

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 11, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Vardaman

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

Memorandum dated December 7, 1950, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Miss Margaret Jane Dougherty as a clerk in the Office of the Secretary on a temporary basis for a period of six months, with basic salary at the rate of \$2,875 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved, Mr. Vardaman voting
"no".

Memorandum dated December 11, 1950, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending an increase in the basic salary of Nancy L. Chelberg, Secretary to Mr. Hostrup in that Division, from \$3,225 to \$3,350 per annum, effective December 24, 1950.

Approved unanimously.

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

"Reference is made to your letter of December 7, 1950, requesting the Board of Governors to approve an increase in the salary structures of the Federal Reserve Bank of New York and the Buffalo Branch.

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*The Board of Governors approves the following minimum and maximum salaries for the respective grades, effective November 30, 1950:

<u>Grade</u>	<u>Head Office</u>	
	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1680	\$2280
2	1920	2580
3	2100	2880
4	2340	3180
5	2580	3480
6	2820	3800
7	3120	4200
8	3480	4700
9	3800	5200
10	4200	5700
11	4600	6300
12	5200	7000
13	5800	7800
14	6300	8500
15	7100	9600
16	7900	10600

<u>Grade</u>	<u>Buffalo Branch</u>	
	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1560	\$2100
2	1680	2280
3	1860	2520
4	2040	2760
5	2280	3060
6	2520	3360
7	2760	3700
8	3060	4100
9	3360	4500
10	3700	5000
11	4100	5500
12	4500	6100
13	5000	6800
14	5600	7500
15	6200	8400
16	7000	9400

*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

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"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 immediately."

Approved unanimously.

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

"For the reasons outlined in your two letters of December 1, 1950, the Board of Governors approves the payment of salary to Mr. J. T. Pringle at the rate of \$5300 per annum and to Teresa E. Smith at the rate of \$2400 per annum. It is understood that these rates are in excess of the maximum of the salary grades in which these employees' jobs are classified."

Approved unanimously.

Letter to The Peoples National Bank of Laconia, Laconia, New Hampshire, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as executor. The exercise of this power, in addition to those heretofore granted to act as trustee and registrar of stocks and bonds, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for transmittal through the Federal Reserve Bank of Boston.

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Letter to the board of directors, "Springfield Safe Deposit and Trust Company", Springfield, Massachusetts, reading as follows:

"The Board of Governors has been advised by the Federal Reserve Bank of Boston that the Springfield Safe Deposit and Trust Company, Springfield, Massachusetts, proposes to purchase the assets and assume the liabilities of The Monson National Bank, Monson, Massachusetts.

"Under the provision 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, unless, in case the assuming bank is a State member bank, the Board of Governors of the Federal Reserve System gives prior written consent.

"In accordance with this provision, the Board of Governors hereby consents to the proposed transaction."

Approved unanimously, together with the following letter to Mr. Latham, Vice President of the Federal Reserve Bank of Boston:

"Reference is made to your letter of November 27, 1950, submitting the request of the 'Springfield Safe Deposit and Trust Company', Springfield, Massachusetts, for approval of the establishment of a branch at Monson, Massachusetts, in connection with the proposed absorption of The Monson National Bank, Monson, Massachusetts.

"It is noted that prior approval of the State authorities has been obtained and in view of your recommendation the Board of Governors approves the establishment and operation of a branch in Monson, Massachusetts, by the Springfield Safe Deposit and Trust Company, Springfield, Massachusetts, provided

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"the absorption of The Monson National Bank is effected substantially in accordance with the plan as submitted and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the absorption and establishment of the branch.

"In view of your favorable recommendation the Board of Governors also consents, under the provisions of Section 18(c) of the Federal Deposit Insurance Act (formerly Section 12B(v) (4) of the Federal Reserve Act), to the completion of the transaction substantially as proposed. A letter to the applicant bank in this connection is enclosed, with a copy for your files. Please transmit the letter to the Board of Directors of the Springfield Safe Deposit and Trust Company."

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

"Relet sixth Board notes your opinion that there has been no material deviation from plan as originally submitted and interposes no objection to establishment of branch in Parlier, California, by Central Valley Bank of California, Richmond, California, in connection with absorption of First National Bank of Parlier under approval granted August 4, 1950."

Approved unanimously.

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

"As you know, there has been considerable discussion in the press and elsewhere of the possible use of leasing arrangements as a means of avoiding the requirements of Regulation W.

"There is attached a copy of a statement that is being published in the Federal Register on the subject and it will be appreciated if you will distribute copies to interested persons in your district.

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"It is recognized that some operators of leasing arrangements may have overlooked the broad, necessary coverage of the legislation under which Regulation W is issued and may not have realized that they are subject to the regulation. It is evident, however, that they are, in view of the definition of credit in the Executive Order which includes, among other things, 'any loan or mortgage; any instalment purchase contract, any conditional sales contract, * * *; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; * * * and any transaction or series of transactions having a similar purpose or effect.'

"As indicated in the published statement, the Board is interested in examining further into the characteristics of various leasing arrangements to determine whether it is feasible or desirable to make any special provision for any of them. The Board will appreciate any information or suggestions you may have on the subject.

"In the meantime, it would seem that no clearance should be given to any rental or leasing arrangement that contemplates more than one payment. Of course, a transaction would not be subject to the regulation if it is the usual drive-it-yourself arrangement that contemplates a rental of a car for merely a day or so, with the car to be returned, the arrangement terminated, and the single payment made, at the end of the brief period.

"As indicated in the statement, a lessor could comply with the regulation by obtaining the required down payment and monthly payments (or deposits in equal amounts), and later could return to the customer any portion of such payments or deposits when the article is returned and the lease terminated. The lease might even provide in advance for such refunds. It is possible that such arrangements, although perhaps not all that some who operate leasing arrangements would desire, would enable them to continue their operations with a

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"minimum of difficulty while meeting the necessary requirements of Regulation W."

Approved unanimously, together with the following notice for publication in the Federal Register:

"Since the amendment to Part 222 (Regulation W) adopted effective October 16, 1950 (15 F. R. 6118, 6931), the Federal Reserve Banks and the Board of Governors of the Federal Reserve System have received a number of inquiries concerning the applicability of Part 222 to various proposed arrangements for leasing automobiles or other listed articles.

"Many of these inquiries seem to reflect a failure to appreciate the fact that Part 222 and the legislation under which it is issued extend to a great many transactions besides the ordinary conditional or instalment sale.

"Leasing arrangements, other than those limited to a single payment, in general are subject to Part 222 and the legislation in the same manner as instalment sales. They are not exempt, and they are not a privileged class of transactions.

"In the past when Part 222 was not in effect, there have been certain highly specialized operations which have been found somewhat more suited to leasing or rental arrangements than to other methods of financing. That fact does not exclude them from the operation of Part 222 and the legislation. Of course, a lessor could comply with Part 222 by obtaining the required down payment and monthly payments (or deposits in equal amounts), and later could return to the customer any portion of such payments or deposits when the article is returned and the lease terminated. The lease might even provide in advance for such refunds.

"However, the Board is examining further into the characteristics of the various proposed arrangements for leasing automobiles or other listed articles and will consider whether or not any of them are of such a special character as to make it desirable or feasible to relax any of the provisions of Part 222 to any extent for their benefit.

"To aid in such consideration, the Board will be glad to receive any relevant explanations, data,

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"or other information; and any such material should be submitted in writing. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district, which will forward it to the Board to be considered. All such material should be received not later than January 2, 1951."

Letter to Honorable James P. Kem, United States Senate, Washington 25, D. C., reading as follows:

"We received your letter of November 1 addressed to Chairman McCabe with respect to a letter which you received from Mr. Stuart Williams, Kansas City, Missouri, concerning the disapproval by the Federal Reserve Bank of Kansas City of Mr. Williams' request for an exemption from the requirements of the Board's Regulation X in connection with a proposed loan for the purpose of constructing a new residence. We regret very much that the tremendous volume of work in connection with Regulation X has prevented an earlier reply. Mr. Williams' letter and its enclosure are returned herewith.

"As you know, Congress provided in the Defense Production Act of 1950 for the regulation of real estate credit with the view of reducing inflationary pressures in this field and increasing the availability of materials and labor for defense purposes. With respect to so-called 'conventional' credit (i.e., credit not extended, guaranteed, or insured by the Government or its agencies) the law provided for the regulation of credit in connection with structures on which construction was begun after August 3, 1950, or on which the construction of major additions or major improvements was begun after that date. The authority to regulate 'conventional' credit was delegated to the Board by the President subject to a provision that the concurrence of the Housing and Home Finance Administrator be obtained with respect to regulations affecting residential credit. Pursuant to this authority, the Board issued its Regulation X, Residential Real Estate Credit, effective

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"October 12, 1950, which places restrictions upon the extension of 'conventional' credit after that date with respect to one and two family residences where the residences or major additions or major improvements were begun after August 3, 1950.

"Such a regulation necessarily makes it more difficult for some individuals who had hoped or expected to build or purchase houses to carry out their plans. Otherwise the regulation would not accomplish its purposes or the purposes of the law. While the circumstances of particular cases vary greatly, it is inevitable that there will be some instances in which the persons affected will feel that they are being subjected to hardship and it is impossible to have an effective regulation under which no such cases may arise.

"The Board, however, has provided for a number of exemptions in Regulation X, some of which have the effect of materially reducing the instances in which the regulation will interfere with prior arrangements with respect to the financing of the construction or purchase of houses. For example, section 6(b) of Regulation X exempts extensions of credit by a Registrant (a person engaged in the business of extending real estate credit) pursuant to a firm commitment to extend such credit which was made by the Registrant prior to the effective date of the regulation. Also, by an amendment to the regulation effective November 14, 1950, the Board has exempted credit extended prior to May 1, 1951, with respect to new construction begun prior to October 12, 1950.

"In addition, the regulation authorizes the Federal Reserve Banks to grant specific exemptions in a rather limited class of cases involving contemplated construction as provided in section 5(g) of the regulation, which reads as follows:

'(g) Contemplated Construction.--Any builder or other person who had made substantial commitments or undertakings before August 3, 1950, with a view to the building of new construction and who asserts that his inability to obtain credit to finance such new construction on the basis contemplated by him and by the Registrant prior to August 3, 1950, would cause him substantial hardship, may apply to the Federal Reserve Bank of the district

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"in which the new construction is contemplated for an exemption from this regulation for such new construction, showing all the facts and submitting all necessary supporting documents with respect to his commitments or undertakings and why compliance with the regulation would cause him substantial hardship. If such Federal Reserve Bank after consideration of the application and supporting documents determines that substantial commitments were made prior to August 3, 1950, and that substantial hardship would result from the application of this regulation in such case, it may issue to such builder or other person a certificate approving such application and thereupon any extension of credit to such builder or other person by any Registrant with respect to the new construction that may be specified in such certificate shall be exempt from the prohibitions of this regulation."

"It was under this provision that Mr. Williams requested the Federal Reserve Bank of Kansas City to grant him an exemption. You will note that this provision contemplates that an exemption will not be granted unless, among other things, the applicant's inability to obtain credit to finance the proposed construction on the basis contemplated by him and by the Registrant prior to August 3, 1950, would cause the applicant substantial hardship. As we understand the facts of this case, Mr. Williams had not approached the Kansas City Life Insurance Company, from which he now desires a loan, prior to August 3, 1950, and did not do so until after the effective date of the regulation. In addition there is considerable question whether the action taken by Mr. Williams before August 3, 1950, with a view of building his new house, constituted 'substantial commitments or undertakings' within the meaning of this provision of the regulation, and whether his inability to proceed with his plans will result in 'substantial hardship' such as is contemplated by the Regulation. We are, of course, fully conscious of the disappointment and inconvenience which the disruption of Mr. Williams' plans may cause him, but this provision of the regulation contemplates financial hardship. As stated above, the authority to approve or disapprove requests for exemptions under section 5(g) is a discretionary one which is vested in the Federal Reserve Banks, and

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"from our review of the available information, we have no reason to disagree with the conclusion reached by the Federal Reserve Bank of Kansas City in this case.

"We wish to assure you that it is our desire to exercise the authority which has been granted to the Board in this field as fairly as possible and with as little hardship upon individuals affected as is consistent with effective regulation to carry out the objectives of the law, and we believe that from your acquaintance with the officials of the Federal Reserve Bank of Kansas City, you will be satisfied that their approach in the administration of the regulation in that area is the same. If you have any further questions concerning Regulation X and its administration, we will be glad to have you take them up with us."

Approved unanimously, together
with the following letter to Mr.
Stuart Williams, R. J. Potts-Calkins
& Holden, Inc., 215 West Pershing
Road, Kansas City 8, Missouri:

"The Board has received a letter from Senator Kem written in response to your letter to him regarding the application of the Board's Regulation X to the house which you planned to build. A copy of our reply to Senator Kem is attached.

"The Board of Governors has asked me to say to you that it regrets very much the need for the decision reached by the Federal Reserve Bank of Kansas City in this matter. However, the responsibility placed upon the Board by the Congress to limit the use of credit for new residential construction cannot be effectively carried out without inconvenience to a number of people who had plans for home construction. The Board desires to emphasize that, as stated in the last paragraph of the letter to Senator Kem, it has been our desire to exercise the authority in this field as fairly as possible and with as little hardship upon the individuals affected as is consistent with effective regulation to carry out the objectives of the law.

"Should you still feel that the reasons for

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"the decision made by the Federal Reserve Bank of Kansas City in your case are not entirely clear, it is suggested that you call at the Bank and discuss the matter with the officer in charge of the administration of Regulation X. You can be assured that he will give you every consideration and will be glad to outline fully the basis upon which the conclusion was reached."

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

"Reference is made to the letters which you have received, and which you have supplied this office in photostatic form, from Mr. Goldsten of East-West Development Corporation, Rock Creek Terrace Development Corporation and Goldsten Brothers dated November 6, 16 and 17, as well as the letter of November 8 from Mr. T. A. Sedam, Richmond Regional Manager of the Prudential Insurance Company of America.

"Mr. Goldsten, among other things, is of the opinion that with respect to a real estate development known as Donnybrook Estates, Montgomery County, Maryland, Regulation X has no application in view of the provisions of section 6(b)(2).

"The Board's staff has considered the facts as set forth by both Mr. Goldsten and Mr. Sedam and in particular the negotiations between the Goldsten group and representatives of the Prudential Company. It is noted that Mr. Sedam confirms the statements made by Mr. Goldsten not only in regard to prior dealings involving loans totaling more than \$5 million, but also negotiations in the instant case. Apparently the negotiations for the financing by Prudential of Donnybrook Estates had proceeded precisely as had been the custom in previous dealings and all that remained to be done by the Goldsten group was to apply to Prudential for a written commitment. Mr. Sedam states that had this been done prior to issuance of Regulation X such a commitment would have been issued by Prudential.

"Accordingly, the Board wishes to advise that on the basis of the facts presented there would be no objection to the Registrant reporting the under-

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"standings with Goldsten Brothers as a 'firm commitment', if he so regards them. As you are aware, however, section 6(b) does not contemplate the issuance of a certificate of exemption such as is suggested in the last paragraph of Mr. Sedam's letter."

Approved unanimously.

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

"Reurtel November 9, 1950, Board considers that under the facts as stated there would be no objection to the Registrant reporting the 'oral agreement' as a firm commitment, if he so regards it."

Approved unanimously.

Letter to Mr. James L. Houghteling, Chairman, Fair Employment Board, United States Civil Service Commission, Washington 25, D. C., reading as follows:

"With reference to your letter of November 13, 1950, addressed to Chairman McCabe requesting certain information regarding the procedures followed to inform personnel of the existence of Executive Order No. 9980, the Fair Employment Board, on October 6, 1949, was furnished a copy of the Board's procedures regarding fair employment practices and on July 13, 1950, was furnished a revised copy of these procedures.

"The Board's Personnel Officer is designated as the Fair Employment Officer; and in his capacity as Personnel Officer, he periodically meets with the various supervisors of the Board's staff to review and discuss personnel procedures, one of which is Executive Order No. 9980.

"As you no doubt know, the Board's staff is a small one, and we do not recruit on a large scale. This makes it possible for the Personnel Officer to

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"interview at or about the time of induction all new employees who are informed by him of the procedures through which allegations of discrimination are to be presented, heard, and adjudicated.

"It is expected that a new handbook for the use of the members of the staff will be issued in the future, and this will include information on Executive Order No. 9980."

Approved unanimously.

Memorandum dated December 6, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that in connection with the meetings of the American Statistical Association, the American Economic Association, and other organizations holding joint meetings with these associations in Chicago during the period December 26-30, 1950, the following employees of the Division of Research and Statistics be sent to the meetings at Board expense:

Anyone who is to be on the program, plus

One person from each of the six sections in the Division plus those from the head offices of the Division.

The memorandum also recommended that official leave be granted to other employees who wished to attend the meetings at their own expense.

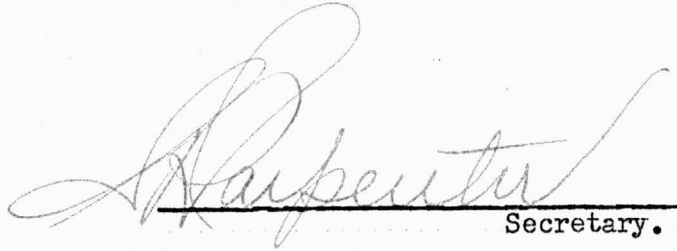
Approved unanimously.

Memorandum dated December 11, 1950, from Mr. Marget, Director of the Division of International Finance, recommending that Mr. Randall Hinshaw and Miss Caroline Lichtenberg attend the meetings

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of the American Economic Association and the Econometric Society
in Chicago December 26-30.

Approved unanimously.


Secretary.