

Minutes of actions taken by the Board of Governors of the  
Federal Reserve System on Tuesday, October 31, 1950.

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

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

Minutes of actions taken by the Board of Governors of the  
Federal Reserve System on October 30, 1950, were approved unanimously.

Memorandum dated October 24, 1950, from Mr. Vest, General Counsel,  
recommending the resignation of John C. Baumann, Assistant General  
Counsel in the Legal Division, be accepted, with the understanding that  
he would leave the Board's organization not later than January 31, 1951,  
and that he subsequently would be carried on terminal leave until on  
or about May 1, 1951, when all of the annual leave accrued and accumulated  
to his credit will expire.

Approved unanimously.

Memorandum dated October 30, 1950, from Mr. Boothe, Assistant  
Director of the Division of Administrative Services, recommending  
increases in the basic annual salaries of the following employees in  
that Division, effective November 12, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Helen L. Sweeney	Clerk	\$2,955	\$3,035
Helen M. Capozio	Clerk	2,875	2,955
Edward D. Rogers	Messenger (Board Room)	2,850	2,930
Teresa F. Crowell	Charwoman	2,470	2,540
Blanche E. Peacock	Charwoman	2,470	2,540

10/31/50

-2-

Approved unanimously.

Memorandum dated October 30, 1950, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending that Raymond J. Martin, Operator, Duplicating Devices, in that Division, be granted leave of absence without pay beginning November 20, 1950, for the purpose of reporting for active duty with the United States Marine Corps Reserve, that he be granted the benefits outlined in the Board's policy, adopted August 1, 1950, for all employees called for military service, that he be granted eight-twelfths of one month's unearned salary, and that he receive a lump sum payment for any accumulated and accrued annual leave remaining to his credit at this time.

Approved unanimously.

Letter to Board of Directors, Peoples City Bank, McKeesport, Pennsylvania, reading as follows:

"The Board of Governors has been advised by the Federal Reserve Bank of Cleveland that the Peoples City Bank, McKeesport, Pennsylvania, proposes to assume the deposit liabilities of the Union National Bank at McKeesport, Pennsylvania, in accordance with a plan to be agreed upon by the two institutions.

"Under the provisions of Section 18(c) of the Federal Deposit Insurance Act, no insured bank shall assume liability to pay any deposits made in another insured bank if the capital stock or surplus of the assuming bank will be less than the aggregate capital stock or aggregate surplus, respectively, of all the parties to the assumption of liabilities, at the time of assumption of liabilities, unless the Board of Governors of the Federal Reserve System gives prior written consent if the assuming bank is to be a State member bank.

10/31/50

-3-

"The Board understands that the capital stock and surplus of the Peoples City Bank will be increased through the sale of 8,000 shares of additional stock (par \$25.00) of the Peoples City Bank at a price of \$100.00 per share which will result in an increase of \$800,000 to capital accounts of which \$200,000 will be credited to capital stock and \$600,000 to surplus, thus equaling the aggregate capital stock and exceeding the aggregate surplus of the two banks involved. However, it is also understood that the Union National Bank is to be placed in liquidation with the result that both the capital stock and surplus of the Peoples City Bank may be less than the aggregate capital stock and aggregate surplus of the two institutions at the time of the assumption of the deposit liabilities.

"In the circumstances, the Board of Governors of the Federal Reserve System hereby consents to the proposed transaction, provided prior approval of the appropriate State authorities is obtained and the additional capital funds will be obtained within approximately four months."

Approved unanimously.

Letter to Honorable Joseph H. Callahan, Sergeant at Arms, House of Representatives, Washington, D. C., reading as follows:

"This refers to our telephone conversation of October 13 and your letter of October 16, 1950, with its enclosures, regarding a case in which a draft drawn on your office by a Congressman in payment of income taxes was returned to the Collector of Internal Revenue by one of the Federal Reserve Banks on the ground that it could not be handled for collection by the Reserve Bank as a cash item.

"We have learned from the Federal Reserve Bank involved in this case that the return of this particular draft was the result of a mistake. Actually, while drafts on your office are not checks because they are not drawn on a bank, when such drafts are sent as cash items to the Federal Reserve Bank involved, they are handled by the Reserve Bank as cash items and are forwarded by it to the Federal Reserve Bank of Richmond which in turn sends them in a cash letter to a member bank in Washington for presentation to your office for payment.

10/31/50

-4-

"We have inquired of the other Federal Reserve Banks regarding this matter and it appears that a similar practice is followed by all of the Reserve Banks in the handling of such drafts.

"With respect to your proposal that the Board allow drafts on your office to bear a legend reading 'Clear at par through Federal Reserve to banks in Washington, D. C.', this Board has no authority to restrict or permit the use of such legends on checks and drafts. However, we believe that the use of the suggested legend is undesirable since it would have no legal effect and might be misleading. As requested by you, we are returning the form of draft enclosed with your letter.

"A copy of this letter is being sent to all of the Federal Reserve Banks for their information."

Approved unanimously.

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

"Question has arisen whether in election of directors of Federal Reserve Bank where there are only three candidates ballot is invalidated for not indicating first, second and third choices. After consideration in light of Board's ruling of December 5, 1947 (Loose Leaf 3111.1) Board feels that requirements of law are substantially met in such case if each voting member bank is required to indicate only first and second choices. Accordingly, in future elections where there are only three candidates ballot should not be invalidated for failure to indicate third choice but voting instructions should refer to law and state in appropriate language that member bank in indicating first and second choices will be deemed for purpose of statute to have indicated remaining candidate as its third choice."

Approved unanimously.

Letter to Mr. Lindsley H. Noble, Controller, Atomic Energy Commission, Room 352, 19th and Constitution Avenue, N. W., Washington 25, D. C., reading as follows:

10/31/50

-5-

"At the suggestion of Major S. J. Nesbitt, of the Office of the Chief of Finance, Department of the Army, I am enclosing for your information a letter from the Federal Reserve Bank of San Francisco dated October 21, 1950 together with a preliminary application filed by the Crocker First National Bank of San Francisco on behalf of the Durant Insulated Pipe Company, East Palo Alto, California for a Regulation V loan.

"The loan is for the purpose of financing the performance of Atomic Energy Commission Contract AT (29-1) 944. Major Nesbitt talked with Mr. Major of the Commission regarding this matter, and in view of the fact that inquiries from several of the Federal Reserve Banks disclose that a number of applications of this nature may be received in the near future, Mr. Major felt the matter should be brought to your attention.

"It will be appreciated if you will advise me if we should notify the Federal Reserve Banks to accept applications similar to the one enclosed and if the Commission contemplates taking any steps to enable it to guarantee loans of this type pursuant to Section 301 of Executive Order 10,161."

Approved unanimously.

Telegram for the signature of the Chairman to Honorable Wright Patman, Texarkana, Texas, reading as follows:

"Thank you for your telegram October 30 re consumer credit Regulation. All aspects of the Regulation were thoroughly explored with representatives of various industries before Regulation issued effective September 18, 1950. Board fully recognized trade representatives favored more moderate terms than were then prescribed and that many sellers, lenders, and buyers would not be in sympathy with original terms or recent amendment. After careful consideration of all facts and particularly inflationary situation Board concluded terms effective September 18 and as amended effective October 16 were necessary in public interest. Timing of amendment necessary to forestall forward buying and consequent additional inflationary pressures such as preceded original effective date.

10/31/50

-6-

"As you know, the Board always keeps an open mind on policy questions such as this. We are continually getting reports from the twelve Federal Reserve Banks and their twenty-four branches, and from manufacturing, trade, and financial sources to keep abreast of developments in the market situation. We are prepared to modify the provisions of Regulation W whenever the underlying economic conditions indicate the necessity for change.

"Elaboration of foregoing being sent you by mail."

Approved unanimously, with the understanding that similar replies would be made in other cases where applicable.

Letter to Mr. Warner, Manager, Credit Department, Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of October 19, 1950, enclosing a copy of a letter from the Cranford Trust Company, Cranford, New Jersey, concerning the application of the educational expense exemption in section 7(i) of Regulation W to an instalment loan for the purpose of purchasing musical instruments.

"Whether or not an instalment loan to finance the purchase of a musical instrument might properly qualify for exemption under section 7(i) is a matter which can be decided only upon the basis of the specific facts of a particular case. While there may be cases which would so qualify, the Board is of the view that the question as presented by the Cranford Trust Company does not supply a sufficient basis for exemption."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Thank you for your letter of October 19 with which you enclosed copies of an exchange of correspondence with the Wrought Iron Range Company, St. Louis.

10/31/50

-7-

"In conferences both before September 8 and October 13, trade groups seemed to prefer that amendments to Regulation W be made effective immediately or practically immediately after announcement. Questions relating to time required to notify a sales force, adjustment of 'terms' placards, and correction of advertising were discussed in those conferences.

"The Board, of course, regrets any operating inconveniences that result when Regulation W is amended and is interested in avoiding as many such inconveniences as possible. We are glad to get the information you submitted and will consider it when future amendments are under study."

Approved unanimously.

Letter to Mr. Thomas W. Rogers, Executive Vice President,  
American Finance Conference, Suite 1200, 176 West Adams Street,  
Chicago 3, Illinois, reading as follows:

"This will acknowledge receipt of your letter of October 16, 1950 on the subject of this Board's Regulation W relating to consumer credit. We thank you for your comments and views.

"As you can understand, in the administration of any such measure as Regulation W, which must by the use of general limitations apply to transactions on an individual basis, there are bound to be restrictions on particular individuals and particular businesses. We regret that this needs to be so and every effort has been made to keep any hardships at a minimum. Of course, a large proportion of new automobiles are sold for cash and the present limitations in Regulation W of 1/3 down payment and 15 months maximum maturity are far from being a prohibition of credit.

"An important objective of the Regulation is to dampen consumer demand for instalment credit, and if this measure, together with the other credit restriction actions taken recently by the Board, succeeds in stopping the present inflationary spiral, consumers and business including the automobile industry will benefit. When inflation gets out of hand it is



10/31/50

-8-

"particularly the low income consumer and the small businessman who are likely to be hurt most by the resulting high prices.

"You suggest that the sales financing industry 'be advised as to how much reduction the Board desires to bring about in automobile financing'. The Board has not considered that it is practicable to approach the problem of curbing inflation by setting specific goals relating to the volume of production or financing of the several articles, the instalment sale of which is subject to the regulation. The objectives are to prevent continued expansion in the volume of credit and to reduce the pressure of excess demand upon a limited supply. It should be clear that as the contemplated defense program progresses, the production of automobiles will have to be curtailed somewhat from the exceptionally high level that has prevailed during the past four months.

"There are a number of important measures now being directed at the inflationary spiral and Regulation W is but one of that group. The significant consideration it seems to us is the effectiveness of the entire group of measures in stopping the general inflationary spiral."

Approved unanimously, with the understanding that similar replies would be made in other cases where applicable.

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

"The Board of Governors has received Deputy Chairman Myers' letter of August 17, 1950, enclosing a copy of Mr. Sproul's letter of that date covering the review by officers of your Bank of the report of examination of the Bank made as of June 9, 1950, by the Board's examiners, and stating that the report and Mr. Sproul's letter were considered by the Auditing Committee and presented to the Board of Directors at their respective meetings on August 17.

"The Board is glad to have the expression of appreciation by your Board of Directors of the manner in which the examination was conducted.

"In connection with the examination, the examiner has informed the Board that the usual review of questionnaires submitted by employees disclosed that Mr.



10/31/50

-9-

"Henry J. Bailey, an employee of your Bank's Legal Department, reported as an outside activity his participation, without compensation, in political campaign work involving limited speaking engagements or other similar work. It is understood that Mr. Bailey was granted permission to engage in this activity on the basis of a conclusion that it did not appear to come within the scope of the Board's resolution of December 23, 1915, (FRLS #3090) regarding the holding of political or public office by directors or officers of Federal Reserve Banks or their acting as members of political party committees. The Board has taken the position that the principle involved in its resolution applies to Reserve Bank employees as well as to directors and officers. Although Mr. Bailey's activity apparently does not involve membership in a political party committee, it is felt that there is a possibility that such a situation might be interpreted as associating the Reserve Bank with a political party or political activity. The Board would like to have your views regarding this matter.

"With further reference to the review of employees' questionnaires, the Board has been informed also regarding the outside business activities of Mr. Lyon Boston of the Bank's Legal Department. In this connection it is noted that, in accordance with arrangements made for reimbursement of applicable salary, Mr. Boston reported that in the year 1949 he devoted to his outside legal work 53 hours of his time which would normally have been devoted to the affairs of the Bank and that 21 hours were similarly devoted in 1950 up to the date of the examination. The Board would like to have your views with respect to the indicated extent of Mr. Boston's current outside activities, considered in the light of the general policy against such activities on the part of officers and employees occupying responsible positions in the Reserve Banks."

Approved unanimously.

  
Secretary.