

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 23, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Hilkert, Acting Director, Division of Personnel Administration
Mr. Phelan, Acting Director, Division of Selective Credit Regulation
Mr. Cherry, Assistant Counsel

Before this meeting there had been sent to each member of the Board a memorandum from Mr. Vest dated January 19, 1951, transmitting a draft of "Program for Voluntary Credit Restraint" as agreed upon on January 15, 1951, at the meeting of the subcommittee of representatives of the American Bankers Association, investment bankers, and insurance companies, and a letter dated January 18 from Mr. Sproul, President of the Federal Reserve Bank of New York, expressing his views with respect to the Program and suggesting that the Board indicate whether it was prepared to approve the Program. At Chairman McCabe's request, the Secretary read portions of the draft of Program.

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Mr. Powell stated that the Program was now in the form in which it was expected it would be presented at the next meeting of the full committee of the financing institutions, and that if the full committee approved the report it would be submitted for the approval of the Board of Governors and of the Attorney General.

Chairman McCabe questioned whether the statement of principles in the Program was strong enough and Mr. Powell expressed the opinion that on the basis of the discussions that had been had, the agreement could not be made much stricter since it would have to be a voluntary agreement among financing institutions, and he questioned the advisability of making suggestions as to major changes which would only result in further delay.

During the ensuing discussion, Chairman McCabe expressed the view, which was concurred in by other members of the Board, that inasmuch as the entire Program for voluntary restraint of credit had been undertaken at the initiative of the bankers and in view of the fact that the proposed form of agreement had been prepared by the lenders themselves, he would not wish to make formal suggestions for changes in it at this stage, even though he questioned the effectiveness of the agreement in its present form. He added that while he did not believe that the definition of what would constitute an inflationary loan was sufficiently strong, he was inclined to think that the mere fact that an agreement was adopted and that financing

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institutions would be discussing its application to loans would result in some restraint on credit extension. He felt, therefore, that the Board might indicate that it had no objection to the Program and that if it was adopted by the full committee in substantially the present form, the Board would be glad to submit the Program to the Office of the Attorney General and the Federal Trade Commission for an expression of their views.

Mr. Vest suggested that it would be desirable, in replying to Mr. Sproul's letter of January 18, to state that the Board would be prepared to approve the proposed Program if approved by the full committee of representatives of financing institutions, to indicate that a copy was being submitted informally to the Attorney General and to the Federal Trade Commission for comment, and to request Mr. Sproul to call a meeting of the full committee as soon as the informal comments of the representatives of the Department of Justice and the Federal Trade Commission had been received.

The procedure outlined by Mr. Vest was agreed to and in accordance therewith, unanimous approval was given to a letter to Mr. Sproul in the following form:

"This refers to your letter of January 18, 1951, with further reference to steps which have been taken by the subcommittee of six in connection with a Program for Voluntary Credit Restraint.

"The Board is prepared to approve the Program for Voluntary Credit Restraint in substantially the

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"Form contained in the draft of January 15, 1951 (Exhibit C), submitted with your letter, provided the full committee which met originally on December 19, 1950, approves such a Program and provided also that the Attorney General approves a request for action pursuant to such Program.

"As suggested in your letter of January 18, you are requested to call a meeting of the full committee, but before this is done we feel that it would be desirable to give the representatives of the Department of Justice and of the Federal Trade Commission a further opportunity to comment on the proposed Program. Accordingly, we are today sending to the Attorney General and to the Chairman of the Federal Trade Commission a copy of the proposed Program for Voluntary Credit Restraint, together with a draft of a form of request for action thereunder. We are also sending to the Attorney General a draft of a proposed letter to him which it is contemplated would be sent after approval by the full committee and which would lay the matter formally before him, and we are sending a draft of a somewhat similar letter to the Federal Trade Commission. For your information copies of the material which we are sending to the Attorney General and the Federal Trade Commission are enclosed.

"Governor Powell will be in touch with you by telephone as soon as we receive the informal comments of the representatives of the Department of Justice and the Federal Trade Commission."

There was also a discussion of possible appointees to be selected by the Board for membership on the "Voluntary Credit Restraint Committee", during which it was suggested that some rotation of the membership might be provided and it was understood that further consideration would be given to this matter after it was known whether the Program would be approved.

Mr. Cherry withdrew from the meeting at this point.

Reference was made to the discussion at the meeting on

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January 16, 1951, of a proposed telegram to all Federal Reserve Banks with respect to increasing the activities of the Banks under section 13b of the Federal Reserve Act to provide the necessary V-loan financing for small firms with defense contracts which did not have established lines of credit and, therefore, had difficulty in obtaining the necessary credit. At Chairman McCabe's request, Mr. Phelan reviewed previous discussions of this question and Mr. Riefler reported the visit to the Chairman's office on January 10, 1951, of F. Abbott Smith and other representatives of small business concerns. At that time, Mr. Riefler said, the representatives expressed the view that smaller business concerns were not being given contracts under the defense program because of the difficulty of obtaining necessary financing, and that he would prefer to find some way to keep such financing in the banking system rather than to have established a Smaller War Plants Corporation or to have the Reconstruction Finance Corporation given authority for financing such concerns. Mr. Riefler also stated that he understood from a conversation with Mr. Davis, First Vice President of the Federal Reserve Bank of Philadelphia, that that Bank had increased its lending activity under section 13b of the Federal Reserve Act as a means of taking care of some of the smaller concerns which were technically able to produce under the defense program but did not have established banking connections.

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During the ensuing discussion, Chairman McCabe talked by telephone with Mr. Davis and reported that the Philadelphia Bank had 30 loans under section 13b, that several of these had been made recently to small business concerns working on defense contracts, and that in the Philadelphia area a number of banks were unwilling to use the V-loan program where the guarantee would exceed 90 per cent.

The Secretary read the draft of telegram to all Federal Reserve Banks previously referred to and Mr. Vardaman stated that he would favor sending it to the Banks in order to obtain their comments.

At the conclusion of this discussion, unanimous approval was given to a telegram to all Federal Reserve Banks, reading as follows:

"Some complaints have been received in connection with the inability of many small firms processing contracts under the Defense Production Act to obtain adequate financing under the V-loan program. This is said to be especially true of concerns which have not heretofore for one reason or another established lines of credit with their commercial banks and where a V-loan guarantee if issued would involve a guarantee in excess of 90 per cent and the net return to the banks would not be sufficiently attractive for them to participate.

"We are conducting a comprehensive examination of the problem to see how defects in the program can be remedied. Meanwhile the urgency of this problem might be alleviated if the Federal Reserve Banks would revive their activities under section 13b of the Federal Reserve Act and make loans to such applicants under the guarantee provided by Regulation V. This, of course, assumes that such loans will be made only to those concerns with management of good character and ability to produce

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"materials essential to the defense program. Steps in this direction have already been taken by at least one Federal Reserve Bank.

"The Board would appreciate your views by wire with respect to this suggestion as promptly as possible. Inasmuch as prompt action on defense loans is of prime importance the adoption of the suggestion will require that arrangements be worked out at each Federal Reserve Bank to expedite in every practicable way the handling of applications received by the Bank."

Mr. Townsend reported briefly on the results of the investigation of Fifth Avenue Motors, Inc., Columbus, Ohio, authorized at the meeting of January 2, 1951, and of the consent by that firm on January 18, 1951, to an injunction from further violations of Regulation W., Consumer Credit, as reported in a memorandum prepared by Mr. Chase, Assistant Solicitor, under date of January 19, 1951.

Mr. Phelan withdrew from the meeting at this point.

Mr. Norton stated that the staff had been working on the matter of extending Regulation X, Residential Real Estate Credit, to cover commercial properties and at his request, the Secretary read a memorandum under date of January 23, 1951, outlining the steps that would need to be taken and the schedule of meetings that would have to be followed if the revised regulation was to be issued to become effective on February 15, 1951.

The program outlined by Mr. Norton was approved unanimously.

Mr. Carpenter stated that Mr. Peyton, Chairman of the Presidents' Conference was making plans for the meetings of the Conference

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to be held at the end of February and would like to have the views of the Board as to the schedule that might be followed in connection with the meetings of the Presidents' Conference and the Open Market Committee. During the ensuing discussion, Chairman McCabe stated that he did not expect to be in Washington at that time, and it was agreed that the Secretary would discuss with Mr. Peyton the desirability of postponing the meetings until a date in early March when the Chairman could be in Washington.

At this point, all of the members of the staff, with the exception of Messrs. Carpenter and Hilkert, withdrew from the meeting.

Reference was made to a draft of letter to the Federal Reserve Bank of Cleveland which would approve (1) the appointments of Messrs. Gidney and Fletcher as President and First Vice-President of the Bank, each for a term of five years from March 1, 1951, and (2) increases in the salaries of certain officers of the Bank. Consideration was also given to a draft of letter to the Chairman of the Federal Reserve Bank of San Francisco which would state that the Board approved the appointments of Messrs. Earhart and Mangels as President and First Vice-President of the Bank, each for a term of five years from March 1, 1951, with salaries at the rate of \$25,000 and \$18,000 respectively.

The drafts had been circulated among the members of the Board prior to consideration at a meeting, and, in the discussion of the proposed increases in salaries of officers at the Federal Reserve Bank

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of Cleveland, Mr. Vardaman stated that the Board had not yet approved the budget of the Federal Reserve Bank for the current year. He also expressed the opinion that no action should be taken on the proposed increases until it was ascertained whether provision was made for such increases in the budgets of the Banks and stated that until that were done he would not be willing to vote for the proposed increases.

In a discussion of the points raised by Mr. Vardaman and of the caliber of men who should be sought for appointment as President and First Vice-President, the suggestion was made and concurred in that, during the course of the next five years, steps should be taken to obtain a suitable man from outside the San Francisco Bank to succeed Mr. Earhart as President.

During this discussion, Mr. Vardaman withdrew from the meeting.

Further consideration was given to the draft of letter to the Federal Reserve Bank of Cleveland referred to above and it was suggested that the matter of the reappointment of Presidents and First Vice-Presidents be considered at the next meeting of the Board, and the Federal Reserve Bank of Cleveland be informed that the Board would approve the increases in salaries of officers referred to in the draft of letter.

In accordance with this suggestion, unanimous approval was given to the following letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, it being understood that Mr. Vardaman would want to be recorded as not favoring the action:

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"As requested in your telegram and letter of January 11, 1951, the Board of Governors approves:

(1) The payment of salary to Wilbur T. Blair as Vice President, Counsel and Secretary at the rate of \$10,000 per annum for the period effective immediately through April 30, 1951.

(2) The payment of salary to Elwood W. Denton as an officer of the Bank with the title of Assistant Cashier at the rate of \$6,500 per annum effective January 1, 1951, through April 30, 1951.

(3) The payment of salary to the following officers at the rates indicated for the period January 1, 1951, through April 30, 1951:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
C. J. Bolthouse	Assistant Cashier	\$8,700
P. B. Didham	Assistant Cashier	8,000
G. H. Emde	Assistant Cashier	9,000
J. R. Lowe	Assistant Cashier	8,500
J. M. Miller	Assistant Cashier	8,500
G. R. Ross	Assistant Cashier	7,800
H. M. Boyd	Chief Examiner	9,000
L. M. Hostetler	Manager, Research Dept.	9,500
H. B. Flinkers	Assistant Secretary	6,800
<u>Cincinnati Branch:</u>		
P. J. Geers	Assistant Cashier	9,000
Clyde Harrell	Assistant Cashier	9,000
R. G. Johnson	Assistant Cashier	9,000
<u>Pittsburgh Branch:</u>		
W. H. Nolte	Assistant Cashier	8,000
J. R. Price	Assistant Cashier	7,400
J. A. Schmidt	Assistant Cashier	9,000
R. J. Steinbrink	Assistant Cashier	8,500

"The salary rates which the Board has approved are the same as those approved by your board of directors.

"Action on the reappointments and the salaries of the President and the First Vice President as requested in your letter of October 19, 1950, and your telegram of January 11, 1951, will be deferred for a short time. You will be advised as soon as the Board takes action on these matters."

At this point Mr. Hilkert withdrew, and the action

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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 January 22, 1951, were approved unanimously.

Memorandum dated January 23, 1951, from Mr. Hilbert, Acting Director of the Division of Personnel Administration, recommending that Miss Alice Bissell be appointed as a substitute nurse in that Division for a period of approximately five working days and that her compensation be fixed at the rate of \$11.90 per working day, effective immediately.

Approved unanimously.

Memorandum dated January 19, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of John Henry Battle, laborer in that Division, be extended on a permanent basis, effective February 4, 1951, with no change in his present basic salary at the rate of \$2,120 per annum.

Approved unanimously.

Memorandum dated January 22, 1951, from Mr. Hooff, Assistant Counsel, recommending that, in addition to the material previously submitted for publication in the Law Department of the January issue of the Federal Reserve Bulletin, the recently amended Supplements to Regulations T and U be included, together with an attached introductory statement.

Approved unanimously.

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

"The Board of Governors approves the appointments of Messrs. Sam W. Emerson, C. F. Hood, H. P. Ladds, Herman R. Neff, and John P. McWilliams as members of the Industrial Advisory Committee for the Fourth Federal Reserve District to serve for terms of one year each, beginning March 1, 1951, in accordance with the action taken by the Board of Directors as reported in your letter of January 17, 1951."

Approved unanimously.

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

"Reference is made to your letter of September 19, 1950, in which you request the views of the Board relative to a proposal by Fidelity-Philadelphia Trust Company, Philadelphia, that it offer its services to smaller banks and trust companies in Pennsylvania, which are desirous of establishing common trust funds under the provisions of Section 17 of the Board's Regulation F, as agent for such banks or trust companies for the performance of certain ministerial duties associated with the administration of such common trust funds.

"The Board has given careful consideration to the nature and extent of the services which are involved in the proposal and to the comments relative thereto included in the opinions of legal counsel, letters from the member bank and other pertinent material which have been forwarded in this connection.

"You have indicated that there possibly might be objection to the proposal in view of the provisions of Section 12 and Subsection 8 of Section 17(c) of the Board's Regulation F.

"The requirements of Section 12 of the Regulation relating to custody of trust securities and investments would not appear to be violated by an arrangement whereby such securities or investments are held in the custody of another banking institution provided satisfactorily protective custody and release provisions are in effect.

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"The 'exclusive management' provision of Sub-section 8, Section 17(c), is designed to clarify any question of administrative authority which might arise with regard to co-fiduciary accounts participating in a common trust fund, and, therefore, it is not appropriately related to any improper delegation of authority which might be involved in the proposal under review.

"Consideration has been given to the possibility of an improper delegation of powers and duties by a trustee institution which may become a party to the arrangement proposed by Fidelity-Philadelphia Trust Company. The information submitted relative to the nature and extent of the activities to be embraced in the agency service proposed by the member bank would appear to support a conclusion that no functions other than those of a purely ministerial type are involved and that none of a trustee's discretionary authority with regard to the administrative management of its common trust fund would be delegated to Fidelity-Philadelphia as agent. In this connection, it is understood that, in matters relating to the investment of the funds of a common trust fund, Fidelity-Philadelphia will act solely in an advisory capacity to the trustee institution and that all decisions respecting investments, while perhaps based upon analyses and recommendations submitted by Fidelity-Philadelphia, will be made by the trustee institution and that all actions to be taken with respect thereto will be supported by proper authorizations by the trustee institution.

"It does not appear, therefore, that the proposal, as set forth, would involve any violation of present provisions of Regulation F or that it would conflict with any fundamental concepts in the fiduciary relation.

"Will you please advise Fidelity-Philadelphia Trust Company of the Board's views in this regard."

Approved unanimously.

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

"Because of low level of activity under section 5(g) of Regulation X please discontinue weekly reports

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"on requests received and dispositions thereof, but report at end of each month. Report beginning end of January should cover activity during two week period and cumulative since October 12. Subsequent reports should cover activity during month and cumulative totals."

Approved unanimously.

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

"The Board is considering the advisability of amending Regulation X so as to make it apply to non-residential property, and there are enclosed herewith copies of a draft of a revision of the regulation for this purpose, with the proposed amendments in all-caps. The draft includes a few minor or clarifying changes in the provisions of the regulation presently applicable to residential and nonresidential property.

"You are at liberty, if you wish, to discuss this draft on a confidential basis with persons whose views would be helpful in consideration of this matter. This draft, of course, should not be disclosed to the public generally at this time.

"It is presently contemplated that some exemption for defense housing and other defense construction shall be made at the same time these amendments are adopted. However, no decision has been reached on this question, and there is no such provision in this draft.

"We would appreciate any comments with respect to the substance or the form of the proposed amendments regarding nonresidential property or of any presently applicable provisions of the regulation which it might be desirable to amend or clarify at this time. One particular question on which your comments would be appreciated is the following: In section 5(b) an exemption is provided for short-term residential construction credit if the maturity of such credit is not more than 18 months, and there is an exemption in section 5(c) for short-term multi-unit

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"residential construction credit if the credit is extended to any person other than the owner of the property. Is it desirable that all short-term construction credit be treated on the same basis, whether it is for residential property, multi-unit residential property, or nonresidential property, and, if so, should it be exempt regardless of the person to whom it is extended (as in the present section 5(b)) or should it be exempt only if it is extended to a person other than the owner of the property (as in the present section 5(c))? Also, should the 18-month maturity limitation for short-term multi-unit residential and nonresidential construction credit be lengthened to 24 months?

"You will observe and also may particularly wish to comment upon the following provisions of the draft:

(1) The determination of 'value' for nonresidential property would be on a bona fide sale price or appraised value basis, as the case may be.

(2) Maximum loan values would not be graduated according to the 'value' of the property.

(3) Amortization payments would be required which would annually reduce the outstanding debt by an amount not less than four per cent of the original principal amount of the credit.

(4) Extensions of credit pursuant to pre-amendment date agreements would be exempt from the regulation only if the agreements were in writing.

"It is hoped that these amendments may be made effective by February 15, the date on which the National Production Authority plans to begin the issuance of authorizations for commercial construction under its order of January 15, 1951. In order for the Board to complete its consideration of the proposed amendments, we would appreciate it very much if you would let us have your comments and suggestions by Friday, February 2, 1951."

Approved unanimously.

Telegram to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reurletter January 12, 1951, regarding loan to father to enable him to make loan to daughter for her to purchase

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"home. In circumstances described, loan should be considered to be exempt from Regulation W under section 7(h) of the regulation."

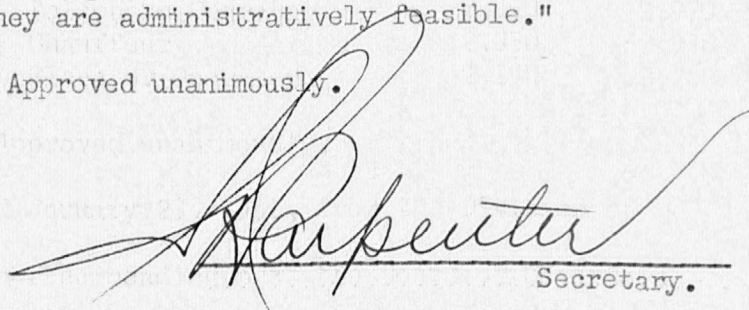
Approved unanimously.

Letter prepared for the signature of Chairman McCabe to Honorable William H. Harrison, Administrator, Defense Production Administration, Department of Commerce, Washington 25, D. C., reading as follows:

"As I am sure you are aware, the Board has had under active consideration for some time the desirability of extending credit controls to new construction in the so-called commercial field. I understand that this matter has been discussed by our staff with some members of the staff of the National Production Authority and that it was their tentative conclusion that it would be desirable for us to proceed with the application of credit controls on new commercial construction despite the fact that such construction is now covered by your M-4 order.

"We are not yet completely convinced that credit controls are administratively feasible in the commercial field, but the Board expects to consider a draft regulation, which would apply in this field, next week and in connection with that consideration I would like to know whether you agree that it would be desirable for us to proceed with such controls if it appears that they are administratively feasible."

Approved unanimously.



Secretary.