

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 19, 1951. The Board met in the Special Library at 10:35 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Vardaman  
Mr. Norton

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Murff, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Leonard, Director, Division of  
Bank Operations  
Mr. Vest, General Counsel  
Mr. Young, Director, Division of  
Research and Statistics  
Mr. Wayne, Acting Director, Division  
of Examinations  
Mr. Sloan, Assistant Director, Division  
of Examinations  
Mr. Hostrup, Assistant Director, Division  
of Examinations

Before this meeting there had been sent to each member of the Board a copy of a memorandum from Mr. Wayne dated April 6, 1951 with respect to examinations of Federal Reserve Banks. The memorandum stated that its purposes were (1) to evaluate on the basis of historical background the existing procedure of examination of Federal Reserve Banks by the Board's field staff of examiners, and (2) to recommend for consideration by the Board a broad directive for the future guidance of the Division of Examinations in conducting examinations of Federal Reserve Banks for the Board. After reviewing and commenting upon auditing activities included in the present examination procedure and suggesting what information might best

4/19/51

-2-

be obtained by methods other than examination, the memorandum recommended the adoption by the Board of the broad directive set forth in the memorandum indicating what the Board expects will be accomplished by examinations of the Federal Reserve Banks:

- (1) The examination of a Federal Reserve Bank shall determine (a) its financial condition through appraisal of its assets and verification of its assets and liabilities without undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit procedure, and (b) compliance by the management with applicable provisions of law, regulations of the Board of Governors, requirements of the Treasury with respect to fiscal agency operations, and any other applicable requirements. Also, the Board's examiners shall develop pertinent facts and opinions which will enable the Board of Governors to appraise the condition, operations, and administration of each Reserve Bank.
- (2) The annual examination of a Reserve Bank by the Board's examiners is not intended to encompass the full scope of an audit of such Bank.
- (3) The Director of the Board's Division of Examinations shall instruct the Chief Federal Reserve Examiner as to the minimum scope of examinations of Federal Reserve Banks in order to carry out the provisions of Paragraph 1 above, and shall determine the matters necessary to be covered in the reports of such examinations in order properly to inform the Board.
- (4) The Chief Federal Reserve Examiner may go beyond the minimum scope of examination as defined by the Director of the Division of Examinations whenever, in his judgment, such

4/19/51

-3-

action appears appropriate in the circumstances.

- (5) Except in special circumstances, the field examiners shall not be called upon to compile or prepare data incident to the performance of functions assigned to the various Divisions of the Board other than the Division of Examinations. However, they shall, where appropriate, verify the substantial accuracy of reports submitted by the Reserve Banks to the Board.

There was a brief discussion of the contents of the memorandum, including discussion of the procedure now followed in connection with the approval by the Board of salaries of auditors of Federal Reserve Banks. In this connection, Mr. Vardaman suggested that the Board consider adoption of a procedure whereby a recommendation from the Division of Examinations would be submitted in connection with the proposed employment of a new auditor by a Federal Reserve Bank and in connection with the salaries proposed by the directors of the Federal Reserve Banks each year for auditors at the respective banks. No conclusion was reached as to action that might be taken in connection with Mr. Wayne's memorandum or Mr. Vardaman's suggestion, and it was understood that further consideration would be given to the matter at another meeting when additional members of the Board were present during the week beginning April 30.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Murff withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

4/19/51

-4-

Memoranda dated April 17, 1951, from the heads of the divisions indicated below recommending increases in the basic annual salaries of the following employees in those divisions, effective April 29, 1951:

<u>Division and Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
LEGAL			
Mrs. Erma Lee Hufford	Stenographer	\$2,955	\$3,035
ADMINISTRATIVE SERVICES			
Edward L. Hampton	Tabulation Planner	3,825	3,950
Mary E. Johnson	Telephone Operator	3,050	3,130
Dorothy Reamey	Operator (Key Punch)	2,770	2,850

Approved unanimously.

Memorandum dated April 17, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of J. Frank Bell, Head Chauffeur in that Division, from \$3,220 to \$3,380 per annum, effective April 29, 1951.

Approved unanimously.

Memorandum dated April 16, 1951, from Mr. Wayne, Acting Director of the Division of Examinations, stating that M. R. Wilkes, a Federal Reserve Examiner in that Division, had applied for retirement on account of disability under the Board's Retirement Plan, effective May 1, 1951.

Noted.

Memorandum dated April 17, 1951, from Mr. Carpenter, Secretary of the Board, recommending that the resignation of Mrs. Frances A. Velebir, a records clerk in the Office of the Secretary, be accepted

4/19/51

-5-

to be effective, in accordance with her request, at the close of business April 28, 1951.

Approved unanimously.

Memorandum dated April 16, 1951, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Mrs. Grace L. Stiehler, a statistical clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business April 12, 1951.

Approved unanimously.

Letter to Mr. Dearmont, Federal Reserve Agent of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of April 12, 1951, the Board of Governors approves, effective May 1, 1951, the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
	<u>Head Office</u>	
Edward H. Hoppe	Assistant Federal Reserve Agent	\$4,560.00
Richard O. Kaley	Alternate Assistant Federal Reserve Agent	4,620.00
	<u>Memphis Branch</u>	
Benjamin B. Monaghan	Federal Reserve Agent's Representative	5,100.00"

Approved unanimously.

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

"In view of the recommendation contained in your letter of April 12, 1951, the Board of Governors

4/19/51

-6-

"extends its approval for a period of six months from May 28, 1951, the time within which the California Bank, Los Angeles, California, may establish the branch in Vernon, California, as approved by the Board December 15, 1950."

Approved unanimously.

Letter to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"Reference is made to your letter of April 11, 1951, concerning the application of The Sullivan County Trust Company, Monticello, New York, for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"No corrective programs have been urged upon the bank, or agreed to by it, in connection with which the Board of Governors would consider it desirable to incorporate conditions with respect to continuance of insurance.

"The asset condition of the bank is considered fair and its management is rated below average. This rating is based principally upon the fact that Jesse J. Grubs, President and Secretary, dominates. His loan policies appear to be somewhat liberal and he does not react favorably to criticisms and suggestions by examiners and supervisory authorities. The capital ratios are somewhat low and the capital account includes \$44,000 in RFC capital debentures. The Reserve Bank in several successive examination reports and in correspondence has urged the bank to increase the capital and eliminate the preferred stock but has had no cooperation in this respect. However, earnings have been reasonably good and dividend payments modest resulting in substantial additions to the capital account in the past few years."

Approved unanimously.

Letter to Mr. Thomas J. Hart, Detroit, Michigan, reading as follows:

4/19/51

-7-

"Your letter of March 22 addressed to the Director of the Office of Price Stabilization has been referred to us for reply since, as you know, this Board is charged with responsibility for Regulation W.

"We are glad to have your further comments on the present requirements of Regulation W, particularly as they relate to terms covering sales of used automobiles, and we want to assure you that your comments will be given careful consideration. It has been the Board's view, however, that a relaxation of the credit restrictions would not be in the interests of national defense in the present period of strong inflationary pressures."

Approved unanimously.

Letter to Mr. Melnicoff, Head of the Department of Selective Credit Regulation of the Federal Reserve Bank of Philadelphia, reading as follows:

"With reference to the first paragraph of your letter of April 12 which relates to a consideration raised by Stewart and Shearer, counsel for The Trustees of Princeton University, we concur in your conclusion that the extensions of credit described in their letter of March 28 would be subject to Regulation X. There would seem to be no reason why a special class of persons of the kind described in Mr. Pell's letter should benefit by special relaxation of the terms of the regulation. We do not have under consideration an amendment which would modify the terms with respect to the members of faculties of schools and universities.

"The other subject in your letter, relating to Regulation W, will be covered in a separate reply."

Approved unanimously.

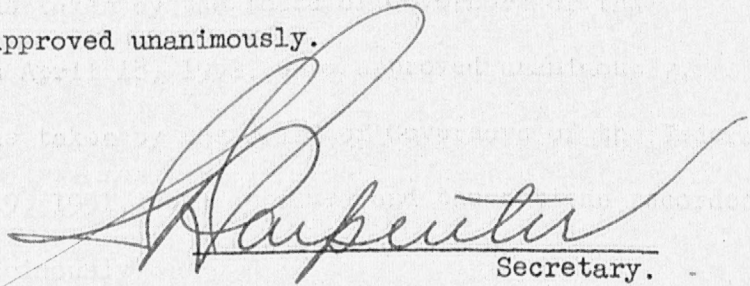
Telegram to Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

4/19/51

-8-

"Reurtel April 13. A Registrant may not extend credit secured by nonresidential property in an amount which would cause the total credit outstanding to be in excess of the maximum loan value of the property if construction were begun after August 3, 1950, even though construction was completed prior to February 15, 1951, unless the credit were exempt under section 5(k) because it was extended prior to a date 32 days after construction was completed. However, in view of the provisions of section 5(k) prior to March 21, 1951 amendment, Board will raise no objection if credit is extended prior to May 1, 1951."

Approved unanimously.



R. Carpenter  
Secretary.