

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 14, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Townsend, Solicitor  
Mr. Young, Director, Division of Research and Statistics  
Mr. Marget, Director, Division of International Finance  
Mr. Benner, Assistant Director, Division of Selective Credit Regulation  
Mr. Fauver, Assistant Director, Division of Selective Credit Regulation  
Mr. Nelson, Assistant Director, Division of Examinations  
Mr. Dembitz, Assistant Director, Division of International Finance  
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics

Mr. Youngdahl presented a report on developments in the Government securities market, following which Mr. Solomon, Assistant General Counsel, joined the meeting and Mr. Youngdahl withdrew.

Mr. Marget then presented a report on his recent trip to Europe during which he attended the annual general meeting of the Bank for International Settlements in Basle, Switzerland, and visited certain European central banks.

8/14/51

-2-

During the course of Mr. Marget's report, Mr. Vardaman joined the meeting and at its conclusion Messrs. Marget, Dembitz, Solomon and Nelson withdrew.

Mr. Carpenter presented on behalf of Mr. Riefler, Assistant to the Chairman, who was attending a meeting outside the building, a report furnished by Mr. Riefler concerning the meeting yesterday afternoon of the Washington Emergency Committee on Flood Relief. The report stated that Mr. Howse, Assistant to Mr. Wilson, Director of the Office of Defense Mobilization, outlined at the meeting a program for assistance in rehabilitating the flood-stricken areas of the mid-west which he intended to present to the President last night and announced the formation of a committee consisting of representatives of the Housing and Home Finance Agency, the Veterans Administration, the Reconstruction Finance Corporation, and other Government agencies having lending powers, which would be under the chairmanship of President Leedy of the Federal Reserve Bank of Kansas City and would formulate a recommendation for the national committee about the organization of the lending authority. Mr. Carpenter said that following the meeting Mr. Riefler telephoned Mr. Leedy, informing him of developments.

Mr. Carpenter said that the report contained nothing which would call for action by the Board at this time and that it was presented solely as a matter of information. A copy thereof has been placed in the Board's files.

8/14/51

-3-

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

Mr. Evans stated that he had previously mentioned to the individual members of the Board that he was going to Rome to attend a meeting of the World Food and Agriculture Organization of the United Nations which he helped to organize a few years ago. Mr. Evans said that this meeting would be held early in November, but that he intended to leave here the latter part of September and visit a number of central banks, as well as the branches of American banks, en route to and from Rome, and that he wanted to go to Oxford and Cambridge and see the deans of the schools of agriculture at those universities with whom he has been associated in the past in agricultural matters. He also said that he had discussed the matter with Chairman Martin, who approved, and that all of the members of the Board had indicated approval of the trip as official business.

Upon motion by Mr. Szymczak, unanimous approval was given to Mr. Evans' making the trip, it being understood that a recommendation would be submitted to the Board by the Personnel Committee at a later date with respect to reimbursement to Mr. Evans for expenses incurred by him on the trip.

Mr. Evans referred to the action taken at the meeting on June 19, 1951, at which time the Board requested Mr. Norton, in the absence of Mr. Evans and after consultation with members of the staff, to submit a



8/14/51

-4-

recommendation as to the procedure to be followed in connection with violations of Regulation W, Consumer Credit, which may call for referral to the Department of Justice or for the institution of administrative proceedings. Mr. Evans stated that he had recommendations which he would like to submit to the Board, and that he would like to have prompt action taken by the Board with respect to the matter as a number of cases of violation of Regulation W were coming up which he would like to have disposed of in accordance with the procedure which he would outline. He said that he had had the minutes checked and found that various matters in connection with the enforcement program had been brought by him to the attention of the Board from time to time, but that he now proposed to submit an over-all program which he would recommend as a program for the enforcement of both Regulation W and Regulation X, Real Estate Credit. In this connection, he read applicable paragraphs from the Board's letter of November 21, 1950, S-1207, relating to the enforcement of Regulation W. He stated that the program outlined in the recommendations which he would submit contemplated that the staff committee which met weekly in accordance with a long-established procedure would be kept informed of all actions taken in connection with the enforcement program.

Mr. Evans then read the following statement and moved that the recommendations contained therein be approved as the procedure to be followed in connection with cases arising under Regulation W and that a similar procedure be followed in connection with cases arising under Regulation X.

8/14/51

-5-

On June 19th, during my absence from Washington, the Board requested Governor Norton, my alternate on Regulation W matters, to submit a recommendation as to the procedure to be followed in connection with violations of Regulation W which may call for referral to the Department of Justice or for the institution of administrative proceedings. Governor Norton and I discussed the matter over the telephone once or twice and it was decided that the matter should await my return to Washington, when I would submit such a recommendation to the Board.

Before stating in specific terms my recommendations on this subject, there are one or two preliminary statements which I wish to make for the record. The first is that I believe the Board should remain committed to a uniform and effective enforcement of Regulation W. Last fall, shortly after the enactment of the Defense Production Act of 1950, I attended the meetings of the Regulation W personnel of the Reserve Banks which were held here at the Board. I told the delegates that the Board wanted each Bank to emphasize enforcement activities under the Regulation and that the number of Bank personnel devoted to that subject should be fixed accordingly. I directed the Solicitor, whose responsibility it is to handle the Board's enforcement cases, to similarly emphasize the importance of a real enforcement program, both in his talks at those meetings and in subsequent visits which he or his assistant made to the various Reserve Banks. This past May, when the Reserve Bank Presidents were in Washington, I held a lengthy meeting with them and again told them that the Board wanted to see all Banks acting alike on this important matter, and they expressed approval of the program.

Following through on this program, I, together with the Solicitor, met with the Assistant Attorney General at the Department of Justice, and a procedure for the referral of criminal cases to that Department was agreed upon between the Department and ourselves. Next, I met with one of the commissioners of the Securities and Exchange Commission and members of his staff regarding the use, on a part-time basis, of such hearing examiners as might be needed from time to time in handling administrative hearings under the Regulation. These steps were taken to minimize our work here when we could get the cooperation of other Government agencies. The fruits of these arrangements have already begun to appear. Five cases have now been referred to the Department of Justice

8/14/51

-6-

under the procedure which I have just outlined. Three of them have already been approved by the Department for criminal action, including the very large New York case in which an Information has been filed by the United States Attorney there charging one of the nation-wide personal loan companies with over one thousand criminal violations of the Regulation. One administrative proceeding has been instituted by the Board and I am informed that the trial of that case has now been completed before a trial examiner in Philadelphia. The trial examiner was borrowed from the Securities and Exchange Commission.

These matters are all being handled smoothly and efficiently under the direction of the Solicitor, whose background and experience in such matters is full and complete. They cannot be effectively handled except under the supervision of someone here at the Board who is in a position to see to it that all of the enforcement measures which are taken throughout the System are uniform. We don't want to be accused of asking a criminal prosecution under one set of facts in one Reserve District and taking some other action or doing nothing in another case in another Reserve District which involves the same set of facts. As the Board Member having primary responsibility for this matter, I have worked and am working very closely with the Office of the Solicitor in seeking the uniform and effective handling of these cases. At another time I shall have something to propose to the Board about taking appropriate supervisory action to guarantee that the Reserve Banks' investigative activities shall also be put on a uniform basis.

Following the meeting of the Board on June 19th, the Solicitor, at my suggestion by phone, wrote a letter to the Department of Justice asking for an informal opinion as to whether, if the Board should desire to do so, the referral of criminal cases under Regulation W could be made to the local United States attorneys by the Reserve Banks. A copy of the Solicitor's letter and the reply thereto from Assistant Attorney General McInerney are attached to this memorandum, and I want the Board to hear their contents. The Department's reply bears out exactly what I have been saying for the need of central supervision of this important enforcement program. The letters read as follows:



8/14/51

-7-

"June 26, 1951.

"Honorable James M. McInerney,  
Assistant Attorney General,  
Criminal Division,  
Department of Justice,  
Washington, D. C.

Dear Mr. McInerney:

"As you know, a program of enforcement procedure for Regulation W, now administered by the Board of Governors pursuant to the provisions of the Defense Production Act of 1950, was agreed upon between the Board and the Department of Justice. That procedure and the Department's approval thereof were outlined in the Board's letter to the Attorney General, dated September 18, 1950, and your letter dated October 5, 1950.

"On May 9, 1951, Governor Evans and I met with you and Mr. Fred E. Strine of the Criminal Division. At that meeting a procedure for handling criminal reference cases involving violations of Regulation W was agreed upon, and the substance of that agreement is embodied in a report of investigation of Public Loan Corporation, Walter L. Boynton and Herman Bryan Hamric, d/b/a Hamric Motor Sales, which was enclosed in the Board's letter of May 11, 1951, to you. Subsequent cases which have been referred for criminal action have followed this procedure.

"The Board is now considering whether to revise the present method by which the reference of cases for the institution of criminal proceedings is to be handled. Specifically the Board is considering whether it would be appropriate and feasible for these matters to be handled at the local level, that is to say, whether the Federal Reserve Banks, respectively, might not refer such cases directly to the United States Attorneys in the various districts in which the Reserve Banks are located. It would be appreciated if you would advise us informally whether the Department would be agreeable to such a change in the event the Board should decide to put it into effect.

Very truly yours,  
(signed) J. Leonard Townsend,  
Solicitor."

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8/14/51

"DEPARTMENT OF JUSTICE  
WASHINGTON, D.C.

July 6, 1951

"J. Leonard Townsend, Esquire  
Solicitor, Board of Governors  
Federal Reserve System  
Washington 25, D. C.

Dear Mr. Townsend:

"Receipt of your letter dated June 26, 1951, concerning the referral of cases recommended for criminal prosecution directly to the various United States Attorneys, is acknowledged.

"You are advised that the Department of Justice, by circular dated April 20, 1951, instructed all United States Attorneys that no litigation, either civil or criminal, brought under the Defense Production Act of 1950 would be referred to them by the various agencies charged with enforcement under the Act without advance clearance from the Department in Washington. This procedure was believed necessary, since the Defense Production Act is a new statute and the violations thereunder will involve regulations and orders which for some time will be in a state of active promulgation and amendment.

"Accordingly, to secure uniform enforcement throughout the various judicial districts, which I am sure you are interested in, and because of the utmost importance of this litigation to our defense effort, the Department organized a special unit in the Criminal Division known as the Defense Production Control Unit, with the function and responsibility of studying, analyzing, and processing all criminal cases arising under the Act before referral to the United States Attorneys for prosecution. The Attorney General considered it necessary to establish this unit in Washington in order that constant liaison and close working relations could be established and maintained between the Department and the agencies charged with administering and enforcing the statute. Such liaison is believed essential to good enforcement, since the Defense Production Act is a statute of vast legal boundaries involving endless questions and problems of law. It was not believed, nor is it believed now, that this Act could be enforced by the Department of Justice without the maximum assistance and advice from the agencies involved.



8/14/51

-9-

"By way of information, we wish to advise that all criminal cases recommended for prosecution under the statute, without exception, are referred to the Department of Justice in Washington for clearance prior to the institution of any proceedings. Until such time as enforcement policies and procedures are standardized and become routine throughout the country, the Department wishes to maintain the procedure referred to above.

Respectfully,  
For the Attorney General  
(signed) James M. McInerney  
Assistant Attorney General"

Based on what I have just said and with the desire of holding to a minimum the amount of time which the other Board Members must devote to this subject, I submit the following recommendations with respect to the handling of enforcement cases under Regulation W.

(1) All preliminary investigations are to be conducted by Reserve Bank personnel in accordance with the outline of enforcement procedure contained in the Board's S-letter 1207, dated November 21, 1950.

(2) When the case is referred to the Board for action in accordance with S-1207, the file should be delivered to the Office of the Solicitor, whose responsibility it shall be to recommend to the Board, as promptly as possible, the nature of the action, if any, the Board should take in the matter. This will insure the necessary uniformity of enforcement action throughout the System.

(3) The Office of the Solicitor shall thereupon prepare a memorandum to the Board which shall contain a short statement of the facts of the case and a recommendation of what action, if any, the Board shall take. This memorandum shall be presented to me, or, in my absence, to Governor Norton, my alternate. Upon my approval of the recommendation, or that of Governor Norton in my absence, the approval of the recommendation of the Office of the Solicitor shall be noted in the minutes of the Board as Board action. Any matters of special or policy significance will, of course, be referred by me or Governor Norton to the Board for its consideration in particular cases.

(4) Whatever enforcement proceeding is approved, every effort will be made to utilize, to the fullest extent possible,

8/14/51

-10-

Reserve Bank personnel. The Office of the Solicitor will, of course, be responsible for all actions instituted in the Board's name, and will render every assistance necessary to insure the satisfactory handling of enforcement matters at the Reserve Banks, both before and after referral of the cases to the Board for action. In addition, the Office of the Solicitor will prepare such memoranda as may be necessary in connection with the referral by the Board to the Department of Justice of any cases in which criminal proceedings are approved, and will render such other assistance to that Department or to the United States Attorneys as may be necessary for the effective handling of criminal cases.

Mr. Vardaman stated that he would not be willing to vote to have any member of the Board or staff pass on the institution of administrative proceedings, that he felt that all such decisions should be made at meetings of the Board, but that he would be willing to have the Board authorize a member to refer cases to the Department of Justice for consideration of the question whether criminal proceedings should be instituted. In the latter case, however, he thought it should be understood that whenever a case was referred to the Department of Justice a short memorandum should be addressed to the individual members of the Board advising them of the referral and the principal circumstances of the case.

In a discussion of Mr. Vardaman's comments, Mr. Powell suggested that recommendations for the institution of administrative proceedings be placed on the docket with the understanding that they would be acted upon by the Board on the basis of a brief statement of the circumstances involved.

8/14/51

-11-

Mr. Evans indicated that he would be willing to accept these suggestions and that he was interested in having a definitely understood procedure which would be clearly understood by all of the members of the Board so that future questions with respect to the enforcement of Regulations W and X could be avoided.

At the conclusion of the discussion, Mr. Evans' motion was put by the Chair and carried unanimously with the understanding that recommendation numbered 3 would be changed to read as follows:

The Office of the Solicitor shall thereupon prepare a memorandum to the Board which shall contain a short statement of the facts of the case and a recommendation of what action, if any, the Board shall take. This memorandum, shall be presented to me, or in my absence to Mr. Norton, my alternate. If the memorandum recommends the institution of an administrative proceeding involving the appointment of a hearing officer and the holding of hearings, a copy of the memorandum, when approved by me or Mr. Norton, will be furnished to each member of the Board and the matter will be placed upon the docket for consideration at the next meeting of the Board. In all other cases, upon my approval of the recommendation, or that of Mr. Norton in my absence, the approval of the recommendation of the Office of the Solicitor shall be noted in the minutes of the Board as Board action. In each case referred to the Department of Justice a brief memorandum will be addressed to the individual members of the Board advising them of the reference at the time it is referred and the principal circumstances of the case. Any matters of special or policy significance will, of course, be referred by me or Mr. Norton to the Board for its consideration in particular cases.



8/14/51

-12-

There had also been placed on the docket for discussion at this meeting a draft of statement of policy submitted by Mr. Powell with regard to the possible inflationary effects of the payment to stockholders in cash of the value of stock of a bank when it is merged into another institution.

Mr. Vardaman said that he would be opposed to the proposed statement as it would single out for criticism bank mergers and the payment of cash to bank stockholders. It was his feeling that this was the wrong approach and if action were taken it should be through the medium of a memorandum addressed by the Office of Defense Mobilization to all interested supervisory authorities announcing the policy that approval should be withheld of all corporate mergers involving the payment of cash to shareholders in such manner as to have inflationary aspects which would be contrary to the public interest. He also suggested that action on the matter be postponed by the Board until a meeting at which Chairman Martin could be present.

Mr. Powell explained that he was presenting the matter again in accordance with the action taken at the meeting of the Board on July 5, 1951. He reviewed the consideration that had been given to the matter and stated that he contemplated that if the statement of policy were approved by the Board it would be sent only to the Federal Reserve Banks for their information. He thought it would be

8/14/51

-13-

unfortunate if banks were allowed to proceed with their plans for mergers of the kind in question and to make public announcement of the plans and then be confronted with the fact that the Board would be unwilling to approve the proposed merger because of its possible inflationary effects. He pointed out that contemplated mergers are usually discussed informally with the Federal Reserve Banks during their early stages, and said it was his view that it was desirable for the Federal Reserve Banks to be in position to discuss the proposals in their early stages with the banks involved on the basis of an established policy.

At the conclusion of the discussion, during which Mr. Szymczak stated that he concurred in the statement as proposed by Mr. Powell, it was understood that the matter would be deferred for consideration at the next meeting of the Board at which Chairman Martin was present.

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 August 9, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 10 and 13, 1951, were approved

8/14/51

-14-

and the actions recorded therein were ratified unanimously.

Memorandum dated August 9, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Miss Elaine Mahoney, Stenographer in that Division, be accepted to be effective, in accordance with her request, at the close of business August 17, 1951.

Approved unanimously.

Memorandum dated August 9, 1951, from Mr. Vest, General Counsel, recommending an increase in the basic salary of Eugene C. Harrison, Clerk in the Legal Division, from \$2,650 to \$2,875 per annum, effective August 19, 1951.

Approved unanimously.

Memorandum dated August 9, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending an increase in the basic salary of Mrs. Mildred D. Spano, Stenographer in that Division, from \$2,650 to \$2,875 per annum, effective August 19, 1951.

Approved unanimously.

Memorandum dated August 7, 1951, from Mr. Carpenter, Secretary of the Board, recommending an increase in the basic salary of Miss E. Betz Poeppel, Chief, Files Section, Office of the Secretary, from \$6,000 to \$6,200 per annum, effective August 19, 1951.

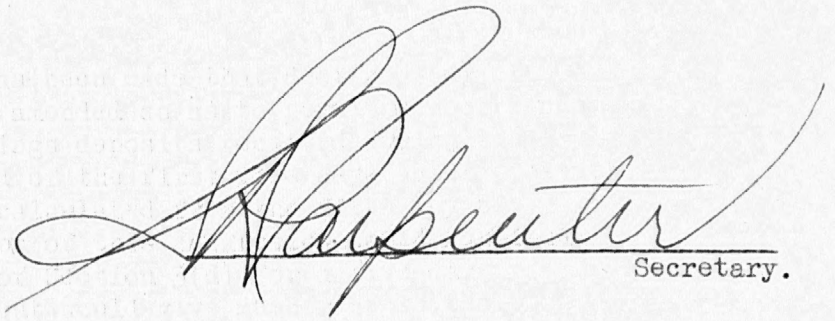
Approved unanimously.



8/14/51

Memorandum dated August 13, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the reinstatement of Walter L. Peregory, who had been on military leave, as Offset Press Operator in that Division, with basic salary at the rate of \$4,075 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

  
Secretary.