

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 9, 1951. The Board met in the Special Library at 10:05 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.
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. Hilkert, Acting Director, Division
of Personnel Administration

Chairman McCabe was unable to attend this meeting because he was requested to attend a meeting with Mr. Wilson, Director of the Office of Defense Mobilization, this morning.

Before this meeting there had been submitted a memorandum covering topics to be discussed at a joint meeting of the Board and the Presidents of the Federal Reserve Banks to be held at 11:00 a.m. this morning. The Board considered the topics listed and it was agreed that the views of the Board would be stated substantially as recorded in the minutes of the joint meeting.

Mr. Vardaman referred to previous discussions of the procedure followed in handling investments of the Retirement System of the Federal Reserve Banks, stating that it was his understanding that the

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Board in 1949 agreed to go along with the investment procedure then being followed by the Retirement System until the end of 1950, that he had raised the question of a further discussion of the matter at the meeting on February 1, 1951 at which time he had stated that he did not approve of the policy being followed, and that he wished to know when the matter again would be brought before the Board for consideration.

In response to Mr. Vardaman's comment it was stated that the matter of policy and procedure for the investment of retirement system funds was being studied by the Personnel Committee and that the Committee expected to make recommendations to the Board when its study was completed.

During the foregoing discussion, Mr. Thomas, Economic Adviser to the Board, joined the meeting.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 6, by the Federal Reserve Bank of Atlanta on March 7, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on March 8, 1951, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Under date of February 16, 1951 the Board submitted to the Attorney General for his approval, pursuant to Section 708 of the Defense Production Act of 1950, a proposed Request to all financing institutions in the United States to agree voluntarily to participate in a credit restraint program, and under date of March 5, 1951 there was submitted a revision in the proposed Program to provide that 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 at such Federal Reserve Bank or Branch; and that such member would attend each meeting of the subcommittee. Following consideration of the proposed Request and amended Program, the Acting Attorney General addressed to the Board the following letter dated March 9, 1951 approving the proposed Request to be sent to all financing institutions in the United States:

"This acknowledges your letters of February 16 and March 5, 1951, with enclosures, submitting for my approval, pursuant to section 708 of the Defense Production Act of 1950, a proposed request to all financing institutions in the United States to agree voluntarily to participate in a credit restraint program.

"The purpose of the program, as set forth in your submission, is to encourage lending institutions to limit the extension of credit to those loans which are necessary to the national defense or essential to the civilian economy. There are set forth certain standards to guide participating institutions in determining whether a particular loan conforms to the objectives of the program. I note that a national committee will be appointed to advise the Board concerning the functioning of the program, and that subcommittees

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"will be formed to consult with financing institutions with reference to application of the principles of the program to individual loans.

"I acknowledge that representatives of your office have consulted with members of my staff on this matter.

"On the basis of the information you have presented, I hereby approve the request you propose to send to all financing institutions in the United States.

"I understand that any modification of this request or the plan under which it is made will be resubmitted for my approval. I should also be furnished with a copy of your finding that action taken in response to the proposed request is in the public interest as contributing to the national defense."

The Program for Voluntary Credit Restraint and Request as approved by the Attorney General read as follows:

"PROGRAM FOR VOLUNTARY CREDIT RESTRAINT

"Preamble

"The task of restraining strong inflationary pressures is one of the most difficult and most important in the whole range of economic problems today.

"One part of this task--the restraint of unnecessary credit expansion--presents a challenge to the financing institutions throughout the nation.

"Section 708 of the Defense Production Act of 1950 authorizes the President to encourage financing institutions to enter into voluntary agreements and programs to restrain credit, which will further the objectives of that Act. By executive order, the President has delegated to the Board of Governors of the Federal Reserve System his authority with respect to financing under this section of the Act upon the required condition that it consult with the Attorney General and with the Chairman of the Federal Trade Commission, and that it obtain the approval of the Attorney General before requesting actions under such voluntary agreements and programs.

"At the invitation of the Board, and in company with it, representatives of the American Bankers Association, the Life Insurance Association of America and the Investment Bankers Association of America have been examining the possibilities of this method of credit restraint.

"While it is recognized that the proposed Program is addressed only to one limited source of inflationary

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"pressure, the vital importance of this problem to the stability of the economy, and the necessity to extend credit only in such a way as to restrain inflationary pressures outside the financing of the Defense Program should be emphasized to all financing institutions.

"It is appropriate to point out that this Program of voluntary credit restraint does not have to do with such factors as inflationary lending by federal agencies, unnecessary spending, federal, state or local, and the wage-price spiral and other much more seriously contributing factors. These should be vigorously dealt with at the proper places. It assumes that the proper governmental authorities will exercise the requisite fiscal and monetary controls.

"Definitions

"As used herein:

"The terms 'financing institution' or 'financing institutions' mean banks, life insurance companies, investment bankers engaged in the underwriting, distribution, dealing or participating, as agents or otherwise, in the offering, purchase or sale of securities, and such other types or groups of financial institutions as the Board of Governors of the Federal Reserve System may invite to participate in the Program.

"The terms 'loan,' 'loans,' 'lending' and 'credit,' in addition to their ordinary connotations, mean the supplying of funds through the underwriting and distribution of securities (either on a firm commitment, agency or 'best efforts' basis), the making or assisting in the making of direct placements, or otherwise participating in the offering or distribution of securities.

"Statement of Principles

"Pursuant to the provisions of Section 708(a) of the Defense Production Act of 1950, and with the approval of the Board of Governors of the Federal Reserve System in accordance with the functions delegated to it by Section 701(a)(2) of Executive Order 10161, this Statement of Principles has been drafted to which all financing institutions are asked to conform.

"It shall be the purpose of financing institutions to extend credit in such a way as to help maintain and increase the strength of the domestic economy through the restraint of inflationary tendencies and at the same time to help finance the defense program and the essential needs of agriculture, industry and commerce.

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"Inflation may be defined as a condition in which the effective demand for goods and services exceeds the available supply, thus exerting an upward pressure on prices.

"Any increase in lending at a more rapid rate than production can be increased exerts an inflationary influence. Under present conditions of very high employment of labor, materials and equipment, the extension of loans to finance increased output will have an initial inflationary effect; but loans which ultimately result in a commensurate increase in production of an essential nature are not inflationary in the long run whatever their temporary effect may be. It is most important, however, that loans for nonessential purposes be curtailed in order to release some of the nation's resources for expansion in more vital areas of production.

"Cooperation with this program of credit restraint makes it increasingly necessary for financing institutions to screen loan applications on the basis of their purpose, in addition to the usual tests of credit worthiness. The criterion for sound lending in a period of inflationary danger boils down to the following: Does it commensurately increase or maintain production, processing and distribution of essential goods and services?

"In interpretation of the foregoing, the following types of loans would be classified as proper:

1. Loans for defense production, direct or indirect, including fuel, power and transportation.

2. Loans for the production, processing and orderly distribution of agricultural and other staple products, including export and import as well as domestic, and of goods and services supplying the essential day-to-day needs of the country.

3. Loans to augment working capital where higher wages and prices of materials make such loans necessary to sustain essential production, processing or distribution services.

4. Loans to securities dealers in the normal conduct of their business or to them or others incidental to the flotation and distribution of securities where the money is being raised for any of the foregoing purposes.

"This Program would not seek to restrict loans guaranteed or insured, or authorized as to purpose by a Government

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"agency, on the theory that they should be restricted, in accordance with national policy, at the source of guaranty or authorization. Financing institutions would not be restricted in honoring previous commitments.

"The following are types of loans which in general financing institutions should not make under present conditions, unless modified by the circumstances of the particular loan so as not to be inconsistent with the principles of this program:

1. Loans to retire or acquire corporate equities in the hands of the public, including loans for the acquisition of existing companies or plants where no over-all increase of production would result.

2. Loans for speculative investments or purchases. The first test of speculation is whether the purchase is for any purpose other than use or distribution in the normal course of the borrower's business. The second test is whether the amounts involved are disproportionate to the borrower's normal business operations.* This would include speculative expansion of real estate holdings or plant facilities as well as speculative accumulation of inventories in expectation of resale instead of use.

"The foregoing principles should be applied in screening as to purpose on all loans on securities whether or not covered by Regulations U or T.

* * * * *

"Recognizing that the maximum estimate of the percentage of our 1951 production which will be devoted directly or indirectly to national defense is between 20 per cent and 30 per cent, a very substantial proportion of the lending of the country will be devoted to the financing of the production and growth of our industrial and commercial community. In these circumstances, it is felt that each financing institution can help accomplish the objectives outlined above by careful screening of each application for credit extension.

"In carrying out such screening, financing institutions should not only observe the letter of the existing regulations of the Board of Governors of the Federal Reserve System with

**Loans additional to those needed for a borrower's normal business may, of course, be regarded as proper when they are for the purpose of defense production or otherwise conform to the types of loans listed as proper in this Statement of Principles.

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"respect to real estate credit, consumer credit, security loans, etc., but should also apply to all their lending the spirit of these and such other regulations and guiding principles as the Government may from time to time announce in the fight against inflation.

"This Program is necessarily very general in nature. It is a voluntary Program to aid in the over-all efforts to restrain inflation. To be helpful, this Program must rely on the good will of all financing institutions and the over-all intention to comply with its spirit.

"Procedure for Implementing the Program

"Pursuant to the provisions of Section 708(b) and (c) of the Defense Production Act of 1950, and upon full compliance with the terms and conditions thereof:

1. A 'Voluntary Credit Restraint Committee' (hereinafter referred to as 'the Committee') will be appointed by the Board of Governors of the Federal Reserve System (hereinafter referred to as 'the Board'). Members shall be appointed for such terms as the Board may prescribe. Initially, the Committee will consist of twelve members, four representing the life insurance companies, four representing the investment bankers, and four representing the banks. The membership of the Committee may from time to time be expanded as deemed advisable or appropriate by the Board to insure adequate representation thereon of other types or groups of financing institutions which may participate in the Program. In selecting and appointing the members of the Committee, the Board shall have due regard to fair representation thereon for small, for medium and for large financing institutions, and for different geographical areas. The Committee will:

(a) With such assistance from the Board and the Federal Reserve Banks as may be necessary, distribute this statement of the Program, including the Statement of Principles, to financing institutions to such extent as may be deemed desirable in view of any distribution previously made;

(b) Appoint the subcommittees referred to below in 2;

(c) Meet for the purpose of considering the functioning of the Program, advising the Board with respect thereto, and suggesting for the consideration of the Board such changes in the Program, including the Statement of Principles, as may from time to time appear

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"appropriate. Meetings of the Committee shall be held at the call of an official of the Federal Reserve System, designated by the Board; shall be under the chairmanship of such an official; and an agenda for such meetings shall be prepared by such an official. Full and complete minutes of each meeting shall be made by such an official and copies shall be kept in the files of the Board available for public inspection.

2. Subcommittees may be established for each type of financing institution participating in the Program. 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. For the investment bankers, the life insurance companies, and the banks there may in each case be one or more subcommittees organized. All such subcommittees will meet only for the purposes specified in the Program; will maintain records of their actions; and will make reports directly to the Committee regarding the actions taken by them, including statements of the types of cases considered and the nature of the advice given. The subcommittees will be available for consultation with individual financing institutions to assist them in determining the application of the Statement of Principles with respect to specific loans for which application has been made to such financing institutions. In consulting with a subcommittee, a financing institution shall not be required to disclose the identity of the applicant for any loan. No financing institution shall be required to consult with any subcommittee with respect to any loan or loans, or any application or applications therefor. Consultation with a subcommittee shall be wholly within the individual and independent discretion of a financing institution. The final decision with respect to making or refusing to make any particular loan or loans shall likewise remain wholly within the individual and independent discretion of each financing institution, whether or not it has consulted with any of the subcommittees.

"In setting up the subcommittees, the Committee shall have due regard for fair representation thereon

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"for small, for medium and for large financing institutions, and for different geographical areas. It shall also inform the Board of all subcommittee appointments.

3. "The Committee shall be furnished with such compilations of statistical data on extension of credit by financing institutions as may be required to show the amounts and direction of credit use and to watch the operation of the Program. Such statistics shall be compiled by the Board. To assist the Board in making such compilations, data shall be supplied for the investment bankers, jointly by the Investment Bankers Association and the National Association of Securities Dealers, and for the life insurance companies, jointly by the Life Insurance Association of America and the American Life Convention. Compilations of data made by the Board shall not reveal the identity of individual financing institutions or borrowers. Such compilations shall be kept on file with the Board and shall be available for public inspection.

4. Financing institutions participating in the Program will keep records of individual loans, as to purpose, in such form as to be available for future analysis.

5. Any change in the Program, including the Statement of Principles, shall be passed upon by the Committee and shall be made in accordance with the requirements of Section 708 of the Defense Production Act of 1950.

"All actions pursuant to and under the Program will be automatically terminated by all participating financing institutions as of the termination of the authority conferred under Section 708 of the Defense Production Act of 1950; or upon withdrawal by the Board of its request for action under the Program. If the Committee, after study of the operation of the Program, concludes that it is no longer necessary or is not making a substantial contribution to the solution of the problem for which the Program was established, it shall so advise the Board."

"REQUEST TO FINANCING INSTITUTIONS BY BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM TO ACT PURSUANT TO A PROGRAM
FOR VOLUNTARY CREDIT RESTRAINT UNDER SECTION 708 OF DE-
FENSE PRODUCTION ACT OF 1950

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"This 'Request' is addressed to all financing institutions in the United States, including without limitation all individuals, firms, partnerships, corporations and other organizations of any kind which are engaged in the business of extending credit, making loans, or purchasing, discounting, selling, distributing, dealing in, or underwriting securities, any and all of such institutions being hereinafter referred to as 'financing institutions.'

"Pursuant to the provisions of section 708 of the Defense Production Act of 1950 (hereinafter called the 'Act') and of section 701 of Executive Order No. 10161, the Board of Governors of the Federal Reserve System has consulted with representatives of financing with a view to encouraging the making of voluntary agreements and programs to further the objectives of the Act. As a result of such consultations, such representatives have prepared a 'Program for Voluntary Credit Restraint,' including as a part thereof a Statement of Principles, the entire document being hereinafter referred to as the 'Program.' The Program is attached hereto.

"The Board of Governors of the Federal Reserve System hereby approves the Program and finds the Program to be in the public interest as contributing to the national defense. Under section 708 of the Act and section 701 of the said Order, acts or omissions to act pursuant to this Request and the Program which occur while said section 708 is in effect and before the withdrawal of this Request or of the finding of the Board in the preceding sentence are not construed to be within the prohibitions of the anti-trust laws or the Federal Trade Commission Act of the United States.

"The Board of Governors of the Federal Reserve System has consulted with the Attorney General and with the Chairman of the Federal Trade Commission on and before February 5, 1951, said date being not less than 10 days before the date of this Request, with regard to the provisions of the Program, the finding by the Board above mentioned and this Request; and the Attorney General has given his approval to the making of this Request.

"Every financing institution in the United States is hereby requested by the Board of Governors of the Federal Reserve System to act, and to refrain from acting, pursuant to and in accordance with the provisions of the Program.

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"The national committee which is to be set up pursuant to the provisions of the Program, each and every subcommittee set up pursuant to the provisions of the Program, and each and every individual who may become a member of said national committee or of any of said subcommittees are hereby requested by the Board of Governors of the Federal Reserve System to act, and to refrain from acting, pursuant to and in accordance with the provisions of the Program.

"By order of the Board of Governors of the Federal Reserve System this 9th day of March, 1951.

S. R. Carpenter,
Secretary."

The Program for Voluntary Credit Restraint and the issuance of the Request to Financing Institutions as set forth above were approved unanimously, together with the following letter to all financing institutions in the United States prepared for Chairman McCabe's signature transmitting the Program and Request:

"Section 708 of the Defense Production Act of 1950 authorized the President to encourage financing institutions to enter into voluntary agreements and programs which will further the objectives of that Act. By Executive Order the President delegated to the Board of Governors of the Federal Reserve System his authority with respect to financing under this section of the Act. A program for voluntary credit restraint has been developed by representatives of financing institutions and has been approved by the appropriate Government officials as required under the Act. It is hoped that you will give your full support to this program, a copy of which is enclosed.

"The Voluntary Credit Restraint Committee, provided for in the program, is being organized and the subcommittees which are to be designated by the Voluntary Credit Restraint Committee will be appointed as promptly as possible. If you have questions regarding the program or operations under it, it is suggested that you discuss them with the subcommittees."

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There was then presented the following letter to the Honorable James Howard McGrath, The Attorney General, Washington 25, D. C.:

"Pursuant to the requirements of Section 708 of the Defense Production Act of 1950 and Executive Order 10161, there is submitted herewith a copy of a Request made today by the Board of Governors of the Federal Reserve System to financing institutions to act pursuant to a Program for Voluntary Credit Restraint under Section 708 of the Defense Production Act of 1950. This Request was approved by the Acting Attorney General in his letter of March 9, 1951.

"There is also enclosed a copy of a finding of the Board of Governors of the Federal Reserve System pursuant to Section 708 of the Defense Production Act of 1950 that the Program for Voluntary Credit Restraint is in the public interest as contributing to the national defense, together with a copy of such Program."

Approved unanimously, together with the Finding of the Board of Governors of the Federal Reserve System pursuant to Section 708 of the Defense Production Act of 1950 as follows, with the understanding that a similar letter and copy of the Finding would be sent to Honorable James M. Mead, Chairman, Federal Trade Commission, Washington 25, D. C.:

"FINDING

"WHEREAS, section 708 of the Defense Production Act of 1950 authorizes the President to consult with representatives of financing with a view to encouraging the making of voluntary agreements and programs to further the objectives of that Act;

"WHEREAS, by Executive Order No. 10161 the President has delegated this function to the Board of Governors of the Federal Reserve System;

"WHEREAS, the Defense Production Act of 1950 provides that it is the intention of the Congress that the President should use the powers conferred by the Act 'to promote the national defense * * * by preventing undue strains

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"and dislocations upon wages, prices and production or distribution of materials for civilian use, within the framework, as far as practicable, of the American system of competitive enterprise";

"WHEREAS, the restraint of unnecessary credit expansion is essential to the resistance of the inflationary pressures now present in our economy and is an important measure in furthering the objectives of the Defense Production Act of 1950;

"WHEREAS, the Board has consulted with representatives of financing pursuant to the authority referred to above and such representatives have formulated a Program for Voluntary Credit Restraint;

"WHEREAS, the said Program for Voluntary Credit Restraint provides that 'it shall be the purpose of financing institutions to extend credit in such a way as to help maintain and increase the strength of the domestic economy through the restraint of inflationary tendencies and at the same time to help finance the defense program and the essential needs of agriculture, industry and commerce'; and

"WHEREAS, the Board has consulted with the Attorney General and with the Chairman of the Federal Trade Commission with respect to the said Program for Voluntary Credit Restraint not less than 10 days before making this Finding, and the Attorney General has approved a request by the Board to all financing institutions in the United States to act and to refrain from acting in accordance with the Program.

"NOW, THEREFORE, the Board of Governors of the Federal Reserve System, acting pursuant to section 708 of the Defense Production Act of 1950 and Executive Order No. 10161, hereby approves the said Program for Voluntary Credit Restraint in the form attached hereto and finds the said Program to be in the public interest as contributing to the national defense."

Unanimous approval was also given to a Notice transmitting the Request and Program for publication in the Federal Register.

Unanimous approval was also given to the following statement for the press for immediate release:

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"The Board of Governors of the Federal Reserve System is transmitting to all financing institutions in the United States copies of a Program for Voluntary Credit Restraint which has been worked out by representatives of commercial banking, investment banking and life insurance.

"Section 708 of the Defense Production Act of 1950, and the Executive Order of the President No. 10161, authorize the Board of Governors to encourage financing institutions to enter into voluntary agreements and programs to restrain credit where such restraint will further the objectives of the Act. The Program for Voluntary Credit Restraint which was worked out by representatives of financing institutions in consultation with the Board has as its major objective loan screening by all financing institutions in the United States to eliminate loans which are not necessary to financing the defense program and are not essential to the needs of agriculture, industry and commerce.

"A national committee to be known as the Voluntary Credit Restraint Committee will be created, the members of which will be appointed by the Board of Governors of the Federal Reserve System. Initially the Committee will consist of twelve members, four representing the life insurance companies, four representing the investment bankers, and four representing the banks. This membership may be expanded in the future if deemed advisable. This Committee will meet from time to time for the purpose of considering the functioning of the Program and advising the Board of Governors with respect thereto. The Committee will also appoint subcommittees throughout the United States to be available for consultation with individual financing institutions and to assist them in determining the application of the Program with respect to specific loans.

"Participation in the Program is entirely voluntary, but the Board of Governors expressed the hope that all financing institutions would join in the Program and cooperate in carrying it out and making it effective. The request to comply with the Program which has been transmitted by the Board to all financing institutions has, as required by the law, been issued after consultation with the Attorney General and the Chairman of the Federal Trade Commission and approved by the Attorney General. Under the law, actions of financing institutions in accordance with

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"the Program and the request are exempt from the prohibitions of the antitrust laws and the Federal Trade Commission Act of the United States. Attached are copies of the Program and of the request, together with the Board's letter of transmittal to all financing institutions."

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 March 8, 1951, were approved unanimously.

Memoranda from the heads of the Divisions indicated below recommending increases in the basic annual salaries of the following employees in those Divisions, effective March 18, 1951:

Name and Division Date of Memo	Title	Salary Increase	
		From	To
<u>EXAMINATIONS</u>			
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Robert W. Cooke	Asst. F. R. Examiner	\$5,750	\$5,875
<u>INTERNATIONAL FINANCE</u>			
Samuel I. Katz	Economist	6,400	6,600
Marian E. Gochenour	Clerk	2,450	2,530

Approved unanimously.

Memorandum dated March 1, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending that, effective immediately, E. A. Heath of the Federal Reserve Bank of Chicago be designated Acting Assistant Director of the Division of Selective Credit Regulation for the remainder of his assignment at the Board. The memorandum also stated that the proposed designation

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had been discussed with Mr. Young, President of the Federal Reserve Bank of Chicago, and that he had no objection.

Approved unanimously.

Memorandum dated March 6, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Janet E. Long as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,810 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.

Memorandum dated March 6, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Vera F. Small as a clerk-typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,810 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. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

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"Reference is made to your letter of February 23, 1951, submitting the request of 'Chemical Bank and Trust Company', New York, New York, for the Board's consent to its merger with The National Safety Bank and Trust Company of New York, New York, New York, without increasing the capital and surplus of the continuing bank to amounts which will equal the total capital and surplus respectively of the two banks involved in the merger.

"In view of your favorable recommendation the Board of Governors has given its consent under the provisions of section 18(c) of the Federal Deposit Insurance Act to the completion of the transaction provided approval is also obtained from the appropriate State authorities, and provided the merger is effected substantially in accordance with the terms of the agreement dated February 8, 1951, a copy of which was submitted with your letter. A letter addressed to the applicant bank is enclosed together with an extra copy for your files. Please transmit the original letter to the Board of Directors of Chemical Bank and Trust Company.

"It is understood that counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken in effecting the merger."

Approved unanimously, together
with the following letter to the
Board of Directors, Chemical Bank
and Trust Company, 165 Broadway,
New York 6, New York:

"Pursuant to the request contained in Mr. Helm's letter of February 19, 1951, submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System hereby gives written consent under the provisions of section 18(c) of the Federal Deposit Insurance Act to the merger of The National Safety Bank and Trust Company of New York with Chemical Bank and Trust Company, without an increase in the capital and surplus of the resulting bank to amounts which will equal the aggregate capital and surplus, respectively, of the merging banks, provided approval is obtained from the appropriate State authorities and provided the merger is effected substantially in accordance with the terms of an agreement dated February 8, 1951, executed by officers

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"of the merging banks, a printed copy of which was forwarded to us by the Federal Reserve Bank."

Letter for the signature of the Chairman, to Honorable Abraham J. Multer, House of Representatives, Washington, D. C., reading as follows:

"This will acknowledge your letter of February 19, 1951, with which you enclosed copies of two bills H.R. 2703 and H.R. 2704 which you recently introduced.

"The Board of Governors is in sympathy with the broad purposes indicated by the two bills of encouraging the holding of savings bonds until they mature. It would be our suggestion, however, that the authority with respect to the issuance of such securities continue to be in general terms with discretion vested in the Treasury to determine specific terms upon which the bonds will be issued and redeemed. For reasons which have been discussed on several occasions in connection with the removal of tax exemption from Government, State, and municipal securities, it is the view of the Board that in the interest of equitable distribution of the burden of taxation, income on Government and other securities should not be exempt from taxation."

Approved unanimously.

Letter for the signature of the Chairman, to Honorable Charles E. Wilson, Director, Office of Defense Mobilization, Washington, D. C., reading as follows:

"Reference is made to Mr. Bergson's letter of March 2, 1951, to Mr. Vest with respect to the proposed amendments to the Defense Production Act of 1950. Mr. Vest has suggested to Mr. Kayle certain technical changes in the amendments in which the Board is particularly interested and it is understood that these changes will be made.

"It is noted that the bill would amend Section III of the Act, Expansion of Productive Capacity and Supply,

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"to authorize the construction of production facilities for manufacturing and marketing materials necessary to the national defense. This is in addition to the authority already contained in the Act to install additional facilities in plants owned by the United States and to install Government owned equipment in plants owned by private persons. The existing law authorizes the creation of new Government agencies (other than corporations) to make loans to private business enterprises, to purchase raw materials, and to construct, operate and lease defense plants and install Government owned equipment in such plants owned by private persons. The amendment would authorize the creation of Government corporations for these purposes.

"While it is realized that similar authority existed during the last war and that several corporations were created for special purposes, it is the firm belief of the Board of Governors that it should be the policy of the Government to avoid the creation of additional Government instrumentalities for these purposes and to utilize to the fullest extent possible the private credit and production facilities of the country. It is our view that the V-loan program for the guaranteeing of loans for defense purposes, particularly if the Assignment of Claims Act is amended as proposed by the Board and others, will provide adequate means for financing the defense effort through the private banking system and that the creation of additional credit facilities will not be necessary.

"For reasons with which you are familiar, it is the policy of the Federal Reserve System to counteract the further expansion of inflationary credit. This is being accomplished by limiting the availability of bank reserves and the encouragement of the voluntary restriction of such credit by banks and other financing institutions. It is important that the credits extended by the Government during this period be in harmony with that policy and to that end the number of instrumentalities of Government authorized to extend credit for defense production should be kept at a minimum so that the dual policies of efficiently financing the defense effort and at the same time combating the growth of inflationary credit may be effectively coordinated."

Approved unanimously.

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Letter for the signature of Mr. Evans, to Honorable A. Willis Robertson, United States Senate, Washington, D. C., reading as follows:

"The staff has reviewed and studied the proposal of the Virginia Automobile Dealers Association which was made the subject of your letter of February 22 as well as the supplementary information contained in a letter dated March 5 from J. E. Rauch of Roanoke, Virginia, received with your letter of March 6. The Virginia Automobile Dealers proposed a graduated maturity schedule for Regulation W which would provide twelve months maturity for unpaid balances of \$500 and less, fifteen months maturity for unpaid balances of \$500 up to \$1000 and eighteen months maturity for unpaid balances in excess of \$1000.

"Aside from the fact that the proposal would afford a substantial relaxation of Regulation W which the Board believes to be undesirable at this time, the graduated maturities approach has other basic difficulties. Such a formula encourages larger indebtedness in order to take advantage of the longer maturities afforded - an effect which is directly contrary to the underlying principles of Regulation W.

"In this connection it is interesting to note that another automobile association has submitted a proposal which would retain the present fifteen months maturity for obligations with unpaid balances in excess of \$1000 but would provide longer maturities for indebtedness of \$1000 or less. This second proposal has the advantage of tending to force unpaid balances into a lower bracket but it also has the disadvantage of affording a substantial relaxation of the regulation.

"In anticipation of changes in economic conditions the staff is of course constantly reviewing and studying methods of regulatory approach. The proposal of the Virginia Automobile Dealers Association was accordingly submitted to the twelve Federal Reserve Banks for an expression of their views and suggestions. You will be interested in knowing that all the Banks were opposed to any relaxation of the regulation at this time and that all of the Banks opposed the proposal on principle. Among

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Approved unanimously.

Letter to Mr. Frank Cain, General Counsel, National Used Car Dealers Association, c/o Irion, Cain, Bergman and Hickerson, Mercantile Bank Building, Dallas 1, Texas, reading as follows:

"This refers to the recommendations and material on the subject of consumer credit regulation submitted by your organization in its consultation with the Board on January 18, 1951, and the supplemental material submitted with your letter of February 20, 1951.

"The Board has given careful consideration to the recommendations and material submitted by your organization and has concluded that they would not justify amending the consumer credit regulation as you recommend to provide preferential terms for all used cars or for certain deferred balances. Moreover, even if the recommended preferential terms should be justifiable in some circumstances, they would constitute a relaxation of the regulation which the Board believes would be contrary to the interest of the national economy and the national defense in the present general inflationary situation. The Board, therefore, is unable to comply with the request of the National Used Car Dealers Association to the effect that the regulation be amended to provide 21 or 24 months' maturity for used cars or for credits of \$1,000 or less."

Approved unanimously.

Letter to Mr. R. D. McKay, President, National Automobile Dealers Association, 1026 Seventeenth Street, N. W., Washington 6, D. C., reading as follows:

"The Board has carefully considered the data and arguments presented by Mr. F. L. Haller and your associates at the meeting on January 18, 1951, in requesting an amendment to Regulation W that would provide longer maximum maturities for instalment sales of automobiles.

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"In reaching a decision on the request, the Board has considered whether the need for such an amendment on the grounds presented would justify the sacrifice that it would involve in the effectiveness of the regulation. In view of the present strong inflationary pressures the Board feels it would not be appropriate to relax the provisions of the regulation at this time.

"The Board has also carefully considered the request that Mr. Haller and your West Coast associates presented in our meeting on February 9, 1951, and in Mr. Haller's letter of February 14, for an amendment to Regulation W which would provide longer maximum maturities on the basis of freight cost differentials. Such an amendment, it seems to the Board, would not only have the undesirable effect of relaxing the regulation at a time when strong credit controls are needed but it would also place an excessive administrative burden on the Federal Reserve System and on the trade.

"The Board has accordingly decided against amending the regulation at this time to provide longer maximum maturities either for automobiles generally or in areas where prices are higher because of freight costs."

Approved unanimously.

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

"(This wire to all Reserve Bank Presidents also being sent to Managing Officers of all Federal Reserve Bank Branches for their information).

"Following is the text of a statement being handed to the press today for immediate release:

"The United States District Court at Dallas, Texas, has issued an injunction against Marvin A. Smith, doing business as Marvin A. Smith Company, who is engaged in the home improvement and appliance business in Dallas and surrounding territory, enjoining him from further violation of consumer credit Regulation W.

"Regulation W provides that credit for the installment financing of certain listed articles, including

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"the Reserve comments on the proposal were statements: that the proposal would be difficult if not impossible to administer; that it would tend to encourage longer maturities (larger unpaid balances); and that it would tend to discriminate against the lower income buyer.

"On the basis of its study the Board believes it would be inappropriate to grant the request of the Virginia Automobile Dealers Association. I want to assure you, however, that it is our earnest desire to avoid causing unnecessary hardship. The Board is therefore always glad to study proposals designed to ease the burden of credit restriction whenever it can be accomplished without materially sacrificing the effectiveness of the regulation.

"May I take this opportunity of thanking you again for your thoughtful interest in consumer credit regulation."

Approved unanimously.

Letter to Mr. S. F. D. Meffley, Special Representative,
Recording and Statistical Corporation, 222 West Adams Street, Chicago
6, Illinois, reading as follows:

"This refers to your letter of March 1 regarding developments in connection with the use of your appraisal guides for purposes of price regulation.

"We note that your January edition has been approved for purposes of price ceiling regulation and that you plan to distribute a March-April supplement to be in the hands of your subscribers by March 10.

"Our telegram of February 23 was not intended to designate your service for purposes of Regulation W beyond June 30, 1951, when the present authority for Regulation W expires. You will hear from us later with regard to designations for the purposes of Regulation W beyond June 30, after the question of extension of the authority is settled.

"We have noted also that you are stating in your publications that the average retail value for the purposes of Regulation W shall not include any added value for a radio or heater.

"We appreciate your keeping us informed of your plans."

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"home improvements and appliances, shall not be extended without obtaining a down payment in the amount prescribed in the Regulation. In this case the defendant had violated the Regulation by not obtaining the required down payment in a number of cases as well as by failing to maintain records which would show whether or not the transactions complied with the requirements of the Regulation."

"Will appreciate your giving statement whatever distribution in your district you consider desirable."

Approved unanimously.

Telegram to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

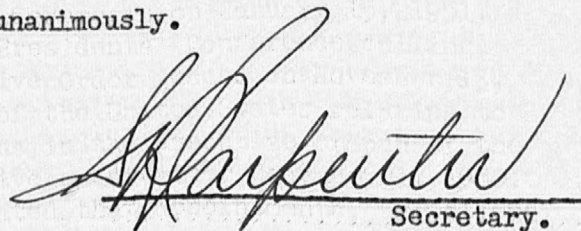
"Definition of major addition in Section 2(g) of Regulation X does not include land. Where owner of nonresidential structure purchases adjoining lot for purpose of erecting a major addition to existing structure, cost of lot need not be included in cost of major addition. It is assumed that major addition will be permanently a part of existing structure and not in fact an independent structure superficially joined thereto."

Approved unanimously.

Telegram to Mr. DeMoss, Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Your wire March 7. Regulation X does not exempt an addition to a store building even though the addition is wholly for manufacturing purposes, if more than 20 per cent of the space in the completed structure is employed for other than manufacturing purposes as defined in the regulation."

Approved unanimously.


Secretary.