

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 28, 1950. The Board met in the Board Room at 12:15 p.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Evans  
Mr. Vardaman

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser  
Mr. Vest, General Counsel  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Young, Director, Division of Research and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Sloan, Assistant Director, Division of Examinations  
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics  
Mr. Fauver, Administrative Assistant to the Chairman

There were presented telegrams to the Federal Reserve Banks of Boston, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on July 22 and July 28, by the Federal Reserve Bank of San Francisco on July 25, by the Federal Reserve Bank of St. Louis on July 26, by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas on July 27, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

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Approved unanimously.

On July 21, 1950 the Board received a telegram from Mr. Rounds, First Vice President of the Federal Reserve Bank of New York, reading as follows:

"Our Board of Directors yesterday voted, subject to review and determination of the Board of Governors of the Federal Reserve System, to eliminate the rate of 1 1/2 percent on discounts for and advances to member banks under Sections 13 and 13A and to establish a rate of 1 3/4 percent thereon; to eliminate the rate of 2 percent on advances to member banks under Section 10(B) and to establish a rate of 2 1/4 percent thereon; and to eliminate the minimum buying rates of 1 1/2 percent on bankers acceptances and 1 1/2 percent on trade acceptances, and to establish minimum buying rates of 1 3/4 percent thereon. Otherwise Federal Reserve Bank has today established without change the rates of discount and purchase in existing schedule.

"This action was taken after full discussion yesterday of factors regarding system credit policy and in the light of discussions at meetings of our directors in recent weeks, and with particular reference to the President's message of Wednesday to the Congress. Our directors asked me to inform the Board of Governors that it is the view of our board that positive and prompt action should be taken not only with respect to the discount rate but also with respect to each of following: an increase in short-term market rates, an offering by the Treasury of a long-term bond, and restraints on expansion of real estate and consumer credit. They do not consider an offering of a long-term bond as in any way a substitute for an increase in short-term rates. They believe that these steps are important as indicating direct action implementing the anti-inflationary recommendations in the Presidents' message."

Upon discussion at the meeting of the executive committee

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of the Federal Open Market Committee on that date, it was the consensus of the Board members present that no action should be taken with respect to this matter pending discussion of questions of open market and Treasury financing policy between Chairman McCabe and Secretary of the Treasury Snyder.

On July 27, 1950, a second telegram was received from Mr. Clarke, Secretary of the Federal Reserve Bank of New York, advising of similar action by the directors of the New York Bank at their meeting on that date.

It continued to be the view of the members of the Board present that no action should be taken on the discount rates proposed until after the discussion by Chairman McCabe with Secretary Snyder concerning Treasury financing policy had taken place.

It was agreed unanimously, therefore, that the Federal Reserve Bank of New York should be advised by wire that the Board had deferred action pending further discussions of System monetary and credit policy and Treasury financing policies.

At the meeting of July 24, the Board discussed an informal request received by Mr. Young from Mr. Ensley, Assistant Staff Director of the Joint Committee on the Economic Report, that the Committee be furnished with a statement concerning Government fiscal, monetary, and credit controls. Subsequently a letter was received by Chairman McCabe from Senator O'Mahoney, Chairman of the Joint

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Committee, under date of July 24, stating that it would be helpful in the deliberations of that Committee concerning the current economic situation if they could have a technical statement of the Government's monetary and credit controls, including those now authorized and those that might be authorized, and the problems connected with their effective use. A draft statement prepared by the research staff was presented at this meeting to determine whether the statement to the Joint Committee should be submitted as a statement of the Board or a technical statement at the staff level.

After discussion, it was agreed, at Chairman McCabe's suggestion, that the statement be studied by the members of the Board and a determination made thereafter whether it should be submitted as a Board statement or staff statement.

Reporting on his testimony before the House Banking and Currency Committee on July 25, relative to provisions in the Defense Production Act of 1950 concerning the guarantee of defense production loans and the regulation of consumer and real estate credit, Mr. Evans said that he had been questioned by Representative Multer of New York, whether it would not be desirable for the Board immediately to raise margin requirements to 100 per cent. Mr. Evans stated that he had told Mr. Multer that the question had been reviewed recently by the Board and that it was the Board's opinion at that time that such action was not called for under

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current conditions. Nevertheless, he said, Mr. Multer had requested him to present the matter to the Board for further consideration.

The matter was discussed and it was agreed that, while the Board should continue to watch the matter and be prepared to act at any time, there was no necessity for taking such action at this time.

At Mr. Evans' request, Mr. Leonard then reviewed the steps which were being taken by the Board's staff so that the Board might be prepared to act with a minimum of delay should it be designated by the President to administer legislation providing for the regulation of consumer credit. It was agreed that all possible steps should be taken to enable the Board to put the regulation into effect promptly whenever it might be called upon to do so. Mr. Leonard then outlined the plans that were being made to hold conferences with representatives of the trades next week. There was also a general discussion of the possible down payments and maximum loan maturities that might be prescribed by the Board and of the considerations to be taken into account in determining the terms to be prescribed.

In this connection, Mr. Evans said that if there were no objection, he proposed to utilize the services of Mr. Cherry, Assistant Counsel, in connection with consumer credit activities in the same manner as was done during 1948 and 1949 when Regulation

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W was in effect.

While it appeared that consumer credit regulations could be put into effect promptly, as indicated above, there was general agreement that if the Board should be designated to regulate real estate credit, some time would be required to formulate and promulgate appropriate regulations.

In accordance with the action taken at the meeting of July 18, a draft of joint statement to be issued by the supervisors of banks and lending institutions regarding current policy had been prepared and sent to officers of the National Association of State Bank Supervisors. At this meeting a revision of the draft incorporating their suggestions was presented, together with the following letter prepared for the Chairman's signature to the Comptroller of the Currency:

"Mr. Sloan of our staff has discussed informally with Mr. Folger of your office a draft of statement proposed to be issued jointly by the Federal bank supervisory agencies, the Home Loan Bank Board, and the Association of State Bank Supervisors. This matter has also been discussed by members of our staff with representatives of the Federal Deposit Insurance Corporation and the Home Loan Bank Board and I have discussed it with officers of the Association of State Bank Supervisors.

"The statement originally discussed has been modified somewhat to take care of various suggestions that have been made and I understand that the copy attached hereto is acceptable to officers of the Association of State Bank Supervisors.

"It is the view of the Board that, as in other instances in the past in which the supervisory authorities have joined in a statement of



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"this kind, it would be extremely helpful if a joint statement along the lines attached could be issued with the least possible delay. For that reason, the Board will appreciate it very much if you will let us know as soon as possible if the attached draft is satisfactory to you, if you would be willing to join in the statement, and, if so, if you have any suggestions as to the procedure to be followed in its release."

The letter to the Comptroller of the Currency was approved unanimously with the understanding that similar letters would be sent to Mr. Harl, Chairman of the Federal Deposit Insurance Corporation, and to Mr. Divers, Chairman of the Home Loan Bank Board.

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew.

Chairman McCabe stated that he was still planning to spend at least some of the month of August in Maine on vacation and that yesterday he had ordered a private telephone line installed between his cottage -- Pine Cottage, Kimball House, Northeast Harbor, Maine -- and the Federal Reserve Bank of New York in order that he might have telephone service with Washington readily available and in order to provide for greater privacy in his telephone conversations than would be possible over the facilities that were now available between New York and Northeast Harbor. He said that he thought that, because of pending legislation and other important matters, the conversations that would be held with him during that period justified his arranging for this facility and said that he would pay the cost of the line.

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Messrs. Evans and Vardaman were strongly of the opinion that the cost of the line should be paid by the Board, that the Chairman should take his vacation if it was at all possible to do so, that it undoubtedly would be necessary to communicate with him frequently on matters in connection with the legislation now pending before the Congress and matters relating to credit and fiscal policies, and that the need for prompt communication and for facilities over which confidential conversations could be held entirely justified the payment of the expense involved by the Board.

Thereupon, unanimous approval was given to the payment by the Board of the expense involved in the installation of the private telephone line and the appropriate item in the budget of the Board was increased accordingly to take care of the additional cost.

Mr. Vardaman suggested that the Board make a study of the steps that it might take to be prepared to meet the various possible situations that might result from bombing or other war disasters in Washington and it was agreed unanimously that this matter should be placed on the docket for discussion at a meeting of the Board next week.

Memorandum dated July 28, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending the appointment of Miss Mary Jo Harrington as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,650



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per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated July 27, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Mrs. Jane Gray Dodge, Secretary to Mr. Myrick, be accepted to be effective, in accordance with her request, at the close of business July 21, 1950.

Approved unanimously.

Letter to The American National Bank of Denver, Denver, Colorado, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for additional fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Colorado. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, and receiver, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

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Approved unanimously, for transmittal through the Federal Reserve Bank of Kansas City.

Telegram to Mr. Wilbur, Chairman of the Federal Reserve Bank of San Francisco, authorizing him to issue limited voting permits, under the provisions of section 5114 of the Revised Statutes of the United States, to "Transamerica Corporation", San Francisco, California, entitling such organization to vote the stock which it owns or controls of the "National Bank of Washington, Tacoma, Washington", and "The First National Bank of Lebanon", Lebanon, Oregon, at any time prior to December 1, 1950, to act upon proposals to increase the capital stock of such banks, and to amend the articles of association of such banks to conform to articles recommended by the Comptroller of the Currency, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

Approved unanimously.

Letter to Mr. Joseph E. Winslow, Bureau of the Budget, Executive Office of the President, Washington 25, D. C., reading as follows:

"Reference is made to Mr. F. J. Lawton's letter of July 25, 1950, addressed to Chairman McCabe, regarding the study of retirement systems covering Federal officers and employees being made by the Bureau of the Budget and requesting the designation of a liaison official for the purpose of furnishing data on the retirement system for

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"the employees of the Board of Governors.

"The Board has designated Mr. Fred A. Nelson, Director, Division of Personnel Administration, as liaison official for this purpose, and you may be assured of our cooperation in this undertaking."

Approved unanimously.

Letter to Mr. Francis D. Flanagan, Chief Counsel, Committee on Expenditures in the Executive Departments, United States Senate, Washington 25, D. C., reading as follows:

"Reference is made to your letter of July 19, 1950, addressed to Chairman McCabe, concerning the general methods employed by this organization in the handling of homosexual cases. Answers to your inquiries are set forth in the order outlined in your letter.

- "1. Does your agency consider a homosexual or sex pervert to be a bad security risk?  
Yes.
- "2. Does your agency consider a homosexual or sex pervert to be an undesirable employee on grounds of general unsuitability or for reasons other than security?  
On grounds of unsuitability.
- "3. Do you have any present rules or regulations which prohibit or restrict the employment of homosexuals or other sex perverts in your agency? (If the answer is 'Yes,' please furnish a copy of such rules and regulations.)  
We have no written rules, but the policy with respect to such cases is as stated in this letter.
- "4. Do you have any present rules or regulations which prohibit or restrict the employment of bad security risks other than persons suspected of disloyalty? (If the answer is 'Yes,' please furnish a copy of such rules and regulations.)  
We have no written rules, but the policy with respect to such cases is as stated in this letter.

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- "5. An outline of the procedures for the investigation of personnel suspected of homosexuality or other sex perversion prior to employment.  
Investigation is conducted of each employee prior to employment by contacting schools, places of prior employment, personal references, and local police department records.
- "6. An outline of the procedures for the investigation of personnel now in your employ who are suspected of homosexuality or other sex perversion.  
Should any case arise, we would check all possible sources to determine the facts, including investigation of the records of the police department.
- "7. An outline of the procedure for dismissing personnel for reasons of homosexuality or other sex perversion.  
We have had no cases, but in the event one should arise, a resignation would be requested, and if that was not forthcoming, the employee would be separated from service.
- "8. Recommendations regarding procedures to be established in the employment and possible dismissal of personnel for reasons of homosexuality or other sex perversion.  
None."

Approved unanimously.

Letter to Mr. Clarke, Secretary of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of July 11, 1950, enclosing a copy of Mr. Treiber's memorandum of July 6, 1950, to Mr. Sproul relative to the New York State Disability Benefits Law and recommending certain changes, later approved by the directors, in the Bank's medical leave program.

"It is noted that counsel believed the State Disability Benefits Law is not applicable to the

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"Bank and, for legal and policy reasons, it was felt that the Bank should not seek the voluntary coverage which the law permits; but it was decided that employees of the Bank should be legally entitled to benefits comparable to those provided in the law, including certain benefits to discharged employees who become disabled within four weeks after the termination of employment."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., reading as follows:

"This is in response to enrolled bill transmittal sheet received by the Board on July 27, 1950, enclosing a facsimile of the enrolled enactment of H.R. 6198, an Act 'For the relief of the First National Bank in Richmond, California'.

"The Board reported favorably on this legislation in a letter addressed to the Chairman of the Committee on the Judiciary of the House of Representatives, dated November 10, 1949, and also in a letter addressed to the Assistant to the Attorney General, dated May 22, 1950, in response to a request for the Board's views in order that they might be transmitted by the Department of Justice with its own report to the Bureau of the Budget.

"During World War II, in accordance with the Government's V-loan program for the financing of war production, the War Department entered into a guarantee agreement with the First National Bank in Richmond, California, with respect to a war production loan made by that bank, secured by an assignment of the borrower's claims under its war contract. Some years later, upon the default of the borrower, certain surety companies which had been obliged to pay claims for labor and materials, obtained a judgment against the bank for amounts which had been paid by the Government to the bank as assignee of the borrower's claims under its war contract. As the result of a controversy between the bank and the War

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"Department as to whether the loss thus sustained by the bank was covered by the guarantee agreement, it is understood that a compromise agreement approved by the Department of Justice was entered into under which the bank received payment for part of the amount claimed by it to be owing from the Government under the guarantee agreement. The bill H.R. 6198 would provide for payment to the bank of the remainder of the amount claimed by it to be due from the Government pursuant to its guarantee agreement with the War Department.

"The Board of Governors has been interested in this case, not only because of the bank's membership in the Federal Reserve System, but because the V-loan program was administered through the Federal Reserve System and in accordance with the Board's Regulation V. The Board believes that the bank, under its agreement with the War Department, is equitably entitled to receive payment of the sum which would be authorized by this bill. Moreover, the case involves an important principle because of its possible effect upon any future program in which the Government may desire to enlist the services and facilities of the commercial banking system in the financing of Government contractors.

"Accordingly, the Board recommends approval of the bill H.R. 6198."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., reading as follows:

"This is in response to enrolled bill transmittal sheet received by the Board on July 27, 1950, enclosing a facsimile of the enrolled enactment of H.R. 8055, an Act 'Relating to the collection, payment, and dishonor of demand items, and to the revocation of credit for, and payment of, such items, by banks in the District of Columbia'.

"This bill would authorize any bank in the District of Columbia which gives credit for a check



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"or other demand item on the day of its receipt (except an item received for immediate payment over the counter) to revoke such credit and return the item without payment at any time before midnight of the bank's next following business day. The bill follows a model deferred posting statute recommended by the American Bankers Association for enactment in all States in order to give effect, on a uniform basis, to a practice commonly known as 'deferred posting' which has been adopted by many banks in recent years. We understand that legislation in the form of the model statute, or in some modified form, has now been adopted by the legislatures of thirty-eight States.

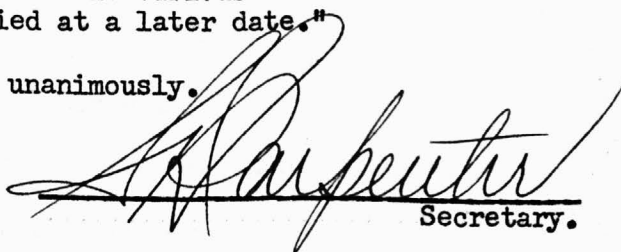
"The Board reported favorably on the bill H.R. 8055 in a letter addressed to the Chairman of the Committee on the District of Columbia of the House of Representatives, dated May 25, 1950. As stated in that letter, the Board believes that legislation along the lines of this bill would be in the interests of banks and trust companies in the District of Columbia which may wish to follow the deferred posting procedure. Accordingly, the Board recommends that the bill H.R. 8055 be approved."

Approved unanimously.

Letter to The Honorable, The Comptroller of the Currency,  
Treasury Department, Washington 25, D. C., reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing supplementing the order of June 21, 1950, for printing Federal Reserve notes of the 1934 Series during the fiscal year ending June 30, 1951. It is desired to increase the order by 5,000,000 sheets in amounts and denominations for notes of the various Federal Reserve Banks to be specified at a later date."

Approved unanimously.

  
Secretary.