

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, February 27, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Evans
Mr. Vardaman
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. Young, Director, Division of Research and Statistics
Mr. Phelan, Acting Director, Division of Selective Credit Regulation
Mr. Allen, Assistant Director, Division of Personnel Administration
Mr. Noyes, Assistant Director, Division of Selective Credit Regulation
Mr. Leach, Economist, Division of Research and Statistics

Mr. Vardaman referred to the proposed amendment to the Assignment of Claims Act of 1940 which was submitted by the Board to the Chairman of the Senate Banking and Currency Committee and the Chairman of the House Judiciary Committee on February 13 but which had not yet been introduced in Congress, and inquired whether steps might be taken to bring to the attention of Senator Robertson and others the urgent need for this legislation in order to assist in financing defense contracts. At Chairman McCabe's suggestion, it was agreed that he

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would discuss the matter with Mr. Weinberg, of the Office of Defense Mobilization, which office had indicated it would support the legislation with a view to having it introduced promptly. It was also understood that the Chairman would call Senator Robertson about the bill.

Mr. Thomas presented a report on recent developments in the Government securities market, which was followed by a general discussion.

At this point Messrs. Benner, Assistant Director, Division of Selective Credit Regulation, and Clarke, Consultant, Division of Selective Credit Regulation, joined the meeting, and Mr. Leach withdrew.

Before this meeting a memorandum from the staff dated February 27, 1951, had been circulated which recommended adoption of an amendment to Section 6 of Regulation X, Real Estate Credit, which would provide for relaxation of the terms of the Regulation with respect to new defense housing in critical areas, and setting forth a general procedure to be followed in implementing this amendment, which the memorandum stated had been discussed with and tentatively agreed upon by Mr. Foley, Housing and Home Finance Administrator, subsequent to the discussion at the meeting on February 21.

Mr. Phelan stated that in discussing the matter with Mr. Foley following the meeting of the Board on February 21, the latter agreed that it would be desirable to provide for the Board's concurrence in

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the designation of specific defense areas in which the exemption might apply but that he felt that the determination of the number and types of housing units within such areas should be left to the Housing and Home Finance Administrator. Accordingly, Mr. Phelan said, a draft of amendment along these lines had been prepared and discussed with Mr. Norton by telephone, and Mr. Norton had stated that if he were present he would recommend its adoption, effective March 5, 1951, if formally concurred in by Mr. Foley.

There followed a discussion of the general procedure to be used in making the proposed amendment effective, during which it was stated that when the Board was requested by the Housing and Home Finance Administrator to concur in the designation of a specific area, it would expect to have furnished, to assist in its consideration of the request, information as to the number of units and the general types of housing to be built in the project, and that if this procedure were followed it was not important that the Board concur in the specific new construction authorized. It was also stated that, after further discussion with the Housing and Home Finance Agency, there would be submitted for consideration by the Board a statement of the general procedure to be followed in implementing the amendment.

In this connection Mr. Noyes stated that a letter had been received from Mr. Foley dated February 27, 1951, prepared in anticipation of the adoption of the amendment, requesting that the Board

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concur in the designation of the Paducah, Kentucky, area and the Savannah River area in South Carolina as areas for which terms different from those provided in Regulation X might be applied. Mr. Noyes stated that it was expected that such construction would total not more than 1000 units near Paducah and not more than 500 units in the immediate future in the Savannah River area in connection with projects of the Atomic Energy Commission, and that it was the recommendation of the staff that if the Board adopted the amendment to the Regulation it also concur in the designation of the two specific areas.

Thereupon, upon motion by Mr. Evans, unanimous approval was given to an amendment to Section 6 of Regulation X, Real Estate Credit, in the following form, with the understanding that it would become effective March 5, 1951, if Mr. Foley, Housing and Home Finance Administrator, advised that he concurred in the amendment and the proposed effective date:

"(p) Defense Construction. - Terms different from those prescribed by this regulation and the Supplement thereto, to be applicable to specific new construction necessary to the national defense, may be authorized by the Board in areas designated by the Housing and Home Finance Administrator with the concurrence of the Board and, after surveys have been made by the Administrator with respect to the needs for such necessary construction within such areas. Such different terms when so authorized will be applicable only to such new construction as may be specified by the Administrator within such designated areas and will be subject to such conditions as may be prescribed."

Secretary's Note: A letter was received from Mr. Foley dated February 28, 1951, concurring in the foregoing amendment and the effective date.

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Subject to the foregoing condition, it was also agreed unanimously that the amendment should be sent by telegram to all Federal Reserve Banks and Branches, with a request that the Banks print and distribute copies to interested persons, and that a statement for the press should be issued in a form satisfactory to Mr. Norton.

The following statement for publication in the Federal Register was approved unanimously:

"The above amendment is issued by the Board of Governors of the Federal Reserve System with the concurrence of the Housing and Home Finance Administrator, under authority of the 'Defense Production Act of 1950', approved September 8, 1950, and Executive Order No. 10161, dated September 9, 1950.

"The purpose of this amendment is to provide for some relaxation of the terms of the regulation with respect to specified construction necessary for the national defense in certain designated areas.

"Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operations of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof.

"In amending this regulation and in accordance with the requirements of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations."

In this connection unanimous approval was given to the following letter to Mr. Foley, Housing and Home Finance Administrator, to be sent upon receipt of his concurrence in the amendment:

"This is to advise you that the Board of Governors concurs in the defense area designations with respect to Savannah River, South Carolina, and Paducah, Kentucky, as outlined in your letter of February 27, 1951."

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Mr. Phelan then referred to the schedule of terms that might be applied in the Paducah and Savannah River areas under the proposed amendment, stating that the staff had worked out with the Housing and Home Finance Agency a schedule which would apply to non-Government aided loans, that under the procedure prescribed by Executive Order No. 10161 terms would be established by the Housing Administrator for Government-aided programs which would conform to those prescribed by the Board, and that it would be desirable if these terms could be announced as soon as the amendment to Regulation X became effective.

Mr. Clarke expressed the opinion that the same terms should not be applicable in all designated defense areas because of differences in location and other factors and that in the Savannah River and Paducah areas no minimum terms should be prescribed so as to help induce private interests to erect the necessary number of housing units and thus avoid requests for the construction of public housing.

Mr. Phelan and Mr. Noyes stated that the proposed schedule of terms had been carefully considered with the staff of the Housing and Home Finance Agency, that the staffs of both agencies felt that such terms would be satisfactory, and that they could be relaxed promptly if it developed that the suggested minimum terms were discouraging private construction. Mr. Noyes also said that if Mr. Clarke's suggestion that no minimum terms be prescribed were adopted, it would be necessary to consult further with Mr. Foley.

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Mr. Phelan noted in this connection that, with respect to properties certified to be held for rental, the terms proposed by the staff would extend the maximum maturity from 20 to 25 years.

Following a discussion, at Chairman McCabe's suggestion, the schedule of terms proposed by Messrs. Phelan and Noyes for application in the Paducah and Savannah River areas was approved unanimously as follows with the understanding that the matter would be discussed with Mr. Norton upon his return tomorrow and that if he felt they should differ from the proposed schedule the matter would be presented to the Board for further consideration:

"Schedule 1
One- to Four-Unit Residential Property

<u>If the 'value per family unit' is</u>	<u>The 'maximum loan value per family unit' is</u>
Not more than \$7,000	90% of 'value per family unit'
More than \$7,000 but not more than \$11,000	\$6,300 plus 65% of excess of 'value per family unit' over \$7,000
More than \$11,000 but not more than \$15,000	\$8,900 plus 55% of excess of 'value per family unit' over \$11,000
More than \$15,000 but not more than \$25,000	\$11,100 plus 14% of excess of 'value per family unit' over \$15,000
More than \$25,000	50% of 'value per family unit'

With respect to properties certified to be held for rental, the credit may have a maturity not to exceed 25 years.

Schedule 2

Multi-Unit Residential Property

<u>If the 'value per family unit' is</u>	<u>The 'maximum loan value per family unit' is</u>
Not more than \$7,000	90% of 'value per family unit'
More than \$7,000 but not more than \$15,000	\$6,300 plus 60% of excess of 'value per family unit' over \$7,000
More than \$15,000 but not more than \$25,000	\$11,100 plus 14% of excess of 'value per family unit' over \$15,000
Over \$25,000	50% of 'value per family unit'

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Secretary's Note: The proposed terms were subsequently discussed with Messrs. Norton and Foley and they concurred in their approval by the Board.

At this point Messrs. Phelan, Noyes, Benner, and Clarke withdrew from the meeting.

Mr. Szymczak referred to the action at the meeting on February 21 approving a letter to Chairman Hodgkinson, of the Federal Reserve Bank of Boston, informing him that the Board approved the appointment of Alfred C. Neal as First Vice President of the Boston Bank for a term of five years, beginning March 1, 1951, with salary at the rate of \$16,000 per annum for the period March 1, 1951, through April 30, 1952. This action, he stated, was recommended by the Personnel Committee after careful consideration of a request of the Boston Bank for approval of the appointment of Mr. Neal at a salary of \$20,000 per annum, and he advised the Bank by telephone of the Board's action, at which time Mr. Hodgkinson and President Erickson of the Bank urged further consideration of the matter both over the telephone and in a telegram dated February 21, strongly recommending that the initial salary for Mr. Neal as First Vice President be not less than \$18,000 per annum. Mr. Szymczak went on to say that, aside from other considerations, a question had been raised whether, because of possible interpretations of the wage stabilization regulations, the Board should approve an initial salary

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for a First Vice President at the maximum established for the position.

In response to a question, Mr. Vest stated that while the matter was not entirely clear, there was some doubt whether a salary of \$18,000 could be approved for Mr. Neal under the provisions of the wage stabilization regulations, and that should the Board decide to approve a salary for Mr. Neal at the rate of \$18,000, the Reserve Bank should be notified of the possibility of an adverse ruling by the Wage Stabilization Board which would require the salary to be cut back.

Thereupon, upon motion by Mr. Szymczak, the following telegram to Mr. Hodgkinson was approved unanimously:

"Relet February 5 and telegram February 21. Board of Governors approves appointment of Joseph A. Erickson as President and of Alfred C. Neal as First Vice President of Federal Reserve Bank of Boston for terms of five years beginning March 1, 1951.

"Board has taken no action on your proposal that present salary limits for the President and First Vice President be increased. Consideration of proposed adjustments must await clarification of regulations issued by Wage Stabilization Board; in addition, will have to take into account other aspects of the general problem, including those which have been considered by the Board in the past and with which you are familiar.

"Board has given consideration at meeting today to your telegram of February 21. As Mr. Szymczak advised you by telephone, because of question raised by wage stabilization orders, Board feels it should not at this time approve payment of recommended salary to Mr. Neal. Board does approve payment of salary to Mr. Erickson at the rate of \$25,000 per annum and to Mr. Neal at the rate of \$16,000 per annum for the period March 1, 1951, through April 30, 1951, with the understanding that if at appropriate future date the directors feel Mr. Neal's performance warrants an adjustment to the maximum the Board will be glad to consider the proposal."

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Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Parten, Chairman of Federal Reserve Bank of Dallas, approving the appointment of Messrs. Gilbert and Gentry as President and First Vice President, respectively, of that Bank for five-year terms beginning March 1, 1951. Mr. Vardaman had stated in a memorandum dated February 12, 1951, that he could not vote to approve the draft of letter unless a memorandum of conversations between Chairman Parten and members of the Board reporting that Messrs. Gilbert and Gentry were willing to resign when Mr. Gilbert attained age 65 in 1953 was made a part of the confidential records of the Dallas Bank and the Board of Governors.

Mr. Szymczak stated that Mr. Carpenter had talked with Chairman Parten by telephone on February 16, 1951, and that, as stated in a memorandum of that date, Chairman Parten said that the matter had been discussed thoroughly by the directors of the Dallas Bank on two different occasions, that it was thoroughly understood by everyone concerned that Messrs. Gilbert and Gentry would resign when the former reached 65 years of age, and that when he (Mr. Parten) returned to Dallas a record of the understanding would be placed in the confidential files of the Bank and an identical copy transmitted to the Board for its files.

Thereupon, upon motion by Mr. Szymczak, the following letter to Mr. Parten was approved unanimously:

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"As requested in your letter of January 25, 1951, the Board of Governors approves the reappointments of Mr. R. R. Gilbert as President of the Federal Reserve Bank of Dallas and of Mr. W. D. Gentry as First Vice President of the Federal Reserve Bank of Dallas for terms of five years beginning March 1, 1951.

"The Board also approves the payment of salary to Messrs. Gilbert and Gentry at the rates of \$25,000 and \$18,000 per annum, respectively, for the period beginning March 1, 1951, through May 31, 1952."

At this point Mr. Allen withdrew from the meeting.

Mr. Powell referred to a telephone conversation yesterday with Mr. Abrams of the Attorney General's Office, as reported in his memorandum of February 26 to Chairman McCabe, concerning the Board's request for approval of the program for voluntary credit restraint by lending institutions, pursuant to Section 708 of the Defense Production Act of 1950. Mr. Powell stated that Mr. Abrams contended vigorously that representatives of the Board or Reserve Bank staff members designated by the Board should serve on all sub-committees set up under the program, and that these representatives should act as chairmen at all meetings of the sub-committees in order that the public interest might be represented. Mr. Powell also said that he had argued that the program was conceived as purely voluntary on the part of lending institutions, that it had never been contemplated that Federal Reserve representatives would sit on sub-committees established under the program, and that if such a procedure were followed, the voluntary aspect of the program might be lost. Mr. Powell made the further statement that,

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in spite of these arguments, Mr. Abrams was adamant in his position and that he reiterated it in a telephone conversation late yesterday afternoon after consulting with Mr. Whitehead, also of the Attorney General's Office. Mr. Powell said that he had expressed to Mr. Abrams at that time his personal disagreement with their position but did not presume to commit the Board on this matter.

Mr. Powell explained that if fundamental changes in the concept of the program, such as that proposed by the Attorney General's Office, were to be effected, it would be necessary for the whole program to be resubmitted to the original committee for reconsideration, that this would result in further loss of time, and that it seemed to him possible that the financing institutions would not agree to the procedure suggested by the Department of Justice.

A discussion ensued, during which the members of the Board who were present concurred in the position taken by Mr. Powell, and it was suggested that Chairman McCabe and Mr. Powell discuss the matter with Attorney General McGrath or Assistant Attorney General Ford.

This suggestion was approved
unanimously.

Mr. Evans stated that, in view of the position taken by the majority of the Federal Advisory Council at its meeting on February 18-20, 1951 concerning Federal Reserve credit policy and Treasury debt management, which was opposed to the views of the Board, the Federal Open Market Committee, and at least a majority of the Presidents of

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the Federal Reserve Banks, he felt it would be desirable to ask the Chairmen of the Federal Reserve Banks to bring the matter to the attention of the directors at their next meeting and ask that they give the Board the benefit of their views of the matter.

Following a discussion, it was agreed unanimously that a draft of letter to the Chairmen of the Federal Reserve Banks should be prepared for consideration by the Board.

Mr. Evans called attention to a memorandum dated February 13, 1951, from Mr. Young to the Board of Governors discussing supplementary reserve requirement plans and containing a special memorandum on the loan expansion reserve plan. Mr. Evans said that he was impressed by the possibilities of the loan expansion reserve plan, that the legal division had prepared a draft of bill designed to place such a plan in effect, and that he felt it would be desirable for the Board to consider the draft bill at an early meeting since legislation of this kind should be available for presentation to Congress in the near future. It was agreed that the matter would be placed on the docket for consideration at the next meeting of the Board.

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 Monday, February 26, 1951, were approved unanimously.

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Memorandum dated February 26, 1951, from Mr. Vest, General Counsel, recommending the appointment of Eleanor Omohundro as a stenographer in the Legal Division, on a temporary indefinite basis, with basic salary at the rate of \$3,115 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in your letter of February 21, 1951, the Board approves the appointment of Frederick J. Kraft as an assistant examiner for the Federal Reserve Bank of New York, and the designation of Alfred E. Hamel, John C. Kruer, Hugh Montgomery, and George B. Rodde as special assistant examiners.

"Please advise us of the date upon which the appointment of Mr. Kraft is made effective."

Approved unanimously.

Letter to Mr. McCreedy, Secretary of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors approves the reappointments of Messrs. B. F. Mechling, Harry L. Miller, Keith Powlison, James M. Skinner, and Daniel H. Schultz as members of the Industrial Advisory Committee for the Third 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 Philadelphia, as reported in your letter of February 20, 1951."

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Approved unanimously.

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

"Reference is made to your letter of February 16, 1951, regarding provision for additional expenses in the sum of \$131,520 resulting from certain operations not covered in your 1951 head office budget. Appropriate notations with regard thereto are being made in the Board's records."

Approved unanimously.

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

"Reurlet February 21 and Blair telegram of February 26 concerning employment of Squire, Sanders & Dempsey to represent your bank in connection with law suit filed against your bank by Bank of America.

"Board approves your employment of Squire, Sanders & Dempsey for the stated purpose, subject to the understanding that any compensation to be paid will be subject to prior approval by the Board in accordance with S-206 and S-1092."

Approved unanimously.

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

"This refers to your letter of February 7, 1951, and its enclosure, concerning the application of Regulation W to the Savings and Retirement Fund of the Boston Gear Works.

"The above correspondence indicates that the Fund will loan to a member no more than the amount of his contributions thereto. The question is whether this limitation removes the loan operations of the Fund from the principle of S-1188 (W-96) and from the requirements of the regulation.

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"On the basis of the information supplied, the Board does not consider that the Savings and Retirement Fund is sufficiently different from the case discussed in S-1188 (W-96) to necessitate or justify a conclusion different from the one there expressed."

Approved unanimously.

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

"Evaporative air coolers which do not incorporate a refrigerating unit are not 'air conditioners, room unit', within meaning of Regulation W, Group B, Item 7."

Approved unanimously.

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

"At a recent meeting requested by an automobile dealers association, held in the office of one of their Senators, a specific proposal was made for the relaxation of Regulation W, particularly with respect to new and late model used cars.

"In answer to the Senator's request for Board consideration of the proposal, Governor Evans stated that the Board would consult with the Federal Reserve Banks in making a study of this suggestion which provides graduated maturities based on amount of contract. For instance, a contract with an unpaid balance of \$500 or less would be held to a 12 months maximum maturity. Contracts of over \$500 but not exceeding \$1000 would be held to a 15 months maximum maturity and contracts above \$1000 would be permitted a maturity of 18 months. The staff would appreciate receiving your opinion of the foregoing suggestion.

"The staff would also appreciate receiving your views as to whether the terms of the regulation in general should be relaxed, tightened, or remain 'as is' for the present. A reply by March 5 will be appreciated."

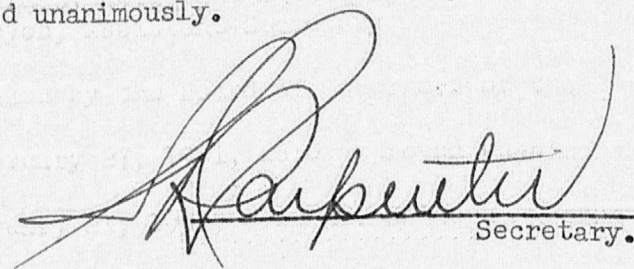
Approved unanimously.

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Memorandum dated February 23, 1951, from Mr. Carpenter, Secretary of the Board, recommending that the voucher of Gordon R. Murff, Assistant Secretary, covering travel from Dallas, Texas to Washington, D. C., during the period February 20 - 22, 1951, be approved as submitted.

Approved unanimously.


Secretary.