

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 19, 1950. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary

Mr. Szymczak stated that following the meeting of the Board yesterday, in the absence of Mr. Vest, he had talked with Mr. Solomon, Assistant General Counsel, with respect to the authority of the Board to approve the payments proposed by the directors of the Federal Reserve Bank of St. Louis for the benefit of Mr. Hitt at the time of Mr. Hitt's resignation as of January 3, 1951, and that Mr. Solomon advised that there was no legal objection to the payments and that the matter was entirely one of policy.

Mr. Szymczak then moved that the Board approve the payment of three months salary to Mr. Hitt and the payment to the Retirement System on his behalf of approximately \$12,800 which would be the amount needed to increase his retirement allowance beginning at age 65 to the amount that would be payable to him had he continued in service until that age.

Mr. Szymczak's motion was put by the Chair and carried, Mr. Vardaman voting "no" for the reason that in his opinion Mr. Hitt was not being discharged but was not being appointed for another term after having been advised approximately two years ago that he would not be reappointed.

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The members of the Board who voted to approve the payments on behalf of Mr. Hitt did so for the reason that they felt the proposal of the directors of the St. Louis Bank was a reasonable and desirable means of disposing of a difficult problem for which no other satisfactory solution had been found.

Mr. Szymczak then moved that the appointment of Mr. Attebery as First Vice President of the Federal Reserve Bank of St. Louis for the unexpired portion of the term ending February 28, 1951, with salary at the rate of \$18,000 per annum, be approved, it being understood both here and among the directors of the Federal Reserve Bank of St. Louis that there is no commitment with respect to his appointment or salary beyond that date.

Mr. Szymczak's motion was put by the Chair and carried unanimously.

At this point 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 December 18, 1950, were approved unanimously.

Memorandum dated December 14, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Edwin J. Swindler, an economist in that Division, from \$3,225 to \$3,825 per annum, effective December 24, 1950.

Approved unanimously.

Memorandum dated December 15, 1950, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending that, effective

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as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, Karl P. Wendt be appointed on a temporary indefinite basis as an Assistant Federal Reserve Examiner, with salary at the rate of \$3,825 per annum, and with official headquarters at Cleveland, Ohio.

By unanimous vote, Mr. Karl P. Wendt was appointed an Examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25 (a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other Acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at Cleveland, Ohio, and with basic salary at the rate of \$3,825 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

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

"In accordance with the requests contained in your letters of December 12, 1950, the Board approves the appointments of Neil H. LaBelle and Warren Franklin Waugh as assistant examiners for the Federal Reserve Bank of Boston. Please advise us of the dates upon which the appointments become effective.

"It has been noted that Mr. LaBelle's indebtedness of \$109.99 to The National Shawmut Bank of Boston as reported in your letter of October 9, 1950, is on a regular reduction basis.

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"The Board's approval is given with the understanding that there have been no changes since the date of your letters of October 9, regarding the proposed appointees which would adversely affect their services as assistant examiners for your Bank."

Approved unanimously.

Telegram to John Alfred Hannah, Michigan State College, East Lansing, Michigan, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Detroit Branch of Federal Reserve Bank of Chicago for two-year term beginning January 1, 1951, and will be pleased to have your acceptance by collect telegram.

"It is understood that you are not a director of a bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Chicago."

Approved unanimously.

Telegram to William M. Day, Michigan Bell Telephone Company, Detroit, Michigan, reading as follows:

"Board of Governors of Federal Reserve System has appointed you director of Detroit Branch of the Federal Reserve Bank of Chicago effective January 1, 1951, for the unexpired portion of the term ending December 31, 1951, and will be pleased to have your acceptance by collect telegram.

"It is understood that you are not a director of a bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Chicago."

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Approved unanimously.

Telegram to Pierre B. McBride, Porcelain Metals Corporation,
Louisville, Kentucky, reading as follows:

"Board of Governors of Federal Reserve System has appointed you director of Louisville Branch of Federal Reserve Bank of St. Louis effective January 1, 1951, for the unexpired portion of the term ending December 31, 1951, and will be pleased to have your acceptance by collect telegram.

"It is understood that you are not a director of a bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of St. Louis."

Approved unanimously.

Telegram to Samuel B. Strauss, Pfeifers of Arkansas,
Little Rock, Arkansas, reading as follows:

"Board of Governors of Federal Reserve System has appointed you director of Little Rock Branch of Federal Reserve Bank of St. Louis for three-year term beginning January 1, 1951, and will be pleased to have your acceptance by collect telegram.

"It is understood that you are not a director of a bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of St. Louis."

Approved unanimously.

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Letter to the Federal Deposit Insurance Corporation,
Washington 25, D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that the 'Merchants Trust & Savings Bank, Kenner, Louisiana', became a member of the Federal Reserve System on December 11, 1950, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act."

Approved unanimously.

Letter to Honorable W. J. McNeil, Assistant Secretary of
Defense, Washington 25, D. C., reading as follows:

"In connection with the current program of guaranteed loans for defense production under section 301 of the Defense Production Act of 1950, consideration is being given to the desirability of action by the Board of Governors,

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"after consultation with the guaranteeing agencies, to prescribe a technical amendment to the standard form of V-loan guarantee agreement of September 27, 1950.

"Section 1(K) of the form of guarantee agreement defines the term 'defense production contract' in such manner as to limit such contracts to prime contracts with the guaranteeing agencies or sub-contracts thereunder which are related to the procurement of materials or the performance of services for the national defense. In its present form the definition does not include contracts with Atomic Energy Commission or with other Government departments and agencies 'directly or indirectly and substantially concerned with the national defense'. Consequently, the definition of defense production contracts is narrower than the definition of the term 'national defense' contained in section 702(d) of the Defense Production Act. A case is now pending in which a borrower under a prospective V-loan, in whose production contracts a guaranteeing agency has the predominant interest, also has contracts with Atomic Energy Commission which are related to the national defense but which, under the guarantee agreement, would not qualify as 'defense production contracts'.

"It is proposed that paragraph (K) of section 1 of the form of guarantee agreement be amended to read as follows:

"(K) A "defense production contract" shall mean any contract made or order accepted by the Borrower for the sale or furnishing by the Borrower of materials, equipment, supplies, facilities, or services or for the processing or treatment by the Borrower of materials, which (1) constitutes (a) a prime contract with any guaranteeing agency designated by the Defense Production Act of 1950 or by Executive Order issued thereunder or with the Atomic Energy Commission or any other Government department or agency directly or indirectly and substantially

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"concerned with the national defense as the term "national defense" is defined in section 702(d) of the Defense Production Act of 1950, or (b) a contract made or order accepted by the Borrower to aid directly or indirectly in the performance of any such prime contract, and (2) is related to the procurement of materials or the performance of services for the national defense."

"We shall appreciate advice as to whether your Department wishes to make any comment with respect to this proposed amendment. Such advice may be given informally by telephone to Mr. Howard H. Hackley, Assistant Counsel, Code 132, Extension 267."

Approved unanimously, together with similar letters sent to Departments of Army, Navy, Air Force, Interior, Agriculture, Commerce, and General Services Administration.

Letter to Honorable Henderson Lanham, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of November 27 relative to this Board's Regulation W concerning consumer credit.

"As you will appreciate, the regulation is merely one of several credit and fiscal controls and policies designed to resist severe inflationary pressures with a minimum of interference with normal business practices and procedures. Such controls and policies naturally are more oblique in their restraining influence than would be the case with more inhibiting direct controls. As you know, however, it is the function of this Board to promulgate and administer the indirect monetary-credit controls within the limit of its statutory authority either without more direct controls or in conjunction with such direct controls as the Congress may see fit to authorize.

"It is the view of the Board that unduly liberal consumer credit contributes to inflationary pressure in a period such as the present since it adds to an already seriously swollen money supply. Increases

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"in the money supply arising out of the instalment sale of consumer durables may or may not result in short-run price increases of those articles but the purchasing power generated enters the income stream and exerts upward pressure on prices in general.

"While it is frequently stated that the present fifteen months maximum maturity provisions of the regulation makes it impossible for the man of moderate income to own an automobile, analysis of the facts does not support such a contention. As Chairman McCabe pointed out in his statement of December 8, 1950, before the Joint Committee on Defense Production, the truth is that Regulation W has helped rather than penalized the person of moderate or low income. It helps him where he is most in need of help -- in his pocketbook. Cars, new or used, are available at various prices to meet the budgets of practically all workers who want or need cars and these cars cost less than they would have in the absence of Regulation W. In the thought that you would be interested in his detailed analysis of some of the questions which you raised, we are enclosing a copy of the text of the Chairman's Statement of December 8."

Approved unanimously.

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

"Certain questions have been received as to the applicability of Regulation W where a savings and loan association or other mortgagee of real property adds to the principal of the mortgage debt held by it sums paid by the mortgagee to cover insurance, taxes, other assessments, or maintenance and repairs. This would be done pursuant to a provision in the mortgage extending to the mortgagee a right to protect its security interest in the property with respect to which the sums for such purposes were paid. It is assumed, of course, that the total debt would be payable in instalments and that the principal amount thereof would not exceed \$2,500.

"One question concerned mortgages executed prior to September 18, 1950, the effective date of

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"the regulation. The fact that the mortgage may have been executed prior to that date does not exempt payments of the kind in question made by a mortgagee subsequent to that debt. This is true because as indicated in S-1139 (W-65), September 15, 1950, the general test for exemption under section 8(h) of the regulation is that the party seeking the credit should, aside from the regulation, have been able to maintain a suit for damages if the credit had not been granted pursuant to the contract or commitment to extend the credit. A mortgage provision that gives no such right to the mortgagor would not, in the Board's view, meet that test.

"The remaining question concerned section 5(c)(1) of the regulation which permits any Registrant to take 'any action that he shall deem necessary in good faith (1) for the Registrant's own protection in connection with any obligation which is in default and is the subject of a bona fide collection effort by the Registrant'. The purpose of section 5(c)(1) is to permit an adjustment with the delinquent debtor if that is the only feasible way in which the credit can be collected. As indicated by item 24 of S-1190 (W-97), November 9, 1950, any such adjustment must be the last resort (except, of course, litigation) and a measure to be taken only if other means of collection have been exhausted. Thus, the mere fact that there may have been a default in connection with a mortgage debt would not be enough to justify recourse to section 5(c)(1).

"In view of the foregoing, there would seem to be extremely few, if any, cases which properly could be considered as coming within section 5(c)(1) where the adjustment involved an increase of the principal amount of the outstanding obligation in default. While the individual and unusual facts of a particular situation might possibly present such a case, the permissive provisions of that section, as a general rule, would not cover cases of the kind described above."

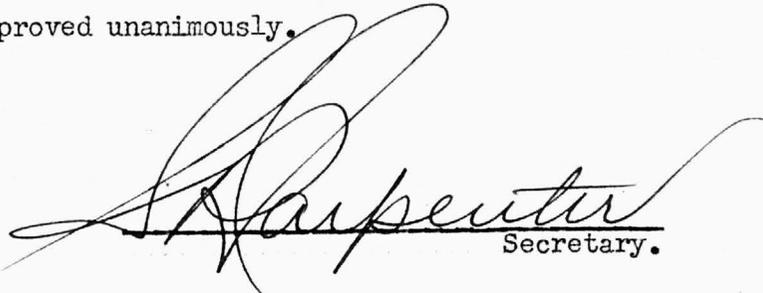
Approved unanimously.

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

"In view of increasing interest reported to the Board in the subject covered in S-1175 W-89 dated October 23, 1950, the Reserve Banks notwithstanding the restrictive phrase on that letter are at liberty to circulate to interested parties the substance of S-1175 relating to the application of Regulation W to large quantity sales of listed articles."

Approved unanimously.


Secretary.