve Banks recommending adoption of a plan for fixing and approving salaries for Reserve Bank officers below the President and First Vice President as outlined in a report of the Special Committee attached to the letter.

Governor Szymczak reviewed the work that had been accomplished by the Special Committee (consisting of himself as Chairman, Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, as representative of the Chairmen's Conference, and Mr. Leach, President of the

3/17/53

-8-

Federal Reserve Bank of Richmond, as representative of the Presidents' Conference) to develop the plan approved in principle by the Board on January 28, 1953. He also referred to the work done by a staff subcommittee consisting of one representative from each of four Federal Reserve Banks and Mr. Allen, as the Board's representative, and stated that it was proposed to amend the first page of the report of the Special Committee to include a reference to the subcommittee and thus bring out more clearly that the plan represented a combined effort of the Board and the Reserve Banks.

Governor Szymczak then discussed the steps contemplated to put the plan into operation, alluding to the material to be submitted by the Reserve Banks by April 1 and stating that it was hoped that it would be possible to review that material and have the plan in effect by June 1 so that any salary increases recommended by the Reserve Banks for the current year might be acted upon by July 1.

Following statements by Governors Mills and Robertson that they had not yet had an opportunity to review the report of the Special Committee, Chairman Martin suggested that the matter be considered again at the meeting of the Board tomorrow.

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members except Governor Vardaman present:

3/17/53

-9-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 16, 1953, were approved unanimously.

Letter to the Board of Directors, Camden Trust Company, Camden, New Jersey, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment and operation of a branch in the vicinity of the intersection of Rhode Island Avenue and Marlton Pike in the unincorporated community of Erlton, Delaware Township, Camden County, New Jersey, by the Camden Trust Company, provided that formal approval is obtained from the appropriate State authorities and that such branch is established within twelve months from the date of this letter."

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

Letter to Mr. Jackson Chambers, President, The Gramatan National Bank and Trust Company, Bronxville, New York, reading as follows:

"This refers to your letter of March 4, 1953, addressed to Mr. F. Gloyd Awalt, with respect to the investment of funds held in an employee retirement income plan for which your bank acts as trustee, in F.H.A. Title I, Class 1A paper owned by your bank.

"The Board understands that this paper, which eventually will be acquired by the National City Bank of New York, is first transferred to the pension trust, and within a limited period, not exceeding 90 days, is sold to the National City Bank.

"Section 11(a) of the Board's Regulation F provides that funds held by a national bank as fiduciary shall not

3/17/53

-10-

"be invested in property acquired from the bank. Therefore, the acquisition of this paper by the bank, as trustee, from its commercial department violates this provision of the regulation and is prohibited. However, footnote No. 12 to this section of the regulation provides that the requirements of this section shall not be deemed to prohibit the making of any investments or the carrying out of any transactions which are expressly required by the instrument creating the trust or are specifically authorized by court order.

"Section 3(a) of Article X of the trust agreement provides that the trustee is authorized and empowered to invest in such securities or property as the trustee may deem advisable 'in its discretion', whether or not the same be authorized by law for the investment of trust funds. You have informed us that your attorneys have advised you that this language permits the bank, as trustee, to purchase this paper for the trust. This conclusion does not take into consideration the prohibition and exception thereto contained in Regulation F. Therefore, regardless of any authority contained in the trust agreement with respect to this matter, the bank, as trustee, is not authorized to purchase paper from its commercial department unless the transaction is 'expressly required' by the instrument creating the trust or specifically authorized by court order."

Approved unanimously, for
transmittal through Mr. F. Gloyd
Awalt, Awalt, Clark and Sparks,
Washington, D. C.

Letter to Mr. Dawes, Vice President and Secretary, Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of March 6, 1953, with which you enclosed a copy of a letter of March 5 from the Midwest Stock Exchange concerning the application of Regulation T to certain transactions involving nonnegotiable registered securities.

3/17/53

-11-

"Briefly, the question seems to be whether the provisions of Regulation T relating to withdrawals of securities from an undermargined general account are applicable to the withdrawal of nonnegotiable registered securities held in the account.

"Section 3(b) of the regulation is applicable to nonnegotiable registered securities in the same manner as it applies to any other registered securities. Consequently, if the general account in which the nonnegotiable registered securities are held becomes undermargined, any withdrawal must meet the conditions stated in section 3(b) in order not to violate the regulation. There was nothing stated in the examples in the letter of March 5 which would serve to operate as an exception to the foregoing.

"In the examples contained in the letter of March 5 it was indicated that it may be permissible, in calculating the maximum loan value of the securities in a general account, to exclude from consideration nonnegotiable registered securities held in the account. From the information supplied, such treatment of the securities would not comply with the regulation. The mere fact that registered securities may be nonnegotiable would not warrant any preferential treatment thereof for the purposes of calculating the maximum loan value of the securities in the account or determining whether the securities in question may be withdrawn from the account.

"Section 4 of the regulation authorizes certain transactions to be carried out in the special accounts provided by the section, and it exempts some of the transactions in such special accounts from certain of the requirements that apply to general accounts. There seems to be some possibility that some of the transactions referred to in the letter of March 5 may have been able to qualify for inclusion in some of the special accounts. However, unless transactions can so qualify and also are so included in a special account, the usual requirements of the general account apply."

Approved unanimously.

Letter to Mr. R. M. Osvold, Assistant Cashier, The United States National Bank, Portland, Oregon, reading as follows:

3/17/53

-12-

"This refers to your letter of March 3, 1953, concerning the application of section 4(d) of Regulation Q relating to the payment of a time deposit in an emergency before maturity.

"Briefly, you indicated that one of your customers receives periodically from employers, and holds in trust, funds from which deferred payments are made to workmen under a union agreement. At present these funds are deposited in your bank by the trustee in a time deposit, open account, subject to 90-days advance written withdrawal notice.

"You indicated further that under the system of disbursement of the funds so deposited, there occur substantial balances in excess of disbursement needs. It is proposed, therefore, to place a portion of such excess in time certificates of deposit with sufficiently longer maturities to secure a higher rate of interest. You pointed out, however, that if a large-scale strike should occur resulting in discontinuance of payments into the fund for the period of the strike, it might become necessary to withdraw the funds before the maturity of the time certificates of deposit in order to make the required disbursements to the workmen. Your question was whether section 4(d) of the regulation would permit payment of the time certificates of deposit before maturity in such circumstances.

"The concession granted in section 4(d) is available in 'an emergency where it is necessary to prevent great hardship to the depositor'. A basic requirement of section 4(d) is that the depositor shall sign an application 'describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity'. In addition, the application shall be approved by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true.

"In view particularly of the requirements of section 4(d) just stated, the Board believes that it should not attempt to pass upon the application of section 4(d) to circumstances that may or may not arise, and especially where all the facts which would be necessary to complete an application under

3/17/53

-13-

"section 4(d) cannot be known. The actual occurrence of a possible strike, if not anticipated at the time of the deposit, and the necessity for preventing a resulting hardship might well create circumstances, in a given case, that would constitute an emergency justifying resort to the exception provided by section 4(d). As indicated above, however, it does not appear that a sufficient basis is afforded by your letter for the Board at this time to express an opinion with respect to the matter related by you.

"While you did not mention it as a possible alternative, it may be that a savings deposit, as defined in section 1(e) of the regulation, might accomplish the purpose which you have in mind. This possibility is merely suggested, and it may be that it would not be appropriate for some reason not disclosed in your letter.

"If you should have any further questions concerning the subject of this letter, it is suggested that you might find it more convenient to discuss the matter with the Portland Branch of the Federal Reserve Bank of San Francisco. The Portland Branch or the Federal Reserve Bank of San Francisco will be glad to assist you."

Approved unanimously, with
a copy to Mr. Randall, Vice President,
Portland Branch of the Federal Reserve Bank of San Francisco.

Letter to Mr. Leach, Chairman, Conference of Presidents of the Federal Reserve Banks, reading as follows:

"In the Board's letter of February 6, 1953, it stated its approval of the principle of a supplement in allowance to those currently on disability retirement, and requested the Presidents' Conference to submit a recommendation as to the exact method by which such payment might be made.

"On March 6, 1953, the Conference of Presidents requested the Board's approval of such a supplement to disability retirement allowances in accordance with a formula submitted to it by the Committee on Personnel.

"The Board approves the payment of a supplemental allowance to those members of the Retirement System who

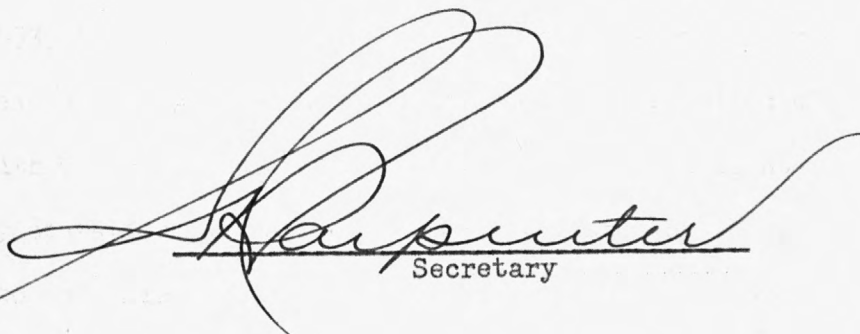
3/17/53

-14-

"retired for reasons of disability according to the following percentages, with the provision that in no case should the additional benefit exceed \$300 per annum and no allowance should be adjusted above \$3600 per annum:

Members retired prior to 1942	80%
Members retired in 1942-1943	70%
Members retired in 1944-1945	60%
Members retired in 1946-1947	50%
Members retired in 1948-1949	40%
Members retired in 1950-1951	20%
Members retired in 1952	10%"

Approved unanimously.



Secretary