

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 13, 1951.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 12, 1951, were approved unanimously.

Memorandum dated March 8, 1951, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending that the official headquarters of Elmer W. Lyster, Assistant Federal Reserve Examiner, be changed from Philadelphia, Pennsylvania, to Washington, D. C., effective March 13, 1951.

Approved unanimously.

Letter to Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of March 7, 1951, the Board approves the appointment of Edgar F. Gardenhour as an examiner for the Federal Reserve Bank of Richmond, effective March 9, 1951.

"It has been noted that Mr. Gardenhour is indebted to Virginia Trust Company, a nonmember bank, Richmond, Virginia, in the amount of \$3,500 secured by 440 shares of stock in Nicodemus National Bank, Hagerstown, Maryland. It is understood that Mr. Gardenhour will make arrangements to dispose of his bank stock. Accordingly, the Board's approval of his appointment is given with the understanding that he will dispose of his bank stock within

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"a reasonable time and liquidate his indebtedness to Virginia Trust Company."

Approved unanimously.

Letter to the Board of Directors of the "Houlton Trust Company", Houlton, Maine, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the Bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Boston.

Approved unanimously for transmittal through the Federal Reserve Bank of Boston.

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

"We regret that we have been delayed in replying to your letter of February 6, 1951, in which you state that Mr. R. M. Day, Vice President of the Midwest Stock Exchange, has inquired as to what reports would be required from a specialist of that Exchange in order for the Exchange to be designated by the Board under section 4(g) of Regulation T.

"This question depends upon the nature of the specialists' operations on the particular exchange, including the rules and supervision to which he is subject, and the reports already required of him by his exchange. Accordingly, if the Midwest Stock Exchange would like to request such a designation, we would suggest that the Exchange advise the Board fully as to all such phases of specialists' operations on the Exchange, and the Board would then be glad to consider the question of what additional requirements, if any, would be necessary before the granting of a designation by the Board."

Approved unanimously.

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

"Board is of the view that classification 'auto-
mobiles' under Regulation W does not include Crosley
'Farm O Road.'"

Approved unanimously.

Letter for the signature of the Chairman, to Mr. Frank Barrett,
Barrett Motors, 469 Elm Street, Biddeford, Maine, reading as follows:

"Thank you for your letter of March 1 on the subject
of Regulation W. I appreciate your constructive attitude
toward the regulation of credit and your interest in
writing to me.

"One of the major problems involved in administering
a regulation such as this is to make it restrictive enough
so that it will be effective in accomplishing its overall
purposes but at the same time to keep the regulation from
being an excessive burden on the people who are subject to
it. The Board has felt that relatively tight terms for
instalment credit are required at present in order to help
restrain the very strong inflationary pressures that are
tending to raise the prices of all goods and services. A
major purpose of the regulation is to curb the increased
purchasing power that results from the expansion of in-
stalment credit, particularly when the supply of goods
is limited. A further purpose is to facilitate the di-
version of critical materials and labor to military
production.

"It has seemed to us desirable at this time to pro-
vide the same maturity requirements for the higher priced
cars as for the lower priced cars. More credit is generally
involved when the price is higher and the people in position
to buy higher priced cars are usually better able to meet
the higher monthly payments required under the regulation.

"We are always glad to receive the views of those who
are affected by the regulation. You may be sure that your
views will be considered in our continuing study of the
terms of the regulation."

Approved unanimously.

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Letter to Mr. Clarence L. Landen, President and Treasurer,
Securities Acceptance Corporation, Securities Acceptance Building,
Farnam at 18th Street, Omaha, Nebraska, reading as follows:

"The individual members of the Board of Governors have received your letters of March 2, 1951, in which you ask why we have Regulation W, especially since we now have price and wage control and allocations.

"Consumer Credit--Regulation W is presently designed to reduce the money demand in the area represented by consumer instalment credit, at a time when the supply of consumer durable goods is insufficient to meet the demand. The fact that expansion of consumer instalment credit has been halted since the imposition of Regulation W would appear to indicate that the regulation has had a marked effect on consumer purchasing power. The reduction of demand in both the new and used automobile field has been reflected in the price of all automobiles. In the case of new automobiles this effect is noticeable in the reduction of the number of 'extras' involved in new car sales particularly in November and December of 1950.

"The regulation is one part of the broad fiscal, monetary, and credit program designed to restrain the inflationary pressures that result in higher prices and to facilitate diversion of critical materials and manpower to military production. The Board is of the opinion that the regulation is presently making an important contribution to this program."

Approved unanimously.

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

"For the purpose of explaining in greater detail our telegram S-1271 (X-32) concerning warehouses and office buildings, it should be noted that this telegram was not intended to liberalize but solely to clarify the provisions of the Regulation.

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"Among the exclusions from the definition of non-residential structure are the following:

Section 2(r)(5). A structure more than 80 per cent of the floor space of which is used or designed for use

- (i) in processing materials, goods, or articles into finished or partly finished manufactured products,
- (ii) in mining or otherwise extracting raw materials, or
- (iii) on farm property in the production shelter, or storage incidental thereto, of crops, livestock, or other agricultural commodities.

"In the processing of materials, goods, or articles into finished or partly finished manufactured products, a warehouse or an office building may be an integral part of and essential to the manufacturing process. We have in mind, for example, a large locomotive manufacturing company which utilizes warehouses for the storage of parts and machinery in the manufacture of its products, and which might also use an office building at the plant site to accommodate the engineering and production staffs, and other offices essential to the actual processing of fabricated products. Such buildings are a part of the manufacturing process and are used solely in connection therewith.

"We did not intend to suggest that an office building to be constructed in a central business district and used to house general supervisory personnel or sales, advertising, and distribution offices, etc., is essential to the manufacturing process. Such a structure would be a 'nonresidential structure' within the meaning of Regulation X."

Approved unanimously.

Memorandum dated March 6, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the Board authorize the installation of car washing facilities in the garage of the Board's building as described in the memorandum and that the appropriate classification in the budget of the Division of

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Administrative Services be increased to cover all necessary costs, estimated at approximately \$1,200.

Approved unanimously.

Memorandum dated March 7, 1951, from the Division of Personnel Administration, reading as follows:

"Title VIII, Section 801 B, General Compensation Rules, Classification Act of 1949, provides in part. . . 'any officer or employee who is promoted or transferred to a position in a higher grade shall receive basic compensation at the lowest rate of such grade which exceeds his existing rate of basic compensation, but not less than one step increase of the grade from which he is promoted or transferred'.

"It is recommended that the Board adhere to this provision in the Act.

"COMMENTS:

The Civil Service Commission policy requires that an employee promoted, or whose position has been reclassified to a higher grade, automatically receive an increase in salary to the minimum of the higher grade and receive an increase of more than one step when it is necessary to bring his salary to the proper step in his new grade. Examples of how this works follow:

1. An employee in Grade 3 at the minimum of the grade, \$2,650 per annum, is promoted to Grade 4. His salary is increased to \$2,875, the minimum of Grade 4.
2. An employee in Grade 3 whose salary is at the third step of Grade 3, \$2,810 per annum, is promoted to Grade 4, which has a minimum of \$2,875. Because the difference between his salary of \$2,810 and the minimum of the new position, \$2,875, is only \$65 and inasmuch as \$65 is not a full step (\$80) in Grade 3, then the salary of the employee is increased to the second step in the new grade of \$2,955, representing an increase of \$145.
3. An employee in Grade 11 who is at the maximum of his grade, \$6,400, is promoted to Grade 12 which has a minimum of \$6,400, is increased in salary to \$6,600 regardless of the date of his last administrative increase, the rule being that he shall receive at least a one step increase upon being promoted.

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"The Board adopted a policy which follows generally the Classification Act of 1949. However, the Personnel Committee did not go along with this interpretation of the Act, but decided that salary increases on promotions and reclassifications would be considered individually. Since that time the Comptroller General rendered a decision which made increases under Section 801 B mandatory in other Federal Agencies.

"This leaves the Board in the position of being the only agency not following the Comptroller General's decision. We find that here at the Board when a position is reclassified or an employee promoted, in some cases the employee receives a full one step increase, or an increase of less than one step, and in a few cases, no increase at all. This has resulted in confusion among the employees and has particularly when they start comparing their salary adjustments with friends created a morale problem which, in my judgment, should be corrected."

Approved unanimously.

Memorandum dated March 13, 1951, from Mr. Powell, stating that Walter S. Robertson of Richmond, Virginia, and Orrin G. Wood of Boston, Massachusetts, had been unable to accept appointments as members of the Voluntary Credit Restraint Committee, and recommending that Rudolf Smutny, Partner, Salomon Bros. & Hutzler, 60 Wall Street, New York, New York, be appointed to represent the Investment Bankers Association, and William K. Barclay, Jr., Partner, Stein Brothers and Boyce, 123 South Broad Street, Philadelphia 9, Pennsylvania, be appointed to represent the National Association of Securities Dealers.

Approved unanimously.

Memorandum dated March 13, 1951, from Mr. Townsend, Solicitor, stating that the Federal Reserve Bank of Richmond had reported under date

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March 1, 1951, that Michael Home Equipment Company, Inc., Washington, D. C., engaged primarily in the sale of television sets, had not obtained the required down payment called for by Regulation W, Consumer Credit, and had maintained records designed to conceal the absence of down payments; and recommending that in accordance with the suggestion of the Reserve Bank the Board authorize the issuance of an order as follows for investigation of the concern mentioned with a view to obtaining an injunctive decree against the continuing violations of the Regulation:

"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 13th day of March, A. D., 1951.

In the Matter of
Michael Home Equipment Company,
Inc.

ORDER DIRECTING INVESTIGATION
AND DESIGNATING OFFICERS TO
TAKE TESTIMONY

I

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

Michael Home Equipment Company, Inc., has made installment sales of appliances and television sets subject to Regulation W:

1. Without obtaining the down payment required by Regulation W;
2. 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.

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"II

The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Richmond, and for the purpose of (1) determining whether Michael Home Equipment Company, Inc., 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 Michael Home Equipment Company, Inc., has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

III

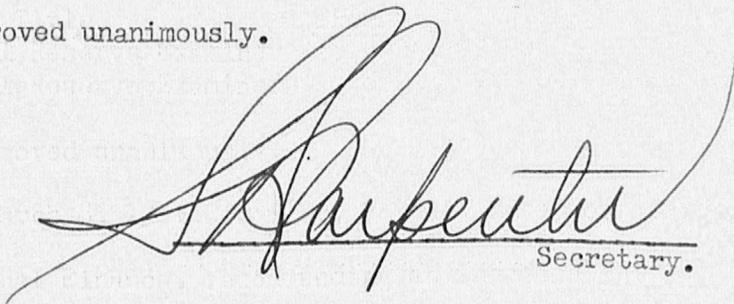
IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950 that an investigation be made to determine the matters set forth in paragraph II hereof.

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 Aubrey N. Heflin, 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."

Approved unanimously.


Secretary.