

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 29, 1953. The Board met in executive session in the Board Room at 10:00 a.m.

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

Following the meeting the Secretary was informed that during the executive session there was a continuation of the discussions at previous meetings of the policy to be adopted by the Board of Governors with respect to the salaries of officers of the Federal Reserve Banks and it was decided (Governor Evans dissenting with the understanding that the reasons for his dissent would be submitted at a later meeting of the Board) that:

1. The present salaries of Presidents and First Vice Presidents would be considered as the base of the salary range of those positions in each of the respective institutions, but there would be no ceiling thereon. (It was agreed that the letter to the Chairmen of the Federal Reserve Banks notifying them of the Board's action should clearly state that although the ceilings on the salaries of such positions were being removed, the Board was not thereby indicating that it would approve an increase of any specific salary at this time.)

2. The boards of directors of each of the Banks would be advised that the Board of Governors would consider proposals once per annum for salary increases for the occupants of the positions of Presidents and First Vice Presidents. The Board of Governors is thinking in terms of relatively small increases, if any.

3. The boards of directors would be advised that each case would be considered on its own merits in the light of the factors enumerated in the document prepared by the Board's Special Salary Committee and submitted to the Chairmen of the respective Banks at the joint meeting held on April 28, 1953, plus three additional factors: (1) the size of the Bank and the character of its operations; (2) the general salary level prevailing in the District; and

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(3) the value of the particular officer to his institution and to the Federal Reserve System.

4. The boards of directors would be informed that the Board of Governors was of the view that there need not be a fixed salary differential between the positions of President, First Vice President, and other officer positions, but that the presently existing salaries of those two top positions should be taken into consideration in fixing the salary ranges of all other officer groups under the proposed salary administration plans.

5. The Board would no longer adhere necessarily to existing salary differentials between Federal Reserve Districts. The salary of each President and First Vice President would be determined in accordance with the factors enumerated in paragraph three and such other factors then considered pertinent. This might result in a variation of salaries, depending not only upon the qualifications of the particular President and First Vice President, but the size and importance of the Bank in which he was serving. This in turn might provide an incentive for the board of directors of any Federal Reserve Bank to draw top officers from other Federal Reserve Banks, when that seemed desirable.

Governor Vardaman stated for the record during the executive session that his vote in favor of the above decisions did not necessarily mean that he would vote for an increase for any individual officer of a Federal Reserve Bank.

Secretary's note: The letter sent to the Chairmen of the Federal Reserve Banks in accordance with the action of the Board during the executive session was in the following form except that the letters to the Chairmen of the Federal Reserve Banks of Atlanta and Minneapolis were to the effect that the Board now had under consideration the job evaluation and performance appraisal plans submitted by the individual Banks and that after these plans had been

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approved by the Board it would be appreciated if the respective boards of directors would take the steps set forth in the last paragraph of the letter:

"The Board of Governors has been giving consideration to policies with respect to salaries of officers of the Federal Reserve Banks and has reached the conclusions set forth below:

1. The present salary of each President and First Vice President will be considered as the base of the salary range for the respective positions and there will be no ceiling thereon. However, the removal of the ceiling should not be construed as implying that the Board will approve an increase of any specific salary at this time.

2. The Board will consider proposals for salary increases for the Presidents and the First Vice Presidents but is thinking in terms that any increases approved will be relatively small and that an increase will not be considered oftener than once a year.

3. Each proposed increase will be considered in the light of the factors enumerated in the statement presented at the meeting of the Chairmen of the Federal Reserve Banks and the Board of Governors on April 28, 1953 (a copy of which is attached), and the following additional factors: (a) the size of the Bank and the character of its operations, (b) the general salary level prevailing in the district, and (c) the value of the particular officer to his Bank and to the Federal Reserve System.

4. There need be no fixed salary differential between the position of President, First Vice President, and other senior official positions. Existing salaries for the President and First Vice President should be taken into consideration in fixing the ranges for salaries of officers below the President and First Vice President.

5. The Board will no longer necessarily adhere to existing salary differentials among the various Federal Reserve Banks. Determination of salaries in accordance with the factors enumerated in paragraph three above and such other factors as are then considered pertinent may result in a

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"variation of salaries, depending not only upon the qualifications of the particular President or First Vice President but the size of the Bank and the character of its operations. This in turn might provide an incentive for drawing top officers from other Federal Reserve Banks when that seems desirable.

"It will be appreciated if, in the light of the foregoing, the board of directors of your Bank will fix and forward to the Board of Governors for approval the proposed salary ranges for officers below the President and First Vice President. After the ranges are approved, proposed individual salaries within the ranges and the changes, if any, proposed for the President and First Vice President of your Bank should be submitted to the Board for consideration."

During the executive session  
unanimous approval was also given  
to the following letter to the United  
States Civil Service Commission:

"Reference is made to Departmental Circular No. 709, of May 18, 1953.

"The official of the Board to whom all reports of full field investigations are to be delivered is Mr. Dwight L. Allen, Director, Division of Personnel Administration. In the absence of Mr. Allen, all reports are to be delivered to Mr. R. H. Van Devanter, Administrative Assistant, Division of Personnel Administration.

"Both of these persons have been given clearance to handle such material classified through 'secret.'"

The meeting then adjourned. 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 May 28, 1953, were approved unanimously.

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Telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on May 25, by the Federal Reserve Bank of San Francisco on May 26, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Minneapolis, Kansas City, and Dallas on May 28, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of May 19, 1953, submitting request of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, for approval of an additional investment in the office building in which the bank's main office is located.

"The Board approves the additional investment by Fidelity-Philadelphia Trust Company and/or Fidelity Building Corporation, a wholly-owned subsidiary, of an amount not exceeding \$4,162,115 for air conditioning the bank premises, located at the corner of Broad and Walnut Streets, Philadelphia, Pennsylvania."

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors has given consideration to the information contained in your letter of May 22, 1953, and hereby gives its prior consent to the retirement of local preferred

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"stock in the amount of \$75,000 by the Swedesboro Trust Company, Swedesboro, New Jersey.

"Please advise the bank of the Board's action."

Approved unanimously.

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

"This refers to your letter of May 22, regarding the reserves maintained by the American National Bank of Houston, Texas, from the time of its opening for business on January 25, 1953, until and including May 15, 1953.

"It is noted that your Houston Branch was under the impression that the Board had granted permission to the subject bank to carry reduced (country bank) reserves at the time of its opening for business, whereas permission was not granted until requested and was effective May 16, 1953; that as a result the member bank carried the reserves required to be maintained by country banks, instead of the reserves required to be maintained by reserve city banks, and thus incurred penalties totaling \$505.56 during the reserve computation periods ended May 13, 1953.

"Since these penalties were incurred because of an error on the part of the Houston Branch, the Board authorizes your Bank to waive the assessment thereof, as well as any penalty that may have been incurred by the bank on May 14 and 15, the last two days it was a reserve city bank."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable R. M. Gidney, Comptroller of the Currency, Washington, D. C., reading as follows:

"This refers to your letter of April 23, 1953, requesting the Board's consideration of a proposed amendment to the first exception contained in the third paragraph of section 23A of the Federal Reserve Act, a draft of which was enclosed with your letter.

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"The Board believes that the amount of a member bank's investment in an affiliate engaged solely in holding the bank premises should not be restricted by the limitations of section 23A in view of the fact that section 24A permits a member bank to invest in a company holding the bank's premises, subject to approval by the appropriate Federal supervisory authority, if the investment exceeds the amount of the capital stock of the member bank. Therefore, the Board has no objection to enactment of the proposed amendment to section 23A, the effect of which would be to restore the language of the exception covering affiliates engaged in holding the bank premises to the form in which the exception appeared when section 23A was first enacted in 1933.

"In this connection, however, it may be pointed out that the adoption of the proposed amendment to section 23A would make it easier than at present for a member bank to set up a controlled subsidiary corporation which, with funds borrowed from other sources, could construct and hold bank premises costing far in excess of the amount of the member bank's capital stock. Such an arrangement, we believe, would be inconsistent with the spirit and intent of section 24A of the Federal Reserve Act, which limits investments in bank premises by member banks to the amount of their capital stock, except with the consent of the Comptroller or the Board of Governors. It is suggested, therefore, that consideration be given to an appropriate amendment to section 24A which would require the consent of the supervisory authorities in cases of this kind. As one method of accomplishing this purpose, the last clause of this section might be changed to read: 'if the aggregate of all such investments and loans, together with the amount of any indebtedness incurred with respect to such premises by any such corporation the majority of the stock of which is owned by such bank, will exceed the amount of the capital stock of such bank.'"

Approved unanimously.

Letter for the signature of the Chairman to the Honorable R. M.

Gidney, Comptroller of the Currency, Washington, D. C., reading as follows:

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"This is with further reference to your letter of April 14th, requesting the advice of the Board of Governors as to whether a violation of Federal Reserve Regulation Q is involved in the arrangement described in National Bank Examiner M. C. Wilde's letter dated March 25, 1953, a copy of which you enclosed.

"Before approaching the basic question, it would be desirable if Examiner Wilde would clarify the following factual matters:

1. The relationship between Commerce Investment Inc. and Metropolitan Life Insurance Company. Is Commerce a wholly-owned subsidiary of Metropolitan and operated solely for the benefit of Metropolitan? If not, how is Metropolitan benefited by the proposed interest rebates to Commerce?
2. The nature of the business carried on by Commerce, and the nature of and occasion for its substantial indebtedness to the United States National Bank of Portland, including the purpose, maturity, form, and frequency of its loans.
3. The nature of the 'three trust accounts' mentioned in the third paragraph of Examiner Wilde's letter, and the relation of those accounts to the 'collection accounts' and 'Metropolitan accounts' mentioned in the following paragraphs. If the reference to Commerce's 'Metropolitan accounts' indicates that Commerce maintains other accounts with the bank, what is the nature of such other accounts?
4. The status of 'Dean Vincent, Inc.', mentioned in Examiner Wilde's fourth paragraph, and its relationship to Metropolitan and Commerce.
5. The significance of the following sentence in the first paragraph on page 2 of Examiner Wilde's letter:  
Balances in the company account will be increased to a greater extent by these transfers than the Commerce Investment Inc., Metropolitan accounts will be diminished.
6. Is Commerce the 'mortgage company' and 'mortgage loan company' mentioned near the bottom of page 2 of Examiner Wilde's letter?

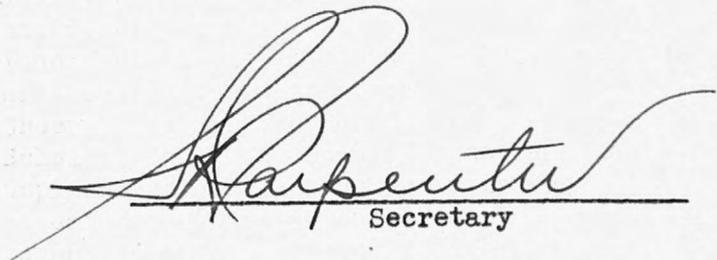
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"As you know, for a number of years it has been the policy of the Board not to express an opinion as to whether a particular practice involves a payment of interest in violation of Regulation Q except after consideration of all of the facts and circumstances of the specific case as developed in the course of examinations of the member bank involved. In accordance with this policy, it would be desirable if your Office would inform the Board, after the completion of the next examination of the bank concerned, as to the actual transactions and mode of operation under the arrangement described, up to the date of such examination.

"Upon receipt of the information requested, the Board will give further consideration to the question presented."

Approved unanimously.



Secretary