

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, July 19, 1951. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Farrell, Chief, Reserve Bank Budget and Expense Section, Division of Bank Operations

Before the meeting there had been distributed to the members of the Board copies of a proposed letter to the President of each Federal Reserve Bank indicating formal acceptance by the Board of the Bank's budget for the year 1951.

Mr. Norton recalled that at the meeting of the Board on December 22, 1950, he stated that he would like additional time to review the Reserve Bank budgets and that upon his motion it had been voted unanimously to advise the Federal Reserve Banks that the Board desired additional time to complete its consideration of the budgets, but that in the meantime they might operate under the respective budgets as submitted to the Board. Mr. Norton stated that since that time he had reviewed the budgets at considerable length with Mr. Leonard and other members of the

7/19/51

-2-

staff of the Division of Bank Operations, studying particularly the reasons for a seeming lack of uniformity in costs as between the Reserve Banks for the same function, that it developed that many of these differences could be resolved because of factors peculiar to the respective banks such as geographical and volume factors, that on the basis of this review he believed the budgets to be satisfactory, and that he would recommend that they be formally accepted as submitted to the Board.

Mr. Vardaman stated that unless the proposed letter were revised so as to incorporate an admonition to the Reserve Banks to economize in their operations he would vote against it. He went on to express the opinion that during the years of his service as a member of the Board, adequate consideration had not been given to the Reserve Bank budgets, and that each year the budgets were submitted too late to permit thorough consideration by the Board. He said that he had had a discussion with former Chairman McCabe shortly after the latter assumed his duties on the Board in 1948 at which time he (Mr. Vardaman) stated that if nothing were done to improve budgetary controls he would be strongly inclined to go to the Congress with a statement that he could not go along with the spending of public funds so freely without proper budgetary control and a recommendation that the System's expenditures be placed under the audit control of the General Accounting Office. In the fall of 1950, Mr. Vardaman

7/19/51

-3-

said, he again discussed the matter with Mr. McCabe saying that if no steps were taken by January 1952 he would go to Senator McClellan and Representative Patman to recommend introduction of a bill which would bring the System under control of the Bureau of the Budget for record purposes and under the General Accounting Office for audit. Mr. Vardaman further stated that he felt that the Board should require that each Reserve Bank reduce its budget for the year 1952 ten per cent below 1951 unless representatives of the individual banks appeared before the Board with a satisfactory explanation as to why such a reduction should not be made.

During the course of the foregoing statement by Mr. Vardaman, Mr. Szymczak joined the meeting.

There ensued a general discussion of the procedures followed in considering and approving the budgets of the Reserve Banks, the various types of control being exercised over Reserve Bank expenditures, and the studies conducted by the special committee under the chairmanship of Mr. Coleman, Deputy Chairman of the Federal Reserve Bank of Chicago, which was established pursuant to the suggestion in the Board's letter to all Federal Reserve Banks dated March 16, 1950. During this discussion, Chairman Martin suggested that in order to afford the Board proper opportunity to review thoroughly the Reserve Bank budgets for the year 1952, the Secretary be requested to place the matter on the agenda for discussion as soon after the first of October as the Division of Bank Operations had completed its review of the budgets.

7/19/51

-4-

This suggestion was approved unanimously.

Chairman Martin then suggested that the letters to the Presidents of the Federal Reserve Banks advising of acceptance of the 1951 budgets be amended to incorporate a request that the Banks make every effort to hold current expenditures to the minimum consistent with efficient operations and that this principle be followed in preparing the 1952 budgets.

Thereupon, upon motion by Mr. Norton, unanimous approval was given to a letter to the President of each Federal Reserve Bank expressing formal acceptance by the Board of the Reserve Bank budgets for 1951 with the understanding that a paragraph of the nature suggested by Chairman Martin would be incorporated in the letters.

Secretary's Note: In accordance with the foregoing action, a letter reading as follows was mailed to President Erickson of the Federal Reserve Bank of Boston under date of July 20, 1951, together with similar letters to the Presidents of the other Federal Reserve Banks:

"Reference is made to the Board's letter of December 29, 1950, concerning the budget proposed for the Federal Reserve Bank of Boston for the year 1951, which stated that there then had not been sufficient time to complete the study of the Federal Reserve Bank budgets, and that pending completion of such studies it would be understood that your Bank would operate under the budget as submitted.

"Further consideration has been given to this matter, and this is to advise you of the Board's formal acceptance of the 1951 budget for the Federal Reserve Bank of Boston which was submitted with your Bank's letter of October 31, 1950.

"As you know, during the past year certain broad questions relating to the budgetary policy and procedure of the Federal Reserve Banks have been referred to the Coleman Committee for study and recommendation. It is anticipated that the work of this Committee will be helpful to both the Board and the Banks in the preparation and review of future budgets.

7/19/51

-5-

"In its letter of March 16, 1950, the Board stated that it would seem that further increases in expenses of the Federal Reserve Banks would be difficult to justify in the absence of changes in general salary levels, substantial increase in activities, or a material change in conditions. The Board recognizes that since then such changes have occurred and have resulted in increased costs. These developments accentuate the necessity for continued efforts to hold expenses to the minimum consistent with efficient operations. Furthermore, it is important that the System curtail activities which are not directly related to the defense effort and eliminate activities that might be dispensed with during the emergency. Therefore, the Board requests that the Federal Reserve Banks follow these policies in their current expenditures and in the preparation of their budgets for the year 1952."

Mr. Vardaman then suggested that the Board consider before January 1, 1952 the advisability of the employment of a firm of certified public accountants to audit the books of the Board as of December 31, 1951. Chairman Martin suggested that this matter be referred to Mr. Norton for consideration, with the understanding that he would make a recommendation to the Board on the matter on or before January 1, 1952.

This suggestion was approved
unanimously.

Mr. Carpenter referred to action taken by the Board at the meeting on May 31, 1951, authorizing the Secretary to state informally to Mr. McDonald, Executive Officer of the U. S. Savings Bond Division of the Treasury Department, that although the Board questioned the advisability of making any blanket commitment to pay expenses in connection with the savings bond program it would, because of the interest of the System in an effective program, consider a request from the Treasury during the

7/19/51

-6-

remainder of the year 1951 that it pay all or part of the expenses of luncheons or dinners whenever an occasion arose where the Treasury was having a large meeting of volunteer workers in connection with the program.

Mr. Carpenter said that a letter dated July 18, 1951, had now been received from Mr. McDonald listing a series of seven proposed dinner and luncheon meetings which the Savings Bond Division would like to schedule during the first part of August for the purpose of formulating plans with volunteer workers from all sections of the country in connection with the defense bond drive beginning September 3, and requesting that the Board authorize payment for these luncheons and dinners, which were estimated to cost \$4,200.

During discussion of this request reference was made to the agreement at the meeting on May 31 that there should be incorporated in the Board's Annual Report to Congress hereafter as a matter of record evidence of expenses of this nature paid by the Board. Mr. Vardaman suggested that the Treasury should include in its budget an amount sufficient to pay costs of this kind in connection with the savings bond program.

Mr. Evans suggested that if the occasion arose the Chairman might suggest to the Secretary of the Treasury that in presenting the Department's budget for the year 1952 to Congressional committees, the Secretary refer to the payment of such expenses by the Board so that if no objection

7/19/51

-7-

were raised by the committees there would be on record a Congressional recognition without objection that these expenses were being paid by the System.

Following the discussion, the Secretary was authorized by unanimous vote to inform Mr. McDonald that the Board would be willing to pay the expenses of the dinners and luncheons mentioned in his letter of July 18, 1951, at an estimated cost of \$4,200.

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:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 18, 1951, were approved unanimously.

Memorandum dated July 16, 1951, from Mr. Noyes, Director, Division of Selective Credit Regulation, recommending that Miss Ruth E. Morris, Stenographer in the Office of Governor Szymczak, be transferred to the position of Secretary to Mr. Fauver, Assistant Director, Division of Selective Credit Regulation, with no change in her present basic salary of \$3,600 per annum, effective July 23, 1951. The memorandum also stated that Mr. Szymczak was agreeable to this transfer.

Approved unanimously.

Letter for the signature of the Chairman to Mr. William H. Jackson, Deputy Director of Central Intelligence, Central Intelligence Agency, Washington, D. C., reading as follows:

7/19/51

-8-

"In accordance with your request of July 11, relating to representation of this organization on the Economic Intelligence Committee, I wish to nominate as our principal representative Mr. Lewis N. Dembitz who is Assistant Director of the Board's Division of International Finance. As alternate representative I wish to nominate Mr. Edward Ames who is an economist in the Central and Eastern European Section of the Division of International Finance.

"I trust that these men will be able to make a real contribution to the important work of the Economic Intelligence Committee."

Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Kenneth E. Small as Manager, Personnel Department, for the period July 11, 1951, through March 31, 1952, at the rate of \$8,500 per annum which is the rate fixed by the Board of Directors as indicated in your letter of July 9, 1951.

"Thank you for advising us with respect to the re-assignments of Messrs. Boyd, Heinl, Peterson, and Wendell."

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 your communication of July 11, 1951, requesting the views of the Board with respect to a draft of a bill proposed by the Department of Agriculture 'To further amend section 5136 of the Revised Statutes, as amended, with respect to underwriting and dealing in securities issued by the Central Bank for Cooperatives.'

"The purpose of the draft bill is to grant permission to national banks and State member banks to accept commissions in connection with the sale of debentures of the Central

7/19/51

-9-

"Bank for Cooperatives. However, it is not proposed generally to exempt Central Bank debentures from the requirements of section 5136 of the Revised Statutes.

"By letter dated May 18, 1951, the Board reported on a proposal of the Department of Agriculture which, while having the same purpose as the draft which is the subject of this report, was in the form of an amendment to the Farm Credit Act of 1933. The Board is of the view that, to accomplish the desired purpose, an amendment to section 5136 is preferable and advises that it has no objection to the draft in its present form."

Approved unanimously.

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

"Your letter of June 29 regarding the interest rate which the Commodity Credit Corporation allows banks for crop loans is much appreciated. We have made some inquiries here, and we regret to report that the Corporation appears already to have made its decision not to increase the rate paid banks for participations in the loan program for the crop year 1951-52. Enclosed is a copy of a memorandum prepared by Mr. Allen, of the Board's Division of Research and Statistics, giving the considerations on which the Corporation seems to have based its decision. The memo also presents a rough guess as to the extent of the loan program for the coming crop year.

"It is the consensus of the Board's staff, in which I concur, that it would have been desirable to raise the rate of interest paid to banks for these loans this year. We recognize that to the extent the loans are not made by banks, there will be a direct drain on the Treasury which will have to be matched by increased Treasury borrowing over the second half of this year. If the situation next year is at all comparable with what it is today, perhaps by taking early action we may be able to get the Corporation to see the credit situation more realistically.

"With respect to your suggestion regarding restricted bonds eligible for bank purchase in 1952 and after, the staff is already studying this matter. One or two ideas as to how the situation might be handled have already been raised informally with the Treasury staff for discussion.

7/19/51

-10-

"I am looking forward very much to attending the joint meeting of your Head Office and Branch Boards next November."

Approved unanimously.

Letter to the Honorable Edward J. Thye, United States Senate, Washington, D. C., reading as follows:

"A copy of your letter of July 9 transmitting a complaint regarding methods used by representatives of the Federal Reserve Bank of Minneapolis in connection with an investigation relating to this Board's Regulation W, Consumer Credit, has been sent to that Reserve Bank for the purpose of obtaining information and comments to enable us to reply fully to your inquiry.

"In the meantime, I can assure you that it is not the policy or intent of the Board or of any Federal Reserve Bank to have investigations in connection with either Regulation W relating to consumer credit or Regulation X relating to real estate credit conducted in a manner such as your constituent indicates. While it is necessary, of course, to conduct investigations of registrants under these regulations in order to carry out the responsibilities of the Board under the Defense Production Act of 1950 and to protect the great bulk of registrants who intend to comply fully with the provisions of the regulations, the approach in making such investigations is intended to be objective and reasonable. This would be true whether an investigator was calling upon a registrant or, in the event it seems necessary, on a customer who may be asked for information to help check on indicated violations of the regulation.

"You may be sure that you will hear from us more fully in response to your letter as soon as a reply to our letter to the Federal Reserve Bank of Minneapolis has been received."

Approved unanimously, together
with a similar letter to the Honorable
Roy W. Wier, House of Representatives,
Washington, D. C.

Supplemental and Amended Order, prepared pursuant to the action at the meeting on May 10, 1951, supplementing and amending the Order

7/19/51

-11-

issued on May 28, 1951:

"UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
 At a meeting of the Board of Governors of the Federal Reserve System
 held at its offices in the City of Washington, D. C.
 on the 19th day of July, A. D., 1951.

In the Matter of

H. BARTELS, INC.,
 52nd & MARKET ST.,
 PHILADELPHIA, PA.

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

I

The Federal Reserve Bank of Philadelphia has advised the Board of Governors of the Federal Reserve System that H. Bartels, Inc., hereinafter called the registrant, has filed a registration statement with that Bank pursuant to Sec. 2 (b) of Regulation W, consumer credit, issued by the Board of Governors pursuant to Sec. 601 of the Defense Production Act of 1950; and that Bank has transmitted information to the Board of Governors which tends to show that since September 18, 1950, the effective date of Regulation W and contrary to the provisions thereof, the registrant has made instalment sales of television sets and other articles listed in that regulation:

1. Without obtaining the down payment required by Regulation W.
2. Without maintaining and preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of Regulation W.

II

The information reported to the Board of Governors, as set forth in Section I hereof tends, if true, to show that the registrant, in instalment sales of listed articles since September 18, 1950, has violated Regulation W:

- A. By not obtaining the required down payment required by Section 3(a);
- B. By not obtaining the down payment at or before the time of delivery of listed articles, as required by Section 3(c);
- C. By delivering listed articles in anticipation of instalment sales without obtaining at or before the time of such delivery, a deposit equal to the down payment that would be required on such an instalment sale, as required by Section 6(f);

7/19/51

-12-

"D. By extending credit for financing the purchase of listed articles when the registrant knew or had reason to know that there was, in connection with such sales, other credit extended in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchases beyond the amount of instalment credit permitted by Regulation W, contrary to the provisions of Section 6(i);

E. By failing to treat as a trade-in on purchases of listed articles the proceeds from property purchased by the registrant from purchasers of listed articles at or about the time of such purchases, as required by Section 6(j);

F. By maintaining books of account, records, and other papers, which do not show whether or not credit extended by the registrant is in conformity with Regulation W, as required by Section 8(a); and

G. By failing to maintain records of instalment sales transactions as required by Section 6(c).

One or more of the violations alleged in subparagraph A to G, inclusive, hereinabove occurred in connection with one or more of the sales of listed articles by the registrant to the following persons:

Edward S. Bowe	Clarence Dudley
Herbert Fredericks	Ernest Kellum
Carl Hutchinson	Charles Wilson
Eugene Clark	Joseph Blake
George Grant	Ronald Millward
Ulysses Barnes	Sanford Snypse
Alfonso Mosco	Reginald Smith
George Chiartas	Charles Murphy
Ernest Green	John Perry
George Gordon	Ronald Thompson
Adam Blake	Marion E. Williams
Fred John Walker	George E. Dickerson
Jane Convery	James Holston
Edward Bright	Courtney & Geraldine Carter
John Williams	James Brooks
Charles F. Brown	Rita A. Smith
John Keller	James Tyler
Horsey Benjamin	Earl Opperman
James Brown	Louis Hammond
Willie Lee	Mildred Burns
Goy Rufus	Audrey Davis
Curtis Reed	Charles Richardson
Tony Massey	Walter Gaines
Cecil Moore	Larry Holland

7/19/51

-13-

"Charles E. Kellett
 John Cottman
 Clarence Sutton
 Ralph Walker
 Dudley C. Wilson
 Robert Gusson
 James E. Herbert
 Charles E. Massey
 James Dabney
 Ernest Aydlett
 Herman Cornish
 Edward Saunders
 Claude W. Linney
 Joseph White
 Antonio Ramos

Barbara Amador
 Eula Harris
 Nathaniel Harvey
 Thomas Henderson
 Horace Adams
 James R. Richardson
 Frank K. Bass
 Peter Covert
 James Lucas
 Robert Cromarties
 Wade H. Davis
 Clifford F. Rodman
 Samuel Eley
 George Razor

III

The Board deems it necessary and appropriate that proceedings be instituted to determine:

- A. Whether the statements set forth in Section I hereof, are true;
- B. Whether the statements set forth in Section II hereof, are true; and
- C. Whether it is necessary or appropriate in the public interest to suspend the license of the registrant pursuant to Section 8(b) of Regulation W.

IV

IT IS HEREBY ORDERED that the hearing which commenced on July 17, 1951, in the United States Courthouse, 9th and Chestnut Streets, Philadelphia, Pennsylvania, before Harold B. Teegarden, Trial Examiner, which was convened for the purpose of taking evidence pursuant to the Order for Proceedings and Notice of Hearing heretofore filed by the Board in the above entitled case on May 28, 1951, shall proceed for the purpose of taking evidence on the questions set forth in paragraph III hereof. The Trial Examiner is designated an officer of the Board for the purpose of these proceedings and is empowered to administer oaths and affirmations and issue subpoenas. He is further authorized, if it appears necessary to enable the respondent adequately to prepare its defense to the Board's amended and supplemental complaint herein, to continue the pending proceedings until such time as may be necessary in order to enable respondent adequately to prepare its defense thereto. This order and notice shall be served on registrant personally or by registered mail forthwith.

By the Board.

(signed) S. R. Carpenter,
 Secretary."

7/19/51

-14-

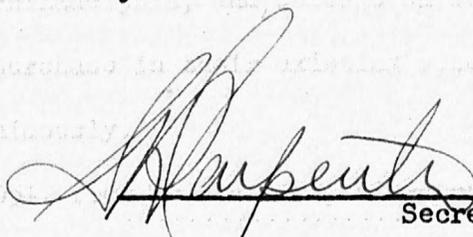
Approved unanimously.

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

"This is in response to your letter of June 22, 1951, with which was enclosed a copy of a letter dated June 19, 1951 from the Norris-Thermador Corporation, Los Angeles, California, together with a pamphlet covering their Employees' Savings, Profit Sharing and Retirement Fund. You request the views of the Board regarding the possible application of section 5(i) of Regulation X to real estate loans made to employees of the Company on the security of their interest in the Fund.

"It is the view of the Board that section 5(i) of the regulation was intended to apply to an extension of real estate construction credit secured by the loan value or cash surrender value of a life insurance policy and while the Norris Employees' Savings, Profit Sharing and Retirement Fund Agreement contains certain characteristics of insurance, nevertheless, it is essentially a trust which was not intended by the Board to be included within the exemption provided under section 5(i)."

Approved unanimously.


Secretary.