

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 22, 1951.

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

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

Telegram to Sr. R. Mendez Paiva, Minister of Finance, Asuncion, Paraguay, reading as follows:

"With further reference our cable March 21 there follow proposed terms and conditions relative to mission. We propose that Mr. Olson remain on pay roll of Federal Reserve Board on nonreimbursable basis during time he is engaged in mission. Government of Paraguay or Bank of Paraguay would reimburse Board for travel expenses from Washington to Asuncion and return upon submission of voucher by Board. Government of Paraguay or Bank of Paraguay would make arrangements direct with Mr. Olson regarding hotel accommodations and other expenses incurred by him while in Paraguay. Similar terms would apply in event other members of Board's staff are needed. We trust these arrangements will be acceptable to you and would appreciate cable confirmation."

Approved unanimously.

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

"This will acknowledge your letter of March 8, 1951, advising that the Board of Directors has granted a leave of absence without pay to Mr. O. Ernest Moore, Manager of the Research Department of the Federal Reserve Bank of New York, for a period of about a year commencing approximately April 1, 1951, in order that he may serve the Technical Assistance Administration of the United Nations as financial adviser to the Government of Haiti.

"The Board of Governors will interpose no objection to the arrangements indicated in your letter."

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Approved unanimously.

Telegram to Mr. Neely, Chairman of the Federal Reserve

Bank of Atlanta, reading as follows:

"Retel March 22. Board of Governors approves appointment of Malcolm H. Bryan as President of the Federal Reserve Bank of Atlanta for the remainder of five-year term beginning March 1, 1951, and the payment of his salary at the rate of \$25,000 per annum effective the date he assumes office through May 31, 1952."

Approved unanimously pursuant to the understanding at the meeting of the Board on March 20, 1951, Messrs. Eccles, Norton, and Evans having advised by telephone that they approved the appointment and the salary fixed by the directors of the Federal Reserve Bank of Atlanta.

Letter to Mr. Gilbert, President of the Federal Reserve

Bank of Dallas, reading as follows:

"In accordance with your letter of March 14, 1951, the Board of Governors approves the payment of salary to George F. Rudy as an officer of the Bank with the title of Assistant Counsel at the rate of \$5,000 per annum beginning the day he reports for duty through May 31, 1951."

Approved unanimously.

Letter to Mr. Wiltse, Vice President of the Federal Reserve

Bank of New York, reading as follows:

"Reference is made to your letter of March 6, 1951, submitting the request of the Hempstead Bank, Hempstead, New York, for permission to establish a branch in Bethpage, New York.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Bethpage, New York, by the Hempstead

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"Bank, Hempstead, New York, provided the prior approval of the appropriate State authorities is obtained and the proposed branch is established within six months after the date of this letter.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter to the Board of Directors, Fidelity Union Trust Company, Newark, New Jersey, reading as follows:

"Pursuant to the request contained in Mr. Lowenstein's letter dated February 23, 1951, submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment and operation of a branch by Fidelity Union Trust Company in Belleville, New Jersey, and hereby gives its written consent under the provisions of Section 18(c) of the Federal Deposit Insurance Act to the absorption of The First National Bank of Belleville without increasing the capital and surplus of the Trust Company to amounts which will equal the aggregate capital and surplus, respectively, of the two banks involved in the proposal. The foregoing is conditioned upon prior formal approval of the appropriate State authorities and completion of the absorption substantially in accordance with the agreement submitted with Mr. Lowenstein's letter."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

Letter to The Laredo National Bank, Laredo, Texas, reading
as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of

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"lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Texas, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Dallas.

Telegram to Mr. Erickson, President of the Federal Reserve
Bank of Boston, reading as follows:

"Reurtel March 20, Board will interpose no objection to expenditure of not over \$4,300,000 plus architect's and clerk-of-the-works' fees and charges for revised building program, as outlined, under which contract would be given to George A. Fuller Company on a cost plus fixed fee basis with a guaranteed maximum cost of \$4,150,000 including fee of \$180,000. It is understood that this Company had submitted the only unqualified bid in the competitive bidding last month."

Approved unanimously.

Letter to Honorable Emanuel Celler, Chairman, Committee on
the Judiciary, House of Representatives, Washington, D. C., reading
as follows:

"This is in reply to your letter of March 13, 1951, addressed to Mr. Phelan, in which you ask to be advised of any action which the Board may have taken pursuant to the suggestion made at the hearing on February 9, 1951,

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"that the Board review the schedule of guarantee fees and maximum interest rate with respect to V-loan guarantees, particularly in the light of interest charged on guaranteed loans to finance construction of new aluminum facilities.

"In accordance with the Committee's suggestion that this matter be reviewed, the Board on February 15 wired the Federal Reserve Banks requesting to be advised whether they knew of any prospective borrowers whose applications for V-loans have been turned down because the net rate of return to the financing institutions, after payment of the guarantee fee, would have been unattractive. The Reserve Banks were also asked for an expression of their views as to whether the existing schedule of guarantee fees and maximum interest rate should be modified either by reducing the guarantee fees or the maximum rate of interest.

"On the basis of the replies received from the Federal Reserve Banks, it appears that only in one or two cases has there been any indication that the net rate of return afforded to financing institutions under the present schedule of fees and rates has acted to retard or prevent the financing of defense contractors under the current V-loan program; and the great majority of the Reserve Banks have expressed the opinion that no changes should be made in the present schedule.

"In the circumstances, the Board feels that there is probably not sufficient justification for any modification of the schedule of fees and rates at this time. However, we are pursuing the matter further and plan in the near future to discuss with representatives of the various guaranteeing agencies the question whether the existing schedule of rates and fees should be modified with respect to guaranteed loans made for the purpose of financing expansion of facilities or plant construction."

Approved unanimously.

Letter to Mr. Max Rogers, Vice President, May-Stern & Company, Fifth and Elm Streets, Cincinnati, Ohio, reading as follows:

"We are pleased to receive the copy of your thoughtful letter of March 2 on the subject of Regulation W, which was referred to us by the Federal Reserve Bank of Cleveland.

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"The possibility of regulating consumer instalment credit at the wholesale financing level has been a matter of interest to and study by the Board's staff from time to time since the inception of Regulation W. It has attractive features, particularly its apparent simplicity. Moreover, we have been aware of the point you make that much of the competitive easing of credit terms stems from the large retailers who finance their own instalment paper either directly or indirectly through commercial bank loans.

"On the other hand, as you will appreciate, there are certain difficulties with the wholesale financing approach for regulation of consumer instalment credit. Among these difficulties are the question of equity where the principle of regulation would depend on the method of wholesale financing used, and the question of how to distinguish the extent to which a given line of credit is applied to the financing of consumer receivables rather than to other working capital items such as inventories.

"It seems to us also that this subject should be studied further and we appreciate your interest in writing to us about it."

Approved unanimously.

Letter to Honorable Tom Connally, United States Senate, Washington, D. C., reading as follows:

"Thank you very much for referring to us Mr. Guillot's letter concerning the restrictions on housing credit. We welcome all constructive comment and criticism from men with experience in the real estate field.

"Authority to issue the regulation, as you know, was granted the President by Congress in the Defense Production Act of 1950. In enacting Title VI of this Act Congress recognized the substantial inflation already existing in the housing field and took vigorous steps to restrain further inflationary pressures and to assure the availability of materials and labor required for the defense program.

"Congress provided not only that restrictions be placed upon conventional financing, but also authorized restrictions on Government guaranteed and insured loans. The President delegated the authority to issue regulations

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"on conventional credit to the Board, and at the same time required that the Housing and Home Finance Administrator take such action as was necessary to insure that the restrictions would apply to the fullest extent practicable to Government-aided credit. Inasmuch as the Housing and Home Finance Administrator has primary responsibility over Government-insured and guaranteed credit, we are sending him a copy of Mr. Guillot's letter for consideration.

"Mr. Guillot mentioned the restrictions on financing of major additions and major improvements to residences. These are designed to carry out the intent of Congress as expressed in the Defense Production Act of 1950. They were not intended, however, to place burdensome restrictions on small and routine maintenance expenditures, and the definition of major additions and major improvements therefore was purposely liberal.

"On the question of investigations of lenders, the Board has felt throughout that a maximum degree of reliance should be placed upon the good faith of lenders and has written the regulation with that thought in mind. Consequently, we have reduced to a minimum investigations such as Mr. Guillot describes. We believe, however, that to the extent they are necessary to the enforcement of Regulation X, the Federal Reserve Banks are qualified to conduct them efficiently and with a minimum of inconvenience and expense to lenders.

"I hope this will explain some of the points which Mr. Guillot raises. If we can be of further service, please do not hesitate to call upon us."

Approved unanimously.

Letter for the signature of the Chairman, to Honorable W.

H. Harrison, Administrator, Defense Production Administration,
Washington 25, D. C., reading as follows:

"This is in response to your letter of March 15, 1951, regarding the suggested waiver of the guarantee fee which would be payable to the Government by lending institutions with respect to a loan guaranteed under section 301 of the Defense Production Act and made to the Harvey Machine Company for the purpose of financing facilities expansion.

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"The Board has given very careful consideration to this matter and it seriously doubts the advisability of a course of action under which the Board or the guaranteeing agency would waive the applicable guarantee fee in an individual case. The presently established schedule of fees is designed to have uniform applicability. A practice of waiving the fee in particular cases would give rise to administrative difficulties of the greatest magnitude and would be likely to subject the guaranteeing agencies to charges of discrimination. If the fee should be waived in any particular case, there would undoubtedly be considerable pressure for the waiver of the fee in other cases.

"In this connection, it may be mentioned that, during a recent hearing before a Subcommittee of the House Judiciary Committee, one of the witnesses expressed the view that, while the Board might have authority to waive fees by general rule in a general type of case, it was doubtful whether the Board would be authorized to waive the fee in any particular case, and the Chairman of the Judiciary Committee stated that he thought this to be 'a sound interpretation of the statute'.

"One of the purposes of the guarantee fee, of course, is to provide for the accumulation of a fund which will be available to the guaranteeing agencies to meet possible losses under guarantees made by them. At the same time, by relating the amount of the guarantee fee to the percentage of guarantee, the schedule of fees is intended to encourage financing institutions to assume as much of the risk as possible in each case and thereby correspondingly reduce the Government's contingent liability on such guarantees. The schedule of guarantee fees now in effect was established after consultations between the Board and the various guaranteeing agencies when the current V-loan program was inaugurated in September 1950; and, as required by the President's Executive Order 10161, any variations in that schedule may be made only after further consultations with the guaranteeing agencies.

"We are informed that negotiations for a guarantee loan in the case here involved have been proceeding on the basis of a possible guarantee by the General Services Administration rather than by the Department of the Interior as indicated in your letter. Accordingly, we have informally discussed this case with the Honorable Jess Larson, General Services Administrator, and he has stated

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"that he would not favor the waiving of guarantee fees in particular cases because in his opinion it would be difficult if not impossible to administer the program on this basis. I hope that, after consideration of all the factors involved, you will find yourself in agreement with this view.

"While we feel that it would be inadvisable to waive guarantee fees in individual cases, we have been considering the question whether the existing schedule of guarantee fees and maximum interest rate should be modified with respect to guarantees of loans made for the purpose of financing facilities or plant expansion. Recently, we requested the Federal Reserve Banks for their views on this question and a great majority of the Reserve Banks expressed the opinion that no change in the schedule of fees and rates should be made at this time. Nevertheless, we are pursuing the matter further and we plan to discuss the question with representatives of the various guaranteeing agencies in the near future."

Approved unanimously.

Letter to Winthrop B. Lane, Esq., 524 Omaha National Bank Building, Omaha, Nebraska, reading as follows:

"This refers to your letter of March 9, 1951, regarding the proposed amendment to the Assignment of Claims Act of 1940, which is now pending in Congress. Your letter suggests that there is a possible conflict between the first and second sentences of the proposed amendment in that the first sentence appears to prohibit 'recapture' of amounts paid to an assignee, whereas the second sentence seems to provide that recapture is prohibited only if the assigned Government contract contains the so-called 'no set-off' clause.

"It is the intent of the first sentence of the proposed amendment to make it clear that financing institutions taking assignments of claims as security for loans shall not be required in any case to make restitution or repayment of proceeds which have been actually received by them pursuant to the assignment, regardless of the nature of any claim which the Government may have against the assignor-contractor.

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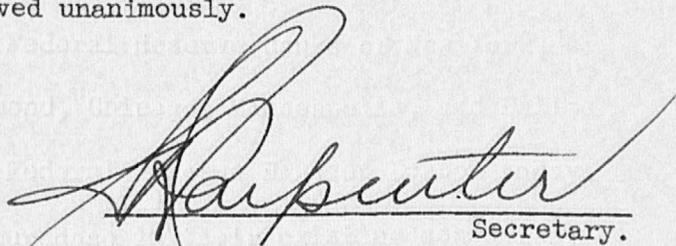
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"On the other hand, the second sentence of the proposed amendment is intended only to continue the present provision of the Assignment of Claims Act to the effect that if a 'no set-off' clause is included in the assigned contract, the Government may not reduce any payments to be made under the assignment by reason of claims of the Government against the contractor which arise independently of the contract, and also to make it clear that there will be no reduction of payments to be made under an assignment on account of certain specified claims of the Government against the contractor, such as renegotiation claims, regardless of whether those claims are considered to arise independently of the contract or not.

"The proposed legislation has not, as indicated in your letter, yet passed the House of Representatives. It was introduced in the House on February 27, 1951, as H.R. 2947, and a hearing on that bill was held before a Subcommittee of the Judiciary Committee of the House on March 7. An identical bill, S. 998, has also been introduced in the Senate.

"We appreciate your interest in this matter and we are glad to have your views regarding the language of this bill. While it is likely that the provisions of the bill may undergo some revision in the course of its progress in Congress, it is hoped that adequate legislation on this subject may be enacted at an early date since, as you are aware, the primary purpose of the legislation is to remove an existing obstacle to the private financing of defense production contracts."

Approved unanimously.


Secretary.