

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 5, 1951. The Board met in the Board Room at 2:40 p.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Szymczak  
Mr. Vardaman  
Mr. Norton  
Mr. Powell

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Thomas, Economic Adviser to the Board  
Mr. Vest, General Counsel  
Mr. Young, Director, Division of  
Research and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Horbett, Assistant Director, Division  
of Bank Operations  
Mr. Youngdahl, Chief, Government Finance  
Section, Division of Research and Statistics  
Mr. Koch, Chief, Banking Section, Division  
of Research and Statistics

In response to an inquiry by Chairman McCabe as to the status of the program for voluntary credit restraint, Mr. Powell stated that, the Attorney General's office previously had insisted that approval of the program would be contingent on the designation of Federal Reserve representatives to serve as chairmen of all subcommittees appointed under the program, but that he received a telephone call on Friday, March 1, from a representative of that office who indicated that it would be agreeable to them if the procedure for implementing the program were amended to provide that one of the members of each subcommittee located in any city having a Federal Reserve Bank or branch would be a Federal Reserve representative designated by the Board of Governors

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or by the Federal Reserve Bank or branch located in the particular city, and if it were provided that such representative would attend each meeting of the subcommittee. The Attorney General's office had indicated, Mr. Powell also stated, that if this amendment were made in the program, no further objections to the program would be raised by that office.

Upon receipt of that advice, Mr. Powell said, telegrams were dispatched to the members of the committee composed of representatives of the American Bankers Association, the Investment Banking Association of America, and the Life Insurance Association of America, which prepared the original program, asking their views on the amendment suggested by the Attorney General's office. Thus far, he said, nine of the members of the committee had responded, either by telegram or telephone, all stating that the proposed revision would be satisfactory to them.

Chairman McCabe then suggested that, since a majority of the committee had replied favorably, a letter be addressed to the Attorney General this afternoon indicating that the program had been amended in this one respect.

This suggestion was approved unanimously with the understanding that the following letter would be sent to the Honorable James Howard McGrath, The Attorney General, Washington 25, D. C., together with a similar letter to the Honorable James H. Mead, Chairman, Federal Trade Commission, Washington 25, D. C.:

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"Supplementing our letters to you dated February 5 and February 16, 1951, with regard to a Program for Voluntary Credit Restraint under the provisions of section 708 of the Defense Production Act of 1950, you are advised that the Program has been amended in the following respect pursuant to the suggestion of representatives of your office:

After the first sentence of paragraph numbered 2 of the 'Procedure for Implementing the Program', insert the following sentence: 'One of the members of each subcommittee located in any city in which there is a Federal Reserve Bank or branch thereof will be a Federal Reserve representative designated by the Board of Governors of the Federal Reserve System or by such Federal Reserve Bank or branch; and such member shall attend each meeting of the subcommittee.'

Mr. Powell stated that after approval of the program had been obtained from the Attorney General, the next step would be for the Board of Governors to appoint members of a national "steering" committee to be known as the Voluntary Credit Restraint Committee, to carry out the program. He said that he had given consideration to names of persons who might be appointed to that committee, and would be prepared shortly to submit his recommendations to the Board for approval. It was understood that a memorandum containing the names of the recommended appointees would be submitted to the Board by Mr. Powell for approval.

Mr. Powell then suggested that, as soon as the Voluntary Credit Restraint Committee is established, it would be appropriate for the Board to issue a press release relative to the program and urging action especially which would reduce loans for inventory accumulation. This release, he felt, should be given as much publicity as possible.



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During the foregoing discussion, Mr. Riefler, Assistant to the Chairman, joined the meeting and at its conclusion Chairman McCabe withdrew.

In accordance with the understanding at the meeting on February 27 there had been circulated before this meeting a memorandum from Mr. Young dated February 27, 1951, attaching an outline review of the principal plans advanced in recent years to increase Federal Reserve authority over bank reserve requirements, namely, increased authority over primary reserves, the special reserve plan, the ceiling reserve plan, and the loan expansion reserve plan, and a draft of legislation prepared by the Legal Division relating to the loan expansion reserve plan.

Mr. Szymczak stated that in his opinion it would be desirable for the Board to agree upon a plan as quickly as possible in order that it might be discussed with the Conference of Presidents later this week and in order to have legislation ready to present to the Congress at an early date.

There followed a general discussion, led by Mr. Young, of the four principal plans referred to above, during the course of which Mr. Eccles joined the meeting and Messrs. Vardaman and Riefler withdrew.

Following the discussion, it was the consensus of the Board members present that the loan expansion reserve plan appeared to have merit, and it was understood that the staff, in collaboration with

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Mr. Powell, would prepare as a basis for further consideration at the Board meeting tomorrow, a supplementary memorandum commenting on modifications of the plan which were suggested at this meeting.

At this point all of the members of the staff with the exception of Messrs. Carpenter 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 March 2, 1951, were approved unanimously.

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

"This refers to your letter of February 7, 1951, requesting the Board's views as to the authority of the Pan American Bank of Miami, Miami, Florida, to purchase all of the stock of a corporation engaged solely in the business of holding title to real estate representing bank premises or to be used for bank premises.

"The purchase of corporate stock by a State member bank is prohibited by the provisions of section 5136 of the Revised Statutes, except as otherwise permitted by statute, made applicable by section 9 of the Federal Reserve Act. Section 24A of the Federal Reserve Act has been construed as an exception to this statute to permit a member bank to purchase stock of a corporation holding the bank premises. However, section 23A of the Federal Reserve Act restricts investments by member banks in the stock of an affiliate, to 10 per cent of the capital stock and surplus of the member bank.

"Sections 23A and 24A both were enacted by the Banking Act of 1933, and although the latter specifically relates to direct or indirect investments in banking premises, it cannot be said that that section alone should govern and control in determining the



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"limitations on such investments when another element, namely, affiliates, is involved. Section 23A was enacted for the purpose of limiting investments in affiliates and limited all such investments unless specifically excepted. Section 23A recognized that there would be affiliates engaged in holding the bank premises, and therefore specifically excepted such affiliates provided they were engaged solely in such business.

"In 1935, section 23A was amended so as to liberalize this exception by striking out the word 'solely', but the provision was actually made more restrictive as to its future application by providing that the affiliate in order to be excepted must have been 'engaged on June 16, 1934, in holding the bank premises of the member bank with which it is affiliated or in maintaining or operating properties acquired for banking purposes prior to such date'.

"Thus, the whole legislative history of these two sections indicates that Congress did not overlook affiliates engaged in holding bank premises when it placed the rigid restrictions upon investments by member banks in the stock of affiliates.

"Therefore, if the corporation holding the bank premises is an affiliate of the member bank, as would be true in the case presented, the bank's investment in the stock of the affiliate would be limited to 10 per cent of the capital stock and surplus of the member bank.

"It is assumed that you will keep us advised of future developments in connection with this matter."

Approved unanimously.

Memorandum dated March 2, 1951, from Mr. Townsend, Solicitor, stating that the Federal Reserve Bank of Dallas had reported under date of February 28, 1951, that Marvin A. Smith Company, Dallas, Texas, engaged primarily in the home improvement business and making some sales of home appliances, had failed to file a registration statement, had not obtained the required down payment in a large proportion of cases, and had maintained records designed to conceal the absence of

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down payments; and recommending that in accordance with the suggestion of the Reserve Bank the Board authorize the issuance of an order for investigation of the concern mentioned with a view to obtaining an injunctive decree against the continuing violations of the Regulation.

Approved unanimously, with the understanding that the following order would be issued by the Secretary:

"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 5th day of March, A. D., 1951.

In the Matter of  
MARVIN A. SMITH COMPANY

ORDER DIRECTING INVESTIGATION  
AND DESIGNATING OFFICERS TO  
TAKE TESTIMONY

## I

"Members of the staff of the Federal Reserve Bank of Dallas have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

- Marvin A. Smith Company has made instalment sales of home improvements and appliances subject to Regulation W:
1. Without filing a registration statement as required by Regulation W;
  2. Without obtaining the down payment required by Regulation W;
  3. Without maintaining and 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 said Regulation.

## II

"The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Dallas, and for the purpose of (1) determining whether Marvin A. Smith 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 Marvin A. Smith Company has engaged in the



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"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 Harry A. Shuford, 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."

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

"Some interpretations or parts thereof issued under previous versions of Regulation W were omitted from the summaries in S-1190 (W-97) because of changes in the regulation itself or because of later interpretations. Others were omitted because they were considered to be of doubtful status due to changes in economic conditions, in trade practices, or in other considerations bearing upon the administration of the regulation.

"For example, the earlier, published interpretation S-956 of February 3, 1947, concerning sets and groups of articles, was not carried in the summary in S-1190 (W-97). Under the present regulation, that matter was covered by S-1193 (W-98), November 10, 1950, which contains a different and more restrictive treatment of the problem.

"The decisions to retain interpretations in the summary or omit them were made after careful consideration, and were based on whether or not the interpretations were believed to accord with the provisions of the regulation when read in the light of current conditions.

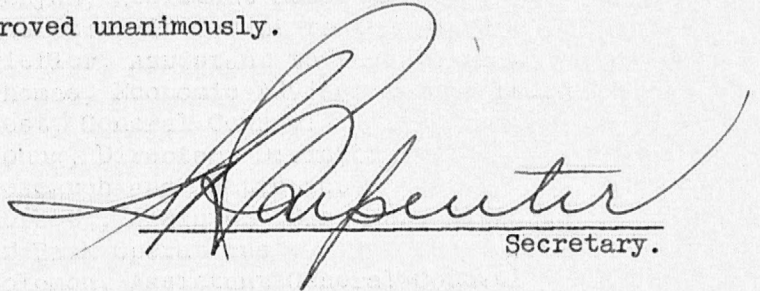


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"Before the issuance of the summaries in S-1190 (W-97), it was, of course, natural that earlier interpretations were sometimes referred to for light they might throw on the current regulation. However, since the issuance of those summaries, interpretations or parts thereof that relate to earlier versions of the regulation and that have not been republished, reissued, or summarized under the present regulation should be consulted only with caution and should not be indicated as the basis for advice in answer to inquiries under the present regulation. This seems to have been recognized generally among the Reserve Banks, and the purpose of this letter is merely to confirm the Board's agreement with that understanding."

Approved unanimously.



A. Carpenter  
Secretary.