

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 18, 1951.

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

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 January 16, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 17, 1951, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated January 11, 1951, from Mr. Bethea, Director of the Division of Administration Services, recommending increases in the basic annual salaries of the following employees in that Division, effective January 21, 1951:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>	
		<u>From</u>	<u>To</u>
Elizabeth L. Carmichael	Chief, Publications Section	\$4,975	\$5,125
Mary E. Dorsey	Printing Clerk	3,950	4,075
Helen L. Hulen	Publications Clerk	3,725	3,950
J. Robert Surguy	Printing Clerk	3,475	3,700
Woodley Boothe	General Mechanic	3,380	3,525
James T. Stewart	Operator (Mimeo)	2,120	2,252

Approved unanimously.

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

1/18/51

-2-

"In our letter of August 21, 1950, concerning requests received by the Federal Reserve System for technical assistance in the foreign area, we stated that in accordance with the policy outlined in a memorandum approved July 20, 1950, setting forth criteria adopted by the Board for the guidance of its staff in considering such requests, we would analyze the personnel requirements of each proposed mission or assignment carefully with a view to assuring appropriate personnel selection from the staffs of the Board and of the several Federal Reserve Banks. This procedure reflected suggestions previously advanced by the presidents of several of the Reserve Banks that the personnel resources of the entire System should be considered when assignments of this character are being filled. We suggested, in this connection, that it would be helpful if we might be informed by the Reserve Banks of those officers and employees whose qualifications appeared to fit them for future assignments.

"We are bringing this matter to your attention again, since a review of the material submitted in response to our earlier letter discloses that no information of this character has been received from your Bank, and we felt that you might like to have such data placed on file for consideration when future requests for technical assistance are received."

Approved unanimously, together  
with similar letters to the Presidents  
of the Federal Reserve Banks of Cleveland,  
Atlanta, Kansas City, Dallas and San  
Francisco.

Letter to Mr. Brainard, Chairman of the Federal Reserve  
Bank of Cleveland, reading as follows:

"The Board of Governors has received your letter of November 1, 1950, stating that the report of examination of the Federal Reserve Bank of Cleveland, made as of September 19, 1950, by the Board's examiners, was given special consideration by the Audit Review Committee of the Board of Directors and was being circulated to the other directors.

"The discussion on page 22 of the report of examination of the numerous drafts drawn by the Society for Savings in the City of Cleveland against its nonmember clearing account indicates extensive use of the account for a purpose not intended to be served by nonmember

1/18/51

-3-

"clearing accounts. It is noted that the management advised that the matter would be given further consideration and study, and it will be appreciated if you will inform the Board of any action taken or contemplated as a result of such consideration and study.

"The Board has noted also the comments on pages 23 and 24 of the report of examination regarding the several cases wherein the Reserve Bank holds in safekeeping securities which are not the property of member banks.

"The matter of the extent of the safekeeping services rendered by Federal Reserve Banks has been the subject of System discussion from time to time over a period of many years, and throughout these discussions the view has been held that the Federal Reserve Banks, except in limited classes of cases, should not receive for safekeeping securities which are not actually owned by the depositing member bank. More recently, the Conference of Presidents at its meeting of June 7, 1946, approved the recommendation of the Committee on Free Services that the Federal Reserve Banks should not receive from member banks for safekeeping securities in which third parties have an interest, except (1) securities pledged as collateral by member banks to secure the deposit of public funds, and (2) securities deposited with a public official to qualify member banks to exercise trust powers.

"In the circumstances, and aside from technical considerations and the possible lack of legal authority for custody service of the kind in question, the extension of such service is not in accordance with the general practices of the Reserve Banks. In addition, it is a service which might more appropriately be rendered by a commercial bank, and is not ordinarily related to the functions of a Reserve Bank. Therefore, the Board suggests that, unless it is proposed to take the matter up with the Conference of Presidents for reconsideration, your Bank discontinue its present practice and terminate the existing cases as soon as it may be practicable to do so without causing embarrassment to any of the parties concerned."

Approved unanimously.

1/18/51

-4-

Letter for the signature of the General Counsel, to Mr. Herbert A. Bergson, General Counsel, Office of Defense Mobilization, Room 104, Old State Building, Washington 25, D. C., prepared in accordance with the discussion at the meeting on January 9, 1951, reading as follows:

"At the meeting on defense legislation on January 4, 1951, you requested the various agencies to submit by Friday, January 19 drafts of suggested legislation to facilitate the task of defense mobilization. Accordingly, I am enclosing three suggested amendments in connection with the defense program which the Board of Governors of the Federal Reserve System wishes to recommend.

"The first proposal is intended to provide for an extension of functions of the Board of Governors under authority of the Defense Production Act of 1950 with respect to guaranteed loans to finance defense contractors under section 301 of Title III, regulation of consumer credit and of real estate credit under Title VI, and voluntary agreements under section 708 of Title VII. It is apparent that the need for these authorities will still be present after the termination dates now provided in the law. In connection with this proposal, two alternative amendments are suggested. The first would extend all authority under the Defense Production Act to a specified date. If, however, it is not contemplated that all titles of the Defense Production Act will be extended at this time, the second alternative would merely extend section 301 and Titles IV, V, VI and VII. As indicated in the note appended to this proposal, the extended termination date presumably should conform to that which may be decided upon with respect to other functions under the Act.

"The second proposal is intended to authorize regulation by the Board of Governors of real estate credit without the limitation to 'new construction' now contained in the law. The purpose of the regulation of real estate credit is not only to conserve

1/18/51

-5-

"materials and facilities needed for national defense but also to restrict the expansion of credit in the real estate field. Obviously, however, credit extended with respect to housing or construction already in existence contributes just as much to inflation as credit extended with respect to new construction. Moreover, the present law tends to give old residences and other old construction a more favorable status than new construction, since the former is subject to no credit restrictions. Accordingly, it is felt that the law should be broadened to permit credit regulations with respect to all types of real property, whether old or new.

"The third proposal involves an amendment to the Assignment of Claims Act of 1940 and is explained in the attached explanatory statement. This is the proposal about which I recently talked to you on the telephone."

Approved, Mr. Eccles voting  
no for the reason that he felt the  
second proposal in the letter was  
impractical and impossible of  
administration.

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

"This will acknowledge your letter of January 9 in which you advise that leave of absence without pay until the end of January 1951 has been granted to Mr. Philip J. W. Glaessner, an economist in the Research Department, in order that he may complete an assignment for the International Bank for Reconstruction and Development, and that a two-day leave of absence without pay has been granted to Mr. Eugene Schlesinger, also of the Research Department, at the request of the Fiscal Division of the United Nations to enable him to assist in preparing an outline of the public finance chapter of the Economic Survey of Latin America for 1950.

"These matters have been brought to the attention of the Board and have been noted without objection."

Approved unanimously.

1/18/51

-6-

Telegram to all Federal Reserve Banks and Branches, reading as follows:

"Following is a statement which the Board expects to release to the press later today when definite word is received that consent decree has been signed in the matter of 'Fifth Avenue Motors, Inc.' of Columbus, Ohio, concerning which Board issued an order directing investigation on January 2, 1951.

'The Board of Governors of the Federal Reserve System obtained a judgment today in the United States District Court at Columbus, Ohio, enjoining 5th Avenue Motors, Inc., its President, Harold F. Pritchard, and its Secretary-Treasurer, O. George Ezzo, from further violations of Regulation W and compelling compliance with said Regulation. The defendants, through their attorneys, consented to the entry of the judgment.

'The Board of Governors of the Federal Reserve System, having received reports from the Federal Reserve Bank of Cleveland that 5th Avenue Motors, Inc. appeared to be selling used cars on terms which violated Regulation W, ordered an investigation to determine what further steps it should take. This investigation, which is specifically authorized by the Defense Production Act of 1950, was conducted in Court Room No. 2 of the United States District Court at Columbus, Ohio, on January 12 and 13, 1951. About 35 witnesses were subpoenaed by the Board of Governors and examined under oath. In view of information obtained in the investigation and data furnished by the Federal Reserve Bank of Cleveland, the defendants consented to the entry of the judgment, violation of which would subject them to being cited and punished for contempt of court.

'Regulation W, issued by the Board of Governors of the Federal Reserve System pursuant to the Defense Production Act of 1950, provides that a registrant shall not extend any credit for the financing of certain listed articles including new and used passenger automobiles

1/18/51

-7-

"without obtaining a down payment in an amount prescribed in the Regulation. In the case of automobiles the present terms of the Regulation require a down payment of not less than one-third of the cash price of the car and the balance must be paid in 15 months."

"It would be helpful in connection with the enforcement program for Regulation W if this release could be given wide publicity and Board would therefore, appreciate your making it available to newspapers in your district. Would have no objection to your furnishing it to such groups of registrants as you may feel desirable.

"Will wire you as soon as confirmation of signing of consent decree received, and in meantime release should be treated as strictly confidential."

Approved unanimously.

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

"Revised form of Borrowers Statement on Regulation X will be completed within a short time. Meanwhile the Board prefers that the Reserve Banks not make their own revisions."

Approved unanimously.

Letter to Mr. H. H. Kumler, 4024 Childress, Houston, Texas, reading as follows:

"Senator Taft has referred to the Board of Governors a letter from Mr. C. R. Burrell, General Sales Manager, The Tool Steel Gear and Pinion Company of Cincinnati, concerning your application to the Houston Branch of the Federal Reserve Bank of Dallas for exemption from the provision of Regulation X.

"The Board of Governors has asked me to say to you that it regrets very much the need for the decision reached by the Houston Branch of the Federal Reserve Bank of Dallas in

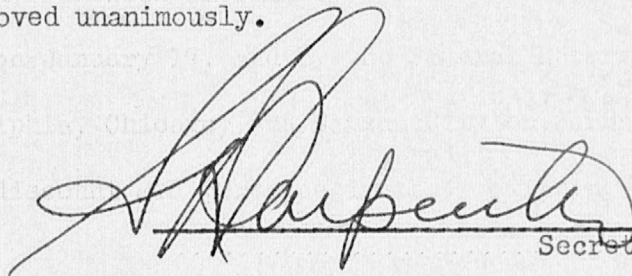
1/18/51

"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 Taft, 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 the decision made by the Houston Branch of the Federal Reserve Bank of Dallas 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.

"A copy of our reply to Senator Taft is enclosed."

Approved unanimously.

  
Secretary.