

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 2, 1951.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
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 February 1, 1951, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Kansas City and San Francisco on January 30, by the Federal Reserve Bank of St. Louis on January 31, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on February 1, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated January 30, 1951, from Mr. Marget, Director of the Division of International Finance, recommending the appointment of Miss Anita Conchita Perez as a clerk-stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,650 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

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Approved unanimously.

Memorandum dated January 25, 1951, from Mr. Marget, Director of the Division of International Finance, recommending an increase in the basic salary of Miss Nancy Smith, a research assistant in that Division, from \$3,100 to \$3,225 per annum, effective February 4, 1951.

Approved unanimously.

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

"In accordance with the request contained in your letter of January 26, 1951, the Board approves the appointments of Anthony Giachetti and Alfred Kirmss, at present assistant examiners, as examiners for the Federal Reserve Bank of New York; the appointments of Daniel J. Breighner, Edward H. Malone, Charles J. Menge, Charles J. Obermayer and Paul C. Zorn, as assistant examiners; and the designations of Frank X. Kayser and Allan C. Hines as special assistant examiners. Please advise us of the dates upon which the appointments of the examiners and assistant examiners are made effective."

Approved unanimously.

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

"Thank you for your letter of January 26, 1951, advising that the Executive Committee of your Board of Directors has accepted the resignation of Vice President Langum effective March 31, 1951, and has authorized a severance allowance equal to five months salary."

Approved unanimously.

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

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"In accordance with the request contained in your letter of January 11, 1951, the Board of Governors approves the continuation of the payment of salary to Mr. Carl J. Kopsa, Jr., Assistant Chief Engineer, at the rate of \$4,404 per annum on the basis of a forty-hour week which is below the minimum salary established for the grade in which his position is classified.

"In your letter it is stated that Messrs. Komes, Stewart, Cwynar, and Ukinski are receiving salaries in excess of the maximums established for the grades in which their respective positions are classified under approval of the Board of Governors as stated in its letters of July 13, 1949, and November 9, 1949. However, the salaries as shown for these employees are in excess of those approved by the Board of Governors and your advice in this connection will be appreciated."

Approved unanimously.

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

"In view of the circumstances described in your letter of January 13, 1951, the Board of Governors approves the payment of salaries for a further period of three months beginning February 1, 1951, to the following employees at the rates indicated which are below the minimums established for the grades in which the respective positions are classified:

	<u>Name</u>	<u>Salary</u>
Head Office	L. A. Willour	\$3,900
Salt Lake City	L. D. Moyer	4,620
Seattle	Mary S. Eden	2,820
Seattle	W. Savery	3,600"

Approved unanimously.

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

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors

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"of the Federal Reserve System hereby certifies that the 'Bank of Pontiac', Pontiac, Illinois, became a member of the Federal Reserve System on January 29, 1951, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

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

Approved unanimously.

Telegram to Mr. Knoke, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Your wire February 1. Board approves the opening and maintenance of an account on your books in the name of the Central Bank of Ceylon, subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments.

"It is understood that you will in due course offer participation in this account to the other Federal Reserve Banks."

Approved unanimously.

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

"Referring to your letter and recommendation of January 29, 1951, the Board of Governors further extends until August 15, 1951, the time within which the 'Wilmington Trust Company', Wilmington, Delaware, may establish the branch in Greenville, Delaware, as

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"approved by the Board under date of August 15, 1949."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of January 17, 1951, which outlines the proposed increase in carrying capacity of air conditioning equipment at the New Orleans Branch.

"The Board has considered the matter and authorizes your Bank to obtain bids and let contracts for the improvement of the New Orleans Branch air conditioning equipment at a cost up to approximately \$40,000, exclusive of engineers' and architects' fees."

Approved unanimously.

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

"Reference is made to your letter of January 17, 1951, submitting the application of The Peoples Bank & Trust Company, Selma, Alabama, for permission to exercise fiduciary powers.

"In view of the Reserve Bank's recommendation and the information submitted, the Board of Governors of the Federal Reserve System grants the applicant permission, under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of Alabama.

"You are requested to advise The Peoples Bank & Trust Company, Selma, Alabama, of the Board's action."

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 26, 1951, submitting the request of The Citizens State Bank,

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"Liberal, Kansas, for approval under Section 24A of the Federal Reserve Act, of an investment of approximately \$133,000, for the construction of a new bank building, including the cost of the lot, vault, heating and air conditioning equipment and fixtures. It is understood that upon completion of the building the carrying value of the investment will be charged down to \$50,000, the amount of the bank's present capital.

"In view of your recommendation, the Board of Governors approves the investment in banking premises as described in your letter."

Approved unanimously.

Letter to Mr. Robert L. Irvin, 59 Pineapple Street, Brooklyn

2, New York, reading as follows:

"This refers to your letter of January 19, 1951, regarding Regulation T on the subject of margin requirements.

"You state that you understand that section 6(g) of the regulation permits cash dividends to be withdrawn from an account in certain circumstances, but that the provision does not permit stock dividends to be withdrawn.

"You are correct in your understanding that section 6(g) does not authorize the withdrawal of stock dividends. The general principle is that the section grants to interest and cash dividends certain privileges. This is on the ground that they usually are more comparable to income than to a reduction in principal. On the other hand, a stock dividend is less likely to have that characteristic; to permit its withdrawal would in most cases tend to dilute the account. The distinction between cash dividends and stock dividends is believed to be sound, and it is felt that it would not be desirable to extend to stock dividends the privileges that now apply to cash dividends.

"Of course, the present provisions of the regulation continue to permit certain withdrawals in connection with sales of securities from an account. Since you would have to sell the stock dividend in any event if you wished to use it to supplement your current income, you might wish to consider a sale of the dividend in the account and

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"the withdrawal of a portion of the proceeds in that connection.

"The regulation is administered on a decentralized basis through the 12 Federal Reserve Banks, and if you should have further questions concerning the regulation, you may find it convenient to get in touch with the Federal Reserve Bank of New York."

Approved unanimously.

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

"The following statement is being handed to the press today for immediate release:

'The Board of Governors of the Federal Reserve System today obtained a judgment in the United States District Court at Madison, Wisconsin, enjoining Roy's Appliance Company, a co-partnership with stores located at Beloit and Janesville, Wisconsin, from further violations of consumer credit Regulation W. The defendants, through their attorneys, consented to the entry of the judgment.

'Regulation W provides that credit for the instalment financing of certain listed articles, including electrical appliances, shall not be extended without obtaining a down payment in the amount prescribed by the Regulation. In the case of electrical appliances, the present terms of the Regulation require a down payment of not less than 25 per cent of the cash price of the appliances and the balance must be paid within 15 months. In this case the defendants had violated the Regulation by not obtaining the required down payment in a number of its sales.'

"Would appreciate your giving whatever distribution to statement you believe would be desirable."

Approved unanimously.

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Letter to Mr. W. P. Allen, W. P. Allen and Company, 1046 Broadway, Paducah, Kentucky, reading as follows:

"The Board of Governors shares your concern about the housing situation in Paducah, which you describe in your letter of January 16.

"When we were studying Regulation X prior to its issuance on October 12, we were conscious of the possible needs of defense areas, and a provision for an exemption in such areas was carefully considered at that time. However, we found that there would be many difficulties attendant upon such a provision, and it was decided not to include it in the regulation. Under a provision of this kind we would doubtless be called upon to grant exemptions in many communities through the nation merely because there happened to be a defense industry established in the locality. Numerous questions would arise, therefore, as to just what areas should be designated for the application of the exemption and whether all housing in a particular defense area should be exempt, or merely housing for defense workers or housing of particular types. It would be necessary in determining the areas to which the exemption should apply to consider the matter with other interested agencies of the Government, such as the Department of Defense. Under the terms of the President's Executive Order, the Board must obtain the concurrence of the Housing and Home Finance Administrator to its regulations on residential real estate, and, accordingly, an amendment permitting an exemption in defense areas would require the action both of the Board and of the administrator. We have tried to keep the number of exemptions from the regulation to a minimum in order that the regulation might have as much effect in carrying out the purposes of the law as may be practicable.

"Notwithstanding the difficulties which are involved, we are giving this matter active consideration and hope that it may be possible to adjust Regulation X, and the counterpart regulations of the FHA and VA so as to grant relief either to defense areas or to projects within those areas. Any relaxation of necessity would be subject to certain restrictions and conditions. In our approach to the problem we are

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"required to take into consideration, among other things, legislation to alleviate the situation which is now before the Congress.

"We appreciate your writing us in regard to this matter, and you may be assured that we will make every effort to find a satisfactory solution to this difficult problem."

Approved unanimously.

Letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to Mr. Millard's letter of January 25, 1951, in which he enclosed a copy of a letter from Mr. Martin E. Rothenberg of Pittsburg, California, dated January 17, 1951, regarding an interpretation of Regulation X.

"The facts as stated by Mr. Rothenberg are not too clear, but apparently a prospective vendor of residential property which is 'new construction' proposes to enter into a contract to sell the property, the contract to be performed by a transfer of title to the prospective vendee within 6 months on terms which conform to the provisions of Regulation X and the Supplement thereto in effect on the date the contract is entered into. During the 6-month period, the prospective vendee would rent and occupy the property, although no part of the rent would be applied against the purchase price, nor would the contract provide for the payment of any part of the purchase price before the transfer of title to such property.

"Under these facts, we believe that such a contract to sell would be exempt from Regulation X under the provisions of section 5(f) of the regulation; the mere fact that the prospective vendee is to occupy the property as lessee during the 6-month period would not affect the applicability of section 5(f).

"The purpose of the exemption contained in section 5(f) is to provide that the execution of a contract to sell real property would not violate the regulation if the contract is of the kind described in section 5(f). However, in order for such a contract to sell

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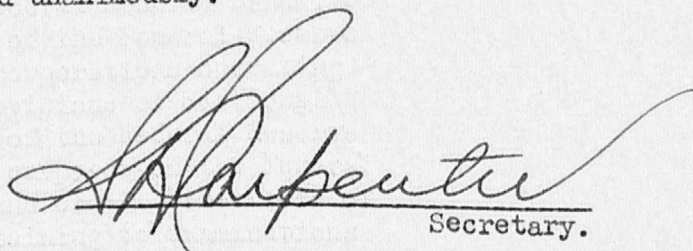
"to be exempt, all three clauses in section 5(f) must be complied with, that is, (1) no part of the purchase price, except a deposit of earnest money, may be paid before the transfer of title to such property, (2) the transfer of title must be made within 6 months after the date on which the contract is entered into, and (3) the contract must provide for the subsequent transfer of title on terms which conform to the provisions of Regulation X and the Supplement thereto in effect on the date the contract is entered into.

"Our answer is based solely upon the assumption that the facts as outlined in Mr. Rothenberg's letter are correct. It would not necessarily be applicable to similar transactions where the factual situation might be different, such as, for example, if the sale price in such a contract to sell were not bona fide, but reflected an evasive side agreement to consider the payments of rent as payment of any part of the sale price."

Approved unanimously.

Memorandum dated January 26, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that in connection with official travel Frank R. Garfield, Adviser on Economic Research in that Division, receive traveling expenses in accordance with the Board's travel regulations applicable to the assistant head of a division.

Approved unanimously.


Secretary.