

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, May 16, 1951.

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

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

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on May 15, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 15, 1951, were approved unanimously.

Memorandum dated May 10, 1951, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Miss Marian E. Burke as a clerk-typist in the Office of the Secretary, on a temporary indefinite basis, with basic salary at the rate of \$2,650 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination, and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memoranda from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending increases in the basic annual salaries of the following employees in that Division, effective May 27, 1951:

<u>Date of Memo and Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mrs. Anne S. Temple 5/15/51	Administrative Clerk	\$3,035	\$3,225
William Lucius Thalley	Messenger	2,252	2,332

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Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors approves the appointment of Mr. W. K. Stripling, Sr., President, W. C. Stripling Company, Fort Worth, Texas, as a member of the Industrial Advisory Committee for the Eleventh Federal Reserve District for the remaining portion of the term ending February 29, 1952, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Dallas, as reported in your letter of May 11, 1951."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of April 23, 1951, concerning the Board's approval of the appointment of Edgar F. Gardenhour as an examiner for your bank subject to the condition that he should dispose of his stock in the Nicodemus National Bank, Hagerstown, Maryland, and should liquidate his then existing indebtedness to a non-member bank.

"It is understood that Mr. Gardenhour has paid his obligation to the non-member bank but finds that disposal of the 900 shares of national bank stock, which was acquired years ago at very low prices and is currently worth about \$30 per share, would result in a large taxable profit. If the stock were transferred to a member of his family it would be subject to State gift tax in Maryland and Virginia and such a gift would make considerable inroad upon specific exemptions permissible under Federal tax law. In the circumstances, and in view of the fact that, as an Examiner, Mr. Gardenhour will have no official contact with the national bank, you express the hope that the Board may feel justified in waiving the requirement that he dispose of the stock.

"The Board's letter of March 24, 1948, (S-1018, F.R. L.S. #9054), to which you refer, contemplates that officers

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"of the Federal Reserve Banks and employees occupying responsible positions should not purchase any stock of a member bank and should dispose of any such stock that they might have or acquire as soon as practicable without undue hardship. The stated principle underlying the requirement is that it is important that officers and employees of a Federal Reserve Bank refrain from being placed in any position which might embarrass the Federal Reserve Bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions.

"The Board does not wish to impose undue hardship in requiring that Mr. Gardenhour dispose of his stock in the national bank. Accordingly, the Board will not object to his continued holding of the stock if and for so long as the Reserve Bank is satisfied that the principles stated above will not be violated through his continued ownership of the stock. It should be borne in mind, however, that an examiner is in a particularly vulnerable position with respect to questions regarding the independence of his judgment and his disinterestedness in the discharge of his responsibilities. Therefore, no opportunity for a satisfactory disposition of the matter through disposal of the stock should be overlooked.

"Without implying that Mr. Gardenhour's judgment would, in fact, be swayed by his ownership of stock in the national bank, it is suggested that, in order to avoid any question being raised, care be exercised in his assignment to examine any State member bank which, by reason of location or otherwise, might be considered in competition with the national bank."

Approved unanimously.

Memorandum from Mr. Chase, Assistant Solicitor, dated May 14, 1951, stating that the Federal Reserve Bank of Dallas had reported apparent violations of Regulation W, Consumer Credit, by Atlas T.V. Stores, Inc., Houston, Texas, and Atlas Sew-Vac Stores, Inc., Houston, Texas, which are under common management, consisting of failure to

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receive required down payments and maintenance of records failing to show this omission; and recommending that in accordance with the recommendation of the Reserve Bank, the Board adopt orders for investigations of the two concerns as follows with a view to obtaining injunctions:

"UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal Reserve System held at its offices in the City of Washington, D. C., on the 16th day of May, A.D., 1951.

In the Matter of
ATLAS SEW-VAC STORES, INC.

ORDER DIRECTING INVESTIGATION
AND DESIGNATING OFFICERS TO
TAKE TESTIMONY.

I

Members of the staff of the Federal Reserve Bank of Dallas have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

Atlas Sew-Vac Stores, Inc., has made instalment sales of sewing machines and vacuum cleaners subject to Regulation W, consumer credit, issued by the Board of Governors of the Federal Reserve System:

1. Without obtaining the down payment required by Regulation W;
2. Without maintaining and preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of said Regulation.

II

The Board having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Dallas, and for the purpose of (1) determining whether Atlas Sew-Vac Stores, Inc., has violated the provisions of Regulation W and (2) aiding in the enforcement of said Regulation deems it necessary and appropriate that an investigation be made to determine whether Atlas Sew-Vac Stores, Inc., has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

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"III

IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950 that an investigation be made to determine the matters set forth in paragraph II hereof.

IT IS FURTHER ORDERED, pursuant to the provisions of Section 604 of the Defense Production Act of 1950 that for the purpose of such investigation G. Howland Chase and Harry A. Shuford, and each of them, is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

By the Board.

(signed) S. R. Carpenter,
Secretary."

"UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal Reserve System held at its offices in the City of Washington, D. C.,
on the 16th day of May, A.D., 1951.

In the Matter of
ATLAS T. V. STORES, INC.

ORDER DIRECTING INVESTIGATION
AND DESIGNATING OFFICERS TO
TAKE TESTIMONY.

I

Members of the staff of the Federal Reserve Bank of Dallas have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

Atlas T. V. Stores, Inc., has made instalment sales of television sets subject to Regulation W, consumer credit, issued by the Board of Governors of the Federal Reserve System:

1. Without obtaining the down payment required by Regulation W;
2. Without maintaining and preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of said Regulation.

II

The Board having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Dallas, and for the

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"purpose of (1) determining whether Atlas T. V. Stores, Inc., has violated the provisions of Regulation W and (2) aiding in the enforcement of said Regulation deems it necessary and appropriate that an investigation be made to determine whether Atlas T. V. Stores, Inc., has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

III

IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950 that an investigation be made to determine the matters set forth in paragraph II hereof.

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By the Board.

(signed) S. R. Carpenter,
Secretary."

Approved unanimously, with
the understanding that if circumstances should warrant taking
other action than obtaining injunctions, a further recommendation
would be made to the Board.

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

"This refers to Mr. Phelan's letter of April 18, and enclosures, and to your letter of May 10, 1951, relating to the views on Regulation W expressed by Mr. Horace K. Corbin, President of the Fidelity Union Trust Company, and Mr. Robert G. Cowan, President of the National Newark and Essex Banking Company, both of Newark, New Jersey.

"We understand that Messrs. Corbin and Cowan are of the opinion that a substantial increase in the down-payment requirement, along with the elimination or liberalization of the maturity requirement to, say, 30 months, on household

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"appliances would be more effective than the present requirements of the regulation as an anti-inflationary measure.

"Unquestionably, an increase in the present down-payment requirements applicable to Group B or any other listed articles would tend to dampen demand for such articles and to reduce the amount of instalment credit outstanding. However, we have serious doubts if the elimination or liberalization of the present maturity requirement could be justified either on the basis that such action would be anti-inflationary or on the basis that it would be necessary or desirable in order to provide a larger income per unit financed for the financing institutions engaged in discounting or purchasing instalment paper.

"While we appreciate the problem pointed out by Messrs. Corbin and Cowan, we agree with your Bank's view that adoption of their proposal is inadvisable at this time. It seems to us that the proposal would on balance involve a tightening of the regulation's terms and that a tightening amendment would need to be justified primarily in terms of the credit control objectives of the regulation."

Approved unanimously.

Letter to the Honorable William Benton, United States Senate, Washington, D. C., reading as follows:

"Thank you for referring to the Board of Governors the letter from Mr. Paul A. Deegan, Editor of The Stratford News, Stratford, Connecticut, concerning Regulation X.

"The regulation, as you know, was authorized by Congress in the Defense Production Act of 1950 for the purpose of conserving materials for the defense program and combating inflation. In achieving these ends, it is certainly not our intention to 'penalize the man in the middle income brackets'. Indeed, great pains were taken to prevent such an effect. Down-payment requirements under the regulation were established which rise gradually from 10 per cent for properties costing \$5000 to 50 per cent for properties costing \$24,250.

"It is true, of course, that credit restrictions cannot reach those persons with resources ample enough to meet a requirement of 100 per cent down payment if necessary. It is also true that the restrictions prevent some people of less ample means from buying new houses. Credit restrictions

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"can, of course, only affect those who use credit.

"One of the major causes of the over-all price rises Mr. Deegan mentions is the tremendous growth in credit. Rapid expansion of mortgage credit has contributed substantially to this growth. A continuation of extremely easy terms on mortgage loans, in the face of a limited supply of new housing, could only lead to a further upward spiral of prices generally and real estate prices in particular, a situation which is certainly undesirable from the point of view of persons of modest means.

"We hope this will help to explain the Board's position on the matter. If we can be of further assistance, please do not hesitate to call upon us."

Approved unanimously.

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

"In reference to your letter of April 28 concerning reasonable builders' profits in determining 'value' under Regulation X, we do not think it practicable for the present to attempt to establish a limitation on builders' profits for uniform application throughout the Federal Reserve System. We think that there might be considerable difficulty in establishing a uniform practice in a metropolitan city, such as San Francisco or Los Angeles, since there is no established practice, and that it would be extremely difficult for instance to attempt to establish a fixed rule for the entire 12th District where conditions may change materially in different places.

"We think the better test to be observed for the present is the sound and established practice in the community generally employed in good faith by Registrants. We realize that in adopting local practices as a standard, you will have to consider not a fixed rule but a range of practices. We think, however, that inquiry in local areas among responsible lenders will enable you to develop satisfactory standards in connection with the determination of proper builders' profits."

Approved unanimously.

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

"Where a residence is to be constructed on a lot acquired more than twelve months ago, the 'value' of the residential property, in accordance with the provisions of section 2(i)(2)(B)(ii) of Regulation X, is the appraised value of both the lot and residence."

Approved unanimously.

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

"Reurtel May 4 re determination of 'value' under Regulation X. Board is issuing interpretation of section 2(i) 2(B)(ii). In specific case you mentioned maximum loan value is fifty per cent of appraised value of both lot and residence as determined in good faith by Registrant extending credit. We have never prescribed method by which Registrants should make appraisal for purposes of Regulation X. They may use any method which is sound and established practice in community.

"In issuing the regulation, however, we contemplated that Registrants would continue to follow established practices. In the specific case you mentioned, it probably is true that the 'valuation for mortgage lending purposes' is the appraisal valuation that has been used in the past and would have been used in this specific case in the absence of Regulation X. If this is true, it would seem that its use would be more consistent with the intent and purposes of the regulation, and that the maximum loan value would be \$21,250."

Approved unanimously.

Letter to National Analysts, Inc., 1425 Chestnut Street, Philadelphia, Pennsylvania, reading as follows:

"Reference is made to your letter of January 18, 1951 setting forth the terms and conditions of the

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"agreement between National Analysts, Inc. and the Board of Governors of the Federal Reserve System relating to a survey of house purchasers.

"At the request of the Board, National Analysts, Inc. speeded the processing of data from the survey of house purchasers in order that they be available for hearings on the extension of the Defense Production Act. It is understood that meeting the Board's request involved costs not contemplated in the original agreement and that these costs did not exceed \$100. The Board is prepared to make reimbursement to National Analysts, Inc. in an amount not exceeding \$100 upon receipt of a statement of costs incurred for this work.

"Further, in connection with the survey of house purchasers, the Board wishes to have additional work done. This work consists in showing (1) the median price and frequency of purchase of houses bought by persons having sold houses in various income groups and (2) the median price and frequency of sale of houses sold by house purchasers within income groups.

"It is understood that the cost of this additional work will be approximately \$100. The Board will make reimbursement to National Analysts, Inc. for this work upon receipt of a statement of costs incurred."

Approved unanimously.

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

"This refers to your letter of December 26, 1950, requesting certain information in connection with the bill H. R. 9811, introduced by Congressman Walter, to amend the Administrative Procedure Act so as to prohibit the employment by any person of any member, official, attorney or employee of a Government agency except under certain conditions. We note that Congressman Walter has introduced H. R. 405 in the present Congress, which is identical with H. R. 9811, and it is understood from inquiry at your Committee that the information you requested in connection with H. R. 9811 should now relate to the bill H. R. 405.

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"1. The list of the more important statutes which are administered by the Board of Governors of the Federal Reserve System are cited as follows:

Act of December 23, 1913 (38 Stat. 251 as amended; 12 U.S.C. 221, et seq.).

The Act of Oct. 15, 1914 (38 Stat. 732, as amended; 15 U.S.C. 11, et seq.).

Sec. 32 of the Act of June 16, 1933 (48 Stat. 194, as amended; 12 U.S.C. 78).

Secs. 3 (b), 7, 8, of the Act of June 6, 1934 (48 Stat. 882, 886, 888; 15 U.S.C. 78c, 78g, 78h).

Sec. 23 (a) of the Act of June 6, 1934 (48 Stat. 901, as amended; 15 U.S.C. 78w).

Sec. 19 of the Act of June 16, 1933 (48 Stat. 186, as amended; 12 U.S.C. 61).

Sec. 5 (b) of the Act of Oct. 6, 1917 (40 Stat. 415, as amended by the Act of Sept. 24, 1918, 40 Stat. 966, as amended by the Act of Mar. 9, 1933, 48 Stat. 1, as amended by the Act of May 7, 1940, 54 Stat. 179, as amended by the Act of Dec. 18, 1941, 55 Stat. 839; 12 U.S.C. and Sup. 95a.).

Act of September 8, 1950 (64 Stat. 798; 50 U.S.C. App. 2061, et seq.).

"There are a number of other statutes with which the Board is concerned and we will be glad to furnish citations to them if you so desire. It is understood, however, that at this time you are interested only in those statutes which are of primary concern to the Board.

"Attached is a list of the names of persons who were a member of the Board, Counsel, Assistant Counsel, head or assistant head of a division of the Board or assistant to the Chairman, whose employment with the Board terminated between January 1, 1936 and December 31, 1950, inclusive. Except as indicated in the attached list the Board does not have in its files any further information concerning the relationship of such former employees with the institutions they are now serving.

"Rules with respect to practice or appearances before the Board are contained in Appendix A to the Rules of Procedure enclosed herewith.

"The Board is in general agreement with the objectives sought to be accomplished by the bill H. R. 405. The language of the bill, however, is extremely broad and might be construed to apply to a member of the Board of Governors who had completed a full term of service as a member of the

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"Board. In this connection Section 10 of the Federal Reserve Act provides that 'The members of the Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed.'

"The bill might also be construed to prohibit an officer or employee of the Board from accepting employment with a Federal Reserve Bank. The Federal Reserve Banks are instrumentalities of the United States and are closely integrated with the functions of the Board of Governors. The objectives sought to be accomplished by the bill should not be made applicable to the two situations referred to above, and it is suggested that, if favorable action is to be taken on the bill, it be amended accordingly."

Approved unanimously.

Memorandum dated May 14, 1951, from Mr. Carpenter, Secretary of the Board, recommending, for reasons stated therein, that the 1951 budget of the Office of the Secretary for furniture and equipment be increased by an additional \$500.

Approved unanimously.

Memorandum dated May 7, 1951, from the Division of Personnel Administration, reading as follows:

"On October 18, 1949, the Board of Governors approved a policy of salary administration which closely paralleled the Classification Act of 1949. One part of this policy was the granting of longevity increases to employees who are at or above the maximum of their salary grades and who meet certain conditions with respect to length of service and performance.

"The Board approved, in principle, the granting of longevity increases to Board employees with the understanding that the same restrictions imposed at the time by the Classification Act of 1949 would apply to Board employees.

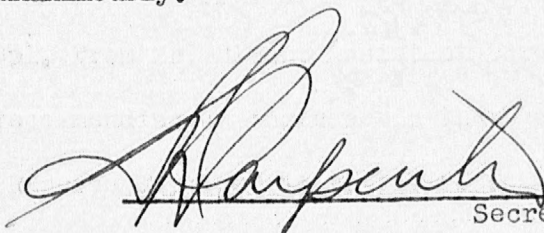
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"Subsequent to the passage of this act the Civil Service Commission has amended its rules to provide that any period of service in excess of one or two complete longevity periods shall be credited toward the completion of the next longevity step increase. In other words, an employee who meets the other requirements and who has been at the top of his grade for five years would receive one longevity increase and immediately have to his credit two years toward the second longevity increase.

"It is recommended that the Board adopt a similar policy in the granting of longevity increases. At the present time this act would mean a possible increase in the salaries of three Board employees."

Approved unanimously.


Secretary.