

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 27, 1951.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Evans  
Mr. Powell

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

Telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of Richmond and St. Louis on April 25 and by the Federal Reserve Banks of New York, Cleveland, Chicago, Minneapolis, Kansas City, Dallas, and San Francisco on April 26, 1951, of the rates of discount and purchase in their existing schedules.

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 April 29, 1951:

Division and Name	Title	Salary Increase	
		From	To
ADMINISTRATIVE SERVICES			
Susie T. Oros	Accounting Clerk	\$3,850	\$4,075
Benjamin R. Reading	Accounting Clerk	3,475	3,700
RESEARCH & STATISTICS			
Mrs. Lucile R. MacLean	Librarian	3,350	3,600

Approved unanimously.

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Memorandum dated April 25, 1951, from Mr. Vest, General Counsel, recommending an increase in the basic salary of Wilson L. Hooff, Assistant Counsel, from \$6,800 to \$7,600 per annum, effective April 29, 1951.

Approved unanimously.

Letter to the Board of Directors of The Broadalbin Bank, Broadalbin, New York, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, and the following special condition, 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 New York:

"3. Prior to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate losses of \$3,500 representing an agreed settlement in a bankruptcy matter, as shown in the report of examination of such bank as of January 12, 1951, made by an examiner for the Federal Reserve Bank of New York."

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

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

"The Board of Governors of the Federal Reserve System under authority of the fourth paragraph of Section 16 of the Federal Reserve Act hereby establishes for the three months' period ending March 31, 1951, the rate of (1) per cent interest per annum on that amount of



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"the Federal Reserve notes of your Bank which equals the average daily amount of its outstanding Federal Reserve notes during such period less the average daily amount of gold certificates held during such period by the Federal Reserve Agent as collateral security for such notes. Interest in an amount calculated in the manner and at the rate specified above shall be paid to the United States on April 30, 1951.

"According to daily balance sheets, the average daily amount of outstanding notes of your Bank during the first quarter of 1951 not covered by gold certificates with the Federal Reserve Agent was \$ (2) . At rate specified above, payment to Treasury for first quarter will be \$ (3) . Payment should be credited to Treasurer's general account as Miscellaneous Receipts, Symbol 1841-Interest Collected, Section 16 Federal Reserve Act as amended. No statement being given press with respect to this action.

	(1)	(2)	(3)
Boston	1.30	\$1,052,545,709	\$3,373,913.64
New York	5.44	884,137,639	11,859,555.84
Philadelphia	1.37	944,944,677	3,192,100.78
Cleveland	1.41	1,379,322,697	4,795,508.22
Richmond	1.25	1,096,560,803	3,379,810.69
Atlanta	1.46	766,105,970	2,757,981.49
Chicago	1.67	1,884,192,136	7,758,741.86
St. Louis	1.30	807,496,244	2,588,412.62
Minneapolis	1.57	421,826,338	1,632,987.99
Kansas City	1.43	659,548,499	2,325,586.08
Dallas	2.16	460,465,426	2,452,451.47
San Francisco	2.62	770,237,052	4,975,942.38"

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and the Vice President in charge of the Detroit Branch, reading as follows:

"For your information and guidance there is enclosed a copy of a memorandum dated April 24, 1951, from the Defense Department, signed by John S. Bachman, Chairman of the Contract Finance Committee, regarding V-loan cases where the loan agreement permits borrowings from the financing institution outside the proposed V-loan without regard to the availability of funds under the V-loan."

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Approved unanimously.

Letter to the Honorable Albert Thomas, House of Representatives,  
Washington, D. C., reading as follows:

"This is in reply to your note dated April 3 and your letter of April 14 with which you enclosed for our consideration a telegram you had received from Mr. Lynn Dickerson. Mr. Dickerson is concerned about the effect of Regulation W on sales of television sets and is particularly interested that trade-ins on instalment sales of television sets be allowed to count against the down payment requirement as is permitted by the regulation for instalment sales of automobiles.

"As you know the requirements of the regulation with respect to trade-ins on purchases of listed articles have not been changed since the regulation of consumer credit was first promulgated by the Board in 1941. For reasons that have seemed to the Board to be compelling, the approach to the regulation of automobile instalment credit has been and is different from the approach in the appliance and furniture area.

"In the case of automobiles the regulation depends to a greater extent on the maximum maturity requirement for its restrictive effect than it does in the case of other consumer durable goods where the total credit to be financed is normally a smaller amount. This is regarded as a more realistic approach because traditionally the large majority of automobile sales involves the trading-in of the purchaser's old automobile; in many cases the value assigned to this trade-in represents as much as 50 per cent of the price of the new automobile being purchased. Furthermore, the used car market has brought about substantial standardization of trade-in values.

"In the case of appliances and other listed articles, the regulation has depended on its down payment requirement for the greater part of its restrictive effect. This approach also seems to be the realistic one because the majority of appliances and furniture sales is made without trade-ins; in the minority, where trade-ins are involved, the value assigned to them does not constitute a substantial part of the value of the new



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"article but is rather a rebate or sales discount. Consequently, to adopt the automobile trade-in rule for all appliances and other articles subject to the regulation would tend to nullify the down payment requirement in this field and thereby impair the restrictive effect of the regulation.

"The Board's staff is continually studying the effect of Regulation W in markets for particular regulated articles and is always glad to hear the views of people in the trade. In this connection, we have recently consulted with representatives of trade associations interested in the television business who have been helpful in supplying information. It would appear that the current problems of television dealers are the result of a number of factors in addition to any restrictive effect that Regulation W may be having on their sales. You will understand that while the Board is concerned that the regulation not be unduly restrictive in specific cases it must also consider that the effectiveness of the regulation in this time of serious inflationary dangers requires that it provide a definite curb on instalment credit.

"The regulation does not, of course, prohibit the acceptance of a trade-in on television sets. Dealers are free under the regulation to allow trade-ins and to give them any value they wish as a deduction from the cash price of the article sold. The trade-in provision of the regulation merely requires that the down payment in the case of articles other than automobiles be computed as a percentage of the net price after deducting any trade-in value.

"In this connection you will be interested in the enclosed photostat copy of an article which appeared in the 'Retailing Daily' issue of Friday, March 30, 1951. As explained to your secretary, Miss Wall, over the telephone the Board received a similar telegram from Mr. Dickerson sent to us by Senator Connally's office to which the Board replied in substantially this same way."

Approved unanimously.

Letter to the Honorable Walter F. George, United States Senate, Washington, D. C., reading as follows:

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"Thank you for referring to the Board of Governors Mrs. Charles Talmadge's letter of April 10, 1951, concerning the application of credit regulations to the financing of repairs to her tobacco warehouse.

"As you know, since February 15, 1951, the Board's Regulation X has applied to credit for the construction of, or for making major additions or improvements to, certain types of nonresidential structures. The Board's authority to restrict such credit stems from the Defense Production Act of 1950, and Regulation X is intended to conserve materials for the defense effort and to restrain inflationary pressures. In order to achieve these objectives it is necessary to restrict financing of major additions and improvements, including repairs, as well as the financing of new structures. An improvement to a nonresidential structure is only considered 'major', and thus subject to the regulation, if the cost of the improvement exceeds \$2500 and also exceeds 15 per cent of the appraised value of the structure. It seems likely, therefore, that Mrs. Talmadge could make extensive repairs without being required to comply with the regulation.

"It is not the Board's intention to place restrictions on credit for the financing of buildings used in farming operations. For that reason, the definition of 'nonresidential structure' in Regulation X does not include structures on farm property in which more than 80 per cent of the floor space is used or designed for use in the production, shelter, or storage incidental thereto, of crops, livestock, or other agricultural commodities. Since, however, the definition does include warehouses and structures used for distribution in general, and since it is also necessary to make a clear and simple distinction between what is and what is not subject to the regulation, it is provided that credit in connection with agricultural warehouses which are not on farm property is subject to the provisions of Regulation X.

"The Board is of the opinion that such restrictions do not hamper the defense effort. If, however, this proves not to be the case, we will certainly give immediate and serious consideration to amending the provision. In the meantime, it is unfortunately true that the credit restrictions force some individuals to abandon or change their plans. If this were not the case, the regulation would not be effective.



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"We hope this will explain the Board's position on the question. If Mrs. Talmadge would like to obtain any further information, we suggest that she get in touch with the Federal Reserve Bank of Atlanta. On the other hand, if we can be of further service, please do not hesitate to call upon us."

Approved unanimously.

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

"Reurtel April 24 about cotton warehouse connected with cotton compress. The exemption under section 2(r)(5)(i) of Regulation X applies only to warehouses used or designed for use in processing materials, goods, or articles into finished or partly-finished products where the warehouse is essential to and an integral part of a manufacturing or processing operation. A cotton compress does not manufacture or process materials into finished or partly-finished products and a warehouse connected therewith would not be exempt from Regulation X."

Approved unanimously.

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

"Reurtel April 20 about a cold storage plant for grapes. Sections 2(r)(5)(i) and (iii) of Regulation X provide exemptions only for structures where more than 80 per cent of the floor space is used or designed for use in processing materials, goods, or articles into finished or partly-finished manufactured products or on farm property in the production, shelter, or storage incidental thereto of crops, livestock, or agricultural commodities. The pre-cooling and cold storage of grapes in a cold storage plant located at a shipping point and not on a farm would be subject to Regulation X, since the mere cooling and storing of grapes would not be considered a part of a processing or farming operation."

Approved unanimously.

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

"Reurtel April 25. The Board will not object to completion of financing arrangements made in reliance on superseded section 5(k), Regulation X, by registrant having no knowledge of amendment No. 2."

Approved unanimously.

Telegram to Mr. Vergari, Counsel and Assistant Secretary of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reurlet April 24 enclosing correspondence between Harry M. Marks, Esq., New York 17, New York, the Fidelity-Philadelphia Trust Company and your bank. Members of Board's staff on April 26 informally discussed with Mr. Theodore L. Kaye, representative of Mr. Marks, the question whether credit here involved would be exempt under section 5(k) of Regulation X if prior to May 1, 1951 lender placed the funds in escrow under an agreement by which interest would be paid from May 1, and the funds would be held by escrowee for transfer to borrower upon completion and delivery of necessary documents which are now being prepared with respect to the specified properties. On the basis of the facts presented, the Board is of the view that the transaction could properly be considered to qualify for exemption under section 5(k) if the funds were so placed in escrow prior to May 1. It should be recognized that this opinion as to the use of an escrow arrangement relates only to section 5(k) and the facts of the present case. With respect to the use of the May 1 date here, the Board has previously taken the position in response to other inquiries that in view of the provisions of section 5(k) prior to the March 21, 1951 amendment of Regulation X, there would be no objection to the use of May 1, 1951 as an alternative to a date 32 days after construction is completed."

Approved unanimously.



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Memorandum dated April 13, 1951, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending that the cost of examinations of foreign banking corporations chartered pursuant to section 25(a) of the Federal Reserve Act, the so-called "Edge" banks, be fixed at the actual cost of transportation of the Board's examiners engaged therein and allowable expenses incident to such transportation, plus subsistence and other necessary allowable expenses accruing to such examiners while absent from assigned headquarters; that the cost of examinations of the foreign branches of the so-called "Edge" banks be fixed at the proportionate cost of transportation and allowable incidental expenses of the Board's examiners and the examiners for the Reserve Banks commissioned by the Board for the purpose, plus subsistence and other necessary allowable expenses accruing to such examiners during the period the branch is under examination; and that the charges for the examination of Bank of America, New York, New York, as of November 13, 1950, be assessed in accordance with these recommendations.

Approved unanimously.

Memorandum dated April 19, 1951, from Mr. Sloan, Assistant Director of the Division of Examinations, reading as follows:

"In accordance with the policy established by the Board of Governors on July 18, 1950, arrangements have been made to examine the European branches of the following "Edge" banks, Agreement corporations, and State member banks during the current spring and summer as follows:

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<u>"Section 25(a) Corporation</u>	<u>Foreign Branch</u>
The Chase Bank, New York <u>1/</u>	Paris
<u>Section 25 'Agreement' Corporations</u>	
International Banking Corporation, New York <u>2/</u>	London
do	Paris
Morgan & Cie. Incorporated, New York	Paris
<u>Section 25 - Foreign Branches of State Member Banks</u>	
Bankers Trust Company, New York	London
Central Hanover Bank & Trust Company, New York	London
Guaranty Trust Company, New York <u>1/</u>	Brussels
do	London (2 offices)
do	Paris

1/ Has a French building subsidiary

2/ Has two French building subsidiaries

"(1) It is recommended that Harry J. Meyer and Philip L. Dickinson, examiners for the Federal Reserve Bank of New York, be designated by the Board of Governors as Federal Reserve Examiners for the purpose of participating in the examinations of the European branches of the foreign banking corporations organized under section 25(a) of the Federal Reserve Act, of the foreign banking corporations operating under agreements with the Board pursuant to section 25 of the Federal Reserve Act, and of State member banks.

(These examinations will be conducted by Mr. Goodman of the Board's staff with the assistance of the two representatives of the Federal Reserve Bank of New York and Federal Reserve Examiner Guth of the Board's Division of Examinations. Pursuant to arrangements made by Mr. Wayne with Superintendent of Banks William A. Lyons of the New York State Banking Department, the examinations of the foreign branches of State member banks in London, Brussels, and Paris and of Morgan & Cie. Incorporated in Paris will be made jointly with examiners for the New York State Banking Department.)

(The Federal Reserve Bank of New York will take care of all expenses of Messrs. Meyer and Dickinson, with the exception that reimbursement will be made to the Reserve Bank for the pro rata share of the expenses to be charged to The Chase Bank as out-



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"lined in my memorandum of April 13 addressed to the Board entitled 'Fixing the cost of examinations of "Edge Banks" and their branches', provided, of course, that the Board approves the recommendations made therein.)

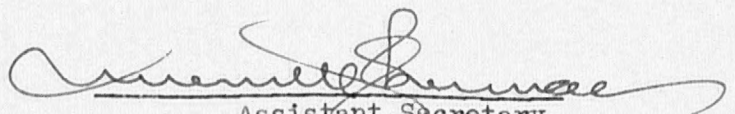
(2) It is also recommended that Messrs. Goodman and Guth be allowed actual necessary transportation expenses in accordance with the Board's travel regulations and per diem in lieu of subsistence not to exceed \$14 a day while outside the United States, except while on board ship, together with reimbursement for accident and baggage insurance in the amounts customarily allowed by the Federal Reserve Bank of New York for its personnel traveling abroad on official business.

(In view of the fact that the Board's examiners will be in Europe at the height of the tourist season when transportation and hotel accommodations will be difficult to obtain, it is suggested that the per diem allowance be at the rate of \$14 a day as compared with \$9 for domestic travel.)

(It is understood that the Federal Reserve Bank of New York provides accident insurance in the amount of \$20,000 and baggage insurance in the amount of \$500 for each person traveling abroad on official business of the Bank. It is understood that the Board's representatives can be covered under the same types of policies as used by the New York personnel and that the total cost for both Messrs. Goodman and Guth would be about \$150 for four months.)

"Although reference was made in the budget of the Division of Examinations for 1951 to the forthcoming mission, no provision was made for the expense involved. When the examining mission has been completed and the actual expenses known, an appropriate recommendation will be made at that time for an increase in the budget of the Division of Examinations. Excluding the expense of the representatives of the Federal Reserve Bank of New York which will be borne by that Bank, it is estimated that the total cost for transportation and per diem of the two examiners from the Board's Division of Examinations will be approximately \$5,000, of which a small portion will be reimbursed by The Chase Bank for the examination of its Paris Branch."

Approved unanimously.

  
Assistant Secretary.