

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, February 13, 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. Vest, General Counsel
 Mr. Young, Director, Division of Research and Statistics
 Mr. Phelan, Acting Director, Division of Selective Credit Regulation
 Mr. Solomon, Assistant General Counsel
 Mr. Hackley, Assistant General Counsel
 Mr. Garfield, Adviser on Economic Research
 Mr. Noyes, Assistant Director, Division of Selective Credit Regulation
 Mr. Boothe, Assistant Director, Division of Selective Credit Regulation
 Mr. Ramsay Wood, Economist, Division of Research and Statistics
 Mr. Fauver, Administrative Assistant to the Chairman

Mr. Vardaman referred to the discussion at the meeting on February 8 of the question raised by a subcommittee of the Judiciary Committee of the House of Representatives regarding interest rates and fees charged on V-loans and to a report which Mr. Fisher, Consultant to the Board, had given to him that banks were not receiving sufficient net return on V-loans carrying a large proportion of guarantee to make it profitable to make them.

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At Mr. Vardaman's request, Mr. Phelan reviewed the discussion which led up to his being asked to appear before the subcommittee on Friday, February 9, and suggested that it would be helpful to obtain the comments of the Federal Reserve Banks with respect to the matter before considering a change in the maximum interest rate and schedule of guarantee fees.

Following a discussion, it was agreed unanimously that such a telegram should be sent to the Federal Reserve Banks and that the matter should be presented to the Board for further consideration in the light of their comments.

Mr. Vardaman then referred to previous discussions of proposed changes in the Assignment of Claims Act designed to eliminate features which, as a result of recent interpretations by the Comptroller General, were causing banks to withhold participation in the financing of Government contractors under the defense program. At his request, Mr. Hackley reviewed developments in connection with the matter presenting the substance of a memorandum prepared in the Legal Division under date of January 27, 1951 on evidence of the need for amendment to the Assignment of Claims Act, and of an explanatory memorandum regarding the proposed amendment to the Act prepared under date of February 7, 1951. In his comments Mr. Hackley stated that the purpose of the amendment was to facilitate the defense production program, that the need for financing on the part of defense contractors, particularly small manufacturers and producers, was not now being adequately met because of

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the reluctance of banks to lend to contractors on security of assignment of claims under Government contracts, and that as a result the current V-loan program was being seriously retarded. Mr. Hackley went on to say that the amendment would make clear that a bank taking an assignment of claims pursuant to the Act would not be subject to later recovery by the Government of amounts previously paid to the bank as assignee, that the assignee would be protected against set-off on account of claims of the Government against the contractor arising from renegotiation, fines, and penalties, and that the authority for inclusion of the "no set-off" clause in Government contracts which is now restricted to the Departments of the Army, Navy, and Air Force would be extended to contracts entered into by General Services Administration, Atomic Energy Commission, and such other agencies of the Government as the President might designate. Mr. Hackley also said that in a letter dated February 12, 1951, the Bureau of the Budget had stated it would interpose no objection to presentation of the draft of bill to the Congress for its consideration, and that he had been informed by Mr. Correa, Assistant General Counsel in the Office of Defense Mobilization, that that office would support the bill although it felt it would be preferable to have it introduced at the request of the Board of Governors rather than of the Office of Defense Mobilization.

During the ensuing discussion, the Secretary read a draft of proposed letter to Senator Maybank, Chairman of the Senate Banking and

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Currency Committee, with respect to the proposed legislation.

Thereupon, upon motion by Mr. Szymczak, the letter to Senator Maybank was approved unanimously as follows with the understanding that a similar letter would be sent to Congressman Celler, Chairman of the House Judiciary Committee:

"The Board of Governors wishes to recommend for the consideration of your Committee an amendment to existing law which is of vital importance to the defense production program.

"Many defense contractors - especially the smaller manufacturers and producers - are presently unable to obtain necessary financing for the performance of their defense contracts because of the widespread reluctance of banks to make loans to them on the security of assignments of proceeds under their Government contracts. The reluctance of banks to provide such financing arises from the fact that certain recent rulings of the Comptroller General of the United States under the Assignment of Claims Act of 1940 have made it hazardous for private financing institutions to accept assigned contracts as collateral for loans. This situation has created a serious impediment to the success of the current V-loan program, authorized by the Defense Production Act of 1950, for the guaranteeing of loans by banks to defense contractors.

"In order to meet this problem, the Board believes that the Assignment of Claims Act of 1940 should be amended to the extent necessary to remove the existing deterrent to participation by banks in the financing of defense contractors. A suggested draft of such an amendment is enclosed, together with a memorandum explaining the amendment and a memorandum evidencing the need for this legislation. While it is believed that the enclosed draft would be generally acceptable to lending financing institutions, it is possible that they may wish to offer some suggestions regarding its provisions.

"We have been advised by the Bureau of the Budget that, after clearance with the interested agencies, it

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"has no objection to the submission of this proposal to the Congress. Since the matter is one of great urgency, the Board hopes that this proposal will receive early consideration and favorable action by your Committee."

At this point Messrs. Hackley and Boothe withdrew from the meeting.

Before this meeting there had been sent to each member of the Board a draft of statement on the proposed Defense Housing and Community Facilities and Services Act of 1951, S. 349, prepared pursuant to the understanding at the meeting on February 8, together with a memorandum on Regulation X, Real Estate Credit, and residential real estate markets, and a statement on developments in building and mortgage lending as reported to the Federal Reserve Banks covering the period January 22-26, 1951. At Chairman McCabe's request, Mr. Carpenter read the draft of statement on the proposed legislation.

During the ensuing discussion Messrs. Young, Garfield, and Noyes presented additional information with respect to housing starts and applications for mortgage credit as well as prospective construction.

Chairman McCabe stated that Mr. Foley, Housing and Home Finance Administrator, called him on the telephone this morning and suggested a number of changes in the draft of statement, a copy of which had been sent to him for comment. The Chairman also said that Mr. Foley would like to have the Board endorse the bill and that the suggestions

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he had made were intended to change some of the comments in the draft of statement which raised questions as to the desirability of portions of the proposed legislation. His own view, the Chairman said, was that the country was faced with far greater inflationary pressures than at the time Regulation X was adopted, that the target then set of approximately 800 to 850 thousand housing starts for the year 1951 should if possible be reduced, and that in view of data presented showing an extraordinarily high rate of housing starts during January of this year, and the backlog of commitments on applications filed prior to October 12, 1950, for insurance of more than 400,000 housing units, the proposed statement should make it clear that authority granted by the legislation should be limited to the minimum necessary to provide the necessary defense housing and at the same time be in harmony with the purposes of the regulations relating to real estate credit.

Mr. Vardaman withdrew from the meeting during the foregoing discussion.

Following the discussion, it was agreed unanimously that the draft of statement would be revised along the lines discussed at this meeting, that Mr. Norton would discuss the revised draft with Mr. Foley, Housing and Home Finance Administrator, and that in the event the Board was requested by the Senate Banking and Currency Committee to testify or to make a statement on the bill, the revised statement as approved by Messrs. McCabe and Norton would be presented as the position of the Board.

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At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 February 12, 1951, were approved unanimously.

Memorandum dated February 8, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Thomas Russell Turner as a laborer in that Division on a temporary basis for a period of two months, with basic salary at the rate of \$2,252 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated February 9, 1951, from Mr. Hilkert, Acting Director of the Division of Personnel Administration, recommending the appointment of Mrs. Rubye M. Zacharay as a clerk-typist 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.

Approved unanimously.

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

"This will acknowledge your letter of February 5, 1951, addressed to Chairman McCabe, in which you state that your directors wish to reappoint Mr. L. R. Rounds to the First Vice Presidency. The Board of Governors will be pleased to approve the reappointment when the formal action is taken by your board."

Approved unanimously.

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

"This will acknowledge your letter of January 25, 1951, addressed to Governor Szymczak advising of the proposed increases in officers' salaries which have been approved by the Executive Committee of the Board of Directors.

"The recent action of the Government in regulating salaries raises questions which will need to be clarified before the Board considers the adjustments recommended for your officers. You may be assured that when the necessary clarification of the Government order is received the salaries fixed by your Board of Directors will be promptly presented to the Board of Governors for action."

Approved unanimously.

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

"The Board of Governors approves the appointment of Mr. J. N. Peyton as President of the Federal Reserve Bank of Minneapolis and of Mr. A. W. Mills as First Vice President of the Federal Reserve Bank of Minneapolis for five-year terms beginning March 1, 1951. The Board of Governors also approves the payment of salary to Mr. Peyton as President at the rate of \$25,000 per annum for the period March 1, 1951, through May 31, 1951.

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"The recent action of the Government in regulating salaries specifies that increases can be given whenever they are in line with previously established patterns. Since it has been customary for the Board to consider the salaries of the officers of the Federal Reserve Bank of Minneapolis during the month of May it will be necessary, unless subsequent regulations provide otherwise, that the Board defer its review of the proposed salaries for First Vice President Mills and other senior officers until that time. Meanwhile, the Board approves the payment of salary to Mr. A. W. Mills at the rate of \$15,000 per annum for the period March 1, 1951, through May 31, 1951, provided this is the rate approved by the directors.

"Because the policy of increasing the salaries of junior officers was established prior to the effective date of salary control, the Board approves the payment of salary to the following officers at the rates indicated for the period effective immediately through May 31, 1952.

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|----------------------|-------------------------------------|----------------------|
| M. H. Strothman, Jr. | Vice President | \$10,000 |
| A. R. Larson | Assistant Vice President | 9,000 |
| C. A. Van Nice | Assistant Vice President | 8,000 |
| W. E. Peterson | Assistant Cashier | 8,000 |
| H. A. Berglund | Assistant Cashier, Helena Branch | 7,500 |
| A. W. Johnson | Assistant Cashier | 7,000 |
| M. O. Sather | Assistant Cashier | 7,000 |
| Chris Ries | Assistant Cashier | 7,000 |
| G. M. Rockwell | Assistant Cashier | 7,000 |
| M. E. Lysen | Operating Research Officer | 9,000 |
| O. W. Ohnstad | Auditor | 9,000 |
| F. L. Parsons | Associate Director of Research | 10,000 |

"The Board also approves the payment of salary to Mr. K. K. Fossum as Assistant Cashier at the rate of \$6,000 per annum for the period January 11, 1951, through May 31, 1952.

"It is noted from your letter that all of the officers have been re-elected for the calendar year 1951 or until their successors are elected."

Approved unanimously.

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

"The Board has been asked whether a so-called 'Sedan Delivery', as manufactured by Willys and some other companies, is to be classified as a passenger automobile under Regulation W or as a truck. The vehicle has many of the features of a sedan or station wagon except for the fact that it is not equipped with rear seats, has metal rather than glass side panels, and has vertical doors in the back.

"The Board is of the opinion that such a vehicle sold without rear seats or side glass may be regarded as a truck not subject to the credit restrictions of the regulation. Of course, if the sale includes arrangements for conversion to passenger use through the installation of seats and replacement of metal side panels with glass, the vehicle would be a passenger car and should be treated as a listed article under the regulation."

Approved unanimously.

Letter for the signature of the Chairman, to Mr. Elmer B. Staats, Assistant Director, Bureau of the Budget, Executive Office of the President, Washington 25, D. C., reading as follows:

"We congratulate you on the excellent and thorough survey of Foreign Service Economic Reporting transmitted to me with your letter of January 24, 1951.

"The report has been studied by our Division of International Finance and by other staff members interested in foreign reporting. In general, we agree wholeheartedly with the recommendations. They appear to be in complete accord with the views expressed by representatives of the Board in inter-agency conferences and informally to representatives of the Division of Foreign Reporting in the Department of State.

"We are in favor of the proposed Executive order which, if properly enforced, should alleviate the burden of miscellaneous reporting which frequently causes

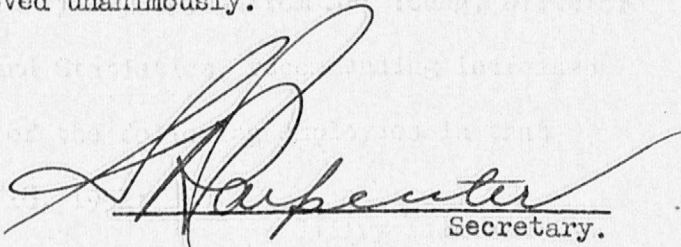
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"unfortunate delays in submitting essential required reports and makes it difficult for the reporting officers to contribute 'on the spot' analysis which is so essential to the work of the end-user in Washington. However, if the Department of State is given sole responsibility for determining the priority of requests for information from various agencies, it appears certain the Department will face many problems of coordination. We feel that these problems can be met with proper inter-agency cooperation.

"We want to assure you of our cooperation in adopting the improvements proposed in your report. We also should like to express our appreciation for the effort you are making to strengthen our foreign economic reporting."

Approved unanimously.


Secretary.