Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, December 1, 1950. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Vardaman
Mr. Norton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser to the Board
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Assistant Administrator, Office of Real Estate Credit
Mr. Schmidt, Acting Chief, Business Finance and Capital Markets Section, Division of Research and Statistics

Mr. Phelan, Vice President of the Federal Reserve Bank of New York, who was temporarily assisting the Board in connection with the organization of its work on selective credit controls, was also present.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 28, by the Federal Reserve Banks of Atlanta and St. Louis on November 29, by the Federal Reserve Banks of New York and Chicago on November 30, by the Federal Reserve Bank of Kansas City on December 1, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Before this meeting there had been distributed among the members of the Board a memorandum from Mr. Young dated November 20, 1950, with respect to the potentialities of restricting the flow of capital funds through a "capital issues committee" such as was operated during World War I. Mr. Szymczak commented that that memorandum emphasized the desirability of early determination of the program of further steps that should be taken to implement the general policy agreed upon unanimously by the Board of Governors and the Federal Open Market Committee on August 18, 1950. He then read a memorandum which he had prepared under date of December 1, 1950, in which he discussed the actions that had been taken and that might be taken in this direction and in which he came to the conclusion that as soon as the December and January refunding was completed the Board should increase member bank reserve requirements and take other actions outlined in the memorandum. A copy of this memorandum has been placed in the files.

After reading the memorandum, Mr. Szymczak stated that he would recommend that the study of the question of a capital issues committee be continued by a committee of three Board members to be appointed by the Chairman.

> Following a discussion, upon motion by Mr. Szymczak, it was unanimously understood that Chairman McCabe would appoint a committee of three members of the Board to make a study along the lines suggested.

Mr. Szymczak stated that he was continuing to study the question of margin requirements, that customers' debit balances had increased from somewhat less than $800 million a year ago to over $1,350 million at present, and that while the amount of such credit was small compared with consumer credit or housing credit the increase was a part of the over-all expansion of bank credit. He felt that an increase in margin requirements was related to an increase in reserve requirements of member banks, that the growth thus far in loans for purchasing and carrying securities was not such as to require action apart from action to increase reserve requirements, but that an increase in margin requirements should be a part of an over-all program of restricting bank credit expansion.

Mr. Schmidt withdrew from the meeting at this point and Kenneth B. Williams, Acting Assistant Director, Division of Research and Statistics, entered the room.

Pursuant to the discussion at the meeting on November 28, 1950, there was presented a revised draft of reply to the memorandum from the President dated October 5, 1950, asking for (a) the Board's suggestions on materials to be included in the President's State of the Union message and the Economic Report, and (b) a report on legislation of interest to the Federal Reserve System. The draft of letter to the President and two accompanying memoranda on Restrictive Credit and Monetary Actions Taken by the Federal Reserve System since Korea, and Role of Fiscal, Credit, and Monetary Measures in the Present Emergency, were read and changed.

Reference was also made to a draft of letter to Frederick J. Lawton, Director, Bureau of the Budget, on legislation of interest to the Federal Reserve System.

During the discussion of the draft Mr. Vardaman withdrew from the meeting to keep another appointment.

At the conclusion of the discussion, unanimous approval was given to a letter prepared for the Chairman's signature to the President as follows:

"The Board appreciates the opportunity to suggest, in response to your memorandum of October 5, subjects for possible inclusion in your State of the Union Message and Economic Report.

"In view of the rapidly changing character of the national defense emergency and the threat that international crisis may at any time force a total mobilization, it is highly important that both your Message and Report focus on the basic economic problems which this country is obliged to face. It seems to us that there are three such paramount problems. Only the degree of their urgency will be affected by whether or not full mobilization becomes necessary. These problems are:

1. The need to divert manpower and industrial resources to whatever extent necessary from civilian purposes to provide over-all defense needs. This diver-

"sion cannot be achieved without a narrower choice of goods in the market than the public has enjoyed in the recent past and some hardships on the workers, farmers, and businessmen directly and indirectly affected. If full mobilization becomes necessary, living standards will have to be reduced substantially and all citizens will be called upon to make heavy sacrifices and to accept increased Governmental direction affecting their activities.

2. The need to expand further industrial capacity and total production, as well as to use manpower more effectively in order to meet our defense needs and maintain the underlying economic strength upon which national security ultimately rests. Over the short run, potentialities for further expansion are generally limited, since over-all production and employment are already close to capacity and supplies of some basic materials, particularly metals, even now are inadequate to meet civilian and military demands. Because present resources are being utilized so fully, particularly where defense needs are greatest, it is highly essential that every effort be made to increase productivity and to lower costs in order that the purchasing power of our military appropriations can be maintained and that rising prices in the domestic economy can be checked. Emphasis should be placed on conservation of scarce skills, modernization of production techniques, and development of substitutes for imported strategic commodities and for scarce domestic materials. To the extent that shortage of manpower becomes a bottleneck on essential production, present policies with respect to maximum hours of work at which overtime pay begins during the emergency may require review.

3. The need to prevent inflation in order to sustain confidence in the value of the dollar and in the value of money savings. It is as imperative to maintain our financial strength as it is to enlarge our productive and military strength. Without one, we cannot have the other. Inflation is becoming as deadly an enemy as would be the armed forces of a foreign aggressor.

"The Federal Reserve is charged with primary responsibility for national monetary and credit policies that will help to counteract, so far as possible within the scope of its authority, the development of inflationary pressures and threats to the value of the dollar. The scale and duration of inflationary pressures from credit "and monetary sources in the period ahead will depend largely on military developments, as well as on self-restraint in spending on the part of businesses, individuals, and governments.

"In the strongly inflationary situation since the outbreak of hostilities in Korea the Federal Reserve has been given increased powers in the credit field and has exercised these powers, together with its other authority, to curb credit and monetary expansion and thus to contribute to the struggle against inflation. The System's actions in recent months have moderated the growth of inflationary pressures. A memorandum summarizing the actions taken by the System is attached. It would be helpful if you would indicate general concurrence with this anti-inflationary program.

"In spite of these restraining actions, credit and monetary expansion as a result of private and municipal borrowing is still contributing to inflationary pressures. The Board is deeply concerned about this continuing credit expansion. The System's ability to apply additional restraints is limited by the policy of keeping the Government securities market orderly, of supporting the refinancing of maturing Government issues, and of maintaining the existing 2-1/2 per cent rate on outstanding long-term Government bonds. As long as this policy prevails, the System should be given broader powers over bank reserves with which to combat further inflationary credit developments. At an appropriate time the Board will submit a program for increased powers over the reserves of the banking system. In your Economic Report of January 1949 you stated:

> 'On previous occasions I have recommended that adequate means be provided in order that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures.'

"Events have now made it clear that the authorities provided in the Defense Production Act of 1950 will be required for a longer period than the statutory expiration dates. Accordingly, the Board recommends an extension of this Act. The Board also recommends "that the particular authority in the Act to regulate credit extended in connection with new construction be widened to include similar powers to regulate credit in connection with existing housing and other real property.

"A memorandum is attached setting forth the Board's general viewpoint respecting the role of fiscal, credit, and monetary measures in the present emergency. In the event that full mobilization becomes necessary, the Board may wish to make recommendations for further legislation in order that the economy's savings and credit resources may be made fully available for the support of war finance."

"Restrictive Credit and Monetary Actions taken by the Federal Reserve System since Korea

"Since the outbreak of hostilities in Korea the Federal Reserve has been given increased powers in the monetary and credit fields and has exercised these powers together with other authority to place curbs on credit expansion. In August, the Federal Reserve Board and the Federal Open Market Committee inaugurated a positive program of restraint on further credit and monetary expansion. In view of this decision and the additional authority provided under the Defense Production Act of 1950, the following actions have been taken:

(1) Early in August, the Board of Governors joined with other Federal and State bank supervisory agencies, including the Home Loan Bank Board, in a statement requesting the voluntary cooperation of banks and other lenders in restricting their lending and investment activities.

(2) In August, discount rates were raised from 1-1/2 to 1-3/4 per cent at all Federal Reserve Banks in order to discourage borrowing by member banks of additional reserves to support further credit expansion.

(3) Since that time, open market operations have been conducted with the particular aim of making the holding of short-term United States Government securities more attractive to investors and discouraging sales of such securities to the Federal Reserve System, including sales by banks to obtain funds for extending other types of credit.

(4) Effective September 18, under authority of the Defense Production Act, the Board of Governors again placed consumer instalment credit under regulation.

"(5) Effective October 12, the Board of Governors with the concurrence of the Housing and Home Finance Administrator, placed under regulation credit not extended, insured, or guaranteed by the Federal Government for constructing, purchasing, and financing new houses or major improvements or additions to existing houses. At the same time, the Federal Housing Administration and the Veterans Administration issued new regulations designed to produce a similar tightening of credit with respect to new and used houses under Federal programs.

(6) Effective October 16, the Board stiffened the regulatory limits on consumer instalment credit by increasing the minimum down payments and reducing the maximum maturities on certain instalment credits, and by lowering the price below which down payments are not required.

(7) On November 17, the Board addressed a letter to all member banks requesting them to screen their loans carefully and to discourage the types of loans that do not make a definite contribution to the defense effort.

"These actions by the Federal Reserve have been in line with the basic policy stated in your Midyear Economic Report:

'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 individual situations and thus involve infinitely greater administrative difficulties and much greater interference with individual choice and initiative.'"

"<u>Role of Fiscal, Credit, and Monetary Measures in the present emergency</u>.

"The Board strongly endorses a program of fiscal, credit, and monetary measures as the main anti-inflation reliance. The Board feels that only by this "approach can our country preserve the significant characteristics of its economic system, namely, individual freedom of opportunity and choice in work, in spending, and in investing.

"The core of individual opportunity and freedom of choice lies in the price mechanism--the changes in market prices which help to channel consumption or investment into one field and away from another and direct purchases toward some products and suppliers and away from others. Price movements do this impersonally and for the most part efficiently. Control systems tend to break down and to distribute resources inefficiently, especially if controls continue for a long time or if the public loses confidence in their equitable administration or enforcement. Moreover, extensive direct controls cannot solve the basic problem of inflation unless they are backed up by adequate fiscal and monetary policies which serve to sterilize or absorb the excess purchasing power created by defense spending.

"The inflation problem that confronts a national defense emergency of indefinite duration has its source in the fact that those engaged in expanding our industrial capacity, those engaged in producing for defense, and those in the armed forces are paid for their services and equipment without there being possible an enlarged supply of consumers goods and services to match the higher income. This creates a gap between current income and the supply of things to buy at prevailing prices. Under these circumstances, as businesses and individuals generally attempt to spend the larger income they bid up prices against each other.

"At any time, because of the public's huge holdings of liquid assets and because of the great elasticity of our credit supply, this disparity between buying power and goods may be widened by an increased use of liquid assets and credit to augment buying out of current income. This is what happened on a considerable scale this summer as businesses and consumers rushed to protect themselves against future price advances or against disappearance of goods from the market.

"If the attack on inflationary pressures is to be effective, it must be focused on reducing this gap between buying power and supplies of civilian goods and services. The first line of attack is through a fiscal

12/1/50

"policy that will restrain private spending, curb less essential private investment, and limit public outlays wherever possible. Tax policy should aim at a 'pay as we go' objective. On the basis of present and contemplated military programs, this will require a substantial increase in taxes. For greatest anti-inflationary effects, the taxes to be increased are those that curb purchasing power throughout the economy, particularly for those goods that are in short supply.

"Government policy to encourage savings is another powerful force that can be brought to bear in combating inflation. Policy which discourages the expansion of private and State and local government debt and encourages the repayment of such debt is in the right direction. Federal debt management policy, including the aggressive selling of saving bonds, should be aimed at absorbing real savings and funds that otherwise would be spent for consumption or used for less essential investment. In so far as the Government finds it necessary to refinance its outstanding issues, or to finance its rapidly expanding defense expenditures through borrowing, such borrowing should be as largely as possible from individual and corporate investors and as little as possible from the banking system. The latter is highly inflationary because it creates new deposits and thus adds to the country's money supply. The liquidity position of the banks is greatly affected by the types of Government securities which are offered, and adequate consideration should be given to this factor in determining the securities to be issued.

"Effective fiscal policy and programs to encourage savings are closely related to restrictive credit and monetary policy which also attacks inflationary pressures at their source. It accomplishes little in the fight against inflation, if dollars taxed out of the public's pocketbook or held as savings are replaced by credit dollars. Moreover, it stores up trouble for the future.

"Under present circumstances, restrictive credit and monetary policy is complicated by the large volume of public debt outstanding, which not only presents difficult debt management problems for the Government but also gives ready access to funds for individuals, businesses, and financial institutions by liquidation of Government securities. Similarly banks are able to

12/1/50

"obtain reserves on which they can pyramid credit expansion. The principal means available for restraint on credit expansion are as follows:

Selective credit instruments.--Some types of credit can be restrained by imposing conditions as to the terms on which credit is advanced. Outstanding examples are maturity and down payment requirements on consumer instalment credit and on mortgage loans, and margin requirements on security loans. These selective instruments, while of secondary importance, are effective in their respective spheres of operation.

Selective credit measures are not generally suitable to other types of credit, such as loans to farmers, working capital loans to business, or some loans to finance expansion of industrial plant and equipment. Expansion of these credits, as well as those subject to selective regulation, can be restrained to some extent through voluntary cooperation of lending institutions and increased efforts should be made along these lines. The most effective means of their restraint, however, are general credit instruments which would limit bank reserves.

General credit instruments.--General instruments of credit policy include open market operations, discount rates, and changes in member bank reserve requirements. Although these are interrelated methods of monetary influence, they have tended in recent years to be regarded as separate and alternative instruments. As a result, considerable misunderstanding has developed about the way in which they function together in restraining bank credit expansion.

"Under present conditions, the major source of funds for credit extension is the sale by private investors and financial institutions of Government securities in the market. Sales of such securities, if purchased in the open market by the Federal Reserve System, create bank reserves which can be used for multiple expansion of bank credit. The Federal Reserve can restrict the availability of bank reserves by restrictive open-market operations within the limits permitted by the necessity of maintaining orderly conditions in the Government securities market, of supporting the refinancing of maturing Government issues, and of maintaining the existing 2-1/2 per cent rate on outstanding long-term Government bonds. Such a "policy can be effective only if accompanied by flexibility of short-term money rates and Reserve System discount rates. Flexible money rates in turn are necessary as an anti-inflation restraint to make the holding of short-term Government securities more attractive to investors--bank and nonbank, to impose a penalty on those investors who would shift out of them to finance inflationary lending or spending, and to encourage bank investors to rediscount with the Federal Reserve Banks in place of selling short-term Government securities. Such rediscounting, which puts banks into debt, makes banks reluctant to extend new loans until the indebtedness is paid off.

"Changes in discount rates on member bank borrowing are thus an important supplementary instrument of monetary policy. In addition, such changes have a considerable psychological influence because they reflect to the financial markets the Reserve System's judgment of the over-all credit situation. For greatest effectiveness in curbing bank credit expansion, changes in discount rates need to be related closely to open market operations.

"An increase in reserve requirements is a complementary means of restraining excessive bank credit expansion. It may be used when the joint mechanism of open-market operations and discount rates, for reasons of debt management policy, need to be supplemented in order to apply additional restraint.

"In summary, a vigorous fiscal program, a policy to increase savings and to lodge Federal debt as far as possible with nonbank investors, greater emphasis on voluntary restraint by lenders and borrowers, and a restrictive monetary program would go far to meet the inflation problem and make less necessary the adoption of extensive direct price, wage, and rationing measures if the military situation remains one of partial war. If full mobilization is required and a comprehensive program of direct controls is adopted, it will still be necessary to follow a vigorous policy of indirect controls in order to back-stop the direct measures."

Unanimous approval was also given to a letter to Frederick J. Lawton, Director, Bureau of the Budget, as follows:

"This is in response to that portion of the President's memorandum of October 5, 1950, requesting that the Board of Governors submit through your office a report on the legislative program of the Federal Reserve System. There are listed below various legislative proposals which the Board has under consideration.

"Bank reserve requirements. - The subject of bank reserve requirements has been under study by the Board for some time. The Board is continuing its study of this problem, and in view of the policy of the Government that every effort be made by means of indirect controls to prevent further inflationary developments, the Board, at an appropriate time, will submit to Congress a program for increased powers over the reserves of the banking system.

"Consumer and real estate credit. - The Board's temporary authority under the Defense Production Act of 1950 and Executive Order No. 10161 to regulate consumer credit and real estate credit will expire on June 30, 1951. The Board will recommend that such authority be continued and that it be widened to include similar powers to regulate credit in connection with existing housing and other real property.

"Bank holding company regulation. - Legislation to provide more effective regulation of bank holding companies and to curb abuses in that field has heretofore been recommended by the Board. A bill (S. 829) for this purpose was favorably reported during the 80th Congress by the Senate Banking and Currency Committee. Bills having similar objectives (S. 2318 and H. R. 5744) were introduced in the 81st Congress; and hearings on these bills, as well as a proposed substitute bill (S. 3547), were held before the Senate Banking and Currency Committee in the Spring of 1950.

"Capital requirements of State member banks of the Federal Reserve System. - From time to time in the past, the Board has called to the attention of Congress the fact that certain statutory capital requirements for the admission of State banks to membership in the Federal Reserve System and for the establishment of out-of-town branches by State member banks have operated as substantial and unnecessary obstacles to membership in the System. The Board has recommended that these requirements be eliminated or substantially modified and bills to accomplish this purpose were introduced in the 81st Congress as S. 2494 and H. R. 5749.

"Limitation on cost of Federal Reserve branch buildings. - There is serious need at many of the branches of the Federal Reserve Banks for larger or improved quarters in order to enable them to carry on effectively their functions under the law and this need is likely to be accentuated by reason of increased volume and activities due to the Defense Program. However, present law limits the aggregate amount of expenditures for Federal Reserve branch bank building to $10 million (with certain exclusions); this amount has been substantially exhausted; and the needs of the branches cannot be adequately met within the statutory limitation. Early in the 81st Congress, the Board recommended a bill (S. 3105 and H. R. 7895) to increase the maximum authorized by the statute and that bill, with an amendment, passed the Senate in April 1950 and was reported favorably by the House Banking and Currency Committee in July. The Board may wish to consider renewing its proposal for such legislation when it appears to be justified by economic conditions.

"Paying out Federal Reserve Notes by Federal Reserve Banks. - Section 16 of the Federal Reserve Act prohibits a Federal Reserve Bank from paying out Federal Reserve notes issued by another Federal Reserve Bank. Experience over the years has conclusively shown that this requirement serves no useful purpose and entails considerable expense. The cost of sorting fit Federal Reserve notes and of shipping such notes to the banks of issue is presently about $500,000 a year. For the purpose of eliminating this expense and saving manpower, the Board may wish to recommend repeal of this requirement of the law.

"There may be other matters with respect to which the Board may later find it desirable to recommend legislative action during the 82nd Congress. For the present, however, the subjects mentioned in this letter embrace the principal matters in the field of possible legislative action to which the Board is giving consideration."

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 November 30, 1950, were approved unanimously.

Memorandum dated November 27, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that the temporary appointment of Duncan Holthausen, a consultant in that Division, be extended for a period not to exceed December 31, 1950, with no change in his fee of $40.00 for each day of service for the Board and with no change in his transportation allowance or in the per diem allowance of $9.00 in lieu of subsistence for each day away from home.

Approved unanimously.

Memorandum dated November 30, 1950, from Mr. Marget, Director of the Division of International Finance, recommending the appointment of Gail Milton Hartmann as Research Assistant in that Division, with basic salary at the rate of $3,475 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

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

"Many thanks for your letter of November 21, 1950, with respect to the temporary loan of Mr. Phelan's services as a member of the Board's staff.

"The Board appreciates very much the reasons for the desire of your Bank to limit the period of Mr. Phelan's assignment to three months and, because of the inconvenience to you that will result from his absence, we will do everything we can to shorten the period during which his services will be required. However, it is quite probable that the job we have in mind for him to do will require a somewhat longer period and the Board trusts that if that turns out to be the case you will be willing to extend the arrangement for a further period, during which his plans for his annual vacation can be carried out."

Approved unanimously.

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of November 15, 1950, requesting the Board of Governors to approve an increase in the salary structure of the Federal Reserve Bank of Cleveland.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades of the Federal Reserve Bank of Cleveland, including the Branches, effective December 1, 1950:

Grade	Minimum Salary	Maximum Salary
1	$1560	$2100
2	1680	2280
3	1860	2520
4	2040	2760
5	2220	3000
6	2460	3300
7	2700	3660
8	3000	4100
9	3300	4500
10	3700	5000
11	4100	5500
12	4500	6100
13	5000	6800
14	5600	7600
15	6300	8600
16	7200	9600

"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 understood, from your subsequent conversation with Mr. Hilkert, that all employees whose salaries are below the minimums 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 May 1, 1951; with specific approval being requested from the Board of Governors in any cases where additional time will be needed for adjustments to the minimums."

Approved unanimously.

Letter to Mr. Wilbur, Chairman and Federal Reserve Agent of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in Mr. Mangels' letter of November 28, 1950, the Board of Governors approves, effective January 1, 1951, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

Name	Title	Annual Salary
	Head Office	
P. M. Stone	Assistant Federal Reserve Agent	$4,980
F. R. Claxton	Alternate Assistant Federal Reserve Agent	5,280
	Los Angeles Branch	
L. H. Steffer	Federal Reserve Agent's Representative	6,000
	Salt Lake City Branch	
J. B. Anderson	Federal Reserve Agent's Representative"	5,880

Approved unanimously.

Letter to the Board of Directors of the "Bank of Pontiac", Pontiac, Illinois, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, and the following special condition, the Board approves the Bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

3. Prior to admission to membership such bank shall increase its paid-in and unimpaired capital stock to $100,000 through the sale of $40,000 of new common stock at not less than par.

Approved unanimously together with a letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Pontiac', Pontiac, Illinois, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Auditor of Public Accounts for the State of Illinois for his information.

"It is noted that, under its statutory authority to exercise fiduciary powers, the bank has under administration several appointments, confined principally to guardian and conservator accounts accepted as an accommodation to the U. S. Veterans Bureau and to instances wherein the administrative requirements are quite limited in nature. It is further understood that it is not the present desire or plan of the management of the bank to actively solicit or develop trust business and that fiduciary activities in the future will be limited, generally, to the acceptance of accounts similar in type to those now under administration.

"However, in recognition of the responsibilities and liabilities involved in fiduciary account administration and the requirement for the directors to give "close and qualified attention to the activities therein involved, the directors should adopt such formal measures as will insure a satisfactory supervision and discharge of fiduciary undertakings.

"It is requested, therefore, that you bring this matter to the attention of the directors of the bank to the end that a more active and effective supervision of its fiduciary activities may result.

"With respect to savings deposits, it is noted that the bank's passbooks refer to by-laws which stipulate that thirty days' notice may be required before their withdrawal. Your attention is called to the Board's letter of April 3, 1945 (S-841-a; F.R.L.S. #6420), wherein it was indicated that a passbook provision merely referring to a statute relating to withdrawal of savings deposits does not adequately inform depositors as to the notice which may be required by the bank before any withdrawal may be made. It would seem that reference to provisions in the bank's by-laws would be less adequate and the bank should be requested to make appropriate changes in its passbooks when it may conveniently do so."

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

"Reference is made to your letter of November 20, 1950, in which you advised that it appears expenses for certain functions at your Bank will exceed the 1950 budget estimates as follows:

Functions	Amount
Consumer Credit	$16,500
Real Estate Credit	11,000
Currency and coin	31,000

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

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of November 22, 1950, in which you advised that estimated expenses for 1950 for Real Estate Credit, a previously unbudgeted function, will be incurred at your head office and branches as follows:

Office	Amount
Richmond	$7,441
Baltimore	1,211
Charlotte	1,090

"The Board accepts these estimated expenses 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:

"Board's telegram of September 26 regarding V-loan program requested that one copy of each application for guarantee should be forwarded immediately to Board for transmittal to guaranteeing agency. Air Force has advised us that its processing of guarantees will be greatly facilitated if it could receive two copies of the preliminary application and attached schedule of contracts. Accordingly, it will be appreciated if your bank will obtain five instead of four copies of the application for guarantee and schedule of contracts where Department of Air Force is guaranteeing agency and immediately forward two copies to Board for transmittal to Air Force."

Approved unanimously.

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

"Conference on V-loan program is being planned for Monday, December 11 at 9:30 a.m. in order to afford representatives of Federal Reserve Banks opportunity to raise with guaranteeing agencies questions which have arisen in connection with program. Contemplated that meeting will last only one day.

"Suggest it desirable that operating officer in charge of program at your Bank attend meeting and will appreciate advice by wire as to who will attend from your Bank and whether it is desired that hotel reservations be made."

Approved unanimously.

Letter for the signature of the Chairman to Honorable Hugh B. Mitchell, House of Representatives, Washington 25, D. C., reading as follows:

"As requested in your letter of November 28, I am most happy to respond more fully to the question raised in your telegram of October 20 and again in the letter addressed to you under date of November 9 by the Washington State Auto Dealers Association concerning the terms of this Board's Regulation W, relating to consumer credit.

"The question of the high freight factor applicable to automobiles sold in the Pacific Coast area has been considered from time to time in the past and again in recent weeks as a result of protests received from the West Coast. We have given detailed consideration to possible ways in which this differential might be recognized in the Regulation but, up to now, we have not been satisfied that there is a workable solution under the Regulation which would solve the problem and not tend to undermine the effectiveness of the Regulation. Transportation charges, handling costs, and other similar costs must be reflected in the cash selling price of a commodity. As a consequence, the problem which you mention with respect to freight costs is in reality a pricing problem rather than a credit-regulation problem. As you know, the Regulation is primarily concerned with the rate of expansion of consumer credit and with limiting the demand for the type of goods bought on credit. Therefore, it has seemed to us that we must continue to relate the requirements of the Regulation directly to the cash selling price of a commodity regardless of the components which make up that price.

"A number of administrative problems also arise in connection with a proposal such as you submit to

12/1/50

"allow additional time in connection with the freight cost factor. For example: What would be done in the case of used automobiles? Would a similar allowance, if given in the case of automobiles, be granted in the case of other commodities subject to the Regulation? What would be done in connection with foreign-made cars? How would the action be reconciled with the more-or-less standardized financing schedules used by the major finance companies, including the schedule issued by the American Bankers Association? What would be done in those areas where freight charges are only slightly different but would result in a month's difference in the maturity permitted? These and other questions are just illustrative of the problems that arise in attempting to give some recognition to that part of the price of a commodity represented by freight paid on the finished product.

"As you know, the Board always keeps an open mind on questions such as this and is prepared to adapt the Regulation if such action seems to be called for and if a practicable means of doing so can be found. You may be certain that we shall continue to study the problem of which you write.

"Since your letter does not question the general need for credit restrictions as a part of the anti-inflationary program, but is directed to the freight rate differential, I have not gone into other aspects of the consumer credit regulation. Let me assure you, however, that, if you desire any additional information as to the basis or objectives of this Regulation or any other aspects of the Board's credit-restriction efforts, we will be only too happy to respond to your inquiries as promptly and as fully as possible."

Approved unanimously.

Letter to Mr. E. A. Leete, President, National Association of State Savings, Building and Loan Supervisors, 270 Broadway, New York 7, New York, reading as follows:

"Thank you for your letter of November 15 and the cooperation you have shown with respect to the administration of Regulation W.

12/1/50

"We had assumed that the various supervisory agencies cooperating in the program would treat the 'Outline of Enforcement of Regulation W' in the same confidential manner as they do their own supervisory memoranda and instructions to their examiners. We would hesitate to suggest that you send a second letter to the members of your association calling their attention to the confidential nature of the outline, but in view of the possible uncertainty to which you invite attention, it might be desirable, as you suggest, to advise the supervisors in this respect in order to avoid any misunderstanding in the matter.

"We appreciate your thoughtfulness in raising the question."

Approved unanimously..

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

"An inquiry received by the Board relates to the first paragraph of section 6(f) of Regulation W and involves a registrant's practice of delivering, on a rental basis or otherwise, a used listed article in anticipation of an instalment sale of a new similar listed article. The question asked related to the amount of the deposit to be obtained by the Registrant at or before the time of the delivery of the used article -- should it be equal to the down payment that would be required on the instalment sale of the article delivered, or should it be equal to the higher down payment applicable to the new article which the Registrant anticipates selling?

"In such cases the first paragraph of section 6(f) requires that a deposit shall be obtained equal to the higher down payment. It is recognized that in some instances the exact model to be purchased may not be decided upon when the used article is delivered. However, even in such a case, the deposit required should be at least as large as the down payment required on a new article of a make and model comparable to that of the used article. Furthermore, the Registrant's operation should be considered questionable and in need of explanation by the Registrant if there is any size-

"able volume of transactions in which the deposit obtained was significantly below the down payment required on the article later sold."

Approved unanimously.

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

"Please telegraph as soon as possible before December 7 an estimate for your District of the dollar amount of commitments reported so far under Section 6(b) (2) of Regulation X, and the number of dwelling units involved. If possible, indicate your estimate of what proportion of all 6(b) (2) commitments has been reported.

"We would also appreciate summaries of the information in these reports, which should have value in enforcement of the Regulation, sent to the Board by December 13. Information which would be particularly useful to the Board includes: Total commitments reported in your District; commitments reported by each important class of registrant, such as banks, savings and loan associations, and mortgage companies; commitments by registrants in important cities in your District; and commitments outstanding to builders, as opposed to buyers.

"This information is wanted in connection with hearings before the Joint Committee on Defense Production."

Approved unanimously.

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

"This refers to our letter of July 28, 1950, requesting that a supplemental order for printing 5,000,000 sheets of Federal Reserve notes of the 1934 series during the fiscal year ending June 30, 1951, be placed with the Bureau of Engraving and Printing. It is respectfully requested that 500,000

12/1/50

"sheets of this total be allocated to notes of the Federal Reserve Bank of Boston, as indicated below:

Denomination	Number of sheets	Amount
$5	500,000	$30,000,000"

Approved unanimously.

S. R. Carpenter

Secretary.