

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 2, 1947.

PRESENT: Mr. Szymczak, Chairman pro tem  
 Mr. Draper  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Clayton

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Morrill, Special Adviser  
 Mr. Thurston, Assistant to the Chairman

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 1, 1947, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Atlanta, Chicago, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Atlanta on April 29, by the Federal Reserve Bank of San Francisco on April 30, 1947, and by the Federal Reserve Banks of New York, Philadelphia, Chicago, and Kansas City on May 1, 1947, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 30, 1947, from Mr. Carpenter recommending that the resignation of Mrs. Marjorie B. McCutchan, a file clerk in the Office of the Secretary, be accepted to be effective, in accordance with her request, at the close of business May 16, 1947, with the understanding that a lump sum payment would be made

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for annual leave remaining to her credit as of that date.

Approved unanimously.

Letter to Mr. Dearmont, Federal Reserve Agent of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of April 30, 1947, the Board of Governors approves the appointment of Mr. Edward H. Hoppe as Alternate Assistant Federal Reserve Agent, effective May 12, 1947, at an annual salary rate of \$3,360, to succeed Miss Minnie Smith.

"This approval is given with the understanding that Mr. Hoppe will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"It is noted from your letter that Mr. Hoppe will execute the usual oath of office which should be forwarded to the Board."

Approved unanimously.

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

"In your letter of April 28, 1947, you state that the Board of Directors has approved the re-tention in active service of George A. Vaughn until December 31, 1947.

"The Board of Governors approves the payment of salary to Mr. Vaughn in active service from

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"July 1, 1947 to December 31, 1947, inclusive, in accordance with the Board's letter of February 4, 1946, S-895.

"It is noted that the services of Mr. Vaughn will be terminated December 31, 1947."

Approved unanimously.

Telegram to Mr. Brayton Wilbur, President, Wilbur-Ellis Company, San Francisco, California, reading as follows:

"Board of Governors has designated you Chairman and Federal Reserve Agent at Federal Reserve Bank of San Francisco for remaining portion of year 1947 and has fixed your compensation as such on uniform basis fixed for same position at other Reserve Banks, i.e., at same amount as aggregate of fees payable during same period to any other director for attendance corresponding to yours at meetings of the board of directors, executive committee and other committees of board of directors. It will be appreciated if you will advise by collect telegram of your acceptance. In accordance with usual procedure it will be necessary for you to execute usual oath of office."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the Bell Gardens Bank, Bell Gardens, California, became a member of the Federal Reserve System on April 29, 1947, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

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1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks  
reading as follows:

"The Board's attention has recently been called to a plan being used by several merchants to promote the use of frozen food cabinets which raises a question as to the applicability of Regulation W. The merchant maintains a weekly delivery service in his local area distributing frozen foods on order. He has cabinets for sale at \$149.50 or for rent at \$3.00 per month. When he rents them the lease is for a term of six months and provides that if within that time the cabinet is sold to the lessee at the retail price then in effect, the rentals previously paid may be applied on such price. The contract also stipulates that the lessee shall have no option to purchase the cabinet.

"The definition of 'extension of credit' in Executive Order No. 8843 includes 'any rental-purchase contract, or \* \* \* any transaction or series of transactions having a similar purpose or effect'. In the cases which have come to the Board's attention the lessor is engaged in the business of selling these cabinets (in addition to selling other articles, including frozen foods) and therefore it may be assumed that he will not refuse to sell the cabinet to the lessee if the lessee decides to buy it. In such cases the lease would be a transaction (or one of a series of transactions) coming within the above definition because of the provision that the rentals previously paid may be applied on the purchase price.

"Accordingly, unless there are facts which show that there is no reasonable probability that the lessee will be

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"permitted to buy the cabinet and apply the rentals to the purchase price, the Board believes that a contract of this kind should be regarded as involving an 'extension of credit' so as to be subject to the down payment, maturity, and monthly payment requirements of Regulation W."

Approved unanimously.

Letter to the Honorable Charles W. Tobey, Chairman, Committee on Banking and Currency, United States Senate, reading as follows:

"In the absence of Chairman Eccles I have for reply your letter of April 25, 1947, enclosing a copy of a letter received by you from Mr. Louis E. Starr, Commander-in-Chief of the Veterans of Foreign Wars of the United States. You advise that this organization is raising with you the question as to the probable effectiveness of S. 408 in encouraging long-term loans for the construction of rental housing for veterans.

"The Board is, of course, sympathetic to the objectives of the program to provide housing at a cost within the reach of the veteran, and I am sure that the Federal Reserve Banks are ready and willing to do everything possible to facilitate loans to business for this purpose within the limitations of the present section 13b of the Federal Reserve Act or within the authority which would be provided if and when S. 408 is enacted by the Congress.

"Under present law, loans to business made or participated in by the Federal Reserve Banks cannot have a maturity exceeding five years, and under S. 408 the term of the guaranteed loan could not exceed ten years. It would not be possible under the law, therefore, for the Reserve Banks to provide financing for terms as long as those which the Commander-in-Chief of the Veterans of Foreign Wars is suggesting. Fifty-year loans for the construction of housing at an interest rate of 2 per cent would, of course, be on a far more liberal basis than customary banking practice would permit.

"As you know, it is the Board's intention if S. 408 is enacted to establish a maximum rate of interest of 5 per cent and within that limit it is contemplated that the local bank in agreement with the borrower would determine the actual rate

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"to be charged. The rate, of course, must be sufficient to encourage the local banks to make these loans with an opportunity for a reasonable profit or else the authority conferred by S. 408 will not be effective.

"Loans that would normally be guaranteed by the Federal Reserve Banks under S. 408, should it become law, would be granted to business enterprises for the purpose of enabling them to provide plant, machinery and equipment, to finance current operations, and for other business purposes; and such guarantees could, of course, be provided on loans to the building industry within the limitations of the law as well as to other business enterprises. Loans of the type Mr. Starr has in mind, however, seem to be of a different character. It seems to the Board that if your Committee should favor a program along the lines Mr. Starr has in mind, careful consideration should be given to the desirability of legislation providing specifically for the long-term financing of veterans' housing projects. It is not believed that this type of project is one which should be financed by the Federal Reserve Banks."

Approved unanimously.

Telegram to Mr. Rouse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your telegram May 1. Board approves loan or loans by your Bank to the Banco Central del Ecuador not to exceed \$3,500,000 outstanding at any one time, such loan to be secured by gold earmarked in your vaults. As stated in your telegram it is understood that the loan or loans are to be made on the following terms and conditions:

- (A) Such loan or loans to be made up to 98 per cent of the value of the refined gold bars held in your vaults as collateral;
- (B) Such loan or loans to run for 90 days, but no loan or renewal thereof to mature later than 180 days after the date of the first such loan;
- (C) Interest to be at the discount rate of your bank (at present 1 per cent per annum) on the amount actually advanced;
- (D) The amount advanced at any one time and the amount

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"repaid at any one time to be in round amounts of not less than \$100,000. It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

Letter prepared for Mr. Draper's signature to Mr. Edward E. Brown, President, Federal Advisory Council, c/o The First National Bank of Chicago, Chicago, Illinois, reading as follows:

"The Board would appreciate it if the Federal Advisory Council would include in the agenda for its forthcoming meeting the consideration of the following matters for the purpose of giving the Board the benefit of its advice.

"1. At the last meeting it was understood that the Council would give further consideration to the holding company bill S. 829 and that at the next meeting it would submit its views with respect to the proposed legislation.

"2. In view of the current business situation, the Board would be interested in receiving information from the Council as to whether banks generally expect a continuing strong demand for business loans, for loans secured by real estate, and for consumer credit; what effects the inventory and price situation are having upon the loan positions and policies of banks; and whether, in the various districts, there has been any general tendency for banks to follow more restrictive loan policies, for loan rates to rise, or for borrowers to request renewals of loans more frequently. In addition, the Board would be glad to have any general views which the Council might wish to express.

"3. It is reported that some American commercial banks have participated in transactions in gold against dollars at premium prices in foreign countries. It is believed, from the standpoint of national policy, that such transactions are undesirable and that American commercial banks should be requested to refrain from engaging in them. Does the Council agree?

"4. What policies should be pursued by American commercial banks in making or participating in loans on

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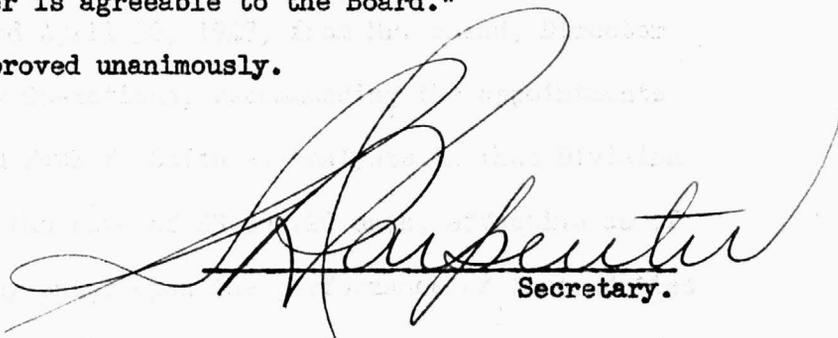
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"foreign-owned gold? It is believed that such loans should not be made if they appear to be sought for predominantly speculative purposes, and that in any case they should be limited to an initial period of 12 months, subject to renewal, in order to provide opportunity for periodic review. What are the views of the Council?

"The Board's staff will prepare an informal, confidential memorandum with respect to Nos. 3 and 4 which will be sent to you for distribution to the members of the Council as soon as it is available.

"In accordance with your request, the usual arrangements will be made for luncheon for the members of the Federal Advisory Council in the Blue Room on Tuesday, May 20, and the Board Room will be available for all of the meetings on Monday and Tuesday, including the meeting with Mr. Thomas on the afternoon of Monday, May 19. The schedule for the meetings as outlined in your letter is agreeable to the Board."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman pro tem.