Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 12, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Allen, Director, Division of Personnel Administration
Mr. Sloan, Director, Division of Examinations
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Hackley, Assistant General Counsel
Mr. Koch, Chief, Banking Section, Division of Research and Statistics

Mr. Thomas presented a report on recent developments in the Government securities market, which was followed by a brief discussion.

Chairman Martin then suggested that the further discussion of legislation with respect to reserve requirements, which was to have been held at this meeting, be postponed for the time being.

This suggestion was approved unanimously.

Messrs. Horbett and Koch then withdrew from the meeting.

Before this meeting there had been distributed to the members of the Board a memorandum from Mr. Vest dated June 6, 1951, supplementing the previous memorandum from Mr. Sloan and himself dated June 4, 1951, with respect to a proposed consolidation involving Mercantile-Commerce Bank and Trust Company, St. Louis, Missouri, and Mississippi Valley Trust Company, also of that city, both State member banks of the Federal Reserve System, which proposed consolidation had been the subject of discussion at the meeting of the Board on June 5, 1951.

The memorandum referred to the telegram from Vice President Peterson, of the Federal Reserve Bank of St. Louis, received during the Board meeting on June 5, which had appeared to raise some question as to whether a new application for membership would be necessary in connection with the consolidation, and stated that a telegram from President Johns dated June 5, 1951, had amplified the earlier wire and made it clear that the Reserve Bank did not intend to suggest that a new application for membership was required. The memorandum stated further that in the opinion of Mr. Vest a new application for membership was not required, that this opinion was consistent with President Johns' views, with the Missouri statutes, and with the Board's past practices, and that in the circumstances the Board might resume its consideration of the consolidation on the same basis as before receipt of the earlier wire from the St. Louis Reserve Bank.

There also had been circulated to the members of the Board copies of a memorandum from Mr. Vest dated June 7, 1951, stating that Mr. Robert Neill, Jr., Attorney representing Mercantile-Commerce Bank and Trust Company in connection with the proposed consolidation, had advised him (Mr. Vest) on the afternoon of June 6 that the trust company had taken the necessary steps that day to exercise its option to purchase the stock of the Mercantile-Commerce National Bank in the manner detailed in the memorandum from Messrs. Vest and Sloan dated June 4.

In view of this latest development, Mr. Vest said, there was nothing formally before the Board for consideration or action at this time. He pointed out, however, that there remained to be decided the question whether a new application for membership in the System would be required from the consolidated bank. Mr. Vest reiterated the opinion expressed in his memorandum of June 6 that in view of provisions of the Missouri statutes making it clear that the corporate existence of consolidated companies is merged into and continued in the consolidated company, no new application was necessary. He stated further that although the Attorney-General for the State of Missouri might be asked for an opinion on this question, he did not believe that any opinion which the Attorney-General might render would necessarily affect the question whether a new application for membership was required.

Mr. Vest said that the other remaining question was whether the Board desired to take any action in view of the technical violation of law committed by Mercantile-Commerce Bank and Trust Company in purchasing stock of the Mercantile-Commerce National Bank, and the fact that a second technical violation would be committed when certain assets of the Mercantile-Commerce Bank and Trust Company, in accordance with the plan of merger, were turned over to a newly formed corporation (the Potosi Corporation) in exchange for the stock of this corporation. He pointed out that the holding of the stock of this corporation would be only momentary and that all the shares of the new corporation would be distributed to the shareholders of the trust company. Mr. Vest also stated that he did not know of any practicable legal action which could be taken by the Board other than a proceeding to expel the Mercantile-Commerce Bank and Trust Company from membership in the System.

There ensued a discussion of the case based on the facts presented by Mr. Vest, following which it was suggested that the record show that the Board was cognizant of the action taken by Mercantile-Commerce Bank and Trust Company, in connection with the proposed consolidation, but that after consideration the Board felt that no administrative action should be taken.

> Upon motion by Mr. Powell, this suggestion was approved unanimously. In taking this action, it was agreed that, on the basis of the information before the Board, a new application for membership by the consolidated bank would not be required.

During the foregoing discussion Messrs. Heath, Acting Assistant Director, Fauver, Assistant, and Pawley, Technical Assistant, all of the Division of Selective Credit Regulation, joined the meeting, and at its conclusion Mr. Hackley withdrew.

There was presented a draft of statement of Board budgetary and salary procedure, copies of which had been sent to the members of the Board prior to the meeting. Mr. Norton commented on the substance of the recommendations contained in the statement, pointing out that it had been carefully considered and approved by the senior staff and by the Personnel Committee.

Mr. Carpenter stated that the memorandum, which represented a restatement of existing budget procedures, had been prepared in the light of (1) discussions in connection with approval last December of the budget for 1951 and (2) recommendations in the Price, Waterhouse report on Board organization and procedures submitted under date of June 9, 1950, that the restatement of budgetary procedures was consistent with material being prepared for the Patman Subcommittee, but that it did not have any relation to the study to be made by the Subcommittee.

> After discussion, upon motion by Mr. Norton, the statement was approved unanimously in the following form, effective immediately but with the understanding that the existing procedure with respect to changes in the budget for personal services resulting from appointments, resignations, salary changes, etc., would continue to be followed for the remainder of the year 1951:

"STATEMENT OF BUDGETARY AND SALARY PROCEDURES

Under date of June 28, 1949, the Board approved the recommendations contained in a memorandum dated June 9, 1949, from the senior staff with respect to Budget Procedure and, on October 25, 1950, the Board approved a memorandum of recommendations from the Personnel Committee as to action to be taken by the Board in connection with the report dated June 9, 1950, submitted by Price, Waterhouse and Company as a result of its survey which included, among other things, the Board's budgetary and accounting procedures. In order to give effect to certain changes in existing budget procedures in the light of the recommendations of the Price, Waterhouse report the following statement of budget principles and procedures has been adopted by the Board.

Budget Officer

The recommendations of the Personnel Committee on the Price, Waterhouse report, previously referred to, provided that the Secretary will constantly review the budget and expenditures of the Board's organization, proposals which involve increases in expenditures or material changes in the staff organization, and methods of improving and facilitating the conduct of the Board's business. To provide for the discharge of this function, one of the Assistant Secretaries shall be designated by the Secretary to act as Budget Officer. The Budget Officer shall recommend to the Personnel Committee such changes in the preparation of the annual budget of the Board as will result in its clarification and simplification to such an extent as may be necessary and appropriate to enable the Personnel Committee and the Board to be acquainted with the essential features and to pass intelligently upon any questions involved without the consideration of unnecessary detail.

Each division head shall designate an assistant director or other qualified senior employee who shall study the expenses of the division and effect all possible economies in expenditures consistent with the efficient discharge of the division's responsibilities. The person so designated shall also work with the Budget Officer in the analysis of division expenses and in the preparation of the budget and supplementary material for submission to the Personnel Committee as contemplated by this memorandum.

The Division of Administrative Services will continue the preparation of information with respect to expenditures during the year as has been the custom in the past.

Submission and Review of the Budget

A review of budget performance, based on reports submitted "by the Budget Officer, will be made by the Personnel Committee early in August of each year. This review will include consideration of any changes in budget principles and procedures, an analysis of expenditures for the first six months of the current year in relation to the budget for that year, and of expenditures for the preceding calendar year in relation to budget estimates for that year; and will also include discussion with the Budget Officer and division heads of any questions with respect to the budget or expenditures.

At the time of this review, the Budget Officer will submit for consideration by the Personnel Committee a proposed form of budget and draft of instructions and related forms proposed for use by the staff in the preparation of the budget for the ensuing calendar year. When approved by the Personnel Committee, this memorandum will be submitted to the Board for approval. This approval will fix the form and scope of the new budget and the analyses, comparative tabulations, and other material to be submitted in connection with it. This procedure is for the purpose of avoiding the necessity for hurried preparation of additional tabulations, analyses, etc., when the budget is under consideration in December.

The division budgets for the ensuing year will be submitted by the division heads to the Budget Officer in draft form not later than October 1. The material so submitted shall be reviewed by the Budget Officer and, in collaboration with the designated representative of each division, shall be developed by the division into final form.

A consolidated budget will be submitted by the Budget Officer to the Personnel Committee not later than December 1. The budget will then be considered by the Personnel Committee and discussed with the Budget Officer and the respective division heads who will be prepared to give in detail the reasons for proposed expenditures. When approved by the Personnel Committee, the budget will be submitted to the Board for consideration and approval before the end of the year.

Budget Principles and Understandings

It has been and continues to be the recognized responsibility of the division heads at all times to scrutinize carefully the proposed expenses of their respective divisions to make sure that they are appropriate, necessary, and thoroughly justifiable and are kept at a minimum consistent with the proper discharge of the division's authorized and essential functions.

The budget should represent the best judgment of the staff as to the items and amounts required for the operation of the Board's "organization for the ensuing year, on an economical and efficient basis. It shall not be merely a 'target' budget. Expenditures are to be kept within the limits of the budget unless prior approval is obtained from the Board's Personnel Committee on the basis of an adequate showing of necessity therefor and a recommendation of the appropriate members of the staff. Any proposed material increase in the budget shall be discussed with the member or members of the Board whose assignments are involved before presentation to the Personnel Committee, and, if the Personnel Committee considers the matter of sufficient importance, it may present it to the Board for approval.

Budget for Personal Services. The size of the budget for personal services is determined primarily by the functions assigned to the staff by the Board, and the Board has placed on the head of each division the responsibility for the maintenance of the necessary staff for these functions.

The first step in the preparation of a division budget for personal services is the determination of the anticipated scope of the division's work during the coming budget year and the personnel necessary to perform it. This may call for consultation by the division head with other members of the staff and with the members of the Board whose assignments are involved. If there is to be any change in a division activity calling for adjustments in the size of its staff during the ensuing year, the division head must determine, with such consultation with others as may be necessary, what those changes should be and the qualifications for and probable classifications of any new positions in the division called for thereby.

It is understood that the Budget Officer, in consultation with the Division of Personnel Administration, will scrutinize salary expenditures throughout the year but it is not expected that when the annual division budgets are submitted he will make another check of the activities of the various divisions and the need for the number or quality of employees provided for in the budget as that will already have been done.

In arriving at the total of a division budget for personal services, account should be taken not only of the probable size of staff required, as mentioned above, but carefully considered estimates should be made for all anticipated regular one-step and special meritorious salary increases and the probable effect on the budget of reclassifications and turnover in the staff based both on past experience and present knowledge. Thus, by closely estimating staff requirements and salary trends, the Board is furnished in advance with a reasonably accurate forecast of probable expenditures for personal services on the basis of the anticipated scope of the Board's activities.

"Budget for Nonpersonal Services. The amounts provided in the various division budgets for nonpersonal services are limitations (but not the only limitations) on the total that may be spent by a division during the year for nonpersonal services without further approval by the Board.

The Budget Officer has authority to question any of the budget estimates and to require substantiation that the amounts provided are actually needed. He shall also have authority to challenge any proposed expenditure during the year even though it is within the limits fixed by the budget. Working through the Division of Administrative Services, he shall conduct such studies and analyses of expenditures as may be necessary to assure that the most effective procedures are being followed in controlling the expenditure of the Board's funds having in mind the character and scope of the Board's operations. He shall review procedures involved in the utilization of equipment, supplies, materials, printing, etc., for the purpose of assuring the adoption of up-to-date methods, the elimination of duplication, the efficient use, maintenance and replacement of equipment, economical provision and use of supplies, the control and standardization of printed forms, and the revision or elimination of outmoded procedures and equipment.

The Director of the Division of Administrative Services shall have responsibility for reviewing the day-to-day expenditures for nonpersonal services proposed by the Board's organization, and shall see that expenditures are allowed only in accordance with the rules and policies adopted from time to time by the Board and within the terms of the Board's budget. When an expenditure is proposed which, in his judgment, is not justified, and the proposal is not withdrawn, the matter will be considered by the Budget Officer. If it cannot thus be disposed of, the matter shall be presented to the Board's Personnel Committee.

Procedure for Appointments and Salary Increases

It is the policy of the Board, and the instructions to the staff provide, that each appointment to the Board's staff (including transfers from one division to another) shall be made (1) only for the purpose of filling a vacancy or a new position authorized by the Board, (2) solely on the basis of merit and only of the best qualified person available for the position, and (3) by promotion from within the organization whenever there is someone on the staff who is qualified and available to fill the position. The Board has placed on each division head the responsibility of making a thorough canvass of all persons known to be available and to make "a recommendation for employment solely on the basis of merit and only of the person best qualified for the position, having due regard for veterans' preference. This policy shall continue to be strictly adhered to.

Any recommendation for appointment, transfer or reclassification, to a position in Group M ($3,100 - $3,850) or above or any professional position, not provided for in the budget, if agreed upon by the division head and the Director of the Division of Personnel Administration, shall be discussed with the member of the Board whose assignments include the activity involved (or the Personnel Committee if the proposed appointment or reclassification cannot be identified with any assignment). When approved by the member of the Board or the Personnel Committee, the recommendation shall be handled as outlined below.

The procedure with respect to appointments and salary increases shall be as follows:

1. All recommendations for the appointment of heads and assistant heads of divisions, members of the staff of the Board Members' section, and employees in Group U ($5,400 - $6,400) and above shall be submitted to the Personnel Committee and then to the other members of the Board for approval.

2. Upon recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration* and the Secretary* or the Budget Officer*, the Secretary shall be authorized to enter in the minutes approval of all other appointments to the Board's staff.

3. Upon recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration, the Secretary shall be authorized to enter in the minutes approval of all one-step salary increases.

4. The work performance of the entire staff shall be reviewed semi-annually, in January and July, and (except in the few cases that may arise which justify earlier consideration) all recommendations for special meritorious salary increases shall be submitted for action by the Board in these months. All recommendations for salary increases for heads and assistant heads of divisions, members of the staff of the Board Members' section, and special meritorious increases for employees in Group W ($7,600 - $8,600) and above shall be submitted to the Personnel Committee and then to the other members of the Board for approval.

When approved by the Personnel Committee, upon recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration* and the Secretary* or the Budget Officer*, the Secretary shall be authorized to enter in the minutes approval of special meritorious salary increases for employees in Group V ($6,400 - $7,400) and below.

"5. When a member of the staff is placed in a position with a higher classification, upon recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration* and the Secretary* or the Budget Officer*, the Secretary shall be authorized to enter in the minutes approval of an increase in the employee's salary by an amount necessary to adjust the salary to the lowest rate for the new grade which exceeds his existing rate of compensation, but not less than one step increase of the former grade. When approved by the Personnel Committee upon recommendation of the appropriate division head with the concurrence of the Director of the Division of Personnel Administration* and the Secretary* or the Budget Officer*, the Secretary shall be authorized to enter in the minutes approval of all other salary increases as a result of the employees being placed in positions having higher classifications."

"*When an employee of the Division of Personnel Administration or the Secretary's Office is concerned, the concurrence of the Assistant to the Chairman is also required."

There were presented proposed letters to the Chairmen of the Federal Reserve Banks of Boston, Philadelphia, and Minneapolis concerning agreements executed by the directors of those banks covering special retirement payments to Presidents Erickson, Williams, and Peyton, respectively, upon their retirement. These letters had been in circulation to the members of the Board and were placed on the docket for consideration at Mr. Vardaman's suggestion. Mr. Carpenter said that he understood Mr. Vardaman had no objection to the proposed letters and had asked that the matter be placed on the docket only for the purpose of having it discussed at a meeting.

After discussion, upon motion by Mr. Norton, unanimous approval was given to the following letter to Chairman Hodgkinson of the Federal Reserve Bank of Boston, together with similar letters to Chairman Whittier of the

Federal Reserve Bank of Philadelphia and Chairman Shepard of the Federal Reserve Bank of Minneapolis:

"In its letter of January 3, 1951, the Board stated that subject to receiving a favorable ruling from the Bureau of Internal Revenue on the tax question involved, the Board approved the agreement submitted with Chairman Creighton's letter of December 12, 1950, enclosing the agreement executed by your Directors covering special retirement payments to President Erickson upon his retirement.

"As you know, a ruling from the Bureau of Internal Revenue on the tax question has not been received and we have no indication as to when it might be forthcoming. In the circumstances, the Board has directed the execution of the agreement and it is returned herewith with the understanding that if, at any time prior to Mr. Erickson's retirement, circumstances should arise which would prompt your Directors, with the concurrence of Mr. Erickson, to rescind the agreement, the Board will be glad to reconsider the matter on the basis of any recommendation that your Directors might wish to make."

Before the meeting there had been sent to the members of the Board a memorandum dated June 5, 1951, from the Personnel Committee stating that salary increases proposed for the officers of the Federal Reserve Bank of Kansas City for the year beginning June 1, 1951, were considered by the Committee at its meeting on May 28, 1951; and attaching a memorandum from the Division of Personnel Administration, dated May 28, 1951, stating that the proposed increases, amounting to $5,900 in the salaries of four officers, appeared on the basis of desirable salary relationships and conformity with accepted practices of salary administration to be appropriate and no question was raised with respect to them.

Thereupon, upon motion by Mr. Norton, unanimous approval was given to a letter to Mr. Leedy, President

of the Federal Reserve Bank of
Kansas City, as follows:

"The Board of Governors approves the payment of salary to you as President of the Federal Reserve Bank of Kansas City at the rate of $25,000 per annum and to Mr. Henry O. Koppang as First Vice President of the Federal Reserve Bank of Kansas City at the rate of $18,000 per annum for the period June 1, 1951, through May 31, 1952.

"The Board of Governors also approves the payment of salary to the following officers at the rates indicated for the period June 1, 1951, through May 31, 1952. According to your letter of May 25, 1951, these are the rates which were fixed by the Board of Directors.

Name	Title	Annual Salary
	Head Office	
D. W. Woolley	Vice President	$16,200
C. E. Sandy	Cashier	10,400
G. A. Gregory	Assistant Vice President	10,000
M. W. E. Park	Assistant Vice President	9,600
E. U. Sherman	Assistant Vice President	9,000
E. D. Vanderhoof	Assistant Cashier	7,600
C. A. Cravens	Assistant Cashier	6,900
P. A. Debus	Assistant Cashier	6,600
J. T. White	Assistant Cashier	6,000
J. T. Boysen	Assistant Cashier	6,800
Clarence W. Tow	Director of Research	12,000
C. L. Bollinger	Auditor	8,400
L. F. Mills	Chief Examiner	8,400
	Denver Branch	
F. H. Larson	Cashier	8,200
H. L. Stempel	Assistant Cashier	7,200
Hubert G. Duck	Assistant Cashier	7,200
	Oklahoma City Branch	
R. L. Mathes	Vice President	13,200
F. W. Alexander	Cashier	8,200
F. R. Fritz	Assistant Cashier	7,200
Fred C. Schmocker	Assistant Cashier	7,100
	Omaha Branch	
L. H. Earhart	Vice President	15,000
J. K. Freidebach	Cashier	8,200
U. S. Berry	Assistant Cashier	7,300
William P. Doran	Assistant Cashier	7,100

"According to your letter of May 25 your Directors have approved the salaries of the above officers only through the calendar year 1951. Accordingly, the Board's approval for the payment of these salaries from January 1, 1952, through May 31, 1952, is contingent upon these rates being subsequently fixed by your Directors.

"The Board of Governors has previously approved the payment of salary to Messrs. Phillips and Pipkin through May 31, 1952."

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

After an informal discussion of Regulation W, Consumer Credit, Chairman Martin suggested that hereafter the agenda for meetings of the Board be divided into two parts, that the matters to be discussed with the staff present be included in the first part of the agenda, that an executive session be held as a part of the regular meetings of the Board on Tuesday and Thursday of each week, and that matters to be discussed in executive session be included in the second part of the agenda.

This suggestion was approved unanimously.

Mr. Carpenter referred to the arrangement followed last September when the Conference of Presidents of the Federal Reserve Banks met in Boston at the time of the annual meeting of the National Association of Supervisors of State Banks, after which the Presidents attended the annual convention of the American Bankers Association in New York and then came on to Washington for a meeting of the Federal Open Market Committee and a joint meeting of the Presidents and the Board. He said that in a letter dated May 9, 1951, to Chairman Martin, Mr. Lyon, President of the National Association of Supervisors of State Banks, suggested that it would be desirable if meetings of the Presidents of the Federal Reserve Banks could be held at the time of the Association's annual meeting as often as possible when the Association met in a Federal Reserve city. Mr. Carpenter went on to say that such an arrangement did not appear to be open to the objection previously expressed by the Board to meetings of the Presidents' Conference outside of Washington and that he would suggest that if agreeable to the Board, Mr. Peyton, Chairman of the Presidents' Conference be advised informally that if it should be the decision of the Presidents' Conference to hold its September meeting in St. Louis at the time of the annual meeting of the Association, to be followed by a meeting of the Federal Open Market Committee and a joint meeting of the Presidents and the Board in Washington immediately after the annual convention of the American Bankers Association, the Board would have no objection to such an arrangement.

This suggestion was approved unanimously.

Mr. Norton stated that pursuant to the provisions of the official travel regulations of the Board, requests for approval of official travel by members of the Board were being submitted to the Personnel Committee, that in the absence of Mr. Evans he was approving such requests on behalf of the Personnel Committee whenever submitted, and that in the absence of further instructions from the Board he would continue to do so.

Mr. Powell stated that, in connection with the bulletins which were issued from time to time by the Voluntary Credit Restraint Committee, he planned to send copies of the proposed bulletins to the members of the Board with a request in each case that they advise him of any objection which they might have to the bulletin prior to its release to the press. This procedure, he said, did not contemplate that the members of the Board (or the Board of Governors as such) would approve the bulletins, but rather that they would have an opportunity to present any objections that they might have before the bulletins were issued. No objection was raised to this procedure by the other members of the Board who were present.

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 June 11, 1951, were approved unanimously.

Memorandum dated June 12, 1951, from Mr. Dembitz, Assistant Director of the Division of International Finance, recommending that Mr. Ernest C. Olson, Economist in the Latin American Section of that Division, currently engaged in a mission to Paraguay, be instructed to conclude that assignment as soon as practicable and that his travel authorization of March 28, 1951, be amended to provide for stopovers on official business at Lima, Peru, and Havana, Cuba, while en route to Washington, D. C.

Approved unanimously.

Memorandum dated June 6, 1951, from the Division of Personnel Administration, recommending that although Mr. Benner, Assistant Director, Division of Selective Credit Regulation, failed to file notice of his election of the Board Plan of the Retirement System within thirty days after joining the Board's staff, as stipulated by the Board in establishing the Board Plan, the requirement be waived in this instance because of extenuating circumstances.

Approved unanimously.

Memorandum dated May 31, 1951, from Mr. Wayne, Acting Director of the Division of Examinations, reading as follows:

"In keeping with the proposed changes in the scope of examinations of Federal Reserve Banks, it is contemplated that the Chief Federal Reserve Examiner will be directed to come to Washington periodically and spend some time in consultation with members of the Board and its staff. Further, it is contemplated that the entire field staff of examiners will be ordered to Washington at least once each year for a two or three day conference. Inasmuch as all such travel will be on official business of the Board, it is recommended that, even though Washington is technically the headquarters of many of the members of the field staff, including the Chief Federal Reserve Examiner, they be paid per diem in lieu of subsistence when in Washington on official business. Although in general the travel regulations which apply to all members of the Board's staff also are controlling with respect to the members of the field staff of examiners, it should be recognized that the field examiners are in travel status constantly and, therefore, there is in fact a difference between their status and that of the other members of the Board's staff in this respect."

Approved unanimously.

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

"Reference is made to your letter of May 28, 1951, submitting the request of the Deposit Guaranty Bank & Trust Company, Jackson, Mississippi, for approval under Section 24A of the Federal Reserve Act of an additional investment in bank premises, which will increase the carrying value thereof from the amount of $1,100,000, presently authorized, to approximately $1,190,000. The expenditures represent the cost of completing the construction of a parking garage, an annex to its main office and a branch office building.

"In view of your recommendation the Board approves the additional investment in bank premises, with the understanding that the bank's plan for increasing its capital structure in the amount of $250,000 by the sale of 10,000 shares of common stock has been or will be completed substantially as proposed and that the carrying value of its investment in bank premises will not exceed $1,190,000."

Approved unanimously.

Letter to the Honorable Frederick J. Lawton, Director, Bureau of the Budget, Washington, D. C., reading as follows:

"There is enclosed a draft of a letter which the Board proposes to send to the Chairmen of the Banking and Currency Committees of Congress recommending the enactment of an enclosed bill 'To amend section 9 of the Federal Reserve Act, as amended, and section 5155 of the Revised Statutes, as amended, and for other purposes.', together with an explanatory statement regarding the nature and objectives of the proposed bill.

"The Board will appreciate advice as to whether the Bureau of the Budget sees any objection to the submission of this report."

Approved unanimously.

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

"Thank you for your letter of May 29, 1951 regarding Regulation W -- Consumer Credit. We are glad to comment on your suggestion that longer maturities be permitted under the regulation for automobile instalment credits in areas where freight differentials are considerably larger.

"The Board has considered this problem carefully in recent months, as well as on earlier occasions. Mr. F. L. Haller, immediate past president of the National Automobile Dealers Association and associated West Coast automobile dealers made a similar suggestion in a statement before the Board in February 1951. After thorough study, the Board decided against granting the Association's request, mainly for the reason that such a provision would lead to a considerable relaxation of the regulation which, in the light of the general credit situation, did not appear to be justified on the grounds presented by the Association.

"The Board has felt that the higher freight charges included in the price of automobiles sold on the West Coast and in the South, compared with charges in the Detroit area, constitute a pricing problem rather than a problem of instalment terms. Freight costs are simply an addition to the total cost of the automobile. As for any other cost item, such as labor or materials, the effect of higher freight cost is to increase the price of automobiles to the purchaser.

"Longer terms in Regulation W would not reduce selling prices; in fact, they would tend to increase prices because they would increase the demand, with resulting upward pressure on prices, and because they would result in higher interest and insurance charges. Automobile buyers on the West Coast could not avoid the higher freight costs in the overall price paid regardless of the repayment time required under Regulation W.

"If the maturity required under Regulation W were lengthened on account of the increased price resulting from higher freight charges, a precedent would be established for lengthening the maturity where any other cost item was higher. If price of the article were the basis for the maturity requirement, buyers of Cadillacs or other high priced cars might claim, under the same principle of regulation, that they too should have longer maturity requirements to prevent discrimination.

"It is important to note that a large part of the automobile price differential between the West Coast and other parts of the United States is offset in practice by the fact that used cars traded in on the West Coast also have higher values than in "other areas. In the cases where the sale involves a trade-in (about 80 per cent of new car sales), the net price difference between the West Coast and other areas will generally be less than half of the freight charge differential claimed by the West Coast dealers.

"Moreover, if the regulation were to adopt a principle of providing maturities varying with freight differentials, the principle would be equally applicable to all listed articles including appliances and furniture as well as automobiles. In view of the great complexity of freight charges on such listed articles, it is clear that any such provision would be impracticable. As in the case of automobiles, varying maturities based on freight differentials for these articles would be discriminatory between sellers even if such a system were practicable.

"We appreciate this opportunity to comment on the problem you raise and wish to assure you that the Board is always interested in considering ways to ease the burden of Regulation W where these would not conflict with the objectives of the credit regulation."

Approved unanimously.

Letter for the signature of the Chairman to Mr. Boris Shishkin, Secretary, Housing Committee, American Federation of Labor, Washington, D. C., reading as follows:

"Thank you for your letter of May 22 enclosing the statement adopted by the Executive Council of the American Federation of Labor concerning the housing situation. We are particularly interested in the views of your organization as to the effects of Regulation X, relating to real estate credit.

"In establishing the down-payment requirements under the regulation, we went to great pains to devise a schedule which would facilitate the conservation of labor and materials for the national defense program and restrain the inflationary pressures resulting from the expansion of real estate credit, and at the same time be as equitable as possible among the various income groups. The basic device for achieving this end was the progressive down-payment "requirement -- similar in some respects to the progressive income tax. The philosophy behind this, of course, is that families with higher incomes can afford to pay down relatively more than those with lower incomes. Accordingly, down-payment requirements start at 10 per cent on properties valued at $5,000 and less, and rise to 50 per cent on properties valued at more than $24,250.

"Maturities are generally limited to 20 years, but in the case of properties valued at $7,000 or less can be 25 years if the credit is amortized by substantially equal periodic payments.

"Since these requirements were imposed over seven months ago, the Board and other agencies concerned have been constantly observing building and mortgage trends to ascertain, among other things, whether the restrictions have in fact been as equitable as they were intended to be. We are presently engaged in a thorough analysis of this kind with the Housing and Home Finance Agency, and preliminary investigation yields no conclusive evidence of a shift toward the building of higher-priced houses. Our studies are continuing, however, and we shall be pleased to have the benefit of any information which you may be able to provide.

"We assure you that we are anxious that the impact of Regulation X be as equitable as it can possibly be made. If it is true that there is 'a marked shift toward the building of higher-priced houses' which can be attributed to the credit controls, we shall certainly consider action to correct such an effect. Whether this would mean reducing the down payments for lower-priced houses, increasing the requirements in the upper brackets, or both, would depend on considerations with respect to the shape of the down-payment schedule, and judgments as to the degree of over-all restraint needed so that the regulation may make its proper contribution to the containment of inflationary forces.

"I hope you will continue to keep us informed of your views."

Approved unanimously.

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

"Inquiries have been received concerning the application of Section 2(i)(2)(B) of Regulation X to a case where, through "unforeseen delays, credit is extended more than one year after the acquisition of property.

"A typical example might be as follows: On June 5, 1950, an individual purchased a lot. On December 5, 1950, a Registrant committed himself to provide permanent financing to the extent of the maximum loan value computed on the basis of bona fide estimated cost. Because of unforeseen delays, however, construction will not be completed until July, 1951. The question raised is whether the Registrant must now base the maximum loan value on his appraisal rather than the estimated cost, or whether the commitment to extend credit may be considered an extension of credit.

"The Board has ruled in other cases in the past that a commitment to extend credit cannot be considered an extension of credit. Therefore, it will be necessary in such cases for the Registrant to base his loan on an appraisal rather than on estimated cost."

Approved unanimously.

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

"This refers to your letter of May 17, 1951, with which you enclosed a copy of a letter from the Standard Oil Company, Chicago 80, Illinois, relating to the applicability of Regulation X to a proposed leasing arrangement. The lease in question would be for a ten-year term, with a first refusal option in the lessee to purchase on the same terms as any offer that might be received by the lessor from any other person.

"We believe that such a lease is within the definition of 'credit' in section 2(c) of the regulation, and would not be exempt under the proposed exemption for leases which, as you know, is presently being considered by the Board.

"The lessor in such a transaction will be extending credit, and the 'value' will be the appraised value as determined in good faith by the lessor, if the lessor is a Registrant. A payment of nonborrowed funds or other assets at least equal to 50 per cent of the 'value' must be paid by or on behalf of the lessee. This payment can be applied to the purchase price in any subsequent exercise of the lessee's option to purchase.

"Payments over the term of the lease must be made by the lessee in amounts which at least equal the payments that would be required for a 25-year amortized loan. We may mention, however, that consideration presently is being given to the possibility of exempting leasing transactions which are subject to the regulation from the maturity and amortization provisions in the regulation.

"The prepayment of rent by the lessee in such a leasing transaction should not be considered as secondary borrowing in determining the amount which the lessor may borrow to finance the construction."

Approved unanimously.

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

"This is in response to the communication of June 6, 1951 from Mr. Burrus of your office regarding H. R. 3733, 'To disallow the amortization deduction in renegotiation of contracts.' With Mr. Burrus' communication was enclosed a copy of a letter to the Director of the Bureau of the Budget from Congressman Herman P. Eberharter which explains more fully the purposes which he had in mind when he introduced the bill.

"Congressman Eberharter's letter indicates that his bill, as originally introduced, has been interpreted to disallow entirely in renegotiation any deduction for amortization at a rate in excess of ordinary depreciation. This was the Board's interpretation when it reported favorably on the bill by letter dated May 14, 1951.

"However, the Board recognizes that in those cases where a defense plant, constructed under a certificate of necessity, cannot be utilized for production beyond the accelerated amortization period, the bill as thus interpreted may be too rigid and inflexible.

"As we understand the modification which Congressman Eberharter desires and originally intended, the officials responsible for renegotiation of contracts would be given some discretion in determining the amount of depreciation which would be allowable as a cost in renegotiation. Presumably, those officials would determine the degree to which the plant in question could be utilized for peace time production and the amount of depreciation allowed in each case would be determined accordingly.

"The Board has no amendatory language of its own to suggest to accomplish the stated objective although the following language included on the sheet attached to Congressman Eberharter's letter appears to be satisfactory: 'except that with respect to the amortization deduction provided by Section 124A of such code, only such portion of such deduction as in the opinion of the Board is reasonable in the light of the expected usefulness of the facility following the 5-year period.'

"The Board would have no objection to such an amendment to H. R. 3733, although it is in no position to determine the administrative problems which might arise insofar as renegotiating officials are concerned."

Approved unanimously.

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

"Enclosed is a copy of a revised directive from the Department of Defense relating to 'Policies and Procedures Applicable to Accounting for Guaranteed Loan Programs'.

"In transmitting the revised directive, the Office of the Assistant Secretary of Defense stated that it would be appreciated if the Reserve Banks would deposit fees monthly using one Certificate of Deposit Form, in order to reduce the bookkeeping in the military departments.

"It was also stated that they would like to have the Federal Reserve Bank Forms 579 submitted earlier than at present if this is at all possible. It was mentioned that currently these forms are reaching the military departments around the twentieth of the month following the report period."

Approved unanimously.

S R Carpenter

Secretary.