

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 5, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Powell

Mr. Sherman, Assistant Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Thomas, Economic Adviser to the Board
 Mr. Vest, General Counsel
 Mr. Townsend, Solicitor
 Mr. Dembitz, Assistant Director, Division of International Finance
 Mr. Tamagna, Chief, Financial Operations and Policy Section, Division of International Finance
 Mr. Hirschman, Chief, Western European and British Commonwealth Section, Division of International Finance
 Mr. Hinshaw, Economist, Division of International Finance

Mr. Dembitz presented a report on international financial developments, referring especially to recent political and military developments which have resulted in a strengthening of the position of the dollar. He also reviewed foreign missions in which representatives of the Federal Reserve System were currently engaged and requests for technical assistance in the foreign area presently under consideration.

During the course of this discussion Mr. Vardaman joined the meeting.

In response to an inquiry by Mr. Vardaman whether foreign Governments or central banks, upon requesting technical aid from the System, should not be referred to United States commercial banks for assistance, Mr. Szymczak stated that Mr. Vardaman's suggestion had been considered

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at various times in the past but that the Board had always felt that it would be impracticable to follow it as a matter of general policy. Mr. Szymczak went on to say that usually when a request for a mission was submitted to the Board it was for a Federal Reserve mission, that on several occasions informal suggestions had been made that commercial bankers be included on such missions, but that generally those suggestions had proved unacceptable to those requesting the missions. He cited particularly the case of the mission to the Philippines in which instance that Government made it plain that it did not wish to have included in the mission any representative of private interests.

Mr. Vardaman commented that he was against the procedure being followed.

Reference was made to an undated circular questionnaire addressed to bankers and received by individual members of the Board and the staff from Representative Buffett of Nebraska, a member of the House Banking and Currency Committee, soliciting comments regarding H. R. 324, a bill introduced by Congressman Reed of New York and cited as the "Gold Standard Act of 1949". Mr. Vest stated that the bill was identical with a bill introduced by Mr. Reed in the 81st Congress, and that the Board submitted a report to Senator Maybank under date of May 4, 1949 with respect to S. 13 and S. 286, similar bills relating to transactions in gold, recommending that favorable consideration not be given to them.

During the ensuing discussion, Chairman Martin suggested that, since Representative Buffett's questionnaire was not an official communication from a committee of Congress and was not addressed to the Board, but was a circular letter apparently sent to a large number of individuals by Mr.

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Buffett as an individual member of Congress, no official reply be made by the Board.

This suggestion was approved unanimously.

At this point Messrs. Dembitz, Tamagna, Hirschman, and Hinshaw withdrew.

Referring to the Voluntary Credit Restraint Program, Mr. Vardaman inquired why the letter of March 9, 1951 from Acting Attorney General Peyton Ford approving the Request to financing institutions to act or refrain from acting pursuant to the Program had not been released to lending institutions for inspection, stating that he wished the record to show that he thought all private institutions participating in the Program should be furnished a copy of the Attorney General's letter so that they might decide for themselves after studying its contents whether they would be warranted in participating. Mr. Vardaman also made a statement substantially as follows:

The record should show that I oppose the Federal Reserve System occupying a dominant position in the Voluntary Credit Restraint Program. I think the program should be completely voluntary without the injection of any Government agencies into it, as concerns its operation, with the possible exception of the Attorney General.

I predict that under the program, if the Federal Reserve dominated, bank credits would expand to unprecedented totals, and that the Board would probably be estopped from asking for an increase in reserve requirements because of the program.

Mr. Powell reviewed discussions with representatives of the Attorney General's office concerning the letter during which such representatives refused to approve making it available for public inspection on the grounds that it did not reflect the background of previous consultations regarding the Program between the Board and the Attorney General's office. He said

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that the Attorney General's representatives had offered to write another longer letter for public inspection reciting more fully the circumstances which had resulted in approving the Request, but that he did not believe it necessary to ask for the supplemental letter in view of a discussion of the matter at the meeting of the national Voluntary Credit Restraint Committee on March 29, 1951, at which time the letter was read to the members of the Committee, who agreed that it would be sufficient to note in the minutes of the Committee that the letter of March 9 had been placed in the files of the Board. Mr. Powell added that the Attorney General's office had indicated that there would be no objection to showing copies of the letter to qualified parties if requested and that, accordingly, he had permitted copies to be inspected by commercial bankers in a few instances with satisfactory results.

Chairman Martin suggested that in the light of Mr. Powell's comments it appeared that no action with respect to the matter need be taken by the Board at this time, and there was concurrence with this suggestion.

Before this meeting there had been sent to the members of the Board a memorandum from Mr. Powell dated April 4, 1951, recommending that savings banks and building and loan associations be recognized in the Voluntary Credit Restraint Program by the Board's appointment of two representatives for each of these groups of lenders to the national Voluntary Credit Restraint Committee, that certain changes in the language of the Program as set forth in an attachment to the memorandum be approved and submitted to the Attorney General and the Chairman of the Federal Trade Commission, and that the Board authorize the printing of 30,000

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copies of a placard at an estimated cost of \$3,000 quoting the Statement of Principles of the Program and distribution thereof to banks, insurance companies, and investment banking institutions.

Commenting on the first recommendation in the memorandum, Mr. Powell stated that Mr. Wilson, Director of the Office of Defense Mobilization and Acting Chairman of the Committee of Four set up by the President on February 26, 1951, had suggested that the savings banks and building and loan associations be recognized in the Voluntary Credit Restraint Program, that the task force of the Wilson committee dealing with voluntary credit restraint had made a similar suggestion, and that both groups of lenders had approached members of the Board or the staff expressing interest in such recognition.

Thereupon, upon motion by Mr. Vardaman, this recommendation was approved unanimously, with the understanding that Mr. Powell would submit names of suggested appointees for approval by the Board.

Mr. Powell then explained why he felt the proposed amendments to the Voluntary Credit Restraint Program set forth in the attachment to his memorandum of April 4 would be desirable, and stated that they had been approved by the Voluntary Credit Restraint Committee at its meeting on March 29, 1951.

Thereupon, upon motion by Mr. Powell, unanimous approval was given to the following letter to the Honorable James Howard McGrath, Attorney General, Washington, D. C., together with a similar letter to the Honorable James M.

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Mead, Chairman, Federal Trade
Commission, Washington, D. C.:

"This refers to the Program for Voluntary Credit Restraint formulated under the provisions of section 708 of the Defense Production Act of 1950 and the Request of the Board to financing institutions to act in accordance with the Program, which you approved in a letter dated March 9, 1951.

"The Voluntary Credit Restraint Committee created under the Program held meetings on March 14-15 and on March 29, 1951. At these meetings the Committee gave consideration to various aspects of the functioning of the Program and also to the appointment of the subcommittees contemplated by the Program. In its discussions, certain questions arose regarding the operations and procedures of the Committee and of the subcommittees, as well as to the provisions contained in the Statement of Principles. As a result of its consideration of these matters, the Committee considered and agreed to certain amendments to the Program for Voluntary Credit Restraint and in accordance with the terms of the Program suggested these amendments to the Board of Governors for consideration. These amendments are as follows:

1. Strike out the fifth sentence of Paragraph 1 of the Procedure for Implementing the Program beginning 'In selecting and appointing' and insert in lieu thereof two new sentences reading as follows:

'The Board may appoint one or more alternates from each group to serve on the Committee in case of the absence of a member or members of the Committee representing such group. In selecting and appointing the members of the Committee and alternates, the Board shall have due regard to fair representation thereon for small, for medium and for large financing institutions, and for different geographical areas.'

2. At the end of Paragraph 1 of the Procedure for Implementing the Program, insert the following new subparagraphs:

'(d) Issue bulletins or memoranda from time to time to the subcommittees or to financing institutions regarding general matters relating to the Program and related credit problems, including statements implementing or clarifying the Statement

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"of Principles, and describing the types of credits which, in the Committee's opinion, should or should not be regarded as proper under the terms of the Program."

"(e) Request the chairman of the Committee to designate an employee of the Board of Governors to serve as secretary. Such secretary, in consultation with the chairman of the Committee, is authorized to conduct correspondence on behalf of the Committee in conformity with actions taken by the Committee within the scope of the Program."

3. At the end of Paragraph 2 of the Procedure for Implementing the Program, insert the following:

"The chairman of each subcommittee will be designated by the Committee and in the absence of such chairman, the subcommittee may elect an acting chairman from among its members. The Committee may appoint one or more alternates to serve at the request of the chairman of a subcommittee in case of the absence of a member or members of the subcommittee. The Federal Reserve Bank or branch, as the case may be, may provide an alternate to the subcommittee member designated by it whenever necessary. Each subcommittee may appoint a secretary who may be a member of the subcommittee or otherwise, and he may conduct correspondence on behalf of the subcommittee in conformity with actions taken by the subcommittee within the scope of the Program."

4. In the last sentence of paragraph 2 of the Statement of Principles describing the types of loans which financing institutions should not make under present conditions, beginning with the phrase 'The foregoing principles', strike out the words 'whether or'.

"The Board has approved the above amendments to the Program and is prepared, as provided in section 708 of the Defense Production Act of 1950, to find that the Program as thus amended is in the public interest as contributing to the national defense. For your convenient reference, a copy of the Program in which these new amendments have been incorporated is enclosed herewith.

"As required by the provisions of section 708(e) of the Defense Production Act, the Board is now consulting with you, through the medium of this letter, with regard to the provisions of the Program as thus amended, the proposed finding by the Board that the Program as thus amended is in the public interest as contributing to the national defense, and the proposed Request

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"to be made by the Board to financing institutions to act and to refrain from acting pursuant to the Program as thus amended. The Board is consulting in like manner with the Chairman of the Federal Trade Commission.

"The purpose of the Voluntary Credit Restraint Program as now existing and as amended in the respects above indicated is to assist in restraining inflationary pressures, as more fully discussed in our letters of February 5 and February 16, 1951, addressed to you on this subject.

"There is enclosed herewith a proposed Request to all financing institutions in the United States that they act and refrain from acting pursuant to and in accordance with the Program as amended in the respects indicated above. This Request, which is a modification of the Request approved on March 9, 1951, is intended to be within the coverage of section 708 of the Defense Production Act. It will be appreciated if you will advise whether you approve the enclosed Request.

"If you approve the new Request which is enclosed, the Board will make such request not less than 10 days after the date of this letter and a copy will be published in the Federal Register. A copy of the new Request, when made, together with a copy of the new finding of the Board, will be furnished to you and to the Chairman of the Federal Trade Commission."

Mr. Powell exhibited a sample placard such as his memorandum of April 4 suggested be printed and made available to banks, insurance companies, and investment banking institutions, stating that it had been shown to the members of the Voluntary Credit Restraint Committee at the meeting on March 29, that it met with enthusiastic approval, and that the Committee asked him to request the Board to authorize the expenditure of an estimated \$3,000 to produce 30,000 copies of the cards to go to lending institutions participating in the program.

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Mr. Vardaman suggested that the authorization should also cover postage costs for sending the cards to the lending institutions.

Thereupon, upon motion by Mr. Powell, the above suggestions were approved unanimously with the understanding that the appropriate items in the 1951 budget of the Division of Administrative Services would be increased to cover the costs.

At this point all of the members of the staff with the exception of Messrs. 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 April 4, 1951, were approved unanimously.

Memorandum dated April 4, 1951, from Chairman Martin, recommending that Miss Catherine T. Chupka be appointed Secretary to the Chairman, on a nonpermanent basis in accordance with the procedure adopted by the Board on December 29, 1950, at a basic salary of \$5,600 per annum, effective immediately and subject to her passing the usual physical examination.

The memorandum recommended further that, effective immediately, Miss Madeleine E. Benton, who has been serving as Secretary to the Chairman, be appointed Administrative Assistant to the Chairman with no change in her basic salary of \$5,700 per annum, with the understanding that for the time being at least she would handle corres-

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pondence, review of minutes, and other material in the Chairman's office and that at a later time a further recommendation with respect to her assignment would be submitted to the Board in the usual manner if that seemed desirable.

Approved unanimously.

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

"In accordance with the request contained in your letter of April 2, 1951, the Board approves the designation of Michael M. Mulligan as a special assistant examiner for the Federal Reserve Bank of New York."

Approved unanimously.

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

"This will acknowledge your letter of March 23, 1951, with enclosures, all relating to the operation of the accounts of Banque Nationale Suisse on the books of the Federal Reserve Bank of New York in the event of the occupation of Switzerland, in whole or in part, by a foreign power.

"We have reviewed your letter and other documents and, while at the moment we have no comments to offer, in the event the State Department desires to discuss this problem with you, the Board, as you have suggested, will arrange to have representatives present."

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 March 30, 1951, enclosing a certified copy of a resolution adopted by the Board of Directors of The Sullivan County Trust Company, Monticello, New York, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

"As requested, the Board of Governors waives the requirement of six months' notice. Accordingly, upon surrender of the Federal Reserve Bank stock issued to The Sullivan County Trust Company, Monticello, New York, you are authorized to cancel such stock and make appropriate refund thereon. It is assumed that the bank will apply for continuance of deposit insurance after withdrawal, in which event it will have four months after the date of this letter within which to accomplish termination of its membership (F.R.L.S. #3548).

"It is noted that the bank is withdrawing because it does not have the \$500,000 minimum capital stock required by Federal statute for the establishment of an out-of-town branch in Wurtsboro, New York.

"Please advise when cancellation is effected and refund is made. The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective."

Approved unanimously.

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

"Reference is made to your letter of March 29, 1951, enclosing a certified copy of the resolution adopted by the Board of Directors of the Farmers State Bank, Jesup, Iowa, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

"As requested, the Board of Governors waives the requirement of six months' notice. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Farmers State Bank, Jesup, Iowa, you are authorized to cancel such stock and make appropriate refund thereon.

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"Please advise when cancellation is effected and refund is made. The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective."

Approved unanimously.

Letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of March 29, 1951, enclosing a certified copy of a resolution adopted by the Board of Directors of the Bell Gardens Bank, Bell Gardens, California, signifying its intention to withdraw from membership in the Federal Reserve System and indicating a desire to have such withdrawal take effect upon completion of arrangements for continuance of deposit insurance after withdrawal.

"It is understood that application for continuance of insurance has been made to the Federal Deposit Insurance Corporation and the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Bell Gardens Bank, Bell Gardens, California, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of the Board's letter of February 19, 1937, (F.R.L.S. #3548) the bank may accomplish the termination of its membership at any time within four months of the date of this letter. If a longer period is required, the bank should request an extension of time.

"It is noted that the bank is withdrawing because it does not have the \$500,000 minimum capital stock required by Federal statute for the establishment of an out-of-town branch in the Hollydale area of the City of South Gate.

"Please advise when cancellation is effected and refund is made. The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective."

Approved unanimously.

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Letter to Mr. W. P. Folger, Chief National Bank Examiner,
Comptroller of the Currency, Washington 25, D. C., reading as follows:

"The Board in its letters of October 23 and November 22 and attached memoranda outlined a uniform enforcement program in connection with the administration of consumer credit-- Regulation W-- and real estate credit--Regulation X. This enforcement procedure contemplated the reporting of violations disclosed by your examiners.

"In placing the enforcement program in effect, many of the Federal Reserve Banks have asked local offices of the cooperating supervisory agencies to furnish the Banks with additional information in connection with Regulations W and X Registrants subject to the supervision of the cooperating supervisory agencies; for example, not only the facts pertinent to willful violations, but also the total number of Regulations W and X Registrants examined during the current period, together with an indication of the number of such examinations disclosing inadvertent violations. The Board believes this additional information to be of value both to the Federal Reserve Banks and to the Board in discharging their respective responsibilities under the Defense Production Act of 1950.

"In this connection, because both the enforcement and administration of the regulations have been decentralized among the twelve Federal Reserve Banks, it is quite probable that the Federal Reserve Banks, in requesting information from your local offices, may not request quite the same information or ask that it be reported in quite the same way. It would, therefore, be helpful if your local offices could furnish the respective Federal Reserve Banks with this credit regulation enforcement information in the manner requested by the Banks rather than under a single standardized form.

"We will appreciate it greatly, therefore, if you will request your chief examiners to cooperate in supplying information of this kind to the Federal Reserve Banks. We have suggested to the Banks that they make whatever arrangements appear to be necessary and practicable with the local chief examiners.

"We enclose copies of Regulation X, which was revised February 15, 1951, together with copies of amendments Nos. 1, 2, and 3. If you wish additional copies of this material, we will be glad to send them to you. The Federal Reserve Banks continue to supply your offices throughout the country

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"with all revisions of, amendments to, and published interpretations of the regulations as soon as they are issued."

Approved unanimously.

Letter to Mr. Vance L. Sailor, Chief, Division of Examinations, Federal Deposit Insurance Corporation, National Press Building, 14th and F Streets, N. W., Washington, D. C., reading as follows:

"The Board in its letters of October 23 and November 22 and attached memoranda outlined a uniform enforcement program in connection with the administration of consumer credit--Regulation W--and real estate credit--Regulation X. This enforcement procedure contemplated the reporting of violations disclosed by your examiners.

"In placing the enforcement program in effect, many of the Federal Reserve Banks have asked local offices of the cooperating supervisory agencies to furnish the Banks with additional information in connection with Regulations W and X Registrants subject to the supervision of the cooperating supervisory agencies; for example, not only the facts pertinent to willful violations, but also the total number of Regulations W and X Registrants examined during the current period, together with an indication of the number of such examinations disclosing inadvertent violations. The Board believes this additional information to be of value both to the Federal Reserve Banks and the Board in discharging their respective responsibilities under the Defense Production Act of 1950.

"In this connection, because both the enforcement and administration of the regulations have been decentralized among the twelve Federal Reserve Banks, it is quite probable that the Federal Reserve Banks, in requesting information from your local offices, may not request quite the same information or ask that it be reported in quite the same way. It would, therefore, be helpful if your local offices could furnish the respective Federal Reserve Banks with this credit regulation enforcement information in the manner requested by the Banks rather than under a single standardized form.

"We will appreciate it greatly, therefore, if you will request your supervising examiners to cooperate in supplying information of this kind to the Federal Reserve Banks. We

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"have suggested to the Banks that they make whatever arrangements appear to be necessary and practicable with the local supervising examiners.

"We enclose copies of Regulation X, which was revised February 15, 1951, together with copies of amendments Nos. 1, 2, and 3. If you wish additional copies of this material, we will be glad to send them to you. The Federal Reserve Banks continue to supply your offices throughout the country with all revisions of, amendments to, and published interpretations of the regulations as soon as they are issued."

Approved unanimously.

Letter to Mr. C. R. Orchard, Director, Bureau of Federal Credit Unions, Federal Security Agency, Washington, D. C., reading as follows:

"The Board in its letter of October 23 outlined a uniform enforcement program in connection with the administration of consumer credit--Regulation W. This enforcement procedure contemplated the reporting of willful violations disclosed by your examiners.

"In placing the enforcement program in effect, many of the Federal Reserve Banks have asked local offices of the cooperating supervisory agencies to furnish the Banks with additional information in connection with Regulation W Registrants subject to the supervision of the cooperating supervisory agencies; for example, not only the facts pertinent to willful violations, but also the total number of Regulation W Registrants examined during the current period, together with an indication of the number of such examinations disclosing inadvertent violations. The Board believes this additional information to be of value both to the Federal Reserve Banks and to the Board in discharging their respective responsibilities under the Defense Production Act of 1950.

"In this connection, because both the enforcement and administration of the regulation have been decentralized among the twelve Federal Reserve Banks, it is quite probable that the Federal Reserve Banks, in requesting information from your local offices, may not request quite the same information or ask that it be reported in quite the same way. It would, therefore, be helpful if your local offices could furnish the respective Federal Reserve Banks with this credit

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"regulation enforcement information in the manner requested by the Banks rather than under a single standardized form.

"The same general considerations referred to above also apply to Regulation X, which regulates real estate credit and was initially issued on October 12, 1950, when copies of the regulation were forwarded to your office and also to your various offices throughout the country. It should be noted that this regulation has been successively revised on January 12, 1951, and February 15, 1951, and that copies of the revised regulation have been forwarded to your local offices by the Federal Reserve Banks. Recently three amendments, Nos. 1, 2, and 3, have been made to Regulation X, and we enclose a copy of the revised regulation with these amendments attached. All amendments to and published interpretations of the regulation are mailed to your various offices by the Federal Reserve Banks as soon as they are issued.

"We also enclose a copy of the Outline of Enforcement Program for Regulation X, which has been approved by the Department of Justice. Copies of this program have heretofore been forwarded to your local offices by the Federal Reserve Banks. In this connection, it should be noted that the Federal Reserve Banks have the responsibility for the administration and enforcement of Regulation X and are responsible for making arrangements with the local offices of State and Federal supervisory agencies for the cooperative enforcement of the regulation.

"We will appreciate it, therefore, if you will notify your local offices throughout the country to supply the Federal Reserve Banks with information of the kind noted above in connection with examinations of Federal Credit Unions covering both Regulations W and X. In this connection, we should like to inform you also that a number of the Federal Reserve Banks have commented most favorably on the cooperative response they have received from your local offices with respect to the enforcement program for the two regulations."

Approved unanimously.

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

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"Advice was recently received from a Federal Reserve Bank that during a visit to the Bank by auditors of the Production and Marketing Administration in connection with an audit of Commodity Credit Corporation custodian accounts they had requested the Bank to furnish, for inspection and presumably audit, copies of CCC reimbursable expense vouchers.

"In view of the Board's letter S-947 dated December 19, 1946 (L.L.S. #5771), the Bank took the matter up with the Board and members of the staff discussed the matter with a representative of the Commodity Credit Corporation in Washington. Informal advice was received that the vouchers would not seem to be required in connection with an audit of CCC custodian accounts; that the matter would be discussed with the General Auditor of PMA; that the vouchers were available at the CCC office in Washington in event the General Auditor wished to have them reviewed; and that in the circumstances the Bank should not turn the vouchers over to the PMA auditors.

"The above matter was discussed with the Chairman of the Presidents' Conference Committee on Fiscal Agency Operations and it was agreed that it would be desirable to advise all Federal Reserve Banks of the foregoing."

Approved unanimously.


Assistant Secretary.