

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 17, 1951. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, 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. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics

Mr. Thomas presented a report on developments in the Government security market.

Mr. Vardaman joined the meeting at this point.

Mr. Evans referred to the administrative hearing ordered by the Board at the meeting on May 10, 1951, in the case of H. Bartels, furniture and appliance dealer in Philadelphia, Pennsylvania, for the purpose of determining whether the license of the registrant under Regulation W, Consumer Credit, should be suspended. He stated that the hearing was being held beginning today by Mr. Teegarden, a hearing examiner obtained from the Securities and Exchange Commission pursuant to provisions of the Administrative Procedures Act. He went on to say that Mr. Townsend, Solicitor,

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had informed him yesterday that, on the basis of information obtained in Philadelphia, attorneys for H. Bartels might wish to have a public hearing and that he had this morning authorized Mr. Townsend to state to the trial examiner that, if such a request was made, the Board would have no objection to granting the request for a public hearing.

After a discussion of what the procedure might be with respect to public hearings in cases of this kind, Mr. Evans suggested that, while there need be no change in the Board's Rules of Practice for Formal Hearings providing that such hearings ordinarily would be private, he felt that in any case where a registrant under Regulation W requested a public hearing, the Board should grant the request, as contemplated by the Board's rules, and that, unless there was some objection to this procedure, it be understood that it would be followed in the future.

Mr. Evans' suggestion was approved unanimously.

In connection with the foregoing, Mr. Evans referred to earlier discussions of the enforcement program for Regulation W and particularly to the discussion which he had with the Presidents of the Federal Reserve Banks when they were in Washington on May 18, 1951, stating that the program being pursued was in accordance with that which he had outlined from time to time to the Board but that he would be glad to have any suggestions for modification of the program if any member of the Board felt a change was needed.

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No suggestion for change was indicated by any members of the Board present.

Mr. Szymczak withdrew from the meeting at this point.

Mr. Evans then referred to pending legislative proposals, contained in the bill to extend the Defense Production Act of 1950, for placing limitations on consumer credit terms that could be prescribed by the Board in Regulation W, Consumer Credit. He stated that while it could not now be ascertained what the final provisions of the law would be, his tentative thinking was that, if limitations were placed on only certain parts of the regulation (such as providing for minimum maturity provisions for new automobile credits), it would be necessary before amending the regulation to consider what other changes might be desirable in order to have a properly balanced regulation which would provide substantially equitable treatment for the various classes of registrants. The nature of such changes, he said, could not be determined at this time but would be brought to the attention of the Board when the type of legislation to be passed by Congress was determined.

The other members of the Board concurred in Mr. Evans' comments as a desirable approach.

Mr. Evans also said that on his recent visit to the midwest he had talked with a number of registrants concerning Regulation W and that, in general, particularly among smaller banks and business concerns, their

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attitude toward the regulation was friendly and that most of the active opposition to it was led by associations of small loan companies.

Mr. Youngdahl withdrew from the meeting at this point.

Mr. Norton called upon Messrs. Young and Noyes who reported on the results of the studies being made by an interdepartmental committee of Government agencies, participated in also by representatives of major trade associations in the construction industry, concerning developments in the real estate and construction field. A summary of pertinent portions of their report is being prepared for the confidential use of the Board and its staff.

Mr. Vardaman referred to a memorandum from the Division of Personnel Administration dated June 26, 1951, recommending appointments to the Board's Loyalty Board for the next year, and he commented that the list of members and alternate members recommended by the Personnel Committee did not contain the name of any Board member or division head. He suggested that at least one division head or Board member be on the Loyalty Board at all times.

Mr. Carpenter stated that appointments to the Loyalty Board had been handled in accordance with the procedure outlined under the Employee's Loyalty Program but that it had not at all times included a division head.

Chairman Martin stated that he did not believe it would be appropriate for a member of the Board to serve on the Loyalty Board. He suggested, however, that Mr. Vardaman's suggestion be referred to the

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Personnel Committee for consideration with the understanding that the matter would be submitted to the Board again at a later time.

This suggestion was approved unanimously.

At this point Mr. Szymczak returned to the meeting and all of the members of the staff with the exception of Mr. Carpenter withdrew.

Before this meeting there were distributed among the members of the Board copies of a memorandum dated July 16, 1951, from the Personnel Committee reading as follows:

For the past two years consideration has been given to providing additional active service death benefits to members of the Federal Reserve Retirement System. The study of this matter grew out of the suggestion that steps be taken to reduce the difference in the amounts that would be payable in the event of death shortly before retirement as compared with the amounts payable if the same person died shortly after retirement. The present proposal -- to provide such benefit in the form of group life insurance in an amount equal to one year's salary -- and the considerations which led to it are outlined in the attached memorandum dated June 1 from Mr. Wurts of the Federal Reserve Bank of New York.

In January, 1951, the Board requested the firm of Towers, Perrin, Forster and Crosby, Inc., to undertake a study to determine the best methods of providing active service death benefits for members of the Retirement System. The Towers firm recommended that these benefits be provided in the form of group life insurance (with a maximum of two years' salary) rather than through the Retirement System. The suggestion was made that the present active service death benefit of one year's salary in the Retirement System be left undisturbed and that an additional benefit up to one year's salary be provided through group life insurance. A copy of the final report of the Towers firm, together with a memorandum summarizing the plan for group life insurance equal to one year's salary, is also attached.

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The cost of the present active service death benefit has been 1.18 per cent of total payroll of the Federal Reserve Banks. The Actuary has just completed a recomputation of the actuarial cost of this benefit and is prepared to approve a reduction to .55 per cent of payroll as being actuarially sufficient to provide this benefit for the employees of the Federal Reserve Banks. This will leave a net of .63 per cent of total salary cost available to cover the cost of the group life insurance policy contemplated in the attached proposal. On the basis of the experience of the System for the past five years, this will be more than sufficient to cover such cost.

Since most of the employees of the Board of Governors are not entitled to an active service death benefit equal to a year's salary (because they are members of the Board Plan or of the Civil Service plan), the reduction in cost of this benefit as a result of the Actuary's recomputation will not apply. The Actuary has not yet had time to recompute the cost of the active service death benefit to the participants in the Board Plan. However, he expects that the decrease in the cost to the Board will be in the same proportion as the decrease in the cost to the Reserve Banks. If the Actuary's expectations are realized, this will mean that, except for those few employees under Civil Service Retirement, extending the benefits of the group life insurance plan to Board employees will not entail any additional outlay of funds.

It is the feeling of the Personnel Committee that the plan as proposed is in accordance with accepted personnel policies as followed by progressive employers throughout the United States and would not place the Federal Reserve Banks and the Board in substantially any different position from the standpoint of accepted personnel policy than the System was in when it adopted the present active service death benefit in 1934 as a part of the Retirement System.

Accordingly, it is the recommendation of the Personnel Committee that the Board approve the execution of a group life insurance contract with the Connecticut General Life Insurance Company (or one of the other seven companies with whom negotiations were held, in case some problem develops in working out the contract with the above company) to cover the employees of the Federal Reserve Banks and the Board.

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Mr. Norton outlined in greater detail the developments in connection with the proposed plan for group life insurance. The cost of the plan as referred to in the above memorandum and in the July 2, 1951, report of Towers, Perrin, Forster and Crosby, Inc., was discussed.

Mr. Vardaman stated that he would be opposed to the recommendation of the Personnel Committee for the reason that he did not believe the Board had the right to authorize an expenditure of this kind and that it was his view that the maximum amount of insurance for any one employee should be reduced from \$25,000 to \$15,000, or perhaps \$10,000, as a means of reducing the cost.

Messrs. Szymczak and Norton reviewed the reasons for the proposed limitation of one year's salary and Mr. Norton expressed the opinion that the System should keep abreast of accepted personnel practices in the provision of retirement and other benefits as a means of retaining competent officers and employees in responsible management positions in the System, particularly since it was not possible to compete with commercial banks and other institutions in the salaries that could be paid such officers and employees.

Mr. Szymczak stated that when this matter was referred to the Personnel Committee for recommendation in October 1950, at which time he was a member of the Committee, it was contemplated that any additional

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benefits determined upon might be provided through the retirement system or by replacing the present active service death benefit in the retirement system by group life insurance in an amount up to two years' salary for each employee. For that reason, he said, as the representative of the Board of Governors on the board of trustees of the retirement system, he had continued to work with the group who had been studying the problem but that when it was agreed by the group that no change should be made in the present active service death benefit and that any additional benefit should be provided through the medium of group life insurance, the matter ceased to be a retirement system problem and became a matter for recommendation to the Board by the present Personnel Committee.

In the discussion of the matter all of the members of the Board present except Mr. Vardaman concurred in the recommendation of the Personnel Committee and expressed the view that the provision of a benefit of the kind contemplated was entirely justified as a part of the System's personnel policy.

Mr. Szymczak suggested that, if the recommendation of the Personnel Committee is approved, it be understood that a committee consisting of a representative of the Board appointed by the Personnel Committee and one representative each from the Chairmen's and Presidents' Conferences, with such staff assistance as the committee might select, would negotiate the proposed contract with the insurance company.

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At the conclusion of the discussion the recommendation of the Personnel Committee was approved, Mr. Vardaman voting "no" for the reason that he felt strongly that Federal Reserve funds should not be used for this purpose.

In taking the above action it was understood that Mr. Szymczak's suggestion would be carried out and that the negotiation of the contract with the insurance company would not be undertaken until advices had been received from the boards of directors of the Federal Reserve Banks that they had approved the execution of such a contract on behalf of their respective Banks.

Mr. Vardaman again inquired as to the status of the study of the organization and policy for the investment of the funds of the Retirement System and expressed the opinion that there should be no further delay in the presentation of this matter to the Board for decision.

Mr. Norton responded that the matter was in the hands of the Personnel Committee and would be submitted in due course.

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 July 16, 1951, were approved unanimously.

Memorandum dated July 16, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Miss Thelma Mae Long as an Elevator Operator in that Division, on a temporary basis for a period of three months, with basic salary at the rate of \$2,120 per annum, effective as of the date upon which she enters upon the per-

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formance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to The First National Bank of Negaunee, Negaunee, Michigan, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, registrar of stocks and bonds, assignee, receiver, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Michigan. The exercise of these powers, in addition to those heretofore granted to act as executor, administrator, guardian of estates, and committee of estates of lunatics, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

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

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

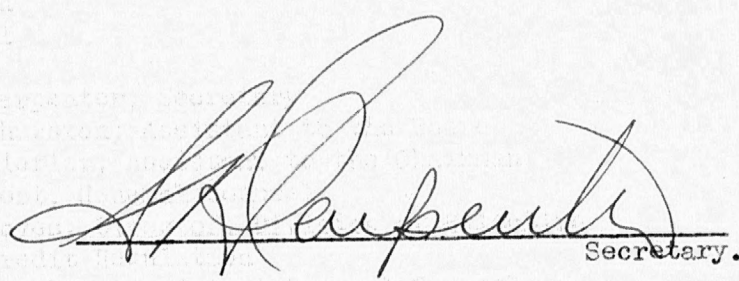
"The question has been raised whether Regulation X applies to extensions of credit in connection with sales of what are commonly known as 'dining cars' to be used as restaurants.

"It is the view of the Board that when a 'dining car' is placed on a foundation constructed on real property, and

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"the utility connections necessary for its operation as a restaurant are installed, it becomes a 'nonresidential structure' within the meaning of section 2(r) of Regulation X; accordingly, in such cases, an extension of credit in connection with the sale of the dining car is subject to Regulation X."

Approved unanimously.


Secretary.

[Faint, mostly illegible text from the reverse side of the page, including phrases like "attended a meeting", "offer of interest", "financial analysis", "business connection", "although nothing had been said", "some objection", "American Finance Corp", "subject", "Federal Reserve"]