

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 15, 1950.

PRESENT: Mr. McCabe, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Vardaman
 Mr. Norton
 Mr. Powell

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 14, 1950, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 12, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on September 14, 1950, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Yesterday Mr. Powell received a letter dated September 13, 1950 from President Peyton of the Federal Reserve Bank of Minneapolis stating that at the meeting of the board of directors today it was proposed, subject to approval by the Board, to elect Mr. A. W. Mills, Vice President and Cashier of the Bank, as First Vice President to succeed Mr. Powell for the unexpired portion of the 5-year term

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ending February 28, 1951. Mr. Peyton had advised Mr. Powell by telephone that it was anticipated that the directors would fix Mr. Mills' salary in the new position at the rate of \$15,000 per annum. Mr. Powell had taken the matter up at a meeting of the Personnel Committee yesterday and with the other members of the Board this morning, all of whom concurred in the proposed appointment and salary, Mr. Vardaman stating that his approval would be with the understanding that there was no commitment to reappoint Mr. Mills as First Vice President for a new term or at a subsequent date as President of the Bank. Following this informal approval by the members of the Board, Mr. Powell advised Mr. Peyton accordingly by telephone. Subsequently, a wire of this date was received from Chairman Shepard advising that the board of directors had made the appointment and that formal advice of the salary fixed by the directors as referred to above would be contained in a letter being sent to the Board.

Thereupon, unanimous approval was given to the following wire to Chairman Shepard:

"Reurtel date. Board of Governors approves appointment, effective immediately, of A. W. Mills as First Vice President of Federal Reserve Bank of Minneapolis for unexpired portion of five-year term ending February 28, 1951, and payment of salary during same period at the rate fixed by your directors."

Memorandum dated September 6, 1950, from Mr. Dembitz, Assistant Director of the Division of International Finance, recommending

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an increase in the basic salary of Miss Mary T. Clarke, a clerk-stenographer in that Division, from \$3,130 to \$3,275 per annum, effective September 17, 1950.

Approved unanimously.

Memorandum dated September 8, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that the appointment of Ernest M. Fisher, consultant in that Division, be extended through December 31, 1950, with the same salary, traveling, budget provisions and authority to approve for payment as set forth in the original memorandum of August 2, 1950.

Approved unanimously.

Memorandum dated September 15, 1950, from Mr. Norton, recommending that R. J. Saulnier, Jr., be appointed Special Adviser to the Administrator of the Office of Real Estate Credit, effective September 15, 1950, that his compensation be fixed at the rate of \$50 per day for each day he is away from New York in connection with this assignment, and that he be reimbursed for all necessary travel between New York and Washington and on official business in connection with his work in accordance with the provisions of the Board's official travel regulations applicable to directors and assistant directors except that the per diem in lieu of subsistence would be at the rate of \$15 during the periods he is absent from New York in connection with his work for the Board.

Approved unanimously.

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

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"Reurlet September 11, 1950. Board approves designation of John W. Boyer, Paul F. Miller, Jr., and James P. Roberts as special assistant examiners for the Federal Reserve Bank of Philadelphia. Notations have been made in Board's records of names reported as deletions."

Approved unanimously.

Letter to Mr. Lunding, Chairman and Federal Reserve Agent of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in Mr. Meyer's letter of September 12, 1950, the Board of Governors approves, effective September 11, 1950, the payment of salary to Mr. Clarence W. Kolz, Alternate Assistant Federal Reserve Agent, at the rate of \$5200 per annum."

Approved unanimously.

Letter to the Liquidating Committee, The Citizens National Bank of Freeport, Freeport, New York, reading as follows:

"This refers to the resolution adopted on February 24, 1942, by the board of directors of your bank, signifying the bank's desire to go into voluntary liquidation and 'to wind up the remaining business affairs of the bank'.

"The Board, understanding that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith, and a certified copy is being furnished the New York Loan Agency of the Reconstruction Finance Corporation for filing with the State authorities in connection with the release of the securities which your bank has on deposit with such authorities."

Approved unanimously.

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

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"Reference is made to your letter of September 8, 1950, enclosing a certified copy of a resolution adopted by the Board of Trustees of 'The Home Bank and Trust Company of Darien', Darien, Connecticut, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

"As requested, the Board of Governors waives the requirement of the six months' notice. Accordingly, upon surrender of the Federal Reserve Bank stock issued to The Home Bank and Trust Company of Darien, Darien, Connecticut, you are authorized to cancel such stock and make appropriate refund thereon. It is noted that the bank is merging with the Stamford Trust Company, Stamford, Connecticut, a nonmember bank.

"Please advise when cancellation is effected and refund is made. The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective."

Approved unanimously.

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

"Your wire September 14. Board approves the granting of a loan or loans by your Bank to the Banco Central de Costa Rica not to exceed \$1,988,000 in the aggregate at any one time outstanding on the following terms and conditions:

- (A) Such loan or loans to be made up to 98 per cent of the value of refined gold bars held in your vaults as collateral;
- (B) Each such loan or renewal thereof 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 and in no event later than April 30, 1951;
- (C) Each such loan or any renewal thereof to bear interest from the date such loan is made or renewed until paid at the discount rate of your Bank in effect on the date on which such loan or renewal is made;
- (D) Except for final drawing and final repayment all amounts advanced or repaid to be in round amounts of not less than \$100,000.

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"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

Letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letters of July 12 and August 24, 1950, regarding the application of Escrow & Loan Service Co., Incorporated, Pasadena, California, for a voting permit entitling it to vote the stock which it owns or controls of Pasadena-First National Bank, Pasadena, California, and Valley National Bank of Alhambra, Alhambra, California.

"In acting upon an application for a voting permit, the Board is required by law to consider, among other things, the financial condition of the applicant. In this connection it has been noted that, while the applicant has been carrying a large portion of its investment in bank stock by means of short-term bank loans, plans were being developed to replace the bank debt with longer term financing in the form of debentures. Also, it is noted that consideration was being given to increasing the capital structure of Pasadena-First National Bank.

"In the circumstances the Board feels that it should defer consideration of the granting of a general voting permit to Escrow & Loan Service Co., Incorporated, pending further developments with respect to the afore-mentioned plans which may affect the financial position of the group.

"Please advise the applicant accordingly."

Approved unanimously.

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

"Certain questions have been received regarding the status under Regulation W of contracts or commitments made prior to September 18, 1950, to extend credit after that date. Section 8(h) of the regulation exempts 'any valid contract or obligation entered into prior to' September 18. In order to clarify the application of this provision certain general principles are set out below:

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"1. The exemption in section 8(h) for 'any valid contract or obligation' entered into before September 18 applies not only to credit actually extended before that date, but also to any valid contract or obligation to make a contract. The exemption, therefore, includes a valid commitment made in good faith before September 18 to extend credit after September 18, and includes also the credit extended pursuant to such a commitment.

2. In order for the exemption to apply there must have been a valid contract or obligation. The general test is that the party seeking the credit should, aside from the regulation, have been able to maintain a suit for damages if the credit had not been granted pursuant to the contract or commitment to extend the credit. Some of the requirements for such a contract may be briefly summarized:

(a) A contract to sell or even a contract of sale for future delivery is not necessarily an agreement to extend credit for the article involved.

There must have been a valid contract relating to the credit for the purchase of the article.

(b) There must be considerably more than general negotiations or indefinite 'understandings' that credit would be extended. There must have been an agreement to extend the credit and a reasonably exact agreement as to terms and amount.

(c) While not always essential, the case is much clearer if there is written evidence of the commitment. The time as of which the credit itself is dated is not important, the significant date being that of the prior commitment.

3. Substance and good faith rather than technicalities and formalities control in determining whether there is a valid pre-September 18 contract. The most elaborate written documents do not constitute such a contract unless they represent a bona fide commitment made as a part of a regular business transaction and not as a means of evading the regulation.

"The approach to pre-effective date transactions in the present regulation is along the lines adopted in the 1941 regulation and continued until the revision of December 1, 1946. In this regard, you may wish to refer to section 9(d) of the 1941 regulation and section 12(e) of Regulation W as revised effective May 6, 1942. In these circumstances, the foregoing adopts the principles employed in S-291 (W-12) of August 30, 1941. Therefore, in connection with questions concerning pre-effective date transactions,

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"the views expressed herein supersede those expressed in S-1043 (W-9) of October 6, 1948, included under Interpretation 1 in the Regulation W Service. That interpretation pointed out specifically that the regulation as reinstated effective September 20, 1948, did not contain such provisions with respect to pre-effective date transactions as were contained in the 1941 version of Regulation W."

Approved unanimously.

Letter to Mr. Victor H. Nyborg, President, Association of Better Business Bureaus, Inc., 723 Chrysler Building, New York 17, New York, reading as follows:

"The Board appreciates the opportunity afforded by your letter of September 13 to comment on your proposal that your Association consider a program of drafting and adopting once more a set of voluntary standards in connection with the re-establishment of Regulation W.

"The cooperation afforded to the Board and the Reserve Banks by your organization and other business groups during previous regulations has been deeply appreciated. As you know, advertising as such is not subject to Regulation W. The advertising of installment terms which could not be granted except in violation of the regulation, however, raises questions as to the good faith of the advertiser and complicates the administration of the regulation. Your letter suggests a program along the lines of voluntary standards which you were so successful in establishing during the periods of previous consumer credit regulation and the Board believes that your suggested program would be very beneficial."

Approved unanimously.

Memorandum dated September 15, 1950, from Mr. Townsend, Solicitor, stating that he had been advised by the Department of Justice of a suit recently instituted against the United States in

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the District Court at Kansas City under the Federal Tort Claims Act by an individual seeking recovery for injuries alleged to have been sustained while riding on a sidewalk elevator owned by the Federal Reserve Bank of Kansas City, that he had discussed the matter with Mr. Johns, General Counsel of the Reserve Bank in Kansas City by telephone to ascertain if there was any way open which might obviate the need for the Board's taking an official position with the Department of Justice as to the status of the Reserve Bank as an instrumentality of the Federal Government, that Mr. Johns stated that the insurance company which carries liability insurance on the Bank building had volunteered to defend a personal action against the building superintendent of the Reserve Bank brought in the State Court by the same party, that Mr. Johns had expressed willingness to discuss with attorneys for the insurance company the possibility of permitting the addition of the Reserve Bank as a party defendant in the suit against the building superintendent, and recommending that the Board authorize negotiations by Mr. Johns with the insurance company to determine whether the matter could be handled along this line.

Approved unanimously.

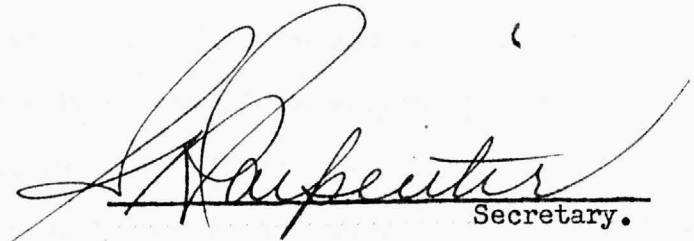
Memorandum dated September 6, 1950, from Mr. Evans, recommending that the Board authorize the payment of dinners and entertainment and other incidental costs of the Conference of Chairmen

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of the Federal Reserve Banks to be held in New York September 18 and 19, 1950, to the extent that such costs would not be covered in the travel allowances of the individuals attending the Conference, with the understanding that the appropriate item in the budget of the Division of Administrative Services would be increased by an amount sufficient to cover such costs.

Approved unanimously.



R. A. Carpenter
Secretary.