

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 3, 1951. The Board met in the Board Room at 10:45 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Eccles  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Norton

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Murff, Assistant Secretary  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Leonard, Director, Division of Bank Operations  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Hilkert, Acting Director, Division of Personnel Administration  
 Mr. Wayne, Acting Director, Division of Examinations  
 Mr. Noyes, Director, Division of Selective Credit Regulation  
 Mr. Horbett, Assistant Director, Division of Bank Operations

Mr. Szymczak referred to previous discussions of possible changes in the active service death benefit provided under the Retirement System of the Federal Reserve Banks and to the suggestion at the meeting on October 24, 1950 that a study be made of the possibility of providing an improved benefit to employees of the Federal Reserve Banks and perhaps of the Board of Governors through group life insurance. He said that following the meeting of the Board with the Presidents of the Federal Reserve Banks on November 29, 1950 at which Mr. Shreiner of Towers, Perrin, Forster and Crosby, Inc., of Philadelphia reported generally on

5/3/51

-2-

the possibility of obtaining such a benefit through group life insurance, that company was requested to make a study of the matter and that the report prepared by the firm was presented and discussed at a meeting of an informal committee yesterday consisting of himself, Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, representing the Chairmen's Conference, Mr. Williams, President of the Federal Reserve Bank of Philadelphia, representing the Presidents' Conference, and Mr. Wurts, Assistant Vice President of the Federal Reserve Bank of New York, representing the Board of Trustees of the Retirement System. This report, Mr. Szymczak said, stated that death benefits provided by high-caliber progressive organizations were generally related to pay rather than to length of service and that the trend among such companies was to establish the amount of death benefit at approximately 2-years pay or higher with a maximum limit frequently in excess of \$50,000. Mr. Szymczak stated that while he was not prepared to discuss the matter in detail because additional information was to be obtained next week from several of the life insurance companies which would write group policies of the type suggested, the report recommended that the present active-service death benefit be increased to approximately 2-years pay without regard to length of service and that the benefits be provided through group life insurance. Following consideration of the report at the meeting yesterday, Mr. Szymczak continued, it was the consensus of

5/3/51

-3-

the group that it would be desirable if the matter could be presented by Mr. Brainard at the Conference of Chairmen of the Federal Reserve Banks to be held in Washington on May 7 and 8 with a view to ascertaining their views, by Mr. Williams to the Presidents of the Federal Reserve Banks at their forthcoming Conference to be held on May 16, and by Mr. Wurts to the Board of Trustees of the Retirement System at their meeting, also to be held in Washington in the middle of May. Mr. Szymczak also said that it was expected that after the additional cost estimates were obtained the matter would be brought back to the Board for further consideration as to whether it would wish to authorize payments of the premiums on such group life insurance.

During the ensuing discussion, Mr. Eccles expressed the view that the matter should be considered in relation to similar benefits provided for employees of other Government agencies either under the Civil Service Retirement System or otherwise, since the Board would have to be prepared to justify before committees of Congress any authorization it might give for use of Federal Reserve funds to pay the premium on such group life insurance policy. He suggested that members of the staff be requested to prepare and furnish to the Board data with respect to the costs that would be involved and reasons for and against adoption of such a program by the Federal Reserve System.

The discussion also brought out the point that since the Retirement System of the Federal Reserve Banks was established in 1934 there

5/3/51

-4-

had been provided an active-service death benefit for members of the Bank plan equal to a year's salary which had been paid for entirely by the Federal Reserve Banks, and that the proposed change was essentially a continuation of that benefit in a modernized form. It was also pointed out that under a recent ruling of the Bureau of Internal Revenue, death benefits paid under the Retirement System were regarded as taxable income whereas benefits paid under a group life insurance policy were not taxable under rulings of the Bureau that had been in effect for some 25 years, with the result that the net benefit to the survivor would be materially less from payments of a given base amount under the Retirement System.

Following the discussion, it was understood that the matter would be considered further at a meeting after more detailed cost figures were available and after the views of the Chairmen and Presidents of the Federal Reserve Banks and the Members of the Board of Trustees of the Retirement System of the Federal Reserve Banks had been ascertained.

Reference was made to the memorandum from Mr. Wayne dated April 6, 1951 with respect to procedures of examination of Federal Reserve Banks which had been discussed at the meeting of April 19. Mr. Wayne stated that since that meeting a minor revision of the first paragraph of the recommended directive contained in his memorandum had been prepared, reading as follows:

5/3/51

-5-

"(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, including liabilities as custodian, without undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit procedure; (b) proper discharge of its responsibilities as Fiscal Agent of the United States; and (c) compliance by the management with applicable provisions of law, regulations of the Board of Governors, 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."

In commenting upon this change, Mr. Wayne stated that the purpose was to clarify and make certain that examinations of a Federal Reserve Bank for the Board would determine that the bank was discharging its responsibilities as fiscal agent of the United States. With respect to the general intent of the suggested directive, Mr. Wayne said his purpose in submitting the recommendation was to eliminate some of the present activities of examiners which consumed a great deal of time and manpower and to rely more largely on a more comprehensive review by the Board's examiners of work papers and other procedures of the Audit Department of the Reserve Bank under examination to the end that the Board's examiners might satisfy themselves that audit and other procedures were adequate and effective. Mr. Wayne also said that if the recommendations contained in his memorandum were approved he felt it would be desirable before they were put into effect, to discuss them with the Chairmen, Presidents, and Auditors of the Federal Reserve Banks at their forthcoming conferences to be held in Washington later this month.

5/3/51

-6-

There followed a general discussion of the audit procedures at the Federal Reserve Banks, the responsibility of the Board of Directors of the Federal Reserve Bank for such audit procedures, and the relationship of the auditors in the Reserve Banks to the Board of Directors and to the Board's Division of Examinations.

Following this discussion, upon motion by Mr. Norton, the recommendations contained in Mr. Wayne's memorandum, including the revised paragraph quoted above, were approved unanimously with the understanding that before the new procedures were put into effect, Mr. Wayne would discuss them at the forthcoming conferences of the Chairmen, Presidents, and Auditors of the Federal Reserve Banks.

Mr. Norton presented a memorandum dated May 2, 1951 stating that on May 1 the Housing and Home Finance Agency recommended that Colorado Springs, Colorado, be designated a defense area for the purpose of permitting special terms for credit in connection with housing under Regulation X, Real Estate Credit, that as a result of a survey made by the Housing and Home Finance Agency it had been determined that an urgent need existed for approximately 1,000 units to be located within commuting distance of the defense establishments in the area, and that the Administrator recommended that if designation of the defense area was concurred in by the Board the schedule of relaxed credit terms be the same as that approved for Atomic Energy Commission installations

5/3/51

-7-

in South Carolina, Kentucky, and Idaho.

Mr. Eccles stated that he felt it would be desirable in such cases as the one presented by Mr. Norton to make an independent check of the needs for housing through the nearest Federal Reserve Bank or Branch, and Mr. Norton responded that pursuant to the discussion at the meeting on May 1 it was expected that a member of the Board's staff would attend subsequent meetings of the Inter-Agency Critical Areas Committee considering the designation of defense areas. It was also stated that independent checks could be made by the Board's staff with the Federal Reserve Banks or Branches concerned where that seemed desirable.

Thereupon, upon motion by  
Mr. Norton, unanimous approval  
was given to a letter to Mr. Foley,  
Housing and Home Finance Adminis-  
trator, as follows:

"This is to advise you that the Board of Governors concurs in your designation of the Colorado Springs, Colorado, area as a defense area for the purposes of defense construction to which special credit terms may be applicable under section 6(p) of Regulation X, Residential Real Estate Credit. Your letter of May 1, 1951, states that there is a need for approximately 1,000 housing units, 500 for sale and 500 for rental, to be located within reasonable commuting distance of the military establishments in the area. Under the terms of the exemption the entire 1,000 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be identical with that previously announced for the Atomic Energy Commission installations in South Carolina, Kentucky, and Idaho."

5/3/51

-8-

Mr. Norton then referred to the action at the meeting on March 29, 1951 approving the adoption of a registration statement for use under Regulation X, Real Estate Credit, pursuant to section 3(b) of the Regulation, requiring every person engaged in the business of extending real estate credit with respect to residences, residential property, and multi-unit residential property, or non-residential property to file a registration statement. He stated that the form of the statement had been cleared with the Bureau of the Budget and that in accordance with the action of the Board on March 29 there had been prepared a form of announcement to be issued effective May 11, 1951, requiring registration within 30 days after May 31, 1951.

At Mr. Norton's request, Mr. Noyes stated that in order to give constructive notice of the announcement with respect to the necessity for completing and filing a registration statement, it was necessary to issue the announcement as an amendment to section 3(b) of the Regulation.

Thereupon, upon motion by Mr. Norton, the following amendment to Regulation X, Real Estate Credit, was approved unanimously, effective May 11, 1951, word having been received from Mr. Foley, Administrator of the Housing and Home Finance Agency, that he concurred in the foregoing amendment and the proposed effective date:



5/3/51

-9-

"In subsection (b) of section 3, add reference 11a after the word 'announcement' in the fifth line, and add this footnote at the bottom of the page:

11a/ Pursuant to public announcement made by the Board on May 11, 1951, all persons so engaged in the business described above on May 31, 1951, must register with the nearest Federal Reserve Bank or Branch not later than June 30, 1951, on Form F. R. 269, which may be obtained at any such Bank or Branch. All persons who thereafter become so engaged in business must register within 30 days."

Unanimous approval also was given a statement for publication in the Federal Register reading in part as follows:

"The above amendment is issued by the Board of Governors of the Federal Reserve System with the concurrence of the Housing and Home Finance Administrator, under authority of the 'Defense Production Act of 1950', approved September 8, 1950, and Executive Order No. 10161, dated September 9, 1950.

"The purpose of this amendment is to provide for the registration by June 30, 1951, of all persons engaged on May 31, 1951, in the business described in paragraph (b) of section 3 of Regulation X, and for the registration within 30 days of all persons who become so engaged after May 31, 1951.

"(b) Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operations of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof.

"In amending this regulation and in accordance with the requirements of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations."

In taking this action, it was understood that the amendment and a press release in a form satisfactory to Mr. Norton would be sent by telegram to all Federal Reserve Banks and

5/3/51

-10-

Branches with a request that they print and distribute the amendment in the usual manner.

Messrs. Hilkert and Wayne withdrew from the meeting at this point.

Chairman Martin stated that since the meeting of the Board on April 26, 1951, the date for the next meeting of the Interagency Committee of Four appointed by the President on February 26, 1951 had been changed from May 9 to May 14, and that he would not be able to report to the Board on legislation that might be proposed by that committee until after the latter date.

In this connection Mr. Eccles referred to a statement made by Senator Maybank at the time of the hearing on the Reconstruction Finance Corporation on April 26, 1951, at which time, he said, Senator Maybank stated that any legislative proposals should be submitted to the Senate Banking and Currency Committee by May 7, 1951. Mr. Eccles raised the question whether a possible proposal by the Board in connection with legislation on reserve requirements should be submitted separately or whether it should be included as a part of the legislative program to be submitted by the four-man interagency committee. He expressed the view that it would be preferable for the Board to submit separately to the Congress such legislative proposals as it felt should be enacted, with the concurrence or if possible the approval of the four-man committee, and he suggested that it be ascertained whether Mr. Wilson's committee would concur in submission separately by the Board of such

5/3/51

-11-

legislation. Mr. Eccles went on to say that in his opinion the best proposal would be the loan expansion reserve plan, discussed at the meeting on April 3, 1951, with such changes as might be feasible to reduce to a minimum the amount of discretionary authority requested by the Board.

Mr. Szymczak stated that he felt that the only chance of obtaining legislation along this line was as a part of a program having the support of the Four-man Committee, and that without their support it would be useless to submit a proposal to the Congress. He stated, however, that he would have no objection to submission of a separate proposal by the Board if that were concurred in or approved by the Wilson four-man committee.

There followed a general discussion of the type of legislation that might be submitted and the procedure that might be followed in getting it before Congress.

During the foregoing discussion Mr. Murff withdrew from the meeting.

In connection with the discussion of the loan expansion reserve plan, reference was made to a draft of letter to the Secretary of the Federal Advisory Council submitting topics for consideration at the Council's forthcoming meeting to be held on May 13, 14, and 15, 1951. The draft had been circulated among the members of the Board with a memorandum dated May 1, 1951, calling attention to a notation by Mr.

5/3/51

-12-

Szymczak that he felt it would not be desirable to include on the agenda a topic on additional authority over bank reserves.

Chairman Martin stated that, under all the circumstances, he felt it would be very desirable to discuss the question of additional authority over reserve requirements with the Federal Advisory Council, that he had discussed the matter informally with Mr. Wilson of the four-man interagency committee and Secretary of the Treasury Snyder, and that both expressed the view that as full discussion as possible of the matter would be desirable.

Mr. Szymczak reiterated that he felt it would not be desirable to submit the topic to the Federal Advisory Council until a decision had been reached as to the type of legislation to be sought, feeling that the chances of obtaining legislation would be less if discussed previously with the Council without having come to an understanding as to the specific bill to be proposed.

Following a discussion, a letter to the Secretary of the Federal Advisory Council was approved in the following form, Mr. Szymczak voting "no":

"This letter is in response to yours of April 13, 1951, relating to the next meeting of the Federal Advisory Council which is to be held on May 13-15, 1951. The Board Room will be available for the Council on the afternoon of Monday, May 14, at 2:15 o'clock, and the usual arrangements will be made to have a luncheon for the Council in the Blue Room on Tuesday, May 15.

"The information and material requested in the last two paragraphs of your letter will be sent to the Mayflower Hotel to be held for your arrival.

5/3/51

-13-

"The Board of Governors will be pleased if the following items could be added to the agenda for discussion with the Board at the joint meeting on the morning of May 15:

1. The Board would like to have the views of the Council on the prospective business and economic situation during the next six months and on the policies that should be followed by the System in the field of general credit controls.
2. What, if any, action should be taken by the Board with respect to changes in the terms of Regulation W, Consumer Credit, and Regulation X, Real Estate Credit?
3. The program for voluntary credit restraint is now getting into operation and the Board would be pleased to have any comments that the members of the Council might wish to make as to the progress of the program in their respective districts and what results are being obtained.
4. It has been proposed that additional authority granted to the Board of Governors over bank reserves take the form of a supplementary reserve on any increase in a bank's loans from a base amount. Copies of memoranda relating to this and other suggested reserve requirement plans are attached and the Board would appreciate the views of the Council particularly with respect to the proposed loan expansion reserve plan."

Mr. Eccles referred again to the question of the procedure to be followed in submitting legislation to the Congress, stating that he felt the Board should determine whether the broad question of additional authority over reserve requirements along the lines of the draft report of the Wilson four-man interagency Committee should be taken up or whether an effort should be made only to obtain the loan expansion reserve plan or some other single plan, and whether the matter should

5/3/51

-14-

be presented by the Board as a separate piece of legislation with the concurrence of the Wilson Committee of Four, or whether it should be presented to the Congress as a part of the over-all legislative recommendation submitted by the Wilson committee. The matter was discussed but no conclusion with respect to Mr. Eccles' suggestion was reached.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman 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 May 2, 1951, were approved unanimously.

Memorandum dated May 1, 1951, from the Division of Personnel Administration, recommending an increase in the basic salary of Miss Marianne Stuart, leave clerk in that Division, from \$2,450 to \$2,530 per annum, effective May 13, 1951.

Approved unanimously.

Letter to Mr. A. W. Hall, Director, Bureau of Engraving and Printing, Treasury Department, Washington, D. C., reading as follows:

"In response to your letter of April 27, 1951, it is a pleasure to confirm the intention of the Board of Governors that Examiner Charles H. Bartz should participate in all phases of your committee's assignment."

Approved unanimously.

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

5/3/51

-15-

"Referring to your letter and recommendation of April 27, 1951, the Board of Governors further extends until June 30, 1951, the time within which 'The Elyria Savings & Trust Company', Elryia, Ohio, may establish the branch in Avon Lake, Ohio, as approved by the Board under date of November 16, 1949."

Approved unanimously.

Letter to the Chesapeake and Potomac Telephone Company of Virginia, Richmond, Virginia, reading as follows:

"At the present time there are maintained in our Washington Office and at the Federal Reserve Banks of Richmond, Atlanta, Chicago, Philadelphia, New York and Boston TWX services for use in an emergency in connection with our interdistrict leased wire system. In our plans for a location at which essential activities of the organization may be carried on in the event our present facilities are not available because of enemy action or imminent threat thereof, we have selected the Federal Reserve Bank of Richmond and will need to have available additional teletypewriter exchange service at that point. It will be appreciated, therefore, if you will install in the Richmond Bank three additional TWX machines for emergency operation, one of which would be a No. 15 printer and two No. 19 printers. It is understood that there are no charges made for the installation of the foregoing equipment but that under existing tariffs the No. 15 machine carries a minimum business guarantee charge of \$10.00 per month and that the No. 19 machine carries a rental charge of \$25.00 per month in addition to which charges are made for all contacts. It is requested that monthly bills rendered covering this additional service be submitted to the Board through the Federal Reserve Bank of Richmond.

"The Board of Governors of the Federal Reserve System is an independent Government agency whose primary responsibilities lie in the field of money and credit. It is responsible for the supervision of the operations of the twelve Federal Reserve Banks. The Federal Reserve Banks have numerous functions related to the banking system of the country such as the furnishing of

5/3/51

-16-

"currency for circulation, collection of checks, transfers of funds and supervision of banks. In addition, the Reserve Banks act as Fiscal Agents for the Treasury Department as well as certain other Government agencies. It is essential that a number of the functions performed by the Federal Reserve System be carried on without interruption in any emergency and they require prompt communication services between the Board of Governors, the Reserve Banks and other Government agencies."

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 herewith a copy of a memorandum dated April 25, 1951, received from the Department of Defense signed by John S. Bachman, Chairman, Contract Finance Committee, regarding certain guiding principles to be considered concerning the amount and maturity of Regulation V-loans."

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 26, 1951, received from the Department of Defense signed by John S. Bachman, Chairman, Contract Finance Committee, regarding the compensation paid to executives of V-loan borrowers and suggesting that the Federal Reserve Banks make recommendations concerning the controls, if any, over such compensation as well as controls over dividends and profit distributions as the Reserve Banks deem appropriate."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:



5/3/51

-17-

"This is in response to your communication of May 2, 1951, requesting the views of the Board on the enrolled bill S. 998, 'To facilitate the financing of the defense contracts by banks and other financing institutions, to amend the Assignment of Claims Act of 1940, and for other purposes.'

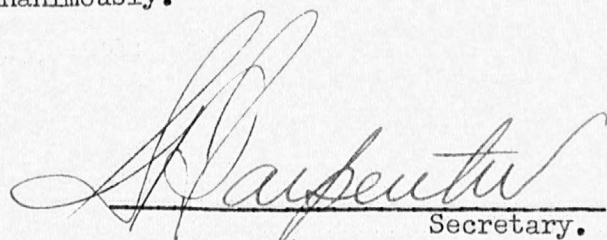
"Recognizing the need for an amendment to the Assignment of Claims Act, in order to facilitate the financing of defense contracts, the Board, by letter dated February 13, 1951, submitted a proposed draft of an amendment together with explanatory memoranda to Chairman Maybank of the Senate Banking and Currency Committee and Chairman Celler of the House Judiciary Committee. For your information and ready reference, there are enclosed copies of our letter and accompanying memoranda to Senator Maybank. The draft amendment which the Board recommended was introduced in the Senate as S. 998 and in the House as H.R. 2947.

"During consideration of these bills by the Congress, certain amendments were adopted which the Board believes will more effectively carry out the purposes of the legislation. The Board therefore recommends approval of this bill by the President."

Approved unanimously.

Memorandum dated May 2, 1951, from Mr. Chase, Assistant Solicitor, stating that following the taking of testimony pursuant to the Board's order for an investigation in the Michael's Home Equipment Company, Inc. case, an agreement had been made with counsel for the Registrant for the entry of a judgment in the United States District Court enjoining further violations of Regulation W, Consumer Credit, and that it was expected this would be done on Tuesday, May 8, 1951.

Approved unanimously.

  
Secretary.