

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 20, 1950.

PRESENT: Mr. McCabe, Chairman
Mr. Evans

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated September 18, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Mrs. Eileen I. Howard, a statistical clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business September 29, 1950.

Approved unanimously.

Memorandum dated September 19, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Miriam P. Jasper, printing clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business October 13, 1950.

Approved unanimously.

Memoranda from the heads of the Divisions indicated below recommending increases in the basic annual salaries of the following employees in those Divisions, effective October 1, 1950:

<u>Date of Memo</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
9/18/50 EXAMINATIONS Evelyn H. Cunningham	Stenographer	\$2,890	\$2,970

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<u>Date of Memo</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
<u>ADMINISTRATIVE SERVICES</u>			
9/18/50	Charles V. Carey	Cafeteria Helper	\$2,120 \$2,190
<u>RESEARCH AND STATISTICS</u>			
9/19/50	Jennie L. Glass	Clerk	2,810 2,890
9/20/50	Virginia E. Leaman	Clerk-Stenographer	3,195 3,275
<u>SOLICITOR</u>			
	Mrs. Frances C. Colvin	Secretary to Mr. Townsend	4,075 4,200

Approved unanimously.

Telegram to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the special condition specifically stated hereafter, the Board approves the application of the "Merchants Trust & Savings Bank", Kenner, Louisiana, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta, effective if and when the bank is authorized to commence business by appropriate State authorities. The special condition read as follows:

- "3. At the time of admission to membership, such bank shall have a paid-up and unimpaired capital stock of not less than \$150,000 and other capital funds of not less than \$50,000."

The telegram also requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with nec-

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essary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank.

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, Washington 25, 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 'Arkansas Valley Bank', Pueblo, Colorado, became a member of the Federal Reserve System on September 16, 1950, 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:

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 Mr. W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of September 8, 1950, in which you advised that it appears ex-

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"pens for the year 1950 in the Provision of Personnel function at the New Orleans Branch will exceed the 1950 budget estimates in the amount of \$18,300.

"The Board accepts the revised figures as submitted and appropriate notations are being made in the Board's records."

Approved unanimously.

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

"Questions have been received as to whether instalment credit (1) for the construction of a detached garage on a lot already occupied by a house, or (2) for repairs or alterations to such a garage previously built, is subject to Regulation W.

"A garage so constructed would be in connection with an existing structure and would not be a structure 'designed exclusively for nonresidential use' within the meaning of Group D of the Supplement. However, the Board's view is that such a garage would be an 'other entire structure' within the meaning of the exemption in section 7(h)(1). Consequently, instalment credit for the construction of the garage would not be subject to the regulation.

"On the other hand, instalment credit for repairs or alterations to such a garage previously built would not be affected by section 7(h)(1) and, therefore, in the Board's view would be subject to the terms applicable in the case of a Group D article.

"Whether or not a garage is 'detached' must depend upon the facts and circumstances of the particular case. For example, the mere fact that a concrete sidewalk or fence may connect the house with the garage normally would not prevent the garage from being a detached garage and, therefore, an 'other entire structure' within the meaning of section 7(h)(1). A rigid structural connection, however, such as an enclosed passageway or breezeway would prevent the garage from being an 'other entire structure'."

Approved unanimously.

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

"A question has been received concerning the calculation of the maximum maturity in the case of an instalment sale of an article listed in Group D of the Supplement to Regulation W.

"Under section 6 (b) of the regulation the maximum maturity in the case of an instalment sale must be calculated from 'the actual date of the * * * delivery of the article sold'. However, where there is a bona fide delay in the completed delivery of a Group D article because of the time required for installation or construction, 'the actual date of the * * * delivery of the listed article sold' for the purposes of this provision is any date no later than the date of completion of installation or construction. It is to be noted that the foregoing does not apply with respect to the time for obtaining the down payment required for an article listed in Group D. Under section 3 (c) 'in the case of an article listed in Group D, the down payment shall be obtained at or before the time of beginning the agreed upon repairs, alterations, or improvements'."

Approved unanimously.

Letter dated September 18, 1950, to The Honorable, The Attorney General, Washington 25, D. C., reading as follows:

"On May 27, 1942 (WB:WHM:rh-146-17-012), your Department wrote to this Board that it was in accord with proposals regarding the enforcement of Regulation W (relating to Consumer Credit) which the Board had set forth in its letter of May 22, 1942, to your Department.

"After its expiration by virtue of Public Law 386, 80th Congress, approved August 8, 1947, Regulation W was reissued pursuant to the authority granted the Board by Public Law 905, 80th Congress, approved August 16, 1948.

"On September 2, 1948, the Board again wrote to your Department with respect to the enforcement

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"of Regulation W; and by letter of September 9, 1948 (AMC:MHH:rp-146-17-012), your Department indicated that the arrangements agreed upon in connection with the 1942 correspondence appeared to be generally appropriate as an enforcement procedure for the reissued regulation. By virtue of the limitation in Public Law 905, the regulation expired on June 30, 1949.

"Under section 601 of the Defense Production Act of 1950, approved September 8, 1950, Congress has again authorized the Board to regulate consumer credit. This authorization, together with the provisions of section 604 of that Act, is much the same as that contained in the 1948 legislation. Pursuant to such Act, the Board has adopted a new Regulation W similar in form to the previous one, and has filed it with the Federal Register, to become effective September 18, 1950.

"The arrangements previously made with respect to the enforcement of Regulation W would again seem to be generally appropriate as an enforcement procedure at the present time, and the Board would be glad to follow a similar procedure if it would be agreeable to your Department. There is enclosed a memorandum outlining the enforcement program which was in effect during the 1948-1949 period and which will provide a general basis for the program to be used in connection with the present regulation. It will be appreciated if you will advise us whether or not your Department would have any objection to such a procedure.

"As in the case of the previous regulations, we would, of course, be happy to make available as many copies as your Department might desire of Regulation W and the enforcement program worked out for the regulation. We would also appreciate it if you could supply us, as in the past, with copies of any current instructions from your Department to the United States Attorneys with respect to this matter, such as your circular letter of May 27, 1942, which requested that no proceedings should be instituted in cases involving violations of Regulation W without prior authority from your Department."

Approved unanimously.

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Letter to The Secretary of Defense, Washington 25, D. C.,
reading as follows:

"This refers to Assistant Secretary McNeil's letter of September 15, 1950, addressed to Chairman McCabe, setting forth the views of your Department regarding some of the more important aspects of the program of guaranteed loans to finance defense production provided for by the Defense Production Act of 1950 and the President's Executive Order No. 10161 of September 9, 1950. Since the receipt of Mr. McNeil's letter, the general outline of the proposed program was the subject of profitable discussion at a luncheon meeting at Mr. McNeil's office attended by representatives of the Departments of the Army, Navy and Air Force and of the Board of Governors.

"The Board is in complete agreement with the feeling of your Department that there must be uniformity in policy and, so far as practicable, in the procedures followed by the several guaranteeing agencies. While it may require some time to work out all the details of a permanent program, the Board is in accord with the suggestion made in Mr. McNeil's letter that a workable arrangement should be adopted immediately on an interim basis which will make it possible for the several guaranteeing agencies to provide guarantees necessary for the financing of defense production pending such time as a more permanent procedure may be developed.

"With this end in view, we would like to lay before you for your consideration the steps which would seem to us to be necessary to put such an interim program into effect. The program can be patterned generally upon the V-loan program which was in effect at the close of World War II and can include the adoption of (1) a revised Regulation V, (2) a form of guarantee agreement, (3) a schedule of rates and fees, (4) an operating procedure, and (5) a definition of authority to approve guarantees.

"With respect to the revision of Regulation V, it is felt that, as in the past, it should be phrased in broad and flexible language so that it will merely provide a basic outline, not only for the interim program, but also for the program as it may finally be developed.

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"A draft of such a revision of the regulation is enclosed.

"As to the form of guarantee agreement, it is believed that the form of 1944 V-Loan Guarantee Agreement which was in use at the close of the World War II program may well be utilized, with a few minor changes, in connection with the making of guarantees pursuant to the Defense Production Act of 1950, at least until further consideration may indicate the desirability of changes in that form. There is enclosed a printed copy of the form of 1944 V-Loan Guarantee Agreement with suggested modifications indicated.

"For the time being, the Board feels that a schedule of guarantee fees identical with that which was in effect at the close of World War II might be given consideration. This schedule is as follows:

<u>Per cent of loan guaranteed</u>	<u>Guarantee Fee</u> (Per cent of interest payable by borrower on guaranteed portion of loan)
80 or less	10
85	15
90	20
95	30
Over 95	50

"In cases in which a commitment fee is charged by the financing institution, it would seem desirable that any such fee should be shared with the guaranteeing agency. In other words, a financing institution imposing a commitment fee would pay to the guaranteeing agency a percentage of such fee, based on the guaranteed portion of the credit, equal to the same percentage of the interest payable on the loan which is required to be paid to the guarantor as a guarantee fee. However, it is suggested that any commitment fees which may be charged by financing institutions be limited to a maximum of 1/2 of 1 per cent per annum. It is also suggested that the rate of interest charged by financing institutions with respect to guaranteed loans be limited to a maximum of 5 per cent.

"It should be emphasized that the rates and fees would be established only for the purposes of the interim program and would be subject to change in the light of experience and further study.

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"In the handling of applications for guarantees, the determination of the relation of the contract to be financed to the necessities of national defense, the processing and approval of guarantees, and other procedural matters, it is suggested that the corresponding procedures which were followed during World War II be likewise followed, as nearly as may be practicable, during the period of the interim program. Thus, applications for guarantees would contain substantially the same information as was required by the form of application for guarantees of production loans which was in use during the previous V-loan program.

"Finally, it is essential that appropriate delegations and redelegations of authority be provided within each guaranteeing agency in order that designated officers of each agency may have clear authority to approve applications for guarantees and take such other actions as may be necessary in connection therewith. For this purpose, it is hoped that at the appropriate time you will be able to advise the Board, for transmission to the Federal Reserve Banks, of the names and specimen signatures of the officers within your agency who will possess such authority.

"As previously indicated, the program outlined in this letter is intended to be of an interim nature only; and it is our thought that procedures, forms, and policies of a more permanent nature can be considered at an early date after the interim program is put into effect.

"In order that prompt action may be taken in this matter, the Board will appreciate receiving, at your earliest convenience, your views and comments, on behalf of the Department of the Army, the Department of the Navy, and the Department of the Air Force, with respect to the various features of the interim program here proposed.

"We wish to assure you that the Federal Reserve System will cooperate with your agency and the other agencies involved to the fullest extent possible in the administration of this program."

Approved unanimously, with similar letters to the Secretary of Commerce, Secretary of Agriculture, Secretary of the Interior, and General Services Administrator, and the following

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letter to the Comptroller of the
Currency:

"As you know, under the Defense Production Act of 1950 and the President's Executive Order No. 10161 of September 9, 1950, certain designated 'guaranteeing agencies' of the Government are authorized to guarantee loans made by financing institutions for the purpose of financing contracts and other operations relating to the procurement of materials and performance of services for the national defense. The Federal Reserve Banks have been designated as fiscal agents of the United States to act on behalf of the guaranteeing agencies in making such guarantees and the Board of Governors of the Federal Reserve System has been authorized, after consulting the guaranteeing agencies, to prescribe regulations governing the operations of the Federal Reserve Banks as such agents, rates and fees to be charged with respect to guaranteed loans, and forms and procedures to be utilized in connection with the making of such guarantees.

"In order that the contemplated guaranteed loan program may be put into operation at the earliest practicable moment, the Board of Governors has suggested to the several guaranteeing agencies an outline of steps which might be taken to establish immediately an interim program pending such time as the details of a permanent program may be developed. Among such steps, the Board has suggested that, for the purposes of such an interim program, guarantees be executed on a form of guarantee agreement which, with a few minor changes, would be identical with the standard form of 1944 V-Loan Guarantee Agreement which was in use at the close of World War II in connection with the similar V-loan program for guaranteeing loans to finance war production contracts.

"It will be recalled that from time to time during the course of the V-loan program of World War II the Board of Governors submitted to your Office standard forms of guarantee agreements, with a request for an opinion as to whether such forms complied with the requirements of your definition of the term 'unconditional' as used in Exception 10 to section 5200 of the United States Revised Statutes relating to the loan limitations applicable to national banks. In a letter dated September 25, 1944, your Office expressed the

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"opinion that guarantees executed on the 1944 V-Loan Guarantee Agreement would come within the purview of Exception 10 to section 5200 of the Revised Statutes and the definition of the term 'unconditional' as used therein.

"There is enclosed a copy of the form of 1944 V-Loan Guarantee Agreement with suggested changes indicated thereon to make the form appropriate for use during the interim program of guaranteed loans under the Defense Production Act of 1950. We will appreciate an expression of your opinion as to whether this form as so modified would come within Exception 10 to section 5200 of the Revised Statutes and the definition of the term 'unconditional'.

"Since it is hoped that the interim program can be put into operation within a few days, it will be appreciated if this matter can be given prompt attention by your Office."

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

"As you know, under the Defense Production Act of 1950 and the President's Executive Order No. 10161 of September 9, 1950, certain designated 'guaranteeing agencies' of the Government are authorized to guarantee loans made by financing institutions for the purpose of financing contracts and other operations relating to the procurement of materials and performance of services for the national defense. The Federal Reserve Banks have been designated as fiscal agents of the United States to act on behalf of the guaranteeing agencies in making such guarantees and the Board of Governors of the Federal Reserve System has been authorized, after consulting the guaranteeing agencies to prescribe regulations governing the operations of the Federal Reserve Banks as such agents, rates and fees to be charged with respect to guaranteed loans, and forms and procedures to be utilized in connection with the making of such guarantees.

"The Board has received numerous inquiries with respect to the contemplated program of guaranteed loans and we understand that some of the guaranteeing agencies, as well as the Federal Reserve Banks, have

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"received similar inquiries.

"With the objective of putting the program into operation at the earliest practicable moment, the Board has addressed letters to the Secretary of Defense, the Secretary of Commerce, the Secretary of Agriculture and the Secretary of the Interior, and the Administrator of the General Services Administration, suggesting for their consideration certain steps which might be taken to provide for the immediate institution of an interim program which would enable the several guaranteeing agencies to provide guarantees necessary for the financing of defense production contracts, pending such time as the details of a more permanent program may be worked out. There is enclosed for your information a copy of the letter addressed by the Board to the Secretary of Defense, together with its enclosures. Similar letters were addressed to the other guaranteeing agencies.

"If your bank should have any comments with respect to any of the aspects of the proposed interim program, please let us have them by wire since it is our hope that the program may be put into effect within a few days. As indicated in the letter to the Secretary of Defense, it is the thought of the Board that consideration will be given to the various procedures, forms and policies which are to govern a permanent program at an early date after the interim program is put into effect."

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 September 18, 1950, enclosing a facsimile of enrolled bill S. 2822, an Act 'To amend the Federal Deposit Insurance Act' (U.S.C., Title 12, sec. 264).

"The Board is in agreement with the general objectives of this bill, but it opposes the provision which would authorize the Federal Deposit Insurance Corporation to make special examinations of State

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"member banks whenever in the judgment of the Board of Directors of the Federal Deposit Insurance Corporation such special examination is necessary to determine the condition of any such bank for insurance purposes. We feel that this change is wholly unnecessary and may ultimately lead to confusion and to increased overlapping and duplication in the examination and supervision of banks. As you know, a letter dated February 10, 1950, from the Director of the Bureau of the Budget to the Chairman of the Federal Deposit Insurance Corporation discussed this subject and reflected the views of the President on this matter. A copy of such letter is enclosed herewith.

"In view of the desirability of certain other provisions of the bill, the Board recommends that it be approved by the President in spite of this undesirable feature. In the circumstances, however, we suggest that consideration be given to the advisability of the President issuing a statement, at the time he approves the bill, to the effect that the examination power of the Federal Deposit Insurance Corporation referred to above should be used only in extraordinary situations involving an emergency relating to a particular bank. It is believed that such a statement might help to reduce misunderstandings and misconceptions regarding the provision."

Approved unanimously.

Memorandum dated September 19, 1950, from Mr. Vest, General Counsel, stating that he and Mr. Millard, Director of the Division of Examinations, recommended for the reasons stated in the memorandum, that the Board make no representation in the proceedings before the Federal Power Commission on September 22, 1950 or raise objection to the Commission's Order No. 152 issued in April of this year requiring competitive bidding with respect to loans made by banks to utility companies where the loans have

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maturities in excess of five years.

Approved unanimously.


Secretary.