Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 14, 1953. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Acting Chairman
Mr. Evans
Mr. Mills

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Allen, Director, Division of Personnel Administration

Governor Szymczak stated that he had received a telephone call yesterday from Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, who advised that in accordance with earlier understandings the President of the Reserve Bank, Mr. Gilbert, having attained age 65, had submitted his resignation effective September 1, 1953, that the Bank's directors at their meeting yesterday had acted to appoint Mr. W. D. Gentry, now First Vice President, as President of the Bank, and Mr. Watrous H. Irons, now Vice President, as First Vice President, each effective September 1, 1953, for the unexpired portions of the five-year terms ending February 29, 1956, and that the directors would like to have approval of these appointments by the Board of Governors at the earliest possible time. Governor Szymczak said he suggested to Chairman Parten that he discuss the matter with Chairman Martin by telephone and that he also advised Chairman Parten that the matter would be brought to the attention of the Board for discussion at its meeting this morning.

There followed a discussion of the Dallas situation during which Mr. Sherman reviewed from the Board's minutes and from memoranda appearing in the Board's files the circumstances surrounding the reappointment of Mr. Gilbert as President and Mr. Gentry as First Vice President of the Dallas Bank for terms beginning March 1, 1951, subject to the understanding that Messrs. Gilbert and Gentry would tender their resignations as President and as First Vice President, respectively, upon Mr. Gilbert's reaching age 65.

Further consideration of the matter was then deferred until such time as Mr. Leonard, Director of the Division of Bank Operations, could join the meeting to participate in the discussion.

Prior to this meeting there had been sent to the available members of the Board copies of a memorandum dated August 14, 1953, from the Division of Personnel Administration commenting on an attached letter dated August 10, 1953, from Mr. Myers, Deputy Chairman of the Federal Reserve Bank of New York, submitting for the approval of the Board of Governors proposed salaries of officers of the Reserve Bank as fixed by the Bank's directors for the period July 1 through December 31, 1953, except that in the case of three officers (Messrs. Tiebout, Clarke, and Willis) approval of increased salaries was proposed effective

August 1, 1953, coincident with their promotions to higher positions in the Bank, and in the case of two officers scheduled to retire prior to the end of the calendar year approval of the proposed salaries was requested for the period to date of retirement. Deputy Chairman Myers' letter also stated that the Bank's directors had fixed the salaries of President Sproul and First Vice President Treiber at $65,000 and $30,000 per annum, respectively, for the period beginning July 1, 1953, through December 31, 1953, subject to the approval of the Board of Governors.

The memorandum from the Division of Personnel Administration pointed out that if similar treatment were to be accorded to all Federal Reserve Banks, the proposed salaries at the New York Bank should be approved effective as of the beginning of the Bank's established pay period nearest the date of Board approval rather than on July 1. For reasons stated, however, the memorandum expressed the view that there would be justification in approving increased salaries for the three officers who were promoted on August 1 effective as of that date. (The title of one other officer (Mr. O'Keefe) also was changed effective August 1, but no adjustment was proposed by the New York Bank in his annual salary previously approved by the Board.)

Governor Szymczak stated that he had reviewed the salaries proposed for the officers other than the President and First Vice President and would favor their approval since they appeared to be in accord with the Board's action of August 6, 1953, approving salary ranges for such positions at the New York Bank.

The Secretary noted that Governor Vardaman had stated that he would favor the approval of salaries fixed by the directors of the respective Reserve Banks for officers below the rank of President and First Vice President, provided they conformed to salary ranges previously approved by the Board and were otherwise in accordance with the plan of officers' salary administration.

Thereupon approval was given to a letter to Deputy Chairman Myers in the following form, Governor Evans voting "no", with the understanding that Governor Szymczak would discuss the matter by telephone with Chairman Martin and, if the latter concurred, the letter would be sent:

"The Board of Governors approves the payment of salaries to the following named officers of the Federal Reserve Bank of New York and its Buffalo Branch, effective as of the first day of your established payroll period beginning nearest August 14 through December 31, 1953, at the rates indicated, which are the rates as fixed by your Board of Directors and reported in your letter of August 10, 1953:

Name	Title	Annual Salary
H. A. Bilby	Vice President	$20,000
H. H. Kimball	Vice President	22,000
L. W. Knoke	Vice President	27,500
A. Phelan	Vice President	24,000
H. V. Roelse	Vice President	22,000
Robert G. Rouse	Vice President	28,000
V. Willis	Vice President	24,000
R. B. Wiltse	Vice President	19,000
J. H. Wurts	Vice President	20,000
Rufus J. Trimble	Assistant General Counsel	17,000
D. J. Cameron	Assistant Vice President	14,000
Howard D. Crosse	Assistant Vice President	16,000
F. T. Davis	Assistant Vice President	17,500
N. P. Davis	Assistant Vice President	16,500
Paul R. Fitchen	Assistant Vice President	15,000

"Name	Title	Annual Salary
M. A. Harris	Assistant Vice President	$17,500
S. A. Miller	Assistant Vice President	18,000
Robert V. Roosa	Assistant Vice President	15,000
H. L. Sanford	Assistant Vice President	18,500
W. F. Abrahams	Manager, Security Custody Department	10,000
H. M. Boyd	Manager, Cash Custody Department	10,000
Charles A. Coombs	Manager, Research Department	12,000
Harding Cowan	Assistant Counsel	12,500
Clifton R. Gordon	Assistant Counsel	12,500
Edward G. Guy	Assistant Counsel	11,500
William A. Heinl	Manager, Savings Bond Department	11,500
Peter Lang	Manager, Collection Department	13,500
A. A. MacInnes, Jr.	Manager, Check Department	12,500
W. E. Marple	Manager, Credit Department and Discount Department	11,500
S. S. Marsh, Jr.	Manager, Securities Department	13,000
M. J. McLaughlin	Manager, Government Check Department	10,500
H. Muether	Manager, Building Operating Department	13,000
D. C. Niles	Manager, Planning Department	11,000
Arthur Noa	Manager, Service Department	11,000
W. F. Palmer	Manager, Accounting Department	12,000
F. E. Peterson	Manager, Cash Department	12,000
L. E. Quackenbush	Manager, Bank Examinations Department	12,000
Walter H. Rozell, Jr.	Manager, Foreign Department	14,500
Ralph W. Scheffer	Manager, Government Bond Department	12,000
K. E. Small	Manager, Personnel Department	10,500
F. L. Smedley	Manager, Personnel Department	11,000
Thomas O. Waage	Manager, Public Information Department	12,000
A. C. Walton	Manager, Bank Relations Department	10,000

"Name	Title	Annual Salary
R. E. Wendell	Manager, Safekeeping Department	$12,000
Arthur I. Bloomfield	Senior Economist	11,750
George Garvy	Senior Economist	11,750
Curtis R. Bowman	General Auditor	16,500
Buffalo Branch		
I. B. Smith	Vice President	$20,000
H. M. Wessel	Assistant Vice President	12,500
Geo. J. Doll	Cashier	11,500
Gerald H. Greene	Assistant Cashier	9,000
M. M. Myers	Assistant Cashier	8,700

"The Board of Governors also approves the payment of salaries to the following named officers of the Federal Reserve Bank of New York, effective for the period beginning August 1, 1953, the effective date of their promotions, through December 31, 1953:

"Name	Title	Annual Salary
T. G. Tiebout	Vice President & General Counsel	$23,000
John J. Clarke	Assistant General Counsel	17,000
Arthur H. Willis	Secretary	11,000
G. O'Keefe, Jr.	Assistant Secretary & Assistant Counsel	9,000

"It is understood that Mr. Abrahams and Mr. Trimble will reach retirement age on September 19, 1953, and October 10, 1953, respectively, and the payment of their salaries is approved only for the periods during which they are in active service.

"No action has yet been taken by the Board of Governors with respect to changes in the salaries of the Presidents and First Vice Presidents of the Reserve Banks."

Secretary's note: Governor Szymczak discussed the matter with Chairman Martin by telephone on August 17, 1953. As Chairman Martin concurred in the Board's action, the letter was sent under that date.

The Secretary reported having discussed by telephone with Mr. Treiber, First Vice President of the Federal Reserve Bank of New York, the proposed service of Mr. Walter H. Rozell, Jr., Manager of the Reserve Bank's Foreign Department, as Governor of the State Bank of Ethiopia for a period of approximately two years commencing at the end of August or in early September of this year. Mr. Treiber, he said, stated that in view of the suggestion made in the Board's letter of August 7, 1953, regarding the arrangement under which Mr. Rozell's services might be made available, the Bank's directors had now authorized an arrangement under which, if Mr. Rozell should resign to become Governor of the State Bank of Ethiopia, the New York Bank would agree that (1) upon his request within a specified period after his resignation, the Bank would reemploy Mr. Rozell as an officer at a salary not less than his salary at the time of his resignation; (2) upon his return at the end of the specified period, the Bank would make a contribution to the Retirement System of the Federal Reserve Banks to provide service credit for the period during which Mr. Rozell was away, provided he made his normal contributions covering the same period; and (3) the Bank would reimburse him for the cost of insurance arranged by him to provide, during the specified period of his absence, (a) a death benefit in an amount equal to twice the salary earned by him in the twelve months preceding his resignation, and (b) coverage against total and permanent disability occurring during such period of absence in an amount comparable to the amount of the disability benefit to which he would otherwise be entitled from the Retirement System.

The Secretary also stated that a letter was being sent to the Board by the Federal Reserve Bank confirming the arrangement stated above and requesting the Board's approval.

It was agreed unanimously that the arrangement described by Mr. Treiber to Mr. Carpenter was satisfactory and should be approved.

Secretary's note: Later in the meeting the Secretary reported that a letter dated August 13, 1953, signed by Mr. Treiber had been received from the Federal Reserve Bank of New York and that the arrangement proposed therein with respect to making available the services of Mr. Rozell was as stated by Mr. Treiber to him previously. In the circumstances, unanimous approval was given to a letter to Mr. Treiber in the following form:

"This will acknowledge your letter of August 13, 1953, with further reference to the arrangement under which the services of Mr. Walter H. Rozell, Jr., Manager of the Foreign Department, would be made available as Governor of the State Bank of Ethiopia for a period of approximately two years plus traveling time commencing at the end of August or in early September of this year.

"The Board appreciates the action taken by the directors of the New York Bank to conform the arrangement to the suggestion made in the Board's letter of August 7, and approves the arrangement as outlined in your letter of August 13 including the agreement which would be made by the Reserve Bank with Mr. Rozell, should he resign to become Governor of the State Bank of Ethiopia, that the Bank, upon his request within a specified period after his resignation, e.g., approximately two years plus traveling time, would reemploy Mr. Rozell as an officer at a salary not less than his salary at the time of his resignation."

There was presented a draft of telegram to Mr. Clouse, Vice President and Secretary, Federal Reserve Bank of Cleveland, reading as follows:

"Reurtel August 13, Board approves effective August 17, 1953, rate of 3 per cent on advances to individuals, partnerships, or corporations other than member banks under last paragraph of Section 13. Otherwise Board approves establishment without change of rates of discount and purchase in Bank's existing schedule."

Approved unanimously.

There were presented telegrams to the Federal Reserve Banks of New York, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on August 11, and by the Federal Reserve Banks of New York, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas on August 13, 1953, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Mr. Leonard, Director, Division of Bank Operations, entered the room.

The discussion reverted to the management situation at the Federal Reserve Bank of Dallas and to the action which might be taken by the Board of Governors with respect to the proposed appointment of Mr. Gentry as President and Mr. Irons as First Vice President, as referred to by Governor Szymczak earlier in this meeting.

In the course of a discussion, during which consideration was given to possible alternatives including the appointment of Mr. Irons as President and the retention of Mr. Gentry as First Vice President, the possibility of securing some person from outside the present staff of the Dallas Bank as President of the Bank, and the possibility that Mr. Gilbert might be asked to remain as President temporarily pending the selection of a successor, Governor Evans stated that he would have no objection to approval of the appointment of Mr. Gentry as President for the remainder of the five-year term ending February 29, 1956.

Governor Szymczak then suggested that no action be taken at this time and that he be authorized to review the matter by telephone with Chairman Martin, with whom Chairman Parten presumably had discussed the matter by telephone yesterday following his conversation with Governor Szymczak.

This suggestion was approved unanimously.

Mr. Leonard reported on information just received by the Division of Bank Operations from the Pittsburgh Branch of the Federal Reserve Bank of Cleveland regarding the circumstances under which an undetermined but small amount of United States paper currency which the branch had attempted to destroy yesterday in an outside incinerator had escaped to the city dump without having been completely incinerated. Mr. Leonard stated that the matter was being followed closely and that a full report would be submitted to the Board.

Thereupon the meeting adjourned. During the day the following additional actions were taken by the Board with Governors Szymczak, Evans, and Mills present:

Memoranda from appropriate individuals concerned recommending personnel actions as follows:

Appointment, effective upon the date of assuming duties

Name and title	Division	Type of appointment	Basic annual salary
Theodore Flechsig, Economist	Research and Statistics	Temporary indefinite	$4,580

Change in status of appointment

Ruth M. Flowers, Charwoman, Division of Administrative Services. From temporary (two months) to temporary indefinite, with no change in her basic annual salary at the rate of $2,420, effective at the expiration of her present appointment.

Salary increases, effective August 16, 1953

Name and title	Division	Basic annual salary From	To
	Office of the Secretary		
Margaret J. Molster, Records Clerk		$3,575	$3,655
Gladys I. Trimble, File Clerk		3,110	3,190
	International Finance		
Ernest C. Olson, Economist		7,440	8,360
	Personnel Administration		
Margaret H. Wolverton, Personnel Technician		4,955	5,185

Approved unanimously.

Letter to Mr. Quackenbush, Manager, Bank Examinations Department, Federal Reserve Bank of New York, reading as follows:

"This is to confirm the arrangements, made informally, under which Mr. Walter E. Jones will be assigned to duty with the Board's Division of Examinations for a period of about three months beginning September 1, 1953.

"It is understood that the Reserve Bank will pay Mr. Jones' salary during the period and will request reimbursement from the Board for his per diem allowance at the rate of $11 per day ($77 per week). This is satisfactory.

"Your willingness to have Mr. Jones participate in the operation of the Division of Examinations is greatly appreciated and it is felt that it will be mutually beneficial."

Approved unanimously.

Letter to the President and Directors of the Manhattan Company, (Bank of the Manhattan Company), New York, New York, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors "approves the establishment and operation of a branch by the President and Directors of the Manhattan Company (Bank of the Manhattan Company) at 104-17 Queens Boulevard, Forest Hills, Queens County, New York, provided that the branch is established within six months from the date of this letter."

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

Letter to the Board of Directors, Manufacturers Trust Company, New York, New York, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the absorption of the Peoples Industrial Bank, New York, New York, by the Manufacturers Trust Company, New York, New York, provided the transaction is effected substantially in accordance with the plan as presented through the Federal Reserve Bank. The Board of Governors also approves the establishment and operation by the Manufacturers Trust Company of a branch at 855 Avenue of the Americas, New York, New York, provided prior formal approval of the proposed absorption of the Peoples Industrial Bank and establishment of the branch is obtained from the appropriate State authorities."

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

Letter to the Board of Directors, St. Ansgar Citizens State Bank, St. Ansgar, Iowa, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal

Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, for transmittal through the Federal Reserve Bank of Chicago, together with a letter to Mr. Young, President of the Reserve Bank, containing the following paragraph:

"With respect to the excess balance carried in the Farmer's State Bank, Lyle, Minnesota, noted in the report of examination, it is assumed that you will follow to a successful conclusion the matter of bringing such balance into conformity with Section 19 of the Federal Reserve Act."

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

"Referring to your letter and recommendation of August 10, 1953, the Board of Governors extends until October 18, 1953, the time within which the Bank of Dearborn, Dearborn, Michigan, may accomplish admission to membership in the Federal Reserve System, as provided in the Board's letter of February 18, 1953, as modified in letter of August 7, 1953."

Approved unanimously.

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

"This refers to your letter of July 16, 1953, and its enclosures, concerning six questions relating to the application of Regulation Q which were presented by Mr. Jack Payne, President, American State Bank, Lubbock, Texas.

"Mr. Payne's questions, to which he requested specific answers, were set forth in his letter to your Bank of May 18, 1953. That letter indicated that the American State Bank, and also other local banks, intended to submit bids for handling the depository requirements of a political subdivision of Lubbock County and that the bidding was expected to be highly competitive. For the most part, Mr. Payne's questions were whether or not certain matters, described only in general terms, might be included in a bid and carried out thereunder as inducements to acceptance of the bid, without violating the regulation. Your letter of July 16 asked for answers to each of Mr. Payne's questions.

"The Board agrees with the answers set forth in your letters of May 26 and May 29, 1953, to Mr. Payne's questions (1), (2) and (4). As you indicated, both section 19 of the Federal Reserve Act and section 2 of the regulation provide that no member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand. As also indicated by you, the maximum rates of interest for time deposits are set forth in the Supplement to the regulation; and section 4(e) of the regulation provides that the rate of interest on a loan by a member bank to a depositor 'upon the security of' his time deposit shall be not less than 2 per cent per annum in excess of the rate of interest on the time deposit. The answers to Mr. Payne's questions (1), (2) and (4) are, therefore, clearly stated in the statute and regulation.

"Mr. Payne's question (5) also involves section 4(e) of the regulation. In general, the purpose of section 4(e) is to discourage loans by member banks to time depositors which would have the effect of making funds in a previously established time deposit available to the depositor before the maturity of such deposit and thereby provide means for evasion of the prohibition against payment of time deposits before maturity. As noted above, the section refers to a loan to a depositor 'upon the security of' his time deposit. Although it is indicated by Mr. Payne that a pledge of the borrower's time deposit would not be 'required', his statement that the loan would 'be repaid from the proceeds of' "the time deposit suggests the possibility that the loan would be made 'upon the security of' the time deposit. However, the Board is not in a position to express a definite opinion in the matter without knowing all of the facts of the proposed arrangement between the bank and the depositor and how it is contemplated that the arrangement would work out in practice.

"Mr. Payne's questions (3) and (6) are whether the matters mentioned therein would constitute payments of interest within the meaning of the statute and regulation. As you know, however, it has been the Board's general policy for many years not to pass upon questions of this kind prior to presentation of the specific matter following an examination of the particular bank, but rather to rely upon the cooperation and good faith of the member banks in adapting their practices to conform to the spirit and purpose of the law and regulation. The various practices contemplated by Mr. Payne cover a wide range of possibilities and are stated in very general language. It is probable that some of the matters mentioned by him would not be such as to constitute a payment of interest in violation of Regulation Q, although others, depending of course upon the circumstances of the particular case, might require a contrary conclusion. The basic test is whether the particular practice involves a payment to the depositor as compensation for the use of the funds constituting a deposit. The Board appreciates the desire of a member bank to be informed whether a proposed practice would be consistent with the law, but the Board does not believe that it can properly give definite answers to involved questions of this kind in advance and in the absence of information as to all of the facts as disclosed by examination.

"In this connection, a related matter should be mentioned. The Board recently considered the use by a State member bank of armored cars to collect money and checks from and deliver payroll money to certain customers of the bank at their places of business, and the Board concluded that the practice constituted 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, therefore, involved the operation of a branch without the approval of the Board in violation of section 9 of the Federal Reserve Act.

"The Board suggests that you furnish a copy of this letter to Mr. Payne on behalf of the Board for his information, and it is hoped that he will understand the Board's position in this matter."

Approved unanimously.

Letter to Mr. Shuford, Vice President and General Counsel, Federal Reserve Bank of Dallas, reading as follows:

"This is in further reference to your letter of July 4, 1953, and its enclosures, concerning the application of Regulation Q to the matter presented by Mr. Forrest Smith, President, National Bank of Commerce, San Antonio, Texas.

"From the information presented, it appears that Mr. Smith's bank now issues a form of certificate of deposit which bears interest at the rate of 2-1/2 per cent per annum if held for a stated maturity of 3 years, but which provides that the certificate will be payable any time after 6 months from date of issue (1) upon 90 days' written notice, with interest at the rate of 2 per cent per annum, if cashed before one year from date of issue; or (2) upon 6 months' written notice, with interest at the rate of 2-1/4 per cent per annum, if cashed after one year from date of issue and before the stated maturity of 3 years.

"Mr. Smith's question involves the status of such a certificate if, at the close of the first 18 months, the depositor were to give the bank 6 months' written notice of withdrawal which would mature the certificate 2 years from the date of issue, say on July 1, 1955, but on July 11, 1955 (10 days after expiration of the notice), advises the bank to cancel such notice.

"In the circumstances just described and assuming that the advice of cancellation of the notice of withdrawal is in writing, it is the view of the Board that, under section

"3(f) of Regulation Q and by application of the principles stated in the Board's interpretation published in the 1936 Federal Reserve Bulletin page 419 (F.R.L.S. #6304), such advice of cancellation would have the effect of continuing the certificate in its original form without affecting its terms and provisions; and that, consequently, upon any withdrawal thereafter in accordance with the certificate and prior to the stated maturity thereof, interest could properly be paid in accordance with the terms of the certificate at the rate of 2-1/4 per cent per annum, assuming that the option to withdraw after 90 days' written notice would no longer be available. This result appears to be in accord with that stated in the proposed draft of reply to Mr. Smith which you enclosed with your letter.

"Under section 3(f) of the regulation, the written advice of cancellation would operate as a permissible reinstatement of the certificate even though the advice is furnished after expiration of the notice of withdrawal; and where such advice of cancellation is supplied to the bank within 10 days after expiration of the written notice of withdrawal, it would prevent interruption of the provisions of the certificate. As in the case described in the 1936 interpretation referred to above, the Board will offer no objection to the payment of interest under the certificate at a rate not exceeding the applicable maximum prescribed in Regulation Q for the period between the expiration of the advance written notice of withdrawal and the date of written cancellation of such notice, provided such cancellation occurs within 10 days after the expiration of the notice."

Approved unanimously.

S R Carpenter

Secretary