

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 13, 1950. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Solomon, Assistant General Counsel
 Mr. Noyes, Assistant Administrator, Office of Real Estate Credit
 Mr. Shay, Assistant Counsel
 Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
 Mr. Pawley, Economist, Division of Research and Statistics
 Mr. Fauver, Administrative Assistant to the Chairman

Mr. Lewis, Assistant Vice President of the Federal Reserve Bank of St. Louis, who was assisting in connection with the administration of Regulation W, Consumer Credit, also was present.

There were presented telegrams to the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 10, by the Federal Reserve Banks of Cleveland and Richmond on

-2-

10/13/50

October 11, by the Federal Reserve Banks of St. Louis and Minneapolis on October 12, and by the Federal Reserve Banks of Chicago, Kansas City, and Dallas on October 13, 1950, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman McCabe stated that, in accordance with the understanding at the meeting yesterday, he talked with Mr. Keyserling, Chairman of the Council of Economic Advisers, last night and again this morning regarding the terms to be prescribed in the proposed amendment to Regulation W, Consumer Credit. It was Mr. Keyserling's opinion, the Chairman said, that it would be much better at this time to reduce maximum maturities to 15 months rather than to 18 months. One reason given for his position was that if a maturity of 18 months were prescribed the trade would regard the action as preliminary to a reduction to 15 months and there would be a rush to buy before the shorter maturity became effective, and that, therefore, it would be preferable to prescribe terms which, in the absence of further developments, could be expected to stand for some time. Chairman McCabe added that Mr. Keyserling also felt very strongly that fiscal and credit measures should be used to the fullest extent practicable in the present inflationary situation as a means of avoiding, if possible, the institution of price and wage and other direct controls.

Chairman McCabe then said that he was inclined to take the tightening of terms step by step but that he was coming to feel that

-3-

10/13/50

if the Regulation was to be fully effective it probably would be necessary to reduce the maturity at least to 15 months. If such a step was to become necessary he was inclined to think it best to take it at once in an effort to avoid direct controls. He made the further statement that he had not been able to contact Mr. Symington as was contemplated at the meeting yesterday.

Mr. Thurston stated that Mr. Evans called him on the telephone last evening from Atlantic City and expressed a preference that, if the Board was going to go to a 15 months maturity, the action be deferred until next week.

There ensued an extensive discussion of various possible sets of terms and effective dates during which Mr. Solomon stated that a minor technical amendment to the regulation with respect to section 6(a)(1) concerning seasonal income payments was also recommended by the staff in order to remove certain unnecessary restrictions on its use.

Following a further discussion, Mr. Norton moved that, effective October 16, 1950, the Board adopt an amendment to Regulation W, Consumer Credit, as follows:

"AMENDMENT NO. 1 TO REGULATION W

"Issued by the Board of Governors of the Federal Reserve System

"Regulation W is hereby amended in the following respects, effective October 16, 1950:

1. By changing '\$100' in part 1 of the Supplement to read '\$50'.

2. By changing '15 per cent' and '85 per cent' in Part 1, Group B of the Supplement to read, respectively,

'25 per cent' and '75 per cent'.

10/13/50

-4-

3. By changing '10 per cent' and '90 per cent' in Part 1, Group C of the Supplement to read, respectively, '15 per cent' and '85 per cent'.
4. By changing the maximum maturity stated in Part 2 of the Supplement for articles listed in Group A from '21 months' to '15 months'.
5. By changing the maximum maturity stated in Part 2 of the Supplement for articles listed in Group B, Group C and for Unclassified Instalment Loans, respectively, from '18 months' to '15 months'.
6. By changing the figure '24' to '18' in Part 3 of the Supplement.
7. By striking out that portion of section 6(a)(1) between the words 'flow of income' and '; or'."

There was a discussion of Mr. Norton's motion during which Chairman McCabe withdrew to make a telephone call to Mr. Keyserling of the Council of Economic Advisers, and in the course of the discussion Chairman McCabe called the members of the Board into his office for a private consultation.

Upon the return of the members of the Board to the Board Room, Chairman McCabe raised the question whether, if instalment credit terms prescribed under Regulation W were tightened in accordance with Mr. Norton's motion, it would be desirable to extend the coverage of the regulation to include charge accounts and single payment loans.

Mr. Lewis stated that he felt as he had stated at the meeting yesterday, that if a maturity as short as 15 months were adopted for automobiles, appliances, and furniture, it was probable that some competitive disadvantage would be created for the instalment credit seller, and that such members of the trade would feel charge accounts also should be regulated to remove that discrimination. He also said that

10/13/50

-5-

on the basis of earlier comments of representatives of labor organizations, it could be expected that they would feel that such terms for instalment credit would discriminate against the lower income groups and that as a matter of equity charge accounts and single payment loans also should be brought under the regulation. With reference to the timing of action, Mr. Lewis felt that while the present regulation covering instalment credit could be tightened effective October 16, it would not be practicable because of administrative reasons to make an announcement covering charge account credit or single payment loans before the latter part of next week and that, if it were decided to tighten instalment credit terms and include charge accounts, it would be preferable to make both changes at the same time, in which case he would suggest that an announcement be deferred until the latter part of next week, making both changes effective on Monday, October 23, 1950.

Mr. Kenneth B. Williams, Acting Assistant Director, Division of Research and Statistics, joined the meeting at this point.

In response to a question from Chairman McCabe, Mr. Williams stated that at a meeting with representatives of labor organizations in August in connection with the reinstatement of Regulation W, they had taken the general position that regulation of instalment credit discriminated against the lower income groups and that, if there were to be regulation of such credit, there should also be regulation of

10/13/50

-6-

charge accounts. It was Mr. Williams' opinion that their opposition to regulation of instalment credit as such was stronger than their feeling that charge accounts also should be regulated as a matter of equity.

In the ensuing discussion Chairman McCabe suggested that the staff be requested to make a further study of the economic effects and administrative problems of regulating charge accounts with the understanding that the matter would be considered again at a meeting next week. It was also suggested that a telegram be sent to the Presidents of all Federal Reserve Banks asking for their present views as to the desirability of extending the coverage of the regulation to include charge accounts and single payment loans.

This suggestion was approved unanimously.

Chairman McCabe went on to say that aside from the question whether charge account credit and single payment loans should be brought within the coverage of the regulation, he felt it would be desirable in view of all circumstances to tighten the terms of the present regulation covering instalment credit at this time.

Mr. Thurston stated that he had just received a telephone call from Mr. Vardaman who said that as a courtesy to Mr. Evans he felt action with respect to amending the regulation should be deferred until next Tuesday, October 17, when Mr. Evans would be present.

Chairman McCabe stated that inasmuch as Mr. Evans had been

10/13/50

-7-

present at the meeting yesterday afternoon and had made a recommendation for tightening of the regulation by reducing maturities to 18 months but had also stated that he would concur in a maturity of 15 months if the Board so decided, and in view of the fact that Mr. Vardaman previously had stated he would vote to approve whatever terms were recommended by Mr. Evans, he (Chairman McCabe) felt that it would be preferable to take action at this meeting. At the Chairman's suggestion, Mr. Thurston called Mr. Vardaman on the telephone to explain the position Mr. Evans had taken and to ask whether he (Mr. Vardaman) would wish to have a meeting this afternoon to consider the matter further. After talking with him, Mr. Thurston reported that Mr. Vardaman still felt that action should be deferred until next Tuesday when Mr. Evans could be present and that if the matter were voted upon today he would wish to be recorded as voting "no".

Thereupon, Mr. Norton's motion was put by the Chair and approved unanimously, with the request that Mr. Thurston advise Messrs. Evans and Vardaman of the action and state that it was taken with the understanding that Mr. Evans would concur and that if that was not the case the motion would not become effective and the matter would be reconsidered by the Board.

Chairman McCabe then referred to the discussion at the meeting of the executive committee of the Federal Open Market Committee on Wednesday, October 11, 1950, and to the understanding that a letter would be prepared which he, as Chairman of the Federal Open Market

10/13/50

-8-

Committee and of the Board could send to Secretary of the Treasury Snyder concerning policies of the Federal Open Market Committee and the Board of Governors with respect to the need for credit restriction. He then presented a draft of letter which had been prepared as follows:

"Two weeks ago Mr. Sproul and I discussed with you the problems of the Treasury and the Federal Reserve System in the fields of debt management and credit policy, as parts of the broader anti-inflationary policy and program of the Government. At that time, the Federal Open Market Committee was in session and we conveyed to you its thinking on open market operations, as well as the thinking of the Board of Governors on reserve requirements and selective controls. Your views, which you then expressed to us, were in turn conveyed to the Federal Open Market Committee, as was your suggestion that you would like a couple more days to think over the matters we had talked about.

"The Federal Open Market Committee, in response to our report of our conference with you, asked its Executive Committee to carry forward these discussions, and it was in response to this direction that Mr. Sproul and I again sought a conference with you before a meeting of the Executive Committee of the Federal Open Market Committee on October 5. In that conference, we told you of the unanimous view of the Federal Open Market Committee, and of the Board of Governors, that further action should be taken in the field of general credit control to put a brake upon the prevailing ease with which banks can obtain reserve funds for further credit expansion. You told us of your concern about the success of the forthcoming Savings Bond Campaign and of the discussions which have been started to put in motion voluntary action by the commercial banks to restrain credit expansion. At that meeting you also said that you would like to have an opportunity to talk with me again on the following Monday.

"You and I have since talked two or three times on the telephone and, in the light of these conversations and of our earlier conferences, a meeting of the Federal Open Market Committee was called for Wednesday, October 11. At that meeting your views, as they had developed in

-9-

10/13/50

"our talks, were given fully and frankly to the Committee. As you know, the Committee also expressed its willingness to have you present these views in person if you so desired. You decided, and I think properly, not to deviate from the established procedure which we have adopted for mutual consultation.

"After giving thoughtful consideration to your views, the Committee again canvassed the business and credit situation as developed by the reports and studies of its research staff and through the contacts of members of the Committee in various parts of the country. It seemed clear to the Committee that, despite some signs or prospects of moderate abatement of inflationary pressures which might be detected in certain fields, the underlying forces in our economy are still strongly inflationary and will be accelerated by increasing Government expenditures as the rearmament program really begins to bring its huge demands upon our economy, unless stern fiscal policies such as you have advocated and further credit restraints are adopted.

"The President announced the anti-inflationary policy of the Government when, in the Midyear Economic Report, he stated that:

'First of all, for the immediate situation, we should rely in major degree upon fiscal and credit measures. These general measures can be helpful not only in restraining inflationary pressures, but also in reducing the civilian demand for some specific products, such as automobiles and housing, thus making available for necessary military use a larger proportion of an already short supply of some critical materials. The more prompt and vigorous we are with these general measures, the less need there will be for all of the comprehensive direct controls which involve the consideration of thousands of individuals situations and thus involve infinitely greater administrative difficulties and much greater interference with individual choice and initiative.'

In the light of this policy and of the statutory responsibility of the Federal Open Market Committee, which provides that the time, character, and volume of open market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country, the Committee

-10-

10/13/50

"felt that it had no option but to proceed with the action we had advised you orally, two weeks ago, that it had in mind. Since the Treasury will have no re-funding operations until December, the present is an especially propitious time for the System to proceed with this somewhat more restrictive open market policy, even though the action results in a moderate increase in short-term rates. Any resultant increase in the costs of carrying the public debt will be directly saved, many times over, if it helps to curb the rising costs of Government procurement, and the benefits to the people of the country, of course, will be greatly multiplied.

"We realize that the action we are taking in our open market operations will need to be supplemented in order to exercise effective restraint on the mounting inflationary pressures that threaten the economy. Consequently, we are unanimous in the conviction that we can only meet our responsibilities by going ahead with the weapons at our command, including increases in reserve requirements, application of real estate credit controls, and tightening up of consumer credit regulations. We sincerely believe that the combination of these restraints on credit expansion will have a profound effect in the effort to hold the line until the heavier taxation promised for next year begins to bite into incomes.

"We can assure you that these actions will not affect the maintenance of the 2 1/2 per cent rate for the outstanding longest term Government bonds, and we are convinced that this further evidence of a resolute will to fight inflation and to protect the purchasing power of the dollar will promote, not discourage, the sale of E bonds. No one knows better than you that confidence in E bonds, as well as all other types of savings, is based on confidence in the purchasing power of the dollar.

"Although in this instance we have not been able to bring about a complete meeting of minds in our discussions with respect to System policy and debt management, we have both thoroughly considered all of the aspects of the difficult problems confronting us and we have earnestly sought to achieve that accord which I know you desire as much as we do in meeting our respective responsibilities. At your convenience we would like to sit down with you to explore further the problems for which we both seek solutions that are in the best interests of this country."

Approved unanimously with the
understanding that it would be sent
to the Secretary of the Treasury

10/13/50

-11-

when it had been approved by all members of the executive committee of the Federal Open Market Committee.

The meeting then recessed and reconvened at 4 p.m. with the same attendance as at the close of the morning session, except that Messrs. Evans and Vardaman were present.

Chairman McCabe stated that inasmuch as word was received from Mr. Evans after the morning session that he would feel forced to vote against the action taken at the morning session to reduce to 15 months the maximum maturity prescribed under Regulation W for automobiles, appliances, furniture, and unclassified loans, and in view of Mr. Vardaman's statement that he would concur in whatever recommendation Mr. Evans made, the meeting had been reconvened to consider the matter further. The Chairman then reviewed the discussion at the morning session and his conversations with Mr. Symington on October 5 and with Mr. Keyserling yesterday and today. He stated that although Mr. Symington had not been available when he tried to get in touch with him yesterday, he had strongly urged at a meeting on October 5 a very substantial tightening of terms under the Regulation, and that Mr. Keyserling stated over the telephone this morning that if it were left to him he would set terms of 1/3 down and 15 months maturity on automobiles and that he did not care particularly whether maturities for appliances and furniture were 15 or 18 months.

Mr. Evans stated that he had spent last evening and this

-12-

10/13/50

morning attending the Tri-State Convention of automobile dealers at Atlantic City, New Jersey, that the dealers felt strongly that the present terms of the Regulation were having an effect in reducing demand for automobiles, and that he had informed them that they could expect that the Regulation would be tightened although he did not say when or by how much. Mr. Evans added that, for reasons which he stated, he was still in favor of an 18 months maturity if the Regulation were to be amended at this time, inasmuch as he felt that the Board should have additional facts to show the present Regulation was not having sufficient effect before adopting more restrictive terms. He also stated that the automobile dealers with whom he discussed the matter felt that they had supported the Regulation and that he was somewhat concerned that there would be substantially less support for it if the terms were tightened too drastically at one time.

Mr. Vardaman said that he still thought it would be extremely ill-advised to reduce the maturity to 15 months at one step, especially unless the Board were to move simultaneously in other directions such as the inclusion of charge accounts and single payment loans.

Chairman McCabe responded that there had been an extensive discussion at the morning session of the possibility of including charge accounts and single payment loans, that it was felt there might be some competitive disadvantage if instalment credit terms were tightened severely and charge account credit not brought within the

10/13/50

-13-

scope of the regulation, and that he had suggested that the staff study the matter further with a view to ascertaining the economic effects and administrative problems of including charge accounts and obtaining the current views of the Federal Reserve Banks as to such a move and that it be considered by the Board at a meeting next week.

At the conclusion of the discussion, Mr. Norton renewed the motion made by him at the morning session.

This motion was put by the Chair and carried, Messrs. McCabe, Szymczak, Norton, and Powell voting "Aye" and Messrs. Evans and Vardaman voting "No" for the reasons previously expressed.

By the same votes, approval was then given to the following telegram to the Presidents of all Federal Reserve Banks and Managing Officers in charge of all Federal Reserve Bank Branches:

"The Board has today adopted Amendment No. 1 to Regulation W, effective October 16, 1950, and it will be appreciated if you will print and distribute copies to interested persons in your district.

"The press release which the Board is issuing for release in morning papers of October 14, 1950, and the text of the amendment, are as follows:

The Board of Governors announced today amendment No. 1 to Regulation W, effective Monday, October 16, reducing the maximum maturity on instalment credits from 21 to 15 months for automobiles and from 18 to 15 months for appliances and furniture.

The minimum down payment on automobiles remains at one-third; the down payments on appliances are increased from 15 per cent to 25 per cent and on furniture from 10 per cent to 15 per cent. The maximum maturity on home improvement credits remains at 30 months and the minimum down payment at 10 per cent. Down payments

10/13/50

-14-

"will now be required on all articles costing \$50 or more instead of \$100 or more.

The terms which will be required under Regulation W are as follows:

	<u>Down Payments</u>	<u>Maturities</u>
Automobiles	33-1/3% down	15 months
Television sets, radios and other major durables	25% down	15 months
Furniture	15% down	15 months
Home improvements	10% down	30 months
Unclassified loans		15 months

In commenting on today's revision of the Regulation,

Chairman McCabe said:

"The Board's action was based upon consideration of reports from Federal Reserve Banks and other sources in the field in all parts of the country which reflect continued upward pressures on prices in the five weeks since the reissuance of the Regulation was announced on September 8, 1950. While the intensity of these pressures on the market varies somewhat from time to time the fact remains that the underlying inflationary forces are unabated and have been augmented by the continuing growth of bank credit as well as credit in specific areas, including instalment credit. More vigorous application of regulation of instalment credit, coincident with the imposition of the real estate credit controls, is therefore in order so that these and other credit measures may most effectively serve in the effort to hold the line until further fiscal measures, as nearly as possible on a pay-as-you-go basis, and such additional credit measures as may be necessary can be brought into play. This is in accordance with the President's Mid-Year Economic Report of July 26 in which he stated that first reliance should be placed upon fiscal and credit measures and that this would make less necessary resort to direct controls. Likewise, the action is pursuant to the statement of August 18 in which the Reserve System declared its purpose to use all the means at its command to restrain further expansion of bank credit.

"Prospective pressures on productive capacity, manpower supplies, and the price structure arising out of expanded defense and military aid programs will be increasingly heavy. Today's action was taken in the light of the System's statutory responsibilities, both under the Federal Reserve Act and under the Defense Production Act,

10/13/50

-15-

"to reduce inflationary forces particularly in various credit areas; to help maintain the purchasing power of the dollar; and to assist other agencies in assuring that the needs of the defense program are adequately met."

"The text of the amendment is attached."

By the same votes, approval was also given to the following statement for publication in the Federal Register:

"Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operations of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof.

"Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation."

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 12, 1950, were approved unanimously.

Memorandum dated October 11, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Miss Gretchen L. Geigenmueller, a clerk-stenographer in that Division, from \$2,610 to \$2,810 per annum, effective October 15, 1950.

10/13/50

-16-

Approved unanimously.

Memorandum dated October 12, 1950, from Mr. Millard, Director of the Division of Examinations, recommending increases in the basic annual salaries of the following employees in that Division, effective October 15, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Caroline M. Clark	Stenographer	\$2,610	\$2,650
Betty J. Plaughter	Stenographer	2,450	2,650

Approved unanimously.

Memorandum dated October 12, 1950, from Mr. Millard, Director of the Division of Examinations, recommending that the temporary indefinite appointment of Mrs. Louise S. Anderson, stenographer, be extended on a permanent basis, and that her salary be increased from \$2,650 to \$2,875 per annum, all being effective October 15, 1950.

Approved unanimously.

Memorandum dated October 13, 1950, from Mr. Carpenter, Secretary of the Board, recommending increases in the basic annual salaries of the following employees in the Office of the Secretary, effective October 15, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Cora Lee Hatch	Records Clerk	\$3,275	\$3,355
Mary P. McShane	File Clerk	2,730	2,810
Mary Louise McIntosh	File Clerk	2,730	2,810

Approved unanimously.

10/13/50

-17-

Memorandum dated October 13, 1950, from Mr. Carpenter, Secretary of the Board, recommending increases in the basic annual salaries of the following employees in the Office of the Secretary, effective October 15, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Portia R. Agadjanian	File Clerk	\$2,810	\$2,970
Anne K. Leach	File Clerk	2,450	2,610
Elizabeth E. Van Wagner	File Clerk	2,450	2,610

Approved unanimously.

Letter to Mr. Lewis N. Dembitz, Board of Governors of the Federal Reserve System, Washington, D. C., reading as follows:

"Pursuant to a request from the U. S. Department of State, the Board has authorized you to proceed to London for a period of approximately two months, beginning October 14, 1950. During this time, you will serve as principal adviser on German debt problems with the U. S. delegation, headed by Ambassador Douglas, which will begin consultations with the British and French to discuss issues, including German economic problems, referred to them by the three Foreign Ministers.

"It is understood that the Board will continue to pay your salary during the period involved, but that the Department of State will bear all travel and other expenses connected with the loan of your services, upon the terms of travel regulations applicable to the personnel of that organization.

"It is requested that you retain the original of this letter, and that the file copy, after being initialed by you, be returned to the Board's files."

Approved unanimously.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

10/13/50

-18-

"Reference is made to your letters of October 5 and October 10, 1950, submitting recent market data and requesting the Board to approve an increase of approximately 8-1/3 per cent in the salary structure of the Federal Reserve Bank of Philadelphia and incident thereto to raise the salaries of four junior officers and to increase certain employees above the maximums of their salary grades.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades for the Federal Reserve Bank of Philadelphia, effective November 1, 1950:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1260	\$1680
2	1440	1960
3	1680	2280
4	1980	2680
5	2270	3060
6	2580	3520
7	2940	4020
8	3300	4500
9	3700	5000
10	4100	5500
11	4500	6100
12	5000	6800
13	5500	7500
14	6100	8200
15	6700	9100
16	7400	9900

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than December 31, 1950.

"The Board of Governors also approves the payment of salary to the following employees at the rates indicated; which in the case of Messrs. Mactague, Rodgers, and Frederickson are above the maximums of the grades in which their positions are classified.

<u>Name</u>	<u>Title</u>	<u>Salary</u>
William S. Magee	Medical Director	\$4333.00 *
Catherine Bellas	Waitress	1482.00 *
L. F. Lohmuller	Waitress	1482.00 *

-19-

10/13/50

<u>Name</u>	<u>Title</u>	<u>Salary</u>
Reba L. McLaughlin	Waitress	\$11482.00 *
Samuel G. Mactague	Batch Clerk	3256.11
G. C. Rodgers	Registered Mail Clerk	2780.28
A. H. Frederickson	Recordak Operator	2328.04

* Part-time basis

"The Board of Governors also approves the payment of salary to the following officers at the rates indicated, which, according to your letter of October 5, 1950, are the rates which were fixed by the directors, for the period November 1, 1950, through April 30, 1951:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Roy Hetherington	Assistant Cashier	\$7,500.00
Henry J. Nelson	Assistant Cashier	6,700.00
Edward A. Aff	Assistant Cashier	5,960.00
Ralph E. Haas	Assistant Cashier	5,960.00"

Approved unanimously.

Letter to Mr. Whittier, Federal Reserve Agent of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of October 5, 1950, the Board of Governors approves, effective November 1, 1950, the payment of salaries to the following members of the Federal Reserve Agent's Department at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
J. Frank Rehfuss	Assistant Federal Reserve Agent	\$8,000
Elwood J. Braker	Alternate Assistant Federal Reserve Agent	4,160
Glendon M. Burr	Alternate Assistant Federal Reserve Agent	5,542"

Approved unanimously.

Letter to Mr. Meyer, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of October 5, 1950, and to Mr. Chalfont's letter of October 2, 1950, requesting the Board of Governors to approve an increase

10/13/50

-20-

"of approximately seven per cent in the salary structure of the Federal Reserve Bank of Chicago and the Detroit Branch.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades for the Head Office and Detroit Branch of the Federal Reserve Bank of Chicago, effective November 1, 1950:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1620	\$2160
2	1800	2400
3	1980	2700
4	2220	3000
5	2460	3300
6	2760	3700
7	3100	4200
8	3400	4600
9	3800	5100
10	4200	5600
11	4600	6200
12	5100	6900
13	5700	7700
14	6300	8500
15	6900	9300
16	7500	10100

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than December 31, 1950."

Approved unanimously.

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

"There is enclosed, for your information and files, a copy of the report of examination of the Head Office of The Chase Bank, New York, New York, made as of August 15, 1950, by examiners for the Board of Governors and a copy of the letter transmitting the report to Mr. Winthrop W. Aldrich, Chairman of the Board

10/13/50

-21-

"of Directors of The Chase Bank."

Approved unanimously.

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

"This refers to your letter of July 7, 1950, with its enclosures, regarding the proposal made by the President and the Chairman of the Board of Directors of French American Banking Corporation that the Corporation be relieved from the restriction respecting the making of loans contained in section 3(f) of the Board's Regulation L and at the same time be permitted to retain as members of its board of directors persons who are directors of member banks.

"It is our understanding that the Corporation's proposal has been made because it wishes to be able to make call loans and loans to brokers and dealers in Government securities and acceptances so that it may obtain a higher rate of interest on such loans than it does on short-term Government securities and, at the same time, preserve its liquid condition. It is stated that such a higher level of earnings is necessary to the Corporation in order that it may be able to pay the same rates of interest on time accounts as are paid by its competitors on such accounts.

"The Board has given careful consideration to this matter and feels that it should not further relax the prohibitions of the law with respect to interlocking directorates by an amendment to its Regulation L which would permit directors of member banks to serve as directors of French American Banking Corporation and, at the same time, permit the Corporation to make domestic loans.

"As you know, Congress expressly authorized an exception to the prohibitions of the Clayton Act with respect to interlocking directorates between member banks and corporations engaged in international or foreign banking which have entered into agreements with the Board of Governors pursuant to section 25 of the Federal Reserve Act; and it may reasonably be supposed that it was not the intent of Congress to permit such exceptions in cases in which foreign banking corpora-

10/13/50

-22-

"tions are not restricted as to their operations and subject to certain supervision by the Board of Governors either pursuant to section 25(a) of the Federal Reserve Act or by reason of an agreement with the Board under section 25 of that Act.

"When the agreement under section 25 between French American Banking Corporation and the Board was cancelled, the Board, as you know, amended its Regulation L in 1948 for the purpose of permitting interlocking directorates between member banks and the Corporation; but, bearing in mind that foreign banking corporations organized under section 25(a) of the Federal Reserve Act are prohibited from carrying on any part of their business within the United States except as may be incidental to their international or foreign business, the Board felt that it was desirable to limit the exception granted by the amendment to cases in which the corporation 'does not receive deposits or make loans in the United States except as may be incidental to its international or foreign business.' In all the circumstances, the Board feels that it cannot properly approve a further amendment to Regulation L which would eliminate this restriction."

Approved unanimously.

Letter to Mr. J. J. McGuire, First State Bank, Webster City, Iowa, reading as follows:

"This refers to your letter of July 26, 1950, which was referred to the Board by the Comptroller of the Currency on September 1, 1950, regarding a cashier's check returned by the Federal Reserve Bank of Chicago because the national bank which issued the check wished to make an exchange charge when the check was presented for payment.

"Under section 13 of the Federal Reserve Act no exchange charge can lawfully be made against a Federal Reserve Bank; and the courts have interpreted this provision as meaning that a drawee bank is not entitled to make an exchange charge against a Federal Reserve Bank even though the Reserve Bank is not the owner of the check but only an agent for collection. Accordingly, a Federal Reserve Bank which receives a cashier's check for collection and which finds that the bank on which it is drawn will charge exchange upon payment of the check

-23-

10/13/50

"has no alternative but to return the check unpaid to its forwarding bank.

"Apart from the fact that a check on which the drawee bank charges exchange cannot lawfully be collected through the Federal Reserve Banks, there is no provision of Federal law which specifically prohibits any bank from imposing an exchange charge. However, as you are doubtless aware, section 528.63 of the Code of Iowa (1946) requires that checks drawn on any bank or trust company organized under the laws of the State of Iowa shall be cleared at par by the bank or trust company on which they are drawn; and this statute should, of course, be considered by you in deciding whether or not it would be legal for your bank to charge exchange on cashier's checks which are issued by it."

Approved unanimously.

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

"Board approves extension of expiration date to April 30, 1951 of existing credit arrangement by your Bank with the Commonwealth Bank of Australia under the same terms and conditions outlined in our wire to you of October 7, 1949. It is understood that the amount is not to exceed \$15,000,000 in the aggregate at any one time outstanding, against gold held under earmark in your Bank. It is further understood that if any such loan or loans be made, the usual participation will be offered to the other Federal Reserve Banks.

"The Board notes that in advising the Commonwealth Bank of the extension of the expiration date of this arrangement you propose to simultaneously point out that a request for further renewal beyond April 30, 1951, might not receive favorable consideration.

"State Department notified."

Approved unanimously.

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

"A loan to a doctor or dentist to purchase medical

10/13/50

-24-

"or dental equipment is a 'loan for business purposes to a business enterprise' within the meaning of section 7(b) of Regulation W if the doctor or dentist is engaged in performing services for various patients for individual fees. However, a doctor or dentist performing services only on a regular salary basis cannot be considered a 'business enterprise' under section 7(b)."

Approved unanimously.

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

"Question has been received concerning instalment loan of more than \$2500 but not in excess of \$5,000 obtained from a lender to pay off an obligation previously incurred for the purchase of an automobile.

"Unless the loan is reasonably separated from the previous obligation in the sense of being separated by a reasonable period of time and unrelated by any prearrangement, the loan would be subject to the regulation as one 'the proceeds of which are to be used to purchase' an automobile. However, if the loan can properly be treated as separate from the earlier transaction, the loan would be exempted under section 7(a).

"It is recognized that this may present some possibility of evasion but it seems preferable, at least for the present, as a comparatively simpler rule to follow than some others that might require complete tracing of original purposes of credits in this case and others. However, Board would be interested in evidence of evasion developing in this connection, particularly advertising directed at exploiting the rule, and it would appreciate being kept advised of any such developments in order that the matter might be reconsidered if that should seem to be desirable in the light of developments."

Approved unanimously.

Memorandum dated September 28, 1950, from Mr. Carpenter, Secretary of the Board, recommending that \$275 be added to the appropriate budget account of the Office of the Secretary to cover es-

-25-

10/13/50

estimated necessary expenditures for stationery and supplies during the last four months of 1950.

Approved unanimously.

Memorandum dated October 11, 1950, from Mr. Vest, General Counsel, recommending that the books and subscriptions item of the 1950 budget for the Legal Division be increased by \$500 to cover the increased cost of books and subscriptions required in order to maintain the Law Library.

Approved unanimously.


Secretary.