Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 25, 1951. The Board met in the Board Room at 9:15 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. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Hilkert, Acting Director, Division of Personnel Administration

At Mr. Evans' request, Mr. Townsend referred to a letter from the Federal Reserve Bank of Chicago, dated January 19, 1951, transmitting a report of an investigation of Roy's Appliance Company, Beloit, Wisconsin, which disclosed numerous wilful violations of Regulation W, Consumer Credit, by that firm as a result of which the Chicago Bank recommended that steps be taken to bring a civil proceeding against the registrant to enjoin it from continuing to violate the Regulation.

Upon motion by Mr. Evans, unanimous approval was given to an order in the following form, with the understanding that Mr. Chase would be authorized to incur such expenses for reporting service in conducting the investigation as in his judgment might be necessary, and that the 1951 budget of the Office of the Solicitor would be increased by an amount sufficient to cover such costs:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal Reserve System held at its offices in the City of Washington, D. C., on the 25th day of January, A. D., 1951

In the Matter of ROY'S APPLIANCE COMPANY	ORDER DIRECTING INVESTIGATION AND DESIGNATING OFFICERS TO TAKE TESTIMONY

I

"Members of the staff of the Federal Reserve Bank of Chicago have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that Roy's Appliance Company has made instalment sales of appliances subject to Regulation W:

1. Without obtaining the down payments required by Regulation W;
2. Without preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of Regulation W.

II

"The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Chicago, and for the purpose of (1) determining whether Roy's Appliance Company has violated the provisions of Regulation W and (2) aiding in the enforcement of said Regulation, deems it necessary and appropriate that an investigation be made to determine whether Roy's Appliance Company has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

III

"IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950 that an investigation be made to determine the matters set forth in paragraph II hereof.

"IT IS FURTHER ORDERED, pursuant to the provisions of Section 604 of the Defense Production Act of 1950 that for "the purpose of such investigation G. Howland Chase and Paul C. Hodge, and each of them, is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

"By the Board.

(Signed) S. R. Carpenter,
Secretary."

In connection with the foregoing, Mr. Vardaman stated that he felt that when the Board went to the trouble and expense of bringing a civil proceeding against a wilful violator of the Regulation, it should also take steps to institute criminal proceedings, and Mr. Townsend reviewed the reasons why he thought this would be inadvisable from the standpoint of the effective enforcement of the Regulation.

Mr. Townsend withdrew from the meeting at this point.

Mr. Szymczak stated that at the suggestion of Mr. Evans, the Personnel Committee had considered the advisability of offering legislation to amend the Civil Service Retirement Act so as to permit members of the Board of Governors to become members of the Retirement System of the Federal Reserve Banks rather than to continue as members of the Civil Service Retirement and Disability Fund. He went on to say that there was a difference of opinion within the Personnel Committee concerning the desirability of such a move, that it raised the question of what if anything should be done with respect to employees of the Board who were members of the Civil Service Retirement Fund, and that the presentation of the suggestion at this time might give rise to a number of questions as to the personnel of the Board and their status.

Mr. Evans stated that he felt it would be desirable to take steps to have the law amended to permit members of the Board of Governors to withdraw from membership in the Civil Service Retirement and Disability Fund and to become members of the Retirement System of the Federal Reserve Banks, that he realized there was some feeling that if this question were taken up it might result in an effort to bring all employees of the Federal Reserve System under civil service, but that it would be his recommendation that the staff be authorized to explore the matter with members of the staff of the Civil Service Commission for the purpose of ascertaining whether the Commission would object to the introduction of such legislation at the proper time.

At Chairman McCabe's suggestion, it was understood that Messrs. Carpenter and Hilkert would consider the manner in which the matter should be taken up with representatives of the Civil Service Commission.

Mr. Vardaman referred to a draft of letter to Mr. Sproul, President of the Federal Reserve Bank of New York, stating that the Board concurred in the action of that Bank's directors, as reported in a letter dated January 9, 1951, authorizing John H. Williams, Economic

Adviser, to spend about four weeks in Paris as an adviser to the Organization of European Economic Cooperation. He also referred to the circumstances under which Mr. Stead, Vice President of the Federal Reserve Bank of St. Louis, was granted leave by that bank to accept an assignment to assist the Secretary of the Interior, and to the fact that both of these actions were approved by the respective banks before advice concerning them was sent to the Board. Mr. Vardaman stated that it was his understanding that the Banks had been requested by the Board to bring such requests for services of personnel to the Board's attention before final action was taken by the directors of the banks on the request, that in the instances mentioned this procedure was not observed, and that he felt steps should be taken to have the banks follow the procedure of submitting such requests to the Board before final action.

Mr. Szymczak stated that the New York Bank had long taken the position that it did not need to submit such matters for the consideration of the Board, but that it did make a practice of informing the Board of actions it took in granting leaves of absence to its personnel to assist in foreign assignments.

Chairman McCabe suggested that the outstanding letters of instruction to the Federal Reserve Banks on this matter be reviewed for the purpose of ascertaining what if any changes therein would be desirable.

This suggestion was approved unanimously.

Thereupon, unanimous approval was given to a letter to Mr. Sproul as follows:

"The Board concurs in the action of your Bank's directors, as advised in your letter of January 9, authorizing Dr. John H. Williams, Economic Adviser, to spend about four weeks in Paris as an adviser to the Organization for European Economic Cooperation in connection with the preparation of its third annual report and in connection with discussions of the transition between an economic aid program and a rearmament program. It is noted that Dr. Williams left for Paris on this assignment on January 9."

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

Mr. Szymczak stated that at the meeting of the Personnel Committee yesterday consideration was given to advices that had been received from some of the Federal Reserve Banks of actions taken by the boards of directors of the Banks to increase the salaries of certain of the officers of the Banks. The actions of the directors, Mr. Szymczak said, raised the question whether the Board should give consideration to the recommendations of the directors at this time, and it was the conclusion of the Personnel Committee that the matter should be presented to the Board for decision.

The question was discussed in the light of the very substantial increases in salaries and wages that had taken place throughout the country in the recent period and the unfavorable position in which the Federal Reserve Banks had been placed from the standpoint of attracting and retaining the necessary well-qualified officers to enable the Banks to operate at a high level of efficiency and to discharge effectively the broader responsibilities which the Banks have as a part of the central banking organization of the country. Reference was made in this connection to the reasons for the present arrangement under which the salaries proposed for the Federal Reserve Banks of New York and Chicago are considered by the Board in March, for the Federal Reserve Banks of Boston, Philadelphia, Cleveland, and San Francisco in April, and the remaining six Banks in May. Mr. Szymczak stated that the procedure had been adopted by the Board because of the great difficulty which had been experienced in finding time adequately to consider the recommendations from all of the Federal Reserve Banks in December of each year when the Board was occupied with a number of year-end matters such as the budgets of the Federal Reserve Banks and the appointment of directors. He added that the existing procedure was designed to meet this difficulty and to afford the Board ample time to consider the proposals received from the Federal Reserve Banks and that, while he did not object to an exception being made in the procedure for this year because of the unusual situation confronted by the Reserve Banks, he did not believe the procedure should be changed.

All of the members of the Board present, with the exception of Mr. Vardaman, felt that the situation was such that the recommendations of the directors of the Federal Reserve Banks with respect to salaries of officers other than the president and first vice president might well be considered now. Mr. Vardaman felt that the Federal Reserve Banks which had submitted recommendations to the Board should be informed that officers' salaries would be considered at the usual times in March, April, and May.

At the conclusion of a discussion, during which Mr. Vardaman withdrew from the meeting to keep another appointment, upon motion by Mr. Norton, it was agreed unanimously that Mr. Hilkert should telephone the Chairmen of the Federal Reserve Banks and advise them that because of the substantial increases that had taken place in the cost of living and in salary scales throughout the country during the recent period and the unfavorable position in which this development had placed the Federal Reserve Banks from the standpoint of attracting and maintaining adequate official staffs, the Board would be willing to make an exception to its existing procedure with respect to the consideration of officers' salaries and to consider at this time any recommendations that the boards of directors might wish to submit for changes in salaries of officers other than presidents and first vice presidents.

This action was taken with the understanding that Mr. Vardaman would want to be recorded as opposing it.

Mr. Riefler came into the meeting during the consideration of the above matter and stated that he had been invited to attend a meeting at the Treasury at which consideration would be given to the recommendations to be made to the Congress with respect to further tax legislation, that it was expected that at the meeting he would be in a position to express the general position of the Board on the matter, and that it would be helpful if the Board would state in general terms what its views were.

All of the members present expressed concurrence in the view that the Government should follow a "pay as you go" policy to the fullest extent possible, that the additional taxes should be in such form as would be most effective in absorbing purchasing power as an anti-inflationary measure, and that legislation should be enacted as promptly as possible.

Thereupon Mr. Riefler withdrew from the meeting.

After some further discussion of Federal Reserve Bank salaries Chairman McCabe withdrew to keep another appointment and Mr. Vardaman returned to the meeting.

Reference was made to earlier informal discussions of the proposal of the directors of the Federal Reserve Bank of Chicago that, effective April 1, Mr. Mitchell be appointed a Vice President of the Federal Reserve Bank of Chicago and put in charge of the Bank's Research Department to succeed Mr. Langum who is leaving the service of the Bank. The comment had been made during the informal discussions that while Mr. Mitchell was outstanding in the tax field there was a question whether he was sufficiently well grounded in the monetary field to serve as head of the Bank's Research Department.

In the ensuing discussion Mr. Powell stated that the matter came up and was discussed with him while he was in Chicago recently, that what the Bank needed was a well-rounded economist who could operate the Department effectively, and that it was felt that Mr. Mitchell was well qualified to fill that need. It was also Mr. Powell's view that Mr. Mitchell would meet the primary need of the Bank for a well-rounded economist, that he would not be unfamiliar with the monetary field, and that, if necessary, his qualifications in that field could be supplemented by an assistant as had been done at the Federal Reserve Banks in other fields such as agriculture. In these circumstances, Mr. Powell said, it would be his recommendation that the Board indicate its willingness to approve the appointment of Mr. Mitchell.

Upon motion by Mr. Powell, his recommendation was approved unanimously.

At this point Mr. Hilkert 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 January 24, 1951, were approved unanimously.

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

"The Board of Governors approves the payment of salary to the following officers at the rates indicated which, according to your letter of January 5, 1951, are "the rates which were approved by your board of directors, for the period beginning January 1, 1951, through March 31, 1951:

Name	Title	Annual Salary
J. J. Carroll	Assistant Vice President	$14,000
Edward G. Guy	Assistant Counsel and Assistant Secretary	10,000
A. A. MacInnes, Jr.	Manager	9,500
H. A. Muether	Manager	11,000
A. H. Noa	Manager	9,500
Gustav Osterhus	Manager	10,000
A. C. Walton	Manager	8,000
Harding Cowan	Assistant Counsel	11,000

"The Board notes that changes have been made in the assignments of several of the officers and that the directors have now reappointed all of the officers at the Head Office and the Buffalo Branch for the period extending to the first meeting of the board of directors in January 1952 with the exception of the President, First Vice President, and Assistant Vice President Ten Eyck, who has been reappointed for the five-month period ending May 31, 1951."

Approved, Mr. Vardaman voting "no".

Letter to Mr. Weigel, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves:

(1) The payment of salary to George W. Hirshman as General Auditor at the rate of $7,200 per annum for the period beginning January 1, 1951, through May 31, 1951.

(2) The payment of salaries to the following officers at the rates indicated for the period beginning January 1, 1951, through May 31, 1951:

Name	Title	Annual Salary
D. M. Lewis	Assistant Vice President	$9,000
E. R. Billen	Assistant Vice President	8,000
J. J. Christ	Assistant Vice President	8,000
G. O. Hollocher	Assistant Vice President	8,000
F. N. Hall	Assistant Vice President	8,000

(3) The payment of salary to W. J. Bryan as Assistant Manager of the Little Rock Branch at the rate of $5,160 per annum beginning January 1, 1951, or such later date as the Bank may determine, through May 31, 1951.

"The above rates approved by the Board are the rates which, according to your letter of January 12, 1951, were fixed by your board of directors.

"The Board of Governors in its telegram of January 12, 1951, approved the appointments of and the payment of salaries to Delos C. Johns as President and Olin M. Attebery as First Vice President for the periods and at the rates fixed by your board of directors.

"It is noted from your letter that all the other officers at the Head Office and Branches were reelected for the calendar year ending December 31, 1951."

Approved, Mr. Vardaman voting "no".

Letter to Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"The Board of Governors approves the reappointments of Messrs. Carl P. Dennett, Paul A. Draper, Edward M. Graham, J. Colby Lewis and Ralph E. Thompson as members of the Industrial Advisory Committee for the First 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 of the Federal Reserve Bank of Boston, as reported in your letter of January 22, 1951."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to Mr. Strothman's letter of January 8, 1951, and previous correspondence, relating to certain rubber stamp legends proposed by Northwest Bancorporation for use by its affiliates as a means of complying with the Statement of the Borrower requirements of Regulation X.

"Mr. Strothman referred to the rubber stamp legend which read 'This is not a residential real estate construction credit', which would be signed by the borrower, and stated that some of Northwest Bancorporation's affiliates wished to know whether its use was definitely disapproved by the Board.

"Section 4(c) of Regulation X provides that, in ascertaining the nature of credit, a Registrant is not required to obtain a signed statement from every borrower. If, however, a Registrant desires to obtain, and accepts in good faith, a signed statement substantially the same as the Statement of the Borrower described in the last sentence of section 4(c), the acceptance of such a statement is one means of ascertaining the nature of the credit and thereby complying with section 4(c).

"We are of the opinion that the statement 'This is not a residential real estate construction credit' does not substantially conform with the last sentence of section 4(c), because such a statement does not point out the special meaning under Regulation X of the phrase 'real estate construction credit', and you may advise Northwest Bancorporation to this effect. However, you may wish to emphasize that a Registrant is not required to obtain a signed statement from each borrower in order to ascertain the nature of the credit, and if the Registrant is satisfied that the credit is not real estate construction credit, other kinds of records may be used to demonstrate this fact. For example, such a rubber stamp legend as that proposed by the Northwest Bancorporation's affiliates, if placed upon the credit instrument or upon other papers in connection with the credit and signed by the Registrant or a responsible officer of the Registrant, would be a sufficient record to demonstrate the fact that the Registrant was satisfied that the credit extended was not real estate construction credit.

"In view of the fact that Northwest Bancorporation has subsidiary banks in the Seventh and Tenth Federal Reserve Districts, we are sending copies of Mr. Strothman's letter of January 8, 1951, and this reply, to the Federal Reserve Banks of Chicago and Kansas City."

Approved unanimously.

Letter to Mr. Samuel E. Neel, Esq., Mortgage Bankers Association, Rust Building, 1001 - 15th Street, N. W., Washington 5, D. C., reading as follows:

"This refers to your letter of January 15, 1951, with enclosures, addressed to Mr. W. A. Clarke, relating to the maximum maturity of extensions of credit subject to Regulation X.

"The maturity provision in the Supplement to Regulation X provides for a maximum maturity of 20 years (or 25 years, in some cases) 'from the date such credit is extended'. In trade practice, provision often is made for the payment of the first instalment of an amortized loan on the first day of the second calendar month after the month in which the credit is extended. In order to permit this practice, the Board, in a telegram to the Presidents of all Federal Reserve Banks on November 3, 1950, stated: '* * * in calculating the maximum maturity of credit subject to the regulation, a Registrant may, at his option, use any date not more than 32 days subsequent to the date such credit is extended.'

"Regulation X, as amended effective January 12, 1951, provides in section 6(n) that 'In calculating the maximum maturity of credit subject to this regulation, a Registrant may use, at his option, as "the date such credit is extended", any date not more than 32 days subsequent to the actual date such credit is extended.'

"Neither the interpretation of November 3, 1950, nor section 6(n) of the regulation means that the first instalment of an amortized loan must be paid within 32 days after the date the credit is extended. They do mean, in effect, that the maximum maturity of credit subject to Regulation X may be 20 years and 32 days (or, in some cases, 25 years and 32 days) from the actual date such credit is extended.

"For example, if a 20-year loan payable monthly were closed on January 1, 1951, and the first payment is made on March 1, 1951, the last payment would be made on February 1, 1971. Here the Registrant would be using February 1, 1951, which is 31 days subsequent to the actual date such credit is extended, as 'the date such credit is extended', and the loan would mature 20 years from such date. The loan, in effect, would have a maturity of 20 years and 31 days from January 1, 1951, the actual date such credit was extended.

"The principles of the interpretation of November 3, 1950, and of section 6(n) of the regulation are not limited to monthly payment loans. The amortization provision in the Supplement to Regulation X permits repayment through substantially "equal monthly, quarterly, semiannual, or annual payments. As a further illustration, in the case of a 20-year loan payable annually in 20 instalments, where the loan is closed on February 1, 1951, the first payment could be made on March 1, 1952, because the last payment would be made and the loan would mature on March 1, 1971. Here the Registrant would be using March 1, 1951, which is 28 days subsequent to the actual date such credit is extended, as 'the date such credit is extended', and the loan would mature 20 years from such date."

Approved unanimously.

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

"This refers to Mr. Schlaikjer's letter of January 17, 1951, concerning the request of Mr. A. G. Helmund, Assistant Cashier of the Middlesex County National Bank, Somerville, Massachusetts, for an interpretation of Regulation X. Mr. Helmund asked whether a Registrant, who already had extended credit up to the maximum loan value with respect to a major improvement to a two-family residence, may make an additional loan with respect to that property up to an amount representing that portion of the proceeds of the original loan with which the borrower's contractor absconded.

"Mr. Schlaikjer stated his opinion was 'that if the Registrant is satisfied that a portion of the proceeds of the original loan was in fact stolen by the contractor, the Registrant may consistent with Regulation X extend additional credit which when added to the proceeds of the original loan actually used for the major improvement will not exceed the maximum loan value thereof.'

"The Board concurs in the opinion of Mr. Schlaikjer, and you may advise Mr. Helmund to this effect."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and Managing Officers of all Federal Reserve Bank Branches, reading as follows:

"A Statement of Borrower with respect to Residential Real Estate Construction Credit, and a Statement of Borrower with respect to Credit Which Is Not Real Estate Construction Credit, revised pursuant to the amended Regulation X, Residential Real Estate Credit, has now been approved and mimeographed copies are enclosed."

Approved unanimously.

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

"Reference is made to your letter of January 13, 1951, submitting the request of The Fidelity Bank, Durham, North Carolina, for approval under the provisions of Section 24A of the Federal Reserve Act, of an additional investment of $200,000 in bank premises, for the purpose of enlarging and renovating the banking quarters at its main office and its West Durham branch.

"In view of your recommendation, the Board of Governors approves the investment of not more than $200,000, as proposed, provided the prior approval of State authorities is obtained if required."

Approved unanimously.

Memorandum dated January 23, 1951, from Mr. Carpenter, Secretary of the Board, recommending that the Board authorize the purchase of an additional safe for storage of the bound volumes of the minutes of the Board and the Federal Open Market Committee and that the 1951 budget of the Office of the Secretary be increased to cover the cost, estimated at $668.20.

Approved unanimously.

S R Carpenter

Secretary.