

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 21, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Vardaman
Mr. Norton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Allen, Director, Division of Personnel Administration
Mr. Williams, Assistant Director, Division of Research and Statistics

There were presented two memoranda prepared by the staff in accordance with the request contained in the President's memorandum of June 11, 1951, for the Board's suggestions as to material for inclusion in his Midyear Economic Report. One memorandum dealt with the credit aspects of the present situation and the need for credit restraint, and the second presented a background statement of the general economic situation.

The Secretary stated that in accordance with the understanding at the meeting on June 19, 1951, copies of the memoranda had been sent to each member of the Board for review and that Mr. Powell had reported that with two changes in the first memorandum the documents met with his approval.

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Mr. Carpenter also stated (1) that Mr. Szymczak had advised that the memoranda met with his approval and (2) that Mr. Eccles had stated that he would not have time to read them and that he wished to be recorded as "not voting". The changes suggested by Mr. Powell were read and it was understood that the first memorandum would be revised accordingly.

During the ensuing discussion two further changes were suggested, one in each memorandum, and it was understood that these also would be incorporated in the final draft.

Thereupon, unanimous approval was given to a letter for the signature of the Chairman to the President, The White House, Washington, D. C., reading as follows:

"I appreciate the opportunity to suggest, on behalf of the Board of Governors, comments and materials for possible inclusion in the Midyear Economic Report.

"Attached are two statements, one dealing with the credit aspects of the situation and the need for credit restraint and the other giving briefly our views of the general economic situation as a background for the credit analysis. I would like to suggest that our comments on the need for credit restraint should be considered in connection with the report of the 4-member Committee recently submitted to you through Mr. C. E. Wilson.

"We shall be glad to supply any additional material that may be desired or to assist in any way we can in the preparation of your report."

There was presented a letter for the signature of the Chairman to the Honorable Burnet R. Maybank, Chairman, Committee on Banking and Currency, United States Senate, Washington, D. C., reading as follows:

"This refers to Mr. McMurray's letter of June 19, requesting the opinion of the Board on S.J. Res. 78,
'To make the restriction of the Federal Reserve Act

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"on holding office in a member bank inapplicable to M. S. Szymczak when he ceases to be a member of the Board of Governors of the Federal Reserve System.'

"Section 10 of the Federal Reserve Act provides '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.' Although the principle stated in this provision of the law is a sound one, the circumstances of Mr. Szymczak's case are unique and in the Board's opinion justify an exception in his case.

"Mr. Szymczak first became a member of the Board on June 14, 1933. Upon the reconstitution of the Board pursuant to the Banking Act of 1935 he was again appointed a member and under the new appointment served from February 1, 1936, to January 31, 1948, the full term for which he was appointed. He was reappointed a member of the Board for a fourteen-year term, beginning February 1, 1948. He has thus served continuously for more than eighteen years as a member of the Board.

"It is the view of the Board that in such circumstances an exception to the law as provided in S.J. Res. 78 is thoroughly justified and consistent with the spirit of section 10.

"The Board will naturally regret very much to have Mr. Szymczak give up his membership on the Board, where he has served so ably and with such distinction. For the reasons indicated, however, we hope that your Committee will give prompt and favorable consideration to the resolution which is now before you."

The foregoing letter was approved unanimously, it being understood that Mr. Eccles had reviewed the letter and that he approved.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

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Memorandum dated June 20, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending the appointment of Miss Anita Ewens Perrin as a Clerk-Stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$3,115 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.

Memorandum dated June 20, 1951, from Mr. Dembitz, Assistant Director of the Division of International Finance, recommending that the temporary indefinite appointment of Henry A. Bates, Messenger in that Division, be extended on a permanent basis, effective June 21, 1951, with no change in his present basic salary at the rate of \$2,252 per annum.

Approved unanimously.

Memorandum dated June 11, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending a leave of absence without pay for Miss Lettie Green, Charwoman in that Division, for a period not to exceed four months beginning June 10, 1951.

Approved unanimously.

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Memorandum dated June 19, 1951, from Mr. Sloan, Director of the Division of Examinations, recommending approval of expense voucher filed by Arthur H. Lang, Chief Federal Reserve Examiner in that Division, for the period May 15 to May 31, 1951, which included per diem in lieu of subsistence while in Washington, D. C., on official business from May 21 to May 25, inclusive.

Approved unanimously.

Memorandum dated June 19, 1951, from Mr. Allen, Director of the Division of Personnel Administration, recommending that for reasons stated Grover C. Page, Assistant Federal Reserve Examiner in the Division of Examinations, be given fifteen days of annual leave credit on the Board's leave records.

Approved unanimously.

Letter to Mr. Hodgkinson, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"This will acknowledge your letter of May 15, 1951, advising that your Board of Directors has fixed the salary of President Erickson at \$25,000 per annum and the salary of First Vice President Neal at \$18,000 per annum, pursuant to the Board's letter of April 13, 1951, both effective May 1, 1951.

"It is noted that the salary for President Erickson was approved for a temporary period of two months because it is the intention of the Directors to request a substantial increase in his pay within that time. The Board appreciates the reasons for the directors' action in this matter but does not see its way clear at this time to change in any way the existing policy with respect to the

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"maximum salaries for the Presidents and First Vice Presidents of the Federal Reserve Banks."

Approved unanimously.

Letter for the signature of the Chairman to Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"I appreciate your letter of May 24, 1951, transmitting the resolution of your directors in which their views on the salaries of the President and the First Vice President are expressed.

"Because of existing circumstances, the problem of official salaries, which is never an easy one, is particularly perplexing at this time. After receiving your letter of May 24, 1951, the Board carefully reviewed its previous decision in the light of the views of your directors but does not see its way clear at this time to change the existing policy with respect to the salaries of the Presidents and the First Vice Presidents of the Federal Reserve Banks.

"I enjoyed visiting with you at the recent Chairmen's Conference and hope that I will again have the opportunity of talking to you personally in the near future."

Approved unanimously.

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

"The Board of Governors has deferred replying to your letter of April 26, 1951, with respect to the officers' salaries at your Bank until the matter could be considered in the light of similar questions at other Federal Reserve Banks. The Board appreciates the thorough and conscientious job that your directors have done in reviewing the salaries of the official staff as evidenced in the original transmission of your salary proposals and also in your letter of April 26.

"Because of existing circumstances, the problem of official salaries, which is never an easy one, is particularly

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"perplexing at this time. After receiving your letter of April 26, the Board carefully reviewed its previous decision in the light of the views of your directors but does not see its way clear at this time to change the existing policy with respect to the salaries of the Presidents and the First Vice Presidents of the Federal Reserve Banks.

"In connection with the salaries of Messrs. Knoke, Logan, and Rouse, the Board is mindful of the desirability of maintaining proper internal salary relationships among the officers of a Federal Reserve Bank. In reconsidering these salaries, however, the Board continues to be impressed not only with the necessity for relating salaries with those in the Bank but also for maintaining the proper alignment with salaries paid at other Federal Reserve Banks, with allowance for geographical and other differences. Because of these considerations, the Board feels that its previous decision with respect to these salaries should not be changed."

Approved unanimously.

Letter to Mr. Wellman, Deputy Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge your letter of May 9, 1951, advising that your directors feel strongly that adjustments should be made in the salaries of Messrs. Earhart, Mangels, and Volberg.

"Because of existing circumstances, the problem of official salaries, which is never an easy one, is particularly perplexing at this time. After receiving your letter of May 9, 1951, the Board carefully reviewed its previous decision in the light of the views of your directors but does not see its way clear at this time to change the existing policy with respect to the salaries of the Presidents and the First Vice Presidents of the Federal Reserve Banks.

"Until such time as the top salaries are increased, the Board feels that the \$18,000 maximum for the First Vice President should be used as a guidepost in fixing salaries of the other officers and that consideration should be given to the salaries paid by other Federal Reserve Banks for positions of comparable responsibilities."

Approved unanimously.

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Letter to the Honorable, the Comptroller of the Currency,

Treasury Department, Washington, D. C., reading as follows:

"It is respectfully requested that you place an order with the Bureau of Engraving and Printing for printing 52,225,000 sheets of Federal Reserve notes of the 1950 Series during the fiscal year ending June 30, 1952, in the amounts and denominations stated for the following Federal Reserve Banks:

	<u>Denomi- nations</u>	<u>Number of sheets</u>	<u>Amount</u>
Boston	\$5	950,000	\$57,000,000
	10	1,850,000	222,000,000
	20	575,000	138,000,000
	50	10,000	6,000,000
New York	5	3,500,000	210,000,000
	10	6,775,000	813,000,000
	20	1,575,000	378,000,000
	50	150,000	90,000,000
Philadelphia	5	1,150,000	69,000,000
	10	2,075,000	249,000,000
	20	725,000	174,000,000
	50	5,000	3,000,000
Cleveland	5	1,200,000	72,000,000
	10	1,775,000	213,000,000
	20	1,025,000	246,000,000
	50	95,000	57,000,000
	100	15,000	18,000,000
Richmond	5	1,300,000	78,000,000
	10	1,725,000	207,000,000
	20	1,450,000	348,000,000
	50	70,000	42,000,000
	100	10,000	12,000,000
Atlanta	5	1,400,000	84,000,000
	10	1,650,000	198,000,000
	20	725,000	174,000,000
	50	20,000	12,000,000
	100	20,000	24,000,000

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	<u>"Denomi nations</u>	<u>Number of sheets</u>	<u>Amount</u>
Chicago	5	2,400,000	144,000,000
	10	4,525,000	543,000,000
	20	1,525,000	366,000,000
	50	25,000	15,000,000
	100	15,000	18,000,000
St. Louis	5	1,100,000	66,000,000
	10	1,225,000	147,000,000
	20	600,000	144,000,000
Minneapolis	5	400,000	24,000,000
	10	450,000	54,000,000
	20	225,000	54,000,000
	50	5,000	3,000,000
Kansas City	5	750,000	45,000,000
	10	825,000	99,000,000
	20	425,000	102,000,000
	100	5,000	6,000,000
Dallas	5	550,000	33,000,000
	10	600,000	72,000,000
	20	375,000	90,000,000
	50	5,000	3,000,000
	100	10,000	12,000,000
San Francisco	5	1,350,000	81,000,000
	10	1,800,000	216,000,000
	20	1,175,000	282,000,000
	50	35,000	21,000,000
	100	5,000	6,000,000
Totals	\$5	16,050,000	\$963,000,000
	10	25,275,000	3,033,000,000
	20	10,400,000	2,496,000,000
	50	420,000	252,000,000
	100	80,000	96,000,000"

Approved unanimously.

Letter to The National City Bank of New York, New York, New York,
reading as follows:

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"The Board of Governors of the Federal Reserve System authorizes The National City Bank of New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish an additional branch in Havana, Cuba, and to operate and maintain such branch subject to the provisions of such section; upon condition that unless such branch is actually established and opened for business on or before July 1, 1952, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date."

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

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

"This refers to your letter of June 13, 1951, enclosing a copy of a letter addressed to your Los Angeles Branch by the Security-First National Bank of Los Angeles under date of June 6, 1951, together with a copy of a letter addressed by the Los Angeles Branch to you, with further reference to the question raised in your letter of May 3, 1951, regarding the acceptance of qualified assignments as security for V-loans.

"Your letter of May 3, 1951, with its enclosures, was referred to the Department of Defense for consideration, and the position of the Defense Department in this matter was set forth in a memorandum dated June 7, 1951, addressed to the Board by Mr. John S. Bachman, Chairman of the Contract Finance Committee, a copy of which was enclosed with our letter of June 15, 1951 (V-38). Additional copies of that memorandum and letter are enclosed for your information.

"While it is believed that the Defense Department's memorandum of June 7, 1951 is generally responsive to the question raised in the letter addressed to your Los Angeles Branch by the Security-First National Bank of Los Angeles, we are nevertheless referring a copy of that letter to the Defense Department for its consideration, together with a copy of the letter addressed to you by your Los Angeles Branch."

Approved unanimously.

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Letter to the Honorable Burnet R. Maybank, Chairman, Banking and Currency Committee, United States Senate, Washington, D. C., reading as follows:

"Recently Mr. Daniel, of the staff of your Committee, advised us informally that you would like to have a report as to the extent to which applications for V-loan guarantees of defense production loans have been affected by the passage of the Act of May 15, 1951 (P. L. No. 30) amending the Assignment of Claims Act of 1940, which, as you know, was designed to overcome the reluctance of banks to make loans to defense contractors on the security of assignments of the proceeds of their contracts.

"Since it has been little more than a month since the enactment of the amendatory statute, it is perhaps somewhat too early to evaluate its effects fully. During the 30-day period between May 15 and June 15, 108 applications for V-loan guarantees totaling about \$145,000,000 were received, as contrasted with 96 applications aggregating about \$120,000,000 received during the preceding 30-day period from April 15 to May 15; but it is difficult to determine exactly how much of this increase in the number and volume of applications is directly attributable to the passage of the Act of May 15, 1951. This difficulty is enhanced by the fact that many V-loans are known to have been made by financing institutions before the enactment of the statute but in anticipation of its early passage.

"In connection with your request, we asked the Federal Reserve Banks for their views as to the effects of the Act of May 15 upon V-loan applications in their respective districts. Some of the Reserve Banks have indicated that, while there has been evidence of increased interest in V-loans, they are unable to determine definitely which, if any, of the applications received since the date of that Act were directly attributable to its passage. On the other hand, the Federal Reserve Bank of Chicago has advised us that 20 applications aggregating \$30,390,000 have been filed since May 15 and that practically all of these applications had been held in abeyance pending passage of the amendatory Act; in the Kansas City District, 6 applications totaling

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"about \$10,000,000, which were likewise held in abeyance, have been received since the date of the Act and about 8 other applications, which had been held up before enactment of the statute, are now in process of negotiation; two applications amounting to about \$385,000 have been filed in the Richmond District as the result of the Act; and one application for \$250,000, previously held in abeyance, has been received by the Federal Reserve Bank of Atlanta.

"In some instances, it appears that financing institutions which had previously requested higher percentages of guarantees because of the hazards incident to the taking of assignments of contracts as security for loans have indicated a willingness, since enactment of the Act of May 15, to accept a lower percentage of guarantee. Also, in some cases, it is understood that financing institutions are now willing, because of the amendatory statute, to waive certain restrictions previously included among the terms of the guaranteed loan. For example, one bank which had been retaining in an impounded account 5 to 10 per cent of all payments received on assigned defense contracts, has now released such funds. A large bank in the San Francisco area which had previously refused to consider V-loans has indicated that it is now receptive to V-loan applications in view of the passage of the statute, although as yet it has no such applications pending.

"We are, of course, unable to determine the extent to which enactment of the statute has stimulated defense loans on an unguaranteed basis. However, we understand from the Federal Reserve Banks that, in some instances, banks which had previously requested V-loan guarantees are now willing to make loans to defense contractors on the security of assignments of proceeds of their defense contracts without the benefit of a V-loan guarantee.

"Although it is obviously difficult to ascertain precisely the number and volume of V-loan applications which have been directly affected by passage of the Act of May 15, it seems clear from the information received from the Federal Reserve Banks, as indicated above, that the anticipated beneficial effects of the Act are being realized and that a previously existing deterrent to the participation of financing institutions in the financing of defense contractors has been removed. It is believed

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"that the effects of the Act will become more apparent as the defense production program is expanded. As stated by one of the Federal Reserve Banks, 'the recent enactment of the amendment has opened the way for financing many small border-line credit risks which notwithstanding their limited financial responsibilities nevertheless appear to have the "know-how" and facilities for performing critically needed defense contracts.'

"We shall, of course, be glad to furnish any further information or assistance in this matter which you may desire."

Approved unanimously.

Letter to Mr. E. C. Wareheim, President, Commercial Credit Company, Baltimore, Maryland, reading as follows:

"We are very glad indeed to have your letter of June 14 to Mr. Young which called our attention to what would appear to be rather extensive use in the Newark and New York City areas of the exemption for loans to purchase automobiles insured under the G. I. Bill. We have contacted the Federal Reserve Bank of New York and they are making an investigation of the situation in these areas to find out just what is taking place.

"As you know, the Veterans Administration has placed quite restrictive limits on the eligibility of applications for business loans to be insured or guaranteed. It is our understanding that Veterans Administration field offices have instructions to the effect that it must be conclusively demonstrated that where the business loan involves the purchase of an automobile the automobile must be essential as a necessary part of the equipment required to operate the veteran's business. You may be interested, for example, in the enclosed letter written by the Veterans Administration to the National Automobile Dealers Association last December outlining their position with respect to the purchase of automobiles by veterans through financing guaranteed or insured by the Veterans Administration.

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"There is no doubt, of course, that it would be possible for one or two or perhaps a few more of the regional Veterans Administration offices to get slightly out of line in such a program. From the statistics available to us at this time it does not appear that there is widespread abuse of this privilege. For example, in the thirty days ending April 25, 1951, a total of 2,800 business loans were insured or guaranteed by the Veterans Administration throughout the entire country. It is clear that not all of these loans involved the purchase of an automobile.

"Let me assure you that the Board shares your concern over any extensive abuses of this veteran's benefit which would have the effect of undermining the present terms of the regulation. You may count on hearing from us again as soon as we have been able to gather together more information about the specific problem which you raise."

Approved unanimously.

Letter to the Honorable Arthur V. Watkins, United States Senate, Washington, D. C., reading as follows:

"Thank you for your letter of June 8, 1951 to former Chairman Thomas B. McCabe, raising certain questions as to the impact of real estate credit restrictions. We are glad to have your comments and will do our best to give you whatever information we have on the effect which the credit restrictions are having on the economy.

"First, as to housing shortages in various sections of Utah, action can be taken, as you know, by the Critical Areas Committee to declare various areas critical for defense housing purposes, after which the Board and the Housing and Home Finance Administrator can relax Regulation X and the companion restrictions. If the credit restrictions appear to prevent housing from being constructed for workers moving into defense areas in Utah and, as a consequence, the defense effort might be impeded, we suggest that you bring the situation to the attention of the Critical Areas Committee.

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"You state that the result of the regulation in Utah has been far from favorable in that it has almost eliminated any opportunity for people in the middle or lower classes to obtain new houses. In considering the terms under Regulation X and the companion restrictions, the Board and other agencies concerned took great pains to establish requirements which would be as equitable as possible in their impact on the various income groups. As a result we established down payment requirements which start at 10 per cent for houses valued at \$5,000 and less, and which progress gradually to 50 per cent for houses valued at more than \$24,250. It is true, of course, that no credit restrictions can affect those people who are in a financial position to pay, if necessary, 100 per cent cash. But short of that point we are still very much concerned that the impact be as equitable as possible. We have been studying this matter but have not yet been able to determine any marked shift in construction from the lower priced houses to higher priced houses. We are continuing these investigations, and would be pleased to have any information on this matter which you may be able to provide.

"As for the rise in value of older homes, legislation is now under consideration which would provide authority to regulate credit in connection with existing properties. As you know, in the case of the purchase of existing houses financed by loans guaranteed or insured by the Government, credit restrictions are already in effect. There are not, however, any regulations on so-called 'conventional' financing of existing houses, and the President, the Council of Economic Advisors, and this Board have recommended that such authority be granted. Meantime, as a step toward restricting such credit, the Voluntary Credit Restraint Committee has issued a bulletin, a copy of which is enclosed, urging that financing institutions follow conservative policies in making loans on existing houses and that they in no case make loans which would cause the total amount of credit outstanding with respect to the houses to exceed the limit which Regulation X imposes on new construction.

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"We are enclosing a copy of Chairman Martin's testimony before the Senate Banking and Currency Committee on renewal of the Defense Production Act. This contains not only a statement on the Board's position with respect to controls on financing of existing properties, but an appraisal of the effects of the credit restrictions. Since that statement was made, data have become available on the number of new housing units started in April and May. In April, 88,000 and in May 97,000 units were started. Compared with a year ago this volume of operations represents a decline of about one-third. To hit the target of approximately 850,000 starts in the year as a whole the volume of starts during the remainder of the year could be no more than 410,000, or about 50 per cent below the volume during the same period of 1950.

"The Board does not now have under consideration action to make the regulation either more or less restrictive. We are continuing to study the effects of the regulation and current developments in the construction and real estate field, however, and will take whatever action appears necessary to conserve materials and labor for the defense effort and to curb inflationary pressures.

"We hope this will answer to your satisfaction the points raised. If we can be of further service, please do not hesitate to call upon us."

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel
of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of June 8, 1951, and enclosures, concerning a three party arrangement used by the Gulf Oil Corporation for the financing of filling station construction.

"It is our understanding that a number of these transactions were being arranged prior to February 15, 1951 although the necessary documents, copies of which

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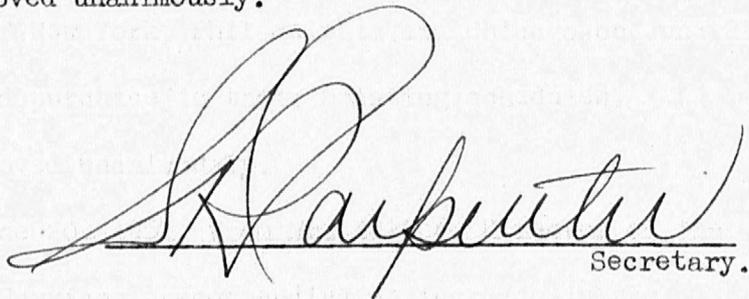
"you enclosed, had not been executed and delivered by the Gulf Oil Corporation. We understand your view to be that in such cases Clause (1) of section 6(b) of Regulation X does not justify the exemption of the credit.

"We concur in your opinion as to the applicability of section 6(b), especially since paragraph 25 of the building loan agreement specifically provides 'This agreement shall not be binding * * * unless and until it is duly executed * * * and delivered * * *'.

"We also concur in your opinion that in such cases the Gulf Oil Corporation cannot be regarded as the borrower's agent for purposes of receiving a commitment from a bank.

"In summary, after reviewing the enclosed forms of the building loan agreement, the lease option agreement, and the other supporting documents, we concur in your opinions as outlined in your letter."

Approved unanimously.



Secretary.