

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 3, 1951.

PRESENT: Mr. Evans, Chairman pro tem  
Mr. Powell

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

Telegrams to the Federal Reserve Banks of New York, Philadelphia, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on July 31, by the Federal Reserve Bank of St. Louis on August 1, and by the Federal Reserve Banks of New York, Philadelphia, Chicago and Kansas City on August 2, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated August 2, 1951, from Mr. Marget, Director, Division of International Finance, recommending an increase in the basic salary of Mrs. Franc S. Valentine, Secretary to Mr. Marget, from \$3,575 to \$3,700 per annum, effective August 5, 1951.

Approved unanimously.

Memorandum dated August 2, 1951, from Mr. Leonard, Director, Division of Bank Operations, recommending an increase in the basic salary of Miss Mary Louise Roberts, Statistical Clerk in that Division, from \$3,350 to \$3,600 per annum, effective August 5, 1951.

Approved unanimously.

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Memorandum dated August 2, 1951, from Mr. Young, Director, Division of Research and Statistics, recommending that Mrs. Mary F. Weaver, Clerk in that Division, be placed on leave without pay for the period July 23, 1951 (10:45 a.m.) through August 31, 1951.

Approved unanimously.

Memorandum dated July 31, 1951, from Mr. Thomas, Economic Adviser to the Board, requesting approval of his designation as a member of the United States delegation to a session of the Inter-American Economic and Social Council to be held in Panama for a period probably not over two weeks beginning August 20, 1951, with the understanding that his presence at the conference would be subject to decision by the Department of State, which had requested his designation. The memorandum also stated that all of Mr. Thomas' expenses, should he be called upon to attend the conference, would be paid by the Department of State, and that Chairman Martin had indicated in a telephone conversation with Mr. Thomas that he would approve the proposal.

Approved unanimously.

Memorandum dated July 26, 1951, from the Personnel Committee recommending that Mr. William J. Meinel, President of the Heintz Manufacturing Company, Philadelphia, Pennsylvania, currently a Class B director, be appointed a Class C director of the Federal Reserve Bank of Philadelphia, for the unexpired portion of the term expiring December

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31, 1951, if it were ascertained that he would accept the appointment if tendered.

Approved unanimously.

Secretary's note: It having been ascertained through Chairman Whittier, of the Federal Reserve Bank of Philadelphia, that Mr. Meinel would accept the appointment, the following telegram was sent to Mr. Meinel under date of August 3, 1951:

"Board of Governors has appointed you Class C director of Federal Reserve Bank of Philadelphia for unexpired portion of term ending December 31, 1951, and will be pleased to have your acceptance by collect telegram."

Letter to Mr. James L. Houghteling, Chairman, Fair Employment Board, United States Civil Service Commission, Washington, D. C., reading as follows:

"Executive Order No. 9980, issued July 26, 1948, requested the designation of an official of each agency as Fair Employment Officer within that agency.

"In accordance with the Order, the Assistant Director of our Division of Personnel Administration, Mr. H. F. Sprecher, Jr., has been designated as Fair Employment Officer, effective August 1, 1951, and replaces Mr. Herbert A. Johnson, Personnel Officer, who resigned as of July 31, 1951.

"The official address of the Assistant Director is listed below:

Mr. H. F. Sprecher, Jr.,  
Assistant Director,  
Division of Personnel Administration,  
Board of Governors of the  
Federal Reserve System,  
Washington 25, D. C.  
REpublic 1100, Extension 434."

Approved unanimously.

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

"Reference is made to your letter of July 24, 1951, submitting the request of the Fidelity Bank and Trust Company, Houston, Texas, for approval under Section 24A of the Federal Reserve Act of its proposal to increase the carrying value of its investment in bank premises to \$225,000, an amount which is \$25,000 in excess of its capital stock. It is noted that the present book value of bank premises is \$199,500 and that the additional investment is to be made up of monthly increases of approximately \$800 each, representing the net amount applicable to the principal of the mortgage on the building after allowance for depreciation.

"In view of your recommendation, the Board approves the additional investment in bank premises as proposed."

Approved unanimously.

Letter to Mr. T. F. Green, Jr., Treasurer, General Construction Corporation, Second Avenue, South from 22nd Street, St. Petersburg, Florida, reading as follows:

"At the time of receipt of your letter of June 22, 1951, the examiners for the Board of Governors were conducting an examination of the Federal Reserve Bank of Atlanta and they were instructed to investigate and report with respect to the handling of your application for a loan under authority of Section 13b of the Federal Reserve Act. This report has been received, and it is clear that the application received fair and impartial consideration.

"Section 13b was added to the Federal Reserve Act by Act of June 19, 1934, and provides in subsection (a) that:

In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Board of Governors of

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"the Federal Reserve System, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years.

"Most of the financing under Section 13b has been under another provision of the Section whereby a commercial bank makes a loan and the Reserve Bank makes a commitment to discount or purchase the loan upon request and assume up to 80 per cent of the risk. While the provisions of Section 13b were not originally intended for war or defense financing, they have been used on occasion for such purposes. The major portion of the so-called war and defense loans handled by the Federal Reserve Banks, however, have been made under the V-loan program, which was developed especially to aid in the financing of defense contracts. Under this program the War and Navy departments and the Maritime Commission were authorized in 1942 to guarantee loans made by financing institutions for the purpose of financing war production contracts, and the Federal Reserve Banks were authorized to act as agents of the War and Navy departments and the Maritime Commission in the guarantee program. This program was reinstated under the provisions of the Defense Production Act of 1950. Mention is made of these two types of loans because it appears from your correspondence that you may not have understood clearly the distinction between the two types of programs.

"The Board is glad to know that a commercial bank was able to meet your credit needs."

Approved unanimously.

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

"Supplementing our letter of July 19 replying to an inquiry about methods used by representatives of the Federal Reserve Bank of Minneapolis in connection with an investigation relating to Regulation W--Consumer Credit, we have now received additional material from the Minneapolis Reserve Bank which explains the circumstances in that particular case.

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"You will be particularly interested in the following paragraphs taken from the letter to the Board written by Mr. John N. Peyton, President of the Federal Reserve Bank of Minneapolis:

'Immediately upon receipt of your letter of July 18 enclosing excerpts of letters from Senator Thye and Congressman Wier, calling attention to an investigation made by our Regulation W men in connection with a contract between Dean Jones and the Patsey Motor Company, I made a personal investigation.

'You well know that any evasion of Regulation W which inspires a reasonable doubt in the mind of the investigator for any reason should be investigated further, if the finance company is to be fairly treated. Otherwise unwarranted suspicion might continue to exist. I speak of a finance company because in this instance, while the contract was made between the Patsey Motor Company and Mr. Jones, our investigation was made of the finance company which had rediscounted the contract. In this case we have had no contact with the Patsey Motor Company.

'In this particular instance, our two investigators felt there was reasonable doubt and for that reason contacted Mr. Jones. Mr. Jones reassured them in what appeared to be a completely friendly contact, which eliminated any question of suspicion with regard to the finance company in this case. To me this seems a desirable procedure from point of view of all concerned, but most particularly from point of view of the finance company.

'We have established a definite basic policy with regard to these investigations, a copy of which I enclose. It is unfortunate that a police duty of this character has been imposed on a central bank whose functions, in my opinion, should never be tinged in the public mind with a police operation. But Congress has seen fit to impose this duty on us and I do not see how we can fulfill the intent of Congress if we do not investigate suspect contracts to assure compliance. It would be most unfair to allow one finance company to evade the terms of the regulation, while other finance companies were living up to its intent.'

"A copy of the policy outline referred to in Mr. Peyton's letter is attached for your personal information. This statement

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"indicates the practices and procedures which are observed by the Federal Reserve Bank of Minneapolis whenever it is necessary in the course of an investigation to make customer contacts. It demonstrates clearly the extent to which steps have been taken to safeguard the rights of both the person doing business under the regulation and the customer."

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

Letter to the Honorable Charles E. Wilson, Director, Office of  
Defense Mobilization, reading as follows:

"The Board is presently engaged, with the Housing Administrator, in a review of the down payment requirements prescribed by its Regulation X, which relates to real estate construction credit.

"In Chairman Martin's absence the Board has asked me to inquire of you whether it is your present view that the availability of manpower and materials will be such as to permit the construction of at least 850,000 residential dwelling units in the calendar year 1952. As I am sure you are aware, this is the interpretation which was given to your letter to Mr. Ralph Walker, who wrote to you on behalf of the Chamber of Commerce of the United States.

"It goes without saying that the Board desires this information in connection with its deliberations and will not release it unless you so desire. The Board would appreciate hearing from you at your earliest convenience."

Approved unanimously.

Letter to the Honorable Raymond M. Foley, Administrator, Housing  
and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., reading  
as follows:

"In response to your letter of August 2, 1951, this is to advise you that the Board of Governors concurs in your designation of the Lancaster-Palmdale-Mojave, California, area

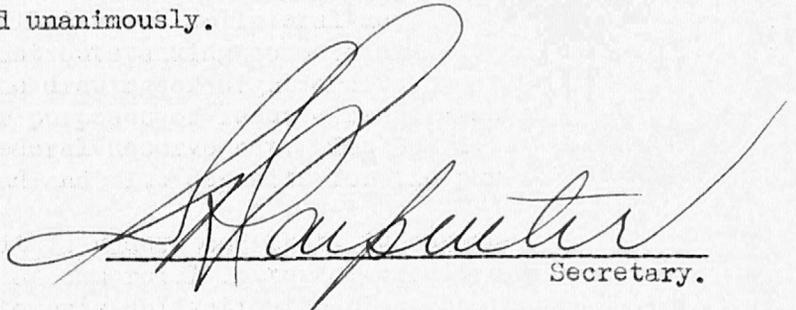
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"as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for approximately 200 housing units to be located within reasonable commuting distance of the defense establishments, and we understand that 100 are to be rental units ranging from \$60 to \$85 per month each, and 100 are to be sale units at \$8,750 and \$10,000 each. Under the terms of the exemption, the entire 200 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be similar to that previously announced for other designated defense areas."

Approved unanimously.



Secretary.