

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 4, 1947. The Board met in the Special Library at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Parry, Director of the Division of Security Loans
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Nelson, Director of the Division of Personnel Administration
Mr. Brown, Assistant Director of the Division of Security Loans
Mr. Young, Assistant Director of the Division of Research and Statistics
Mr. Solomon, Assistant Counsel

Chairman Eccles reported on his appearance before the House Banking and Currency Committee yesterday morning in connection with the bill which would authorize the Federal Reserve Banks to guarantee industrial loans. The Chairman also said that after the morning session of the hearings, Chairman Wolcott advised that there would be a hearing on the question of consumer credit legislation on Tuesday, June 10, at which he (Chairman Eccles) would be requested to testify, and that at the same time an effort would be made to have consideration given to a bill giving additional authority for the construction of

6/4/47

-2-

Federal Reserve branch buildings. It was Chairman Wolcott's feeling, Chairman Eccles said, that it would be a mistake to undertake to get a repeal of the existing limitation on branch bank building costs and that he would prefer the second alternative referred to in the Board's letter of May 29, 1947, which would give the Board authority to approve expenditures for Federal Reserve branch buildings up to an aggregate of \$10 million.

In these circumstances, it was Chairman Eccles' suggestion that, instead of sending a letter with respect to consumer credit legislation to the Chairmen of the Banking and Currency Committees along the lines discussed at the meeting on May 29, the Board send them a brief letter transmitting the consumer credit bill which it would recommend be enacted by the Congress, with the understanding that the reasons for the Board's recommendation would be included in the statement which Chairman Eccles would make when he appeared before the Committee on June 10.

Before this meeting, in accordance with the action taken at the meeting on May 29, there had been distributed copies of (1) a memorandum discussing the merits of a consumer credit bill which would authorize the Board to regulate consumer installment credit generally, including loans not for the purpose of purchasing or carrying durable consumer goods, and of an alternative bill which

6/4/47

-3-

would authorize the Board to regulate only consumer installment credit for purchasing or carrying durable consumer goods or secured by such goods; (2) draft of a bill which would limit the Board's authority to the regulation of consumer credit for the purchasing or carrying of consumer durable goods and loans secured by such goods; and (3) alternative drafts of letters to the Chairmen of the Banking and Currency Committees transmitting whichever form of bill the Board should decide to approve.

Following a statement by Mr. Solomon of the scope of the alternative bill, there was a discussion of the comments contained in the memorandum discussing the alternative forms of the bill, which stated the reasons for recommending the bill as originally drafted, and it was the consensus of the Board members present that the recommendation should be that the bill as originally drafted to provide for regulation of consumer installment credit generally be approved. A draft of letter to the Chairmen of the Banking and Currency Committees transmitting the original bill was then read and discussed.

Upon motion by Mr. Evans, it was agreed unanimously that the bill should be sent to the Chairmen of the Banking and Currency Committees with a brief letter of transmittal and an explanation in non-technical language of the provisions of the bill, it being understood that the substance of the draft of letter to the Chairmen of the Banking and

6/4/47

-4-

Currency Committees which was read at this meeting would be incorporated as the views of the Board in the statement to be made by Chairman Eccles at the hearing on June 10.

Chairman Eccles suggested that when he appeared before the House Committee next Friday it might be desirable to state that, if the Committee did not wish to recommend that authority be granted for continued regulation of consumer credit without limit as to time, it might wish to authorize continuance of the authority for a limited period or to recommend that a resolution be adopted favoring continuation of the authority under the executive order for a year or so. The consensus of those present was that this would be desirable, and Chairman Eccles asked Mr. Vest to prepare a statement he could use in making this suggestion.

The draft of the letter to which reference was made at the meeting on May 29 which would be sent to the Board by the President of the United States was also read and all of the members of the Board present indicated that they would be glad to have the President send a letter to the Board in substantially that form.

Messrs. Parry, Thomas, Brown, Young, and Solomon left the meeting at this point.

Mr. Clayton stated that the Personnel Committee had considered the recommendations of the board of directors of the Federal

6/4/47

-5-

Reserve Bank of Dallas with respect to official salaries at that Bank for the year beginning June 1, 1947, and that the Committee would recommend that all of the salaries as proposed be approved with the exception of the salary at the rate of \$18,000 a year proposed for Mr. Gentry, First Vice President. It was the view of the Committee, Mr. Clayton said, that, considering the substantial increases in salary granted to Mr. Gentry since he became First Vice President in October 1944, and also in view of the question which had arisen concerning the administration of the Bank, particularly with respect to the handling of personnel matters, no further increase in salary should be approved for Mr. Gentry at this time, and it was therefore recommended that the Board approve for Mr. Gentry a salary at the rate of \$16,000 per annum if fixed at that rate by the directors of the Dallas Bank.

Mr. Carpenter stated that Mr. Vardaman, who was absent because of illness, had advised him that he would concur in the recommendations of the Personnel Committee with respect to official salaries at the Dallas Bank, that he felt the Board would be justified in approving a salary for Mr. Pondrom at the rate of \$12,000 per annum, and that because of the importance of Houston in the Dallas district and the difficulty experienced by the officer in charge of the Houston Branch in maintaining the standard of living that he

6/4/47

-6-

should maintain on a salary of less than \$12,000, he would favor a salary in that amount for the Vice President in charge of the Branch, it being understood that the officer would be of a caliber to justify that salary.

Upon motion by Mr. Clayton, the following letter to the Dallas Bank was approved unanimously:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Dallas and its Branches for the period June 1, 1947, through May 31, 1948, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of May 14, 1947:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
R. R. Gilbert	President	\$25,000
R. B. Coleman	Vice President	14,000
E. B. Austin	Vice President	10,000
L. G. Pondrom	Vice President and Cashier	11,000
H. R. DeMoss	Vice President	10,000
W. H. Irons	Vice President	10,000
H. D. Johnson	Counsel	8,500
Morgan H. Rice	Asst. Vice President & Secy.	8,500
R. O. Webb	Assistant Cashier	7,200
C. M. Rowland	Assistant Cashier	7,200
J. L. Cook	Assistant Cashier	7,000
A. C. Michaelis	Assistant Cashier	6,800
Howard Carrithers	Assistant Cashier	6,500
F. T. Novey	General Auditor	7,500
<u>El Paso Branch</u>		
Mac C. Smyth	Vice President	7,500
E. H. Berg	Cashier	5,000
John H. Barron	Assistant Cashier	4,500
<u>Houston Branch</u>		
W. H. Holloway	Vice President	9,000
W. D. Waller	Cashier	6,300
B. J. Troy	Assistant Cashier	5,000
<u>San Antonio Branch</u>		
W. E. Eagle	Vice President	8,000
H. K. Davis	Cashier	5,500
Alfred E. Mundt	Assistant Cashier	4,800

6/4/47

-7-

"With respect to the salary recommended for Mr. W. D. Gentry, it appears that his salary has been increased more rapidly since his appointment on October 1, 1944, than any other First Vice President in the System. In addition, while some improvement has been made in personnel administration at the Dallas Bank, which is under the immediate supervision of Mr. Gentry, that department, in the view of the Board, is not yet up to the desired standard. In the circumstances, the Board is unwilling to approve, at this time, a salary for him at the rate of \$18,000 per annum, which is the maximum for the position. However, the Board of Governors approves the payment of salary to Mr. Gentry at his present rate of \$16,000 per annum, if fixed by the Board of Directors at this rate, for the period June 1, 1947, through May 31, 1948."

There was a further discussion of the question of policy to be followed in applying wage scales to the uniform personnel classification plans being prepared by the Federal Reserve Banks, and Chairman Eccles indicated that he would be willing to approve a program which would permit the Federal Reserve Banks to adopt salary scales for the respective grades within a range of not more than 25 per cent between the lowest and highest minimum salary and the lowest and highest maximum salary for a specified grade at the Banks and branches. He also stated that he would favor a program under which there would be not more than four or five possible minimum and maximum rates for each grade of position.

No conclusions were reached during the discussion and it was suggested that, if possible, there be a further discussion of the matter before the joint meeting of the Presidents and the Board later in the week.

6/4/47

-8-

At this point Messrs. Vest and Nelson withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 3, 1947, were approved unanimously.

Memorandum dated May 29, 1947, from Messrs. Thomas and Knapp, Director and Assistant Director, respectively, of the Division of Research and Statistics, recommending that Mr. Metzler, a former member of the staff of that Division, be paid reasonable transportation expenses from New Haven, Connecticut, to Washington, D. C., and return, plus \$30.00 per day for the number of days worked here (not to exceed five) in connection with the checking of a paper on "Exchange Rates and the International Monetary Fund" written by Mr. Metzler. The memorandum also recommended that the Miscellaneous Classification of the 1947 budget of the Division of Research and Statistics be increased by the total amount of the claim submitted by Mr. Metzler in connection with this work.

Approved unanimously.

Telegram to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Relet June 2, 1947. Board approves appointment of Travis Whitsett Bain as assistant examiner for Federal Reserve Bank of Dallas. Please advise effective date."

Approved unanimously.

6/4/47

-9-

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

"In accordance with the request contained in your letter of May 29, 1947, the Board approves the designation of Samuel Andrew Rodgers as a special assistant examiner for the Federal Reserve Bank of Dallas."

Approved unanimously.

Letter to Mr. Hodge, General Counsel of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of May 26, 1947 to Mr. Bonnar Brown with which you enclosed certain correspondence regarding a question arising under Regulation T in connection with the new partnership agreement of Paul H. Davis & Co.

"It is understood that Paul H. Davis & Co., a member firm of the New York, Chicago and other Stock Exchanges, recently entered into a new partnership agreement in which Mr. Franklin B. Evans changed from a general partner to a limited partner. All the partners except Mr. Evans made their capital contributions in the form of cash. The partnership agreement provides that Mr. Evans shall be a limited partner, that the amount of his capital contribution shall be \$17,000, and that such amount shall be the extent of his liability. With respect to his capital contribution the agreement further provides that his capital account shall be credited with the sum of \$17,000 and his private ledger account debited with a like amount, that to secure this debit he is depositing with the firm certain securities which are agreed to have a market value of at least 140 per cent of \$17,000, and that so long as the debit continues he agrees to leave those securities on deposit with the firm and to deposit other securities acceptable to the firm as may be necessary to offset declining market values and maintain total market value of at least such 140 per cent.

6/4/47

-10-

"Since the debit exceeds the maximum loan value of the securities deposited, a question was raised as to whether there was a violation of Regulation T.

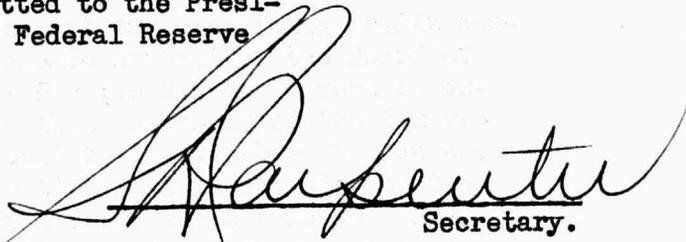
"The Board has already expressed the view that a loan made by a bank to a partner of a stock brokerage firm to enable him to make a capital contribution to the firm, is a loan for the purpose of purchasing or carrying securities. 1946 Federal Reserve Bulletin 995. In other words, if the debit here in question is an ordinary extension of credit to a customer it is forbidden by Regulation T.

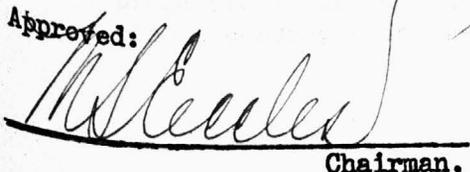
"It seems clear, however, that here the debit is not an ordinary extension of credit to a customer, but is merely a bookkeeping convenience to facilitate the accounting arrangements between the various members of the firm. Viewed realistically, the entire transaction is really a capital contribution made by Mr. Evans in the form of securities; or it may be considered an undertaking by him to supply \$17,000 of capital, the undertaking being secured by the deposit of securities. Its substance is essentially different from either an ordinary extension of credit by a stock brokerage firm to a customer or an ordinary loan by a bank to enable the borrower to contribute capital to a firm of which he is a member.

"In the circumstances of this particular case, it is the view of the Board that the debit here in question does not conflict with Regulation T.

"It is assumed, of course, that the debit will be continued only so long and in such a manner as to coincide with the capital contribution, and also that any other financial relations between the firm and Mr. Evans will be handled in accordance with Regulation T."

Approved unanimously, with the understanding that the information would be transmitted to the Presidents of all the Federal Reserve Banks.


Secretary.

Approved: 
Chairman.