

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 28, 1951. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary

There was presented a memorandum dated May 14, 1951, from Mr. Bethea, Director, Division of Administrative Services, which had been in circulation to the members of the Board prior to consideration at a meeting, recommending that Edwin J. Johnson, currently Technical Assistant, Division of Bank Operations, be appointed Assistant Director, Division of Administrative Services, on a non-permanent basis in accordance with the Board action of December 29, 1950, at a salary of \$7,500 per annum, effective the date he assumes his duties.

Upon motion by Mr. Norton, this recommendation was approved unanimously.

There was presented a memorandum dated May 18, 1951, from Mr. Hilkert, Acting Director, Division of Personnel Administration, and Mr. Allen, Assistant Director of that Division, which had been in circulation to the members of the Board prior to consideration at a meeting, recommending that H. Franklin Sprecher, Jr., currently an employee of the Federal Reserve Bank of Minneapolis, be appointed Assistant Director,

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Division of Personnel Administration, on a non-permanent basis in accordance with the Board action of December 29, 1950, at a salary of \$7,500 per annum, effective the date he reports for duty after having passed the usual physical examination. The memorandum also recommended that Mr. Sprecher receive a per diem allowance of \$12 from the time he reports for duty at the Board until he has established a local residence and that the Board reimburse him for moving expenses.

Upon motion by Mr. Norton, the recommendations contained in the foregoing memorandum were approved unanimously.

Chairman Martin reviewed conversations which he had had since the discussion at the meeting of the Board on Wednesday, May 22, with respect to legislation by the Congress granting additional authority to the Board with respect to bank reserve requirements. He outlined the reasons for his suggestion that any action by the Board looking toward a recommendation of legislation be deferred for at least a week and perhaps until the completion of consideration by the Congress of the extension of the Defense Production Act of 1950.

The other members of the Board concurred in Chairman Martin's suggestion and it was agreed unanimously that it should be followed. In taking this action it was understood that the drafts of bills that had been prepared on this subject should be given further study in the light of the comments made by the members of the Board at this meeting and the replies received from the Federal Reserve Banks to the Board's telegram of May 24, 1951, with a view to legislation which, if possible, would meet the approval of all of the members of the Board and the Presidents of the Federal Reserve Banks.

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Mr. Powell reported briefly on the inventory situation resulting from the present decline in the volume of retail buying and the problems confronting retail business concerns and banks in that connection.

At this point 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 25, 1951, were approved unanimously.

Memorandum dated May 18, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Daniel H. Brill, Economist in that Division, from \$7,600 to \$7,800 per annum, effective June 10, 1951.

Approved, Mr. Vardaman not voting.

Letter to Mr. Nosker, Assistant Cashier of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of May 17, 1951, submitting the request of the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, for permission to establish an additional branch in Charlotte, North Carolina.

"In view of your recommendation the Board of Governors approves the establishment and operation of a branch at the intersection of West Morehead Street and Walnut Avenue in the city of Charlotte, North Carolina, by the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, provided the branch is established within six months from the date of this letter and the formal approval of the State Banking Commissioner of North Carolina is obtained.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

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

"Reference is made to your letter of May 14, 1951, submitting the request of The Colonial Trust Company, Waterbury, Connecticut, for approval of the establishment of a branch in Watertown, Connecticut, in connection with a proposed merger with The Watertown Trust Company, Watertown, Connecticut, a nonmember uninsured bank.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Watertown, Connecticut, by The Colonial Trust Company, Waterbury, Connecticut, provided the proposed merger with The Watertown Trust Company is effected substantially in accordance with the plan submitted; the prior formal approval of the appropriate State authorities is obtained; the Federal Deposit Insurance Corporation consents to the assumption of the deposit liabilities of the uninsured bank; and the Reserve Bank is satisfied, as a result of the examination now being made, as to the acceptability of the assets to be acquired through the merger.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of the steps taken to effect the merger and establishment of the branch."

Approved unanimously.

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

"Reference is made to your letter of May 15, 1951, submitting the request of The Richland Trust Company, Mansfield, Ohio, for permission to increase the carrying value of its indirect investment in bank premises to \$345,000.

"In view of your recommendation, the Board of Governors approves an increase of \$245,000 in the carrying value of the subject bank's indirect investment in bank premises which is to result from an increase in the carrying value of the stock of the wholly owned affiliate holding title to the bank premises from \$100,000 to \$300,000, as approved by the Superintendent of Banks of the State of Ohio, and a loan to the

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"affiliate in the amount of \$45,000 for the purpose of liquidating an outstanding mortgage indebtedness."

Approved unanimously.

Letter to the Honorable E. H. Foley, Under Secretary of the Treasury, Treasury Department, Washington, D. C., reading as follows:

"This refers to your letter of April 30, 1951, in which it is stated that the Bureau of Engraving and Printing desires to refund the sum of \$214,523.04 paid by the Federal Reserve Board on May 15, 1930, for establishing a working reserve of 4,250,000 sheets of incomplete Federal Reserve notes. It is proposed to effect the refund by deducting \$214,523.04 from the bill for finished notes delivered during the current month.

"We have communicated with the Federal Reserve Banks, and the Banks and the Board of Governors are agreeable to the method of adjustment suggested."

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 May 16, 1951, concerning the correspondence exchanged with the Federal Deposit Insurance Corporation regarding fidelity insurance coverage, copies of which were forwarded to the Reserve Banks for their information with the Board's letter of May 4, 1951.

"Your inquiry pertains to the word 'maximum' as used by Mr. Harl in his letter of April 20, 1951, with reference to fidelity insurance coverage. While it is realized that Mr. Harl's meaning is not clear, the Board did not intend that its letter of May 4, 1951, should be accepted as amending in any way its letter of August 28, 1950, (S-1135)."

Approved unanimously.

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Letter to Mr. J. E. Blomgren, Deputy Director, Bureau of Federal Credit Unions, Federal Security Administration, Washington, D. C., reading as follows:

"This refers to your letter of May 10, 1951, concerning the application of section 7(k) of Regulation W to loans by Federal credit unions.

"An instalment loan by a credit union to one of its members would be exempt under section 7(k) if the loan 'is fully secured' by the borrower's withdrawable shares in the credit union. Your understanding is correct that the exemption applies regardless of the purpose of the loan so long as the loan is so secured. However, as you indicated, the loan would be subject to the provisions of section 8(a).

"The situation referred to in the third paragraph of your letter must be considered in the light of section 6 (i) of the regulation. Briefly, this section provides that a grantor of instalment credit shall not extend any such credit for financing the purchase of a listed article if he knows or has reason to know that there is, or that there is to be, 'any other credit of any kind' extended in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the amount of instalment credit permitted by the regulation. Consequently, it would not be permissible for a credit union to extend instalment credit to one of its members for the full amount of the purchase price of a listed article, notwithstanding the fact that the member's shares in the credit union (equal to the necessary down payment) may be pledged as security for the credit. The credit would have to be fully secured by the member's shares in order for the credit union to finance the full amount of the purchase price of the article. This matter was the subject of an interpretation which was published in the 1950 Federal Reserve Bulletin, page 1472 and in 15 Federal Register, 6985, section 222.111, October 19, 1950. A copy of the interpretation is enclosed herewith.

"Questions have been received regarding section 6(i) of Regulation W. The section states that 'a Registrant shall not extend any credit for financing the purchase of a listed

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"article' if he knows or has reason to know of any other credit that would cause the total credit in connection with the purchase to exceed the amount of instalment credit permitted by the regulation.

"(1) The requirements of the section apply to a Registrant only in a case in which he is extending instalment credit. This is because section 2 (a) of the present regulation limits the application of the entire regulation to cases in which the Registrant is extending instalment credit.

"(2) In any case in which the Registrant is extending instalment credit subject to the regulation for the purchase of a listed article, he must take into account under section 6(i) all credit, of which he knows or has reason to know, in connection with the purchase of the article. He must take into account not merely other credit that would be subject to the regulation, but also 'other credit of any kind' in connection with the purchase of the article, including credit that is not itself subject to the regulation.

"(3) Single-payment credit is one example of credit that is not itself subject to the present provisions of the regulation but that must be taken into account under section 6(i) when the Registrant extends instalment credit subject to the regulation for the purchase of a listed article.

"(4) Similarly, credits exempted by section 7 of the regulation are also among the credits that must be taken into account under section 6(i). For example, section 7(k) exempts certain credits that are fully secured by withdrawable shares issued by or savings accounts held with the lender but such credits, like single-payment credits, must nevertheless be taken into account under section 6(i) by any Registrant extending any credit subject to the regulation for the purpose of purchasing a listed article.

"We appreciate your writing to us since the Bureau of Federal Credit Unions and the activities of your examiners play an important part in the effective administration of the regulation. We hope that the information supplied herewith adequately answers the questions raised in your letter."

Approved unanimously.

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

"From time to time questions have been received under Regulation W concerning the provisions of sections 7(a), 8(j)(5), and 8(j)(6) which exempt from the regulation instalment credit 'in a principal amount' exceeding \$5,000 in the case of automobiles, and exceeding \$2,500 in other cases.

"Whether credits considered individually or collectively. -
In certain circumstances, credits may be added and treated collectively as a single credit for the purposes of the foregoing dollar figures. To be considered collectively as a single credit, the indebtedness must not only be incurred between the same Registrant and one customer, but it also must be incurred pursuant to a basic contract between them which governs the indebtedness and which must be relied upon to enforce the indebtedness. Even if there is some kind of basic contract, various items under it cannot be added together to reach the \$2,500 (or \$5,000) figure if they are represented by individual notes or other evidences of indebtedness that would support an action for the debt without resorting to the basic contract.

"The amount stated in the basic contract is not controlling except to the extent that articles have actually been delivered or funds actually been disbursed pursuant to the contract. This may be illustrated by an example in which a Registrant and a customer enter into a contract for the delivery and instalment sale to the customer of, say, 50 refrigerators. Suppose further that each delivery of refrigerators is represented only by a mere receipt that refers back to the original contract and would not support a separate action. In such a case, deliveries under the original, basic contract would be subject to the regulation until the outstanding indebtedness exceeded \$2,500. Once that figure was exceeded the entire credit would be exempt. Additional deliveries under the contract while the indebtedness exceeded \$2,500 would also be exempt.

"The foregoing principles would apply also in the case of instalment leases or instalment loans.

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"Continuance of Over-\$2,500 (\$5,000) Exemption. -

The over-\$2,500 (or \$5,000) exemption is not lost merely because the principal amount of instalment indebtedness falls below such figure as the obligation is paid down. However, when such indebtedness has fallen below the exemption figure, additions thereto do not get the benefit of the exemption unless they are sufficient to bring the total of the indebtedness above the exemption figure. When the outstanding credit under a leasing or similar contract for financing quantity merchandising has exceeded the exemption amount, substitutions or exchanges of articles that are contemplated by the contract may be made without regard to cash repayments that may in the meantime have reduced the amount of the credit.

"The views expressed herein shall be regarded as superseding the views expressed in any earlier interpretations under the regulation which may be inconsistent with the views here expressed."

Approved unanimously.

Order for Proceedings and Notice of Hearing, prepared pursuant to the action of the Board at the meeting on May 10, 1951, reading as follows:

"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 28th day of May, A. D., 1951.

In the Matter of
H. BARTELS, INC.,
52nd & MARKET ST.,
PHILADELPHIA, PA.

ORDER FOR PROCEEDINGS AND NOTICE
OF HEARING PURSUANT TO SECTION 8(b)
OF REGULATION W, CONSUMER CREDIT.

I

The Federal Reserve Bank of Philadelphia has advised the Board of Governors of the Federal Reserve System that H. Bartels, Inc., hereinafter called the registrant, has filed a registration statement with that Bank pursuant to

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"Sec. 2 (b) of Regulation W, consumer credit, issued by the Board of Governors pursuant to Sec. 601 of the Defense Production Act of 1950; and that Bank has transmitted information to the Board of Governors which tends to show that since September 18, 1950, the effective date of Regulation W and contrary to the provisions thereof, the registrant has made instalment sales of television sets and other articles listed in that regulation:

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 Regulation W.

II

The information reported to the Board of Governors, as set forth in Section I hereof tends, if true, to show:

A. That the registrant has violated Section 3 (c) of Regulation W by not obtaining the down payment required by Regulation W at or before the time of delivery of the listed article.

B. That the registrant has violated Section 6 (f) of Regulation W by delivering listed articles in anticipation of instalment sales of listed articles without obtaining at or before the time of such delivery, a deposit equal to the down payment that would be required on such an instalment sale.

C. That the registrant has violated Section 8 (a) of Regulation W by maintaining books of account, records and other papers, which did not show whether or not credit extended by it is in conformity with the Regulation.

III

The Board having considered the aforesaid information, deems it necessary and appropriate that proceedings be instituted to determine:

- (a) whether the statements set forth in Section I hereof, are true;
- (b) whether the registrant has violated Section 3 (c) of Regulation W;
- (c) whether the registrant has violated section 6 (f) of Regulation W;

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- "(d) whether the registrant has violated Section 8 (a) of Regulation W;
 (e) whether it is necessary or appropriate in the public interest to suspend the license of the registrant pursuant to Sec. 8 (b) of Regulation W;

IV

IT IS HEREBY ORDERED that a hearing for the purpose of taking evidence on the questions set forth in Paragraph III hereof be held at 10:00 A.M., on June 25, 1951 in the United States Courthouse, 9th and Chestnut Streets, Philadelphia, Pennsylvania, before Harold B. Teegarden, Trial Examiner, or such other trial examiner as the Board may designate. The trial examiner is designated an officer of the Board for the purpose of these proceedings and is empowered to administer oaths and affirmations and issue subpoenas.

This Order and Notice shall be served on Registrant personally or by registered mail forthwith.

By the Board.

(signed) S. R. Carpenter
 Secretary."

Approved unanimously.

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

"This refers to your letter of May 11, 1951, with its enclosures, regarding a request made by the California Bank of Los Angeles, that the commitment fee on a Regulation V loan by that Bank to Acme Electronics, Inc., should be deemed to accrue from the date of the first disbursement on the loan rather than from the date of the execution of the guarantee agreement.

"We have informally discussed this matter with representatives of the Department of Defense and the Department of the Air Force. It is their view, with which we concur, that commitment fees charged with respect to V-loans should accrue from the date of the execution of the agreement, and that no exception should be made in the present case.

"It is understood that in this case the lending bank preferred not to make disbursements under the V-loan until certain amendments to the guarantee agreement had been

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"executed. However, it is noted that in your opinion these amendments were not such as to preclude disbursement by the bank at any time and that the guarantor continued to be liable on its commitment during the period between the date of the execution of the guarantee agreement and the date of the first disbursement. Moreover, it is felt that it would be undesirable to establish a precedent by waiving the general rule in a case of this kind."

Approved unanimously.

Letter to Mrs. Valerie R. Frank, Secretary, Retirement System of the Federal Reserve Banks, Federal Reserve Bank of New York, New York, New York, reading as follows:

"Reference is made to your letter of May 21, 1951, submitting for the Board's approval certain amendments to the Rules and Regulations of the Federal Reserve Retirement System voted by the Board of Trustees at its meeting on May 17, 1951.

"The Board of Governors approves the amendments as presented and it is noted that resolutions adopted by the Trustees provide an interest rate of three per cent per annum on installment and deferred death payments."

Approved, Mr. Vardaman
not voting.

Letter to the Honorable Guy M. Gillette, United States Senate, Washington, D. C., reading as follows:

"We have received your note of May 1, addressed to former Chairman McCabe, with which you enclosed a letter from Mr. Paul Groszkruger, President of the Citizens State Bank at Belle Plaine, Iowa, who makes certain statements concerning the lending activities of Government agencies in his locality and also concerning savings bonds.

"We agree with Mr. Groszkruger that Government agencies should not contribute to excessive credit expansion at the present time. To be consistent with

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"the principles of the Voluntary Credit Restraint Program in which private financing institutions are participating, every effort should be made to curb credit extensions of Government agencies that are not needed to finance the defense effort or the essential needs of agriculture, industry, and commerce.

"Some steps have been taken in this direction. Government credit agencies, which operate under authority granted by the Congress, are subject to continuous scrutiny by the Bureau of the Budget, and it is our understanding that such scrutiny at the present time is being directed toward curbing loans that are inconsistent with the Voluntary Credit Restraint Program.

"The national Voluntary Credit Restraint Committee, which has been established under the Program and consists of representatives of the principal groups of private financing institutions, has been apprehensive that cooperation of the private institutions participating in the Program may be jeopardized if they turn down loans, feeling that they do not represent types of credit which should be extended pursuant to the principles of the Program, and then discover that the loans are extended by Government agencies. For this reason letters have been sent by the Chairman of the Committee to the heads of various Government lending agencies enlisting their support for parallel policies, as far as possible, between their lending operations and the Voluntary Credit Restraint Program, and requesting them to advise, after reviewing the Program, whether it conflicts in any way with their lending policies.

"Several points in Mr. Groszkruger's letter deserve comments because they indicate some misunderstanding of the facts. A large number of Government agencies are making loans as a result of programs established by the Congress, and some of this lending is consistent with the defense effort or the essential needs of agriculture, commerce, and industry. Loans of many Government agencies, moreover, are made from funds other than those appropriated by Congress. For example, the production credit associations and the banks for cooperatives obtain funds from the Federal intermediate credit banks which sell debentures in the market.

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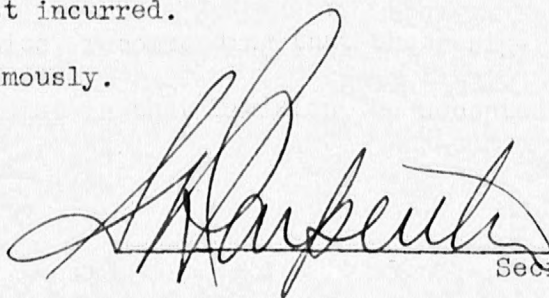
"The purchase of savings bonds by the public with its savings is anti-inflationary, not inflationary. As a result of such sales, funds already in existence are used to finance Government defense expenditures rather than to compete for civilian goods and services. Also, the Government through sale of savings bonds is not borrowing money without interest. This type of bond is redeemable according to a schedule of values, which provides an interest return after the bond has been held one year. For Series E savings bonds held to maturity (10 years) the interest return is about 2.9 per cent compounded semi-annually. Under the recent legislation, the owner of any Series E bond may cash it at maturity and realize this interest. As the enclosed Treasury release indicates, the owner has the option, if he wishes, of holding the bond for an additional period not exceeding 10 years. Interest will accrue on the face value at a rate of 2-1/2 per cent simple interest each year for the first 7-1/2 years, and then increase for the remaining 2-1/2 years to bring the aggregate interest return to approximately 2.9 per cent compounded semi-annually. At any time during the additional 10 years he may redeem the bond for its face value plus the interest which has accrued.

"We appreciate having had the opportunity to read Mr. Groszkruger's letter, which is returned herewith as requested, together with the newspaper clipping which he enclosed."

Approved unanimously.

Memorandum dated May 23, 1951, from the Division of Personnel Administration, recommending that the Board of Governors give an informal reception for Mr. Hilkert, Acting Director of that Division, on the afternoon of June 1, 1951, the last day of his service before returning to his position as Vice President of the Federal Reserve Bank of Philadelphia and that the proper classification of the budget of the Division of Personnel Administration be increased to cover the cost incurred.

Approved unanimously.



Secretary.