Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 30, 1951. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
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. Hilkert, Acting Director, Division of Personnel Administration
Mr. Fauver, Administrative Assistant to the Chairman

Mr. Townsend stated that in a letter dated January 23, 1951, the Federal Reserve Bank of Cleveland submitted a report of investigation of A. Harris Motor Sales, Pittsburgh, Pennsylvania, indicating that the firm had made instalment sales of automobiles in violation of the terms of Regulation W, Consumer Credit. The letter also stated that the registrant refused to permit the Reserve Bank to complete an inspection of its books and that, under the circumstances, the Bank was submitting the case to the Board with a recommendation that appropriate steps be taken to bring about compliance by the firm. Mr. Townsend went on to say that it was his recommendation that the Board order an investigation of the motor firm.

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Thereupon, the following order was approved unanimously, with the understanding that the Solicitor's office was authorized to incur such expenses for reporting service in connection with the investigation as were deemed necessary, and that the 1951 budget of the Solicitor's office 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 30th day of January A. D., 1951.

In the Matter of
A. HARRIS MOTOR SALES.

ORDER DIRECTING INVESTIGATION AND DESIGNATING OFFICERS TO TAKE TESTIMONY

I

Members of the staff of the Federal Reserve Bank of Cleveland have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that A. Harris Motor Sales has made instalment sales of automobiles subject to Regulation W:

1. Without obtaining the down payments required by Regulation W;
2. When those acting on its behalf knew or had reason to know that other credit was, or was to be, extended in connection with the purchase of the automobile which would bring the total amount of credit extended in connection with such purchase beyond the amount permitted by Regulation W;
3. 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.
4. Refusing to permit the Federal Reserve Bank, by its duly authorized representatives, to make such inspections of its books of accounts and other papers as the Federal Reserve Bank deemed necessary or appropriate for the purpose of determining whether or not there had been compliance with the requirements of Regulation W.

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II

"The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Cleveland, and for the purpose of (1) determining whether A. Harris Motor Sales 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 A. Harris Motor Sales 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 Wilbur T. Blair, 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."

Mr. Townsend also stated that a letter from the Federal Reserve Bank of Chicago dated January 23, 1951, transmitted a report of investigation of Bogda Motor Company, Inc., Indianapolis, Indiana, indicating that the firm had made instalment sales of automobiles in violation of Regulation W, and that the Bank recommended that the Board take appropriate steps to bring about compliance by the registrant.

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Unanimous approval was given to the following order, with the understanding that the Solicitor's office was authorized to incur such expenses for reporting service in connection with the investigation as were deemed necessary, and that the 1951 budget of the Solicitor's office 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 30th day of January, A. D., 1951.

In the Matter of
BOGDA MOTOR COMPANY, INC.

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 Bogda Motor Company, Inc., has made instalment sales of automobiles 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 Bogda Motor Company, Inc., 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 Bogda Motor Company, Inc. 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.

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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."

Chairman McCabe expressed the opinion that immediate consideration should be given by the Board to recommendations that might be submitted to the Congress for legislation which would authorize the application of further credit restrictions by increases in reserve requirements and otherwise, and which would bring about restraint on credit extensions by insurance companies and perhaps other non-bank lenders.

During the ensuing discussion it was suggested that the Board conduct a public investigation of credit extensions by various agencies, with a view to determining what recommendations should be made to Congress covering the entire credit-granting field. Mr. Vardaman felt that any such investigation should be initiated by the Congress.

Following the discussion, Chairman McCabe suggested that Mr. Powell look into the question of the kind of studies that might be made and that he report at the next meeting of the Board, and it was understood that this procedure would be followed.

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

Advices having been received from the following Federal Reserve Banks of the appointments of Presidents and First Vice Presidents of the respective Banks for new terms of five years beginning March 1, 1951, unanimous approval was given to such appointments as follows with the understanding that in the cases where the directors recommended salary increases above the maximum salaries fixed by the Board for Presidents and First Vice Presidents, the Banks would be advised that the question of salary increases was awaiting clarification of the general wage stabilization regulation recently issued by the Government, that until the Board had some further word as to how the regulation was to be applied, no action could be taken by the Board, but that when such clarification was received the proposed salary increases would be taken up in the light of the policy established by the regulation as well as other aspects of the problem, including those which had been considered by the Board in the past:

Federal Reserve Bank	President	First Vice President
Philadelphia	Alfred H. Williams	W. J. Davis
Cleveland	Ray M. Gidney	Wm. H. Fletcher
Chicago	C. S. Young	E. C. Harris
Minneapolis	J. N. Peyton	A. W. Mills
San Francisco	C. E. Earhart	H. N. Mangels

It was also understood that in accordance with this action, appropriate letters of advice of the Board's approval of these appointments and of the existing salaries of the appointees would be prepared and sent upon approval of the Personnel Committee.

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There was then presented a memorandum dated January 29, 1951, from the Personnel Committee recommending that Mr. Karl T. Compton, Chairman of the Massachusetts Institute of Technology, be appointed a Class C Director of the Federal Reserve Bank of Boston for the unexpired portion of the term ending December 31, 1953, if, in accordance with the usual procedure, it was ascertained that he would accept the appointment.

After a brief discussion, it was voted unanimously to request the Chairman of the Federal Reserve Bank of Boston to ascertain informally whether Mr. Compton would accept the appointment if tendered.

At this point, Mr. Hilkert withdrew and Mr. Vardaman then presented a memorandum which he had addressed to the Board under date of January 29, 1951, reading as follows:

"It is my understanding that Chairman McCabe was invited to appear, on behalf of this Board, before the Committee on the Economic Report and that Chairman O'Mahoney announced at the opening of the hearing when Governor Eccles testified, that Governor McCabe was unable to attend because of illness and absence from the city and that Governor Eccles would appear in his place. In spite of Governor Eccles' statements that he was speaking for himself personally and not for the Board, the impression seems to be that he was, unofficially at least, expressing the Board's opinion.

"As a Board member I had no notice that the Chairman had been officially requested to appear before this committee. If I had had such notice I would have urged that the Chairman or some spokesman for the Board appear before the committee and make a statement substantially as follows.

"'The Federal Reserve Board has made its recommendations to the Secretary of the Treasury in connection with the interest rate on short-term Government obligations and also with reference to the interest rate and maturities on funding and refunding bonds. In the exercise of his statutory authority and obligation, the Secretary has not thought it wise to follow all of the suggestions made by this Board in connection with these matters. Acting in his official capacity, as the spokesman for the Government, the Secretary has announced a financing program, and this Board has nothing further to say on the questions involved other than to state quite firmly and clearly that the Board will support to the fullest extent of its authority the program as officially promulgated by the United States Treasury.

'Whenever it is in line with its statutory authority to do so, the Board will advise with the Secretary on all matters relating to the management of the public debt or any other questions which he may desire to discuss. But it should be clearly understood that under our constitutional framework and present statutory laws, the management of the public debt is the responsibility of the Secretary of the Treasury, and this Board will support him to the utmost of its ability in his officially declared programs and actions.

'We believe the duty of this Board to be to make its ideas available and known in council, but not to make such ideas prevail and the Board will act in accordance with this belief in the present situation.'

"Under no circumstances should this Board be guilty of endeavoring to bring outside pressure to bear in an effort to have its way.

"It is my intention to offer a motion in the meeting of the Board on Tuesday, the 30th, to request the Chairman to make a public statement similar to the above, on behalf of this Board at the earliest appropriate moment."

In the ensuing discussion, Chairman McCabe made the statement that when he was asked to be the first witness at the hearings now

being conducted by the Joint Committee on the Economic Report preparatory to the submission of the Committee's report to the Congress, he had asked to be excused because of the press of other very important matters (and not, as indicated in Mr. Vardaman's memorandum, because of illness). He also said that, as shown by the record of the hearings, the request that Mr. Eccles appear before the Committee was an entirely independent request made by Senator Taft, that the request had no relationship to the request from Senator O'Mahoney that the Chairman of the Board testify, and that at no time was it understood that Mr. Eccles was testifying in place of the Chairman of the Board or that the former spoke for the Board. It was also pointed out that Mr. Eccles had made it clear in his testimony that he was speaking only for himself and not for the Board.

In connection with the discussion of who should speak for the Board on matters of Board policy, Chairman McCabe expressed strongly the opinion that the Chairman should be the official spokesman for the Board on all matters of policy, that this did not mean that other members of the Board should not make speeches, but rather that public statements of all members of the Board, in the absence of necessity for any other procedure, should be in accordance with Board policy.

During a discussion of the suggestion contained in Mr. Vardaman's memorandum that the Chairman make a public statement similar

to the one quoted in the memorandum, several members of the Board expressed the view that such a step would be unwise since the statement would not serve to clarify in the public mind the relationship of the debt management responsibilities of the Treasury and the monetary and credit responsibilities of the Federal Reserve System.

During the discussion Mr. Vardaman withdrew from the meeting. There was some further discussion of the public statement which Mr. Vardaman had proposed but no action was taken with respect to it.

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 29, 1951, were approved unanimously.

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

> "Reference is made to your letter of January 20, 1951, submitting the request of The Farmers State Bank of Worland, Worland, Wyoming, which has $50,000 capital stock, for the Board's approval of expenditures heretofore made for enlarging and remodeling its banking premises which brought the aggregate investment in such premises as shown by the report of examination of September 6, 1950, to approximately $114,600. It is understood that the carrying value of the investment in bank premises has subsequently been reduced to $59,800.
>
> "In view of your recommendation, the Board of Governors approves the additional investment in banking premises as described in your letter."

Approved unanimously.

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Letter to Honorable Hiram Bingham, Chairman, Loyalty Review Board, United States Civil Service Commission, Washington 25, D. C., reading as follows:

"This refers to your letter of January 18, 1951, addressed to Chairman McCabe, requesting certain information in connection with the application of the Federal Employees' Loyalty Program to officers and employees of any defense organizations established under the general jurisdiction of the Board of Governors.

"1. No new defense organization, as such, has been established within the Board of Governors of the Federal Reserve System. However, the Board recently established a new Division of Selective Credit Regulation to assist the Board in connection with matters relating to loan guarantees for defense production, consumer credit, and residential real estate credit.

"2. Loyalty cases of personnel of the above-named Division will be adjudicated within the framework of our present loyalty regulations and by our present Loyalty Board. There is no necessity at this time to amend our loyalty regulations or to establish additional Loyalty Boards.

"3. There is no change as to who will constitute the 'head of the agency' or his designee with respect to the new Division referred to above."

Approved unanimously.

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

"This refers to your letter of January 18, 1951, enclosing a copy of a letter dated January 17, 1951, from Norris & Kenly, 209 South LaSalle Street, Chicago, concerning the application of Regulation T to a member of the Midwest Stock Exchange who is registered and acts as a specialist in registered securities.

"The first inquiry in this correspondence is whether, if such specialist is not also registered as

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"an odd-lot dealer, section 4(g) of the regulation requires that his specialist's account with a creditor be subject to the same conditions as are applicable in the case of a general account. This inquiry must be answered affirmatively inasmuch as the Midwest Stock Exchange is not one that has been designated under the exception in the last sentence of section 4(g).

"The other inquiry presented by the above correspondence is whether, if the aforementioned specialist were registered also as an odd-lot dealer, the creditor is required to handle the odd-lot transactions in a special miscellaneous account under section 4(f)(4), and to handle the specialist transactions separately in the specialist's account.

"As a practical matter, it is understood to be extremely doubtful in such instances whether an adequate or suitable separation can be made between the odd-lot transactions and the transactions of the same individual as specialist. In the circumstances, the Board in such a case would not be disposed to question the propriety of transactions in a section 4(f)(4) account which included some specialist transactions, as well as the usual odd-lot transactions."

Approved unanimously.

Letter to Mr. William G. Biddulph, 101 Cedar Lane, Trenton 10, New Jersey, reading as follows:

"Your letter of January 11, 1951, addressed to the Department of Commerce has been referred to us for reply since this Board is charged with the responsibility for administering Regulation W concerning consumer credit. You state that you are a totally disabled veteran of World War II, and that you are interested in purchasing an automobile.

"Regulation W prescribes terms of 33-1/3 per cent down payment and no more than 15 months maximum maturity on instalment credit in connection with the sale of a new or used automobile. Section 7 (e) (5) of the regulation, however, exempts from these requirements of the regulation any credit

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"to veterans 'extended, guaranteed, or insured in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944, as amended, or by any State agency pursuant to similar State legislation'. It is our understanding that certain loans to veterans 'for business purposes' do on occasion include the financing of automobiles to be used in the veteran's business. Unless the loan for which you applied would so qualify we know of no applicable exemption from the provision of Regulation W.

"The guaranteed or insured loans referred to above are generally made through private sources, which may be a banking or other financial institution. We would suggest that you get in touch with a bank in your community for information with respect to the general requirements applicable to the guarantee or insurance of business loans to veterans and the steps to be taken in order to obtain such financing.

"We hope that the foregoing information will be helpful. In the event you require additional information, you may find it more convenient to address your inquiries to the Federal Reserve Bank of Philadelphia since the administration of Regulation W is decentralized among the Federal Reserve Banks."

Approved unanimously.

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

"This refers to Mr. Strathy's letter of January 9, 1951, in which he enclosed a copy of a letter from Major Robert O. Mitterling, United States Air Force, relative to arranging secondary borrowing in connection with the purchase of a residence, the primary financing of which is to be guaranteed or insured by the Veterans Administration.

"In order to supplement the information contained in Major Mitterling's letter, members of the Board's staff have informally discussed the question in telephone

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"conversations with him and the factual situation appears to be essentially as follows:

"Major Mitterling has contracted to buy a residence which is 'new construction' for $18,750. Because of an exemption from the October 12, 1950, restrictions, the VA is committed to insure or guarantee a loan secured by a mortgage on the property up to 95 per cent of the sale price, and if a lender will make this loan, Major Mitterling, of course, will have to make a down payment of only 5 per cent. However, the lender with whom he has been negotiating, apparently is unwilling to make a 95 per cent loan, and, as a result, a larger down payment must be made. In order to raise the necessary amount, Major Mitterling applied for an $800 loan (which would not be insured or guaranteed) from a Registrant under Regulation X and the Registrant quite properly asked him to sign a Statement of the Borrower in accordance with the provisions of the regulation.

"Under these facts, we believe the Registrant would violate Regulation X if he made the $800 loan, and you may so advise Major Mitterling. However, you may wish to call his attention to the fact that a loan insured or guaranteed by the VA is not real estate construction credit within the meaning of Regulation X, and, since the VA is committed to insure or guarantee a 95 per cent loan, an insured or guaranteed loan for that amount would not be in violation of Regulation X."

Approved unanimously.

Memorandum dated January 26, 1951, from Mr. Thurston, Assistant to the Board, requesting approval in the amount of $150 to cover the additional production costs entailed by Encyclopaedia Britannica Films Inc. as a result of changes made at our request in the film "FEDERAL RESERVE SYSTEM". The memorandum also stated that it would be necessary to increase the 1951 budget of the

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Division of Administrative Services to cover this additional cost.

Approved unanimously.

Secretary.