Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 25, 1951.

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

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

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

"As you know, the arrangements under which Ted Heath has been assigned to the Board to assist in work on consumer credit was for a period of up to six months beginning January 1, 1951. It now appears desirable, because of vacation schedules within the Division of Selective Credit Regulation, to have Mr. Heath remain on his present assignment until July 20 in accordance with his discussions with Mr. Harris and later with you. It is our understanding that this arrangement is more desirable also from the standpoint of the convenience of your Bank.

"It will be appreciated very much if his assignment can be extended for these additional 20 days, it being understood, of course, that the reimbursement of the Federal Reserve Bank of Chicago for Mr. Heath's salary and other official expenses will be on the same basis as is the case with the existing arrangement."

Approved unanimously.

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

"Referring to your letter and recommendation of June 19, 1951, the Board of Governors further extends until December 31, 1951, the time within which The Colonial Trust Company, Pittsburgh, Pennsylvania, may establish the branch in Neville Township, Allegheny County, Pennsylvania, as approved by the Board under date of June 29, 1950."

Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Harding Cowan as Assistant Counsel and Acting Assistant Secretary for the period June 14, 1951, through March 31, 1952, at his present rate of $11,000 per annum, in accordance with the action taken by the Executive Committee of the Board of Directors as indicated in your letter of June 19, 1951."

Approved unanimously.

Letter to the Board of Directors, Union Bank of Michigan, Grand Rapids, Michigan, reading as follows:

"It is noted that, under the terms of an agreement dated May 24, 1951, the Rockford State Bank, Rockford, Michigan, will be absorbed by the Union Bank of Michigan and its capital will be cancelled after payment of $160,000 to its shareholders, consisting of $60,000 cash and $100,000 par value newly issued 5 per cent cumulative preferred stock of Union Bank of Michigan. The transaction will increase the capital of Union Bank of Michigan from $500,000 to $600,000, but will not augment its surplus of $500,000.

"The Board of Governors hereby gives its written consent pursuant to section 18(c) of the Federal Deposit Insurance Act, for completion of the proposed absorption in accordance with the agreement as submitted and without the surplus of the continuing institution being increased to an amount equal to the aggregate surplus of the combining institutions. It is understood that the transaction has the approval of the Commissioner of the Banking Department of the State of Michigan."

Approved unanimously together with the following letter to Mr. Diercks, Vice President of the Federal Reserve Bank of Chicago:

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"Reference is made to your letter of June 12, 1951, submitting the request of the Union Bank of Michigan, Grand Rapids, Michigan, for permission to establish a branch in Rockford, Michigan, in connection with the proposed absorption of the Rockford State Bank, Rockford, Michigan, a nonmember insured bank.

"In view of your recommendation, the Board approves the establishment and operation of a branch in Rockford, Michigan, by the Union Bank of Michigan, Grand Rapids, Michigan, provided the formal approval of the appropriate State authorities is obtained and the absorption of the Rockford State Bank is effected substantially in accordance with the agreement as submitted.

"It is noted that the consent of the Board of Governors is also requested, pursuant to the provisions of section 18(c) of the Federal Deposit Insurance Act, because the plan provides that the surplus of the continuing institution will be less than the aggregate surplus of the combining banks. Such consent has been granted and is contained in the enclosed letter which you will please deliver to the directors of the Union Bank of Michigan. A copy of the letter is enclosed for your files.

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

Letter to Mr. Israel Treiman, Lashly, Lashly & Miller, 705 Olive Street, St. Louis, Missouri, reading as follows:

"This refers to your letter of June 18, 1951, with reference to the Mercantile-Commerce Bank and Trust Company of St. Louis. You advise that you are attorney for persons owning approximately 15 per cent of the certificates of beneficial ownership in the trust established in 1934 by this company and you state that you would appreciate an opportunity to be heard on behalf of your clients before any action might be taken by the Board or by the Federal Reserve Bank of St. Louis to approve the exercise of the option by the Mercantile-Commerce Bank and Trust Company or any new trust agreement which said bank may enter into or may have entered into in regard to the stock of the Mercantile-Commerce National Bank of St. Louis, or any other disposition of the stock by the Mercantile-Commerce Bank and Trust Company.

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"As you are doubtless aware, section 5136 of the United States Revised Statutes provides that 'except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association for its own account of any shares of stock of any corporation', and this provision is applicable to State member banks by reason of the provisions of section 9 of the Federal Reserve Act. This statute does not provide for approval by the Board of purchases of stock by member banks and the Board has not approved a purchase of stock of the Mercantile-Commerce National Bank by the Mercantile-Commerce Bank and Trust Company. In the event that the Board should be asked to approve such a purchase, it would not be authorized to do so. While the Board does not anticipate that it will be called upon to approve any trust agreement in this connection or other disposition of the stock, in the event that it should be so called upon and action in the matter should be within its lawful authority, the Board will be glad at the appropriate time to give consideration to the request which you have made to be heard."

Approved unanimously.

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

"Certain questions have recently been raised regarding loans and participations by the Federal Reserve Banks under Section 13b of the Federal Reserve Act for the purpose of financing defense contractors.

"At one of the Federal Reserve Banks, certain local banks, apparently because of high loan ratios and limited free funds, have requested the Reserve Bank to take large participations in loans to defense contractors. The Reserve Bank feels that its Section 13b funds would be quickly exhausted if it participated in only a few of such large loans, and it has indicated that it is prepared to urge that the local banks make every effort to get their correspondents to take participations before it will consider participating in such loans.

"The Federal Reserve Banks should, of course, do all possible to facilitate the financing of defense contracts, and loans by the Reserve Banks guaranteed by the

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"procurement agencies of the Government were contemplated by the Defense Production Act of 1950. However, in view of the desirability of utilizing private financing of defense contracts to the greatest extent possible and in view of the limited amounts available for loans by the Reserve Banks under Section 13b, it is believed that, before participating with local banks in loans to defense contractors, a Federal Reserve Bank should satisfy itself that the local banks have exhausted all practical possibilities of placing participations with their correspondents or other banks. When such possibilities have been explored and it appears that private financing is not available, the Reserve Bank should then give consideration to means of providing the needed credit under Section 13b, either with or without a V-loan guarantee. In any case in which, whether because of large participations in defense loans or otherwise, it appears that a Reserve Bank's lending limit as fixed by Regulation S will shortly be reached, the Board should be promptly advised.

"In another recent case, the Federal Reserve Bank was asked to take over from a private financing institution a defense loan previously made by such institution with a guarantee from one of the procurement agencies of the Government under the V-loan program. The Board feels strongly that, as a matter of general policy, the Federal Reserve Banks should avoid take-overs of this kind under Section 13b, especially where it appears that a participation or a commitment by the Reserve Bank is sought by the financing institution to avoid asking the guaranteeing Government agency to purchase the loan pursuant to the guarantee agreement. Accordingly, it is requested that if in any case your Bank feels it should take over such a V-loan previously made by a private financing institution, the Board be advised of the circumstances before the application is approved."

Approved unanimously.

Letter for the signature of the Chairman to Mr. George H. Buecking, President, Baltimore Bank, 1014 Baltimore Avenue, Kansas City, Missouri, reading as follows:

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"Thank you very much for your thoughtful letter of May 23, 1951, on the subject of Regulation W concerning consumer credit. We appreciate your taking the time to express your views that the credit terms of the regulation should be changed to permit a maximum maturity of 24 months for 1948, 1949, and 1950 automobiles, and your question whether the sale of automobiles on time tends toward inflation.

"The provisions of Regulation W are constantly under study by the Board's staff with a view toward keeping them adapted to current economic and credit conditions. In these studies, we watch developments closely in the markets for the regulated articles, as well as economic conditions in the country as a whole. The Board recognizes that there has been a general softening in the markets for automobiles as well as other consumer durable goods following the heavy buying waves of last summer and of last December and January. It has seemed to us, however, that present conditions would not justify a special relaxation for late model used cars.

"Although stocks of used cars are larger than a year ago, sales have been relatively active and apparently the number of used cars sold has been running close to the high year-ago levels. The current overall relationship between stocks and sales of used cars appears to be about the same as that prevailing at this season in 1939 and 1940. Advertised prices for 1950 used models have declined by $160 per car since the early part of March but are still high in relation to new car prices.

"Under present market conditions it seems to us that relaxation of terms for late model used cars would have several disadvantages from the standpoint of the credit regulation. It would tend to distort further the competitive price relationship between new and used cars. Further, it would increase the demand pressure on the declining supply of new cars, either directly by transfer of demand to new cars as prices of late model used cars became relatively less attractive, or indirectly via the trade-in on new cars. In our opinion, the net effect would be to add to the inflationary pressure of demand for all automobiles, both new and used.

"The Board has never claimed that Regulation W -- applying as it does in the area of instalment credit --

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"is a major factor in the Government's program to fight inflation. We nevertheless do feel that it is a useful supplemental measure in restricting the inflationary expansion of purchasing power. Uncontrolled expansion of instalment credit can contribute materially to inflationary pressures, as was indicated in 1950 when the 2.6 billion dollar increase in this credit was equivalent to about one-fifth of the total increase in consumer disposable income. Spending by the Government has not been the primary cause of inflation since the Korean invasion; the Government will have a cash surplus of more than 6 billion dollars for the fiscal year ending this June.

"We appreciate your constructive interest in writing to us."

Approved unanimously.

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

"Board of Governors approves payment of regular semiannual dividend for period ending June 30, 1951."

Approved unanimously.

Memorandum dated June 19, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that an assessment of two-hundred and forty-four thousandths of one per cent (.00244) of the total paid-in capital and surplus (Sections 7 and 13b) of the Federal Reserve Banks as of June 30, 1951, be levied against the Federal Reserve Banks for the general expenses of the Board of Governors for the period July 1 to December 31, 1951, and that the Banks be instructed to pay in the assessment in two equal instalments on July 2, 1951, and September 4, 1951.

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The following resolution levying an assessment in accordance with the above recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semi-annually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1951, it is necessary that a fund equal to two hundred and forty-four thousandths of one per cent (.00244) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to two hundred and forty-four thousandths of one per cent (.00244) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business June 30, 1951.

(2) Such assessment, rounded to the nearest hundred dollars, shall be paid by each Federal Reserve Bank in two equal installments, the first on July 2, 1951, and the second on September 4, 1951.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

S. R. Carpenter

Secretary.

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