

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 22, 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. Allen, Director, Division of Personnel Administration

The following request for travel authorization was presented:

<u>Name and Title</u>	<u>Duration of Travel</u>
Glenn M. Goodman, Assistant Director, Division of Examinations	Approximately two weeks.

To travel to New York, New York, and Boston, Massachusetts, to conduct examinations of First of Boston International Corporation, New York, New York, and The Chase Bank, New York, New York.

Approved unanimously.

Prior to this meeting there had been circulated among the members of the Board a memorandum dated April 28, 1953, from Mr. Allen, Director of the Division of Personnel Administration, with regard to the payment to the Retirement System of the Federal Reserve Banks of such sum as might be necessary to increase, effective April 1, 1953, the retirement allowances of eleven former employees of the Board who had retired under the Bank Plan of the Retirement System in line with

5/22/53

-2-

the Board's action of February 6, 1953, approving the payment of supplemental allowances to those members of the Retirement System who left the Federal Reserve Banks on either a service or special service retirement basis prior to becoming eligible for Social Security benefits. Seven of the former Board employees in question had retired on a service retirement basis upon reaching age 65, while the other four retired under special service retirement before age 65. The total cost to the Board for supplementing the allowances of all eleven of these persons was estimated at \$21,906.80, this figure being subject to final verification by the Actuary for the Retirement System of the Federal Reserve Banks. The memorandum recommended that the Board approve payment to the Retirement System of the sum necessary to increase the retirement allowances of the seven persons who retired on service retirement at age 65. It stated, however, that there might be some question with respect to adjustment of the allowances of the four persons who retired under special service retirement, and information with regard to each of these cases was given in an attachment to the memorandum in order that the Board might have full information upon which to base its decision.

At the request of the Board Mr. Allen discussed the matter and stated that only in the case of Mr. Walter Wyatt, who had retired on a

5/22/53

-3-

special service retirement basis, would he feel that the Board might be justified in deciding against making a payment to supplement the present retirement allowance. In this case the Board made a supplemental payment of more than \$21,000 at the time Mr. Wyatt's employment was terminated.

During a discussion it was pointed out that under the plan approved by the Board on February 6, 1953, it had been left to the discretion of the directors of each Federal Reserve Bank as to whether a payment should be made to supplement allowances in individual cases. In response to a question by the Board, Mr. Allen said that no instance had come to his attention where a Reserve Bank had decided against making a payment to supplement the allowance of a retired employee under this plan. It was also brought out that because of the provisions of the plan only a relatively small payment to the Retirement System would be required in the case of Mr. Wyatt.

At the conclusion of the discussion, it was voted unanimously to pay to the Retirement System of the Federal Reserve Banks the amount necessary to increase the allowances of the eleven annuitants referred to in Mr. Allen's memorandum in accordance with the formula approved by the Board on February 6, 1953.

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:

5/22/53

-4-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 21, 1953, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, St. Louis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on May 19, and by the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, and Dallas on May 21, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated May 20, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Joyce P. Fones as Clerk-Typist in that Division on a temporary basis for a period of three months, 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.

Memorandum dated May 20, 1953, from Mr. Sloan, Director, Division of Examinations, recommending the appointment of John H. Hotson as Assistant Federal Reserve Examiner in that Division on a temporary indefinite basis, with basic salary at the rate of \$3,410 per annum and with official headquarters in Washington, D. C., effective as of the date upon which he enters upon the performance of his duties after having passed

5/22/53

-5-

the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated May 22, 1953, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Geraldine C. Clingenpeel as Clerk-Typist in that Division on a temporary basis for a period of three months, with basic salary at the rate of \$3,030 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.

Memorandum dated May 5, 1953, from Mr. Allen, Director, Division of Personnel Administration, recommending the appointment of John B. Bazuin as Personnel Technician in that Division on a temporary indefinite basis, with basic salary at the rate of \$4,580 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated May 19, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of John M. Pope as Guard in that Division on a temporary basis for a

5/22/53

-6-

period of two months, with basic salary at the rate of \$2,750 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

the expiration of his term. Approved unanimously.

Memorandum dated May 21, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Hubert R. Dunn as General Mechanic in that Division on a temporary basis for a period of two months, with basic salary at the rate of \$3,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

May 21, 1953: Approved unanimously.

Memorandum dated May 19, 1953, from Mr. Young, Director, Division of Research and Statistics, recommending that the temporary appointment of Doris J. Selser, Clerk-Typist in that Division, be extended on a temporary indefinite basis, with no change in her present basic salary at the rate of \$2,750 per annum, effective May 22, 1953.

Approved unanimously.

5/22/53

-7-

Memorandum dated May 7, 1953, from Mr. Bethea, Director, Division of Administrative Services, recommending that the temporary appointment of Siddie G. Talley, Cafeteria Helper in that Division, be extended on a temporary indefinite basis, with no change in her present basic salary at the rate of \$2,420 per annum, effective at the expiration of her present appointment on May 30, 1953.

Approved unanimously.

Memorandum dated May 7, 1953, from Mr. Sloan, Director, Division of Examinations, recommending that the appointment of Billie Jo Hickman as Special Assistant Federal Reserve Examiner in that Division (field examining staff) be extended through December 31, 1953.

Approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective May 24, 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. Marget, Director, Division of International Finance</u>		
5/11/53	Rosa Ernst, Economist (Editorial)	\$4,955	\$5,185
5/11/53	Pearl G. Farrington, Clerk	3,430	3,575
	<u>Memorandum from Mr. Sloan, Director, Division of Examinations</u>		
4/16/53	G. C. Page, Assistant Federal Reserve Examiner	6,125	6,250

5/22/53

-8-

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
<u>Memoranda from Mr. Leonard, Director, Division of Bank Operations</u>			
4/15/53	Barbara Bauman, Clerk	\$3,255	\$3,335
	Kathryn Ridgway, Statistical Clerk	3,175	3,255
5/8/53	David C. Crockett, Analyst	4,330	5,060
<u>Memorandum from Mr. Bethea, Director, Division of Administrative Services</u>			
4/17/53	Valeria Faina, Charwoman	2,490	2,560

Approved unanimously.

Letter to Mr. Gilbert, President, Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors approves the payment of salary to Vice President R. B. Coleman for the period June 1, 1953, through December 31, 1953, at his present rate of \$15,000 per annum, less the pension portion of his retirement allowance, which is the rate fixed by the Board of Directors as indicated in your letter of May 13, 1953.

"It is noted from your letter that Mr. Coleman is being re-employed with the understanding that the need of his services would be reviewed in August to determine whether they would be continued after September 1, 1953."

Approved unanimously.

Letter to the Board of Directors, Bank of Utah, Ogden, Utah, reading as follows:

5/22/53

-9-

"Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch within the corporate limits of the city of Roy, Utah, by Bank of Utah, Ogden, Utah, provided the branch is established within six months from the date of this letter."

Approved unanimously, for transmittal through the Federal Reserve Bank of San Francisco, together with a letter to Mr. Millard, Vice President of the Reserve Bank, containing the following paragraph:

"Inasmuch as the Bank of Utah has not been in operation a sufficient period of time to prove itself before expanding its operations to another area, and owing to the fact that we have no knowledge of its operations because it has not been examined since it opened for business, there was considerable reluctance in arriving at a decision to approve the establishment of the proposed branch. However, it was assumed that the investigation and public hearing conclusively established the capacity of the Bank of Utah to handle this expansion in its business."

Letter to Mr. N. P. Davis, Assistant Vice President, Federal Reserve Bank of New York, reading as follows:

"This is in further reference to the matter reported to the Board by the Deputy Comptroller of the Currency as involving possible violations of Regulations T and U by certain national banks and by Garvin, Bantel & Company, New York City, a member of the New York Stock Exchange.

"Pursuant to the Board's letter to you of August 1, 1952, your Bank submitted under date of January 28, 1953, the results of its investigation into the matter. Thereafter, we forwarded to your Bank a copy of the Board's letter of February 13, 1953, to the Deputy Comptroller

5/22/53

-10-

"of the Currency which stated, briefly, that the matter reported by him probably involved violations of Regulation U.

"From the available information, it appeared that Garvin, Bantel & Company had solicited at least one national bank, and probably other such banks, to make loans collateralized by stocks or bonds to customers of brokerage firms, including Garvin, Bantel & Company. It appeared further that the lending bank was not acquainted personally with any such customer, and that the loans, made solely on the basis of the collateral, were arranged by Garvin, Bantel & Company which it was understood, procured for the lending bank the execution by the borrowers of the notes and related papers including, in the case of registered stock collateral, a statement that the bank loan was not for the purpose of purchasing or carrying such stock. Delivery of securities by brokerage firms was requested to be made against payment of the loan proceeds by the lending bank's New York City correspondent which received from the lending bank registration instructions concerning the securities. The amounts of the loans made in the manner described briefly above, appeared to exceed the amounts permissible for loans subject to Regulation U, and there was evidence suggesting that in at least one such case the nonpurpose statement was in fact false.

"By the letter from your Bank of January 28, 1953, it was indicated, among other things, that the New York Stock Exchange had agreed early in August to investigate the activities of its member firm, Garvin, Bantel & Company, in arranging to place collateralized loans at various banks, but that it appeared doubtful whether a full report of the matter would be received. Garvin, Bantel & Company apparently had been uncooperative and, moreover, had claimed, in effect, that it had no responsibility to question the accuracy of a nonpurpose statement given in support of a bank loan arranged by that firm, even where the loan proceeds, as indicated above, were to be paid to a brokerage firm against the receipt of collateral consisting of registered stock.

5/22/53

-11-

"It is understood that the New York Stock Exchange now proposes to issue to Garvin, Bantel & Company a statement of principles and standard of conduct with respect to that firm's activities in arranging credit. The proposal of the Exchange, in effect, would advise Garvin, Bantel & Company that the Company has a responsibility to so conduct its activities in arranging bank loans as not to be a participant in a violation of Regulation U or Regulation T. The Board agrees that Garvin, Bantel & Company has this responsibility.

"The Board agrees with the view in the Exchange's proposed statement that, in arranging an extension of bank credit that may be subject to Regulation U, Garvin, Bantel & Company must act in good faith and, therefore, question the accuracy of a nonpurpose statement given in connection with the loan where the circumstances are such that Garvin, Bantel & Company from any source, knows or has reason to know, that the statement is incomplete or otherwise inaccurate as to the true purpose of the credit. As you know, the requirement of 'good faith' is of vital importance. While its application will necessarily vary with the facts of the particular case, it is clear that, like the lending bank, Garvin, Bantel & Company must be alert to the circumstances surrounding the loan. Thus, for example, if a broker or dealer is to deliver registered stocks to secure the loan or is to receive the proceeds of the loan, Garvin, Bantel & Company would be put on notice that the loan would probably be subject to Regulation U and could not in good faith accept or rely upon a statement to the contrary without obtaining a reliable and satisfactory explanation of the situation. The foregoing, of course, applies the principles published at pp. 420-421 of the 1936 Federal Reserve Bulletin, and p. 27 of the 1947 Bulletin.

"The Board also concurs in the view in the Exchange's proposed statement that when Garvin, Bantel & Company is approached by other member firms to arrange extensions of credit for customers of such member firms, Garvin, Bantel & Company has a responsibility not to arrange any extensions of credit which the member firms could not themselves arrange; and that, accordingly, in such cases the statutes and regulations forbid Garvin, Bantel & Company to arrange

5/22/53

-12-

"extensions of credit on unregistered securities for the purpose of purchasing or carrying either registered or unregistered securities. The other member firms in question would also violate the applicable requirements if they initiated or otherwise participated in any such forbidden transactions. Similar questions have previously come before the Board from other quarters, and the Board similarly advised the persons concerned.

"It is hoped that the views expressed above will be of assistance to the New York Stock Exchange in considering the statement which it proposes to issue to Garvin, Bantel & Company. Of course, an expression of views by the Board or the Exchange to the effect that certain specific transactions are forbidden to Garvin, Bantel & Company should not in any way be understood to constitute approval of other transactions not mentioned, but it might be desirable for the Exchange to invite attention to that fact in its advice to Garvin, Bantel & Company.

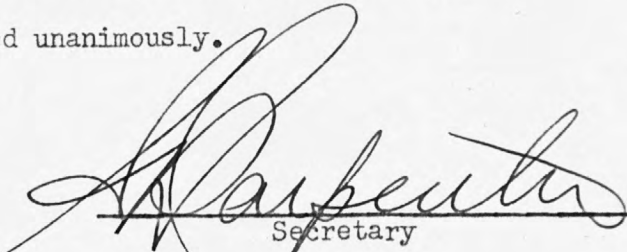
"The Board appreciates your assistance and the interest of the Exchange in connection with this matter, and will be glad to give further consideration to any other phases of the problem concerning which it is felt that the Board's views may be desirable."

Approved unanimously.

Telegram to Mr. Earhart, Chairman, Committee on Miscellaneous Operations of the Conference of Presidents of the Federal Reserve Banks, c/o Federal Reserve Bank of San Francisco, reading as follows:

"Reur May 21 telegram quoting wire sent by you to President of each Reserve Bank regarding proposal to decentralize the verification and destruction of unfit paper currency to Reserve Banks and branches. We have no comments or suggestions at this time, but would appreciate receiving summary of Reserve Bank replies to your telegram."

Approved unanimously.


Secretary