Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 21, 1951. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Evans

Mr. Carpenter, Secretary
Mr. Kenyon, 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. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a report on developments in the Government securities market which was followed by a general discussion, at the conclusion of which Mr. Vardaman joined the meeting.

Mr. Evans stated that the Senate and House conferees concluded their discussions of the Defense Housing Bill yesterday and agreed to incorporate in the bill certain restrictions on the authority of the Board, the Federal Housing Administration, and the Veterans Administration to prescribe minimum down payments and maximum maturities on real estate credit subject to the provisions of the Defense Production Act of 1950. In view of this development, Mr. Evans said, there appeared to be no reason for going ahead with the revision of the terms of Regulation X, Real Estate Credit, and its counterpart FHA and VA regulations which had been worked

out with Mr. Foley, Housing and Home Finance Administrator, following discussion at the meeting of the Board on August 9, 1951, since, after the President signed the Defense Housing Act, the terms of these regulations would have to be revised in accordance with the limitations prescribed by the new legislation.

In answer to a question by Chairman Martin, Mr. Noyes said that Mr. Foley was in agreement with the view expressed by Mr. Evans.

All of the members of the Board present expressed agreement that the procedure suggested by Mr. Evans should be followed.

All of the members of the staff with the exception of Mr. Carpenter then withdrew from the meeting.

Mr. Vardaman referred to a draft of letter to the Federal Reserve Bank of St. Louis in response to a letter dated August 13, 1951, with respect to the formation of the Mercantile Trust Company, St. Louis, Missouri, by the consolidation of the Mercantile-Commerce Bank and Trust Company with the Mississippi Valley Trust Company. The reply would express the view that inasmuch as the laws under which the consolidation would be effected would continue the corporate existence of the consolidating trust companies and transfer all rights, privileges, obligations, etc., to the consolidated institution, the latter would be a member of the Federal Reserve System without any application or formal action on its part and it would be subject to the conditions of membership to which the consolidating trust companies were subject.

Mr. Vardaman said that, for the reasons stated by him at the meeting of the Board on June 5, 1951, he wished to be recorded as not voting. It was his position that the Board should take a definite position at this time with respect to the operation by the Mercantile Trust Company of the Mercantile-Commerce National Bank.

The draft of reply referred to above had not been seen by the other members of the Board, and it was understood that it would be circulated to the available members and that if they approved the reply would be sent.

There was then presented a draft of letter to the Federal Reserve Bank of San Francisco stating, in reply to a letter from the Bank under date of August 3, 1951, that, for the reasons set forth in the reply, the Board did not feel justified in approving the establishment of a branch in Kentfield, California, by the Bank of San Rafael, California, a member bank. The draft of reply was considered in the light of information contained in a memorandum addressed to the Board under date of August 15, 1951, from the Division of Examinations and it was understood that the matter would be discussed by the staff with Mr. Powell, whose assignments include the establishment of branches by member banks, and that it would be presented to the Board again for further consideration in the light of Mr. Powell's views.

The action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated August 15, 1951, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic salary of Charles H. Schmidt, Chief, Business Finance and Capital Markets Section in that Division, from $7,600 to $8,800 per annum, effective September 2, 1951.

Approved, Mr. Vardaman voting "no".

Memorandum dated August 15, 1951, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending increases in the basic salaries of the following employees in that Division, effective September 2, 1951:

Name	Title	Salary Increase From	To
H. M. Ott	Supervisor, Telegraph Section	$4,450	$4,575
L. L. Ball	Assistant Supervisor, Telegraph Section	4,075	4,200
M. P. Flagg	Telegraph Operator	4,075	4,200
G. L. March	Telegraph Operator	3,600	3,725
L. H. Cooley	Telegraph Operator	3,350	3,475
W. S. Pool	Telegraph Operator	3,600	3,725
Hiram H. Florea	Guard	2,690	2,770
C. H. Richardson	Charwoman	2,330	2,400

Approved unanimously.

Memorandum dated August 13, 1951, from the Personnel Committee, prepared pursuant to the understanding at the meeting of the Board on June 16, 1951, recommending for reasons set forth in the memorandum that no modifications be made at this time in the present procedure for approving the appointments of Federal Reserve Bank branch managers, with the understanding that a recommended plan whereby the Board can discharge its

statutory responsibilities while at the same time permitting the Federal Reserve Banks as much latitude as is feasible in management and salary administration, would be submitted before the end of the current year.

Approved unanimously.

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

"This will acknowledge your letter of August 9, 1951, advising of the arrangements made for granting a leave of absence without pay for a period of approximately one year, beginning August 15, to Mr. Philip J. Glaessner so that he may become Economic Officer on the permanent Brazil-United States Commission for Economic Development.

"The Board of Governors will interpose no objection to the arrangements indicated in your letter."

Approved, Mr. Vardaman voting "no".

Letter to Mr. Neely, Federal Reserve Agent of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of August 14, 1951, the Board of Governors approves the appointment of Mr. N. Bandi as Federal Reserve Agent's Representative at the New Orleans Branch, at his present salary of $3,600 per annum.

"This approval is given with the understanding that Mr. Bandi will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the New Orleans Branch, perform such work for the

"Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

"Mr. Bandi should execute the usual oath of office which should be forwarded to the Board. Please advise us of the effective date of Mr. Bandi's appointment."

Approved unanimously.

Letter to The Burlington National Bank, Burlington, Wisconsin, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, 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 Wisconsin, the exercise of all such rights to 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 Chicago.

Letter to The First National Bank of Corbin, Corbin, Kentucky, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, guardian of estates, assignee, receiver, committee of estates of lunatics, 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 Kentucky, the exercise of all such rights to 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 Cleveland.

Letter to the Honorable Harry P. Cain, United States Senate, Washington, D. C., reading as follows:

"This refers to the letter of August 3, 1951 which you received from Mr. James C. Adkins of Seattle, Washington, and which was referred to us under date of August 8, 1951 (Reference file 359).

"With his letter, Mr. Adkins enclosed an advertisement of the University Motors, said to have appeared in the Seattle Post-Intelligencer. While very misleading, this advertisement apparently addresses itself to prospective automobile purchasers who may be able to qualify for exemption under section 7(e)(5) of the Board's Regulation W concerning consumer credit.

"Section 7(e)(5) provides an exemption from the regulation for any credit 'extended, guaranteed, or insured in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944, as amended, or by any State agency pursuant to similar State legislation'.

"Briefly, the Servicemen's Readjustment Act of 1944 - known as the G. I. Bill - provides for the guarantee or insurance of loans to certain veterans the proceeds of which are to be used for the purpose of engaging in business or pursuing a gainful occupation. It is understood that the Veterans Administration regards a loan to purchase an automobile as eligible for guarantee or insurance if the vehicle is an essential part of the equipment necessary for the actual

"operation of the veteran's occupation or profession; for example, a doctor calling on his patients, or a salesman covering a wide territory. In such cases, an instalment credit for the purchase of an automobile and so insured or guaranteed in whole or in part would be exempt from Regulation W by virtue of the above-quoted section 7(e)(5).

"By this exemption, the Board in its regulation followed the general legislative policy with respect to assistance to those veterans entitled to loan, or loan guarantee or insurance benefits. Mr. Adkins' point, therefore, would seem to be addressed primarily to the matter of legislative policy, since it is his contention that all veterans should be treated alike regardless of date with respect to which the status of veteran was acquired.

"Advertisements of the type in question have been the cause of considerable concern to the Board and also to the Veterans Administration with whom the matter has been discussed on occasion. Steps have been taken to discourage such advertising since, as Mr. Adkins' letter indicates, it can give rise to confusion among the public and also apparent competitive inequality among those engaged in the business of extending instalment credit.

"We appreciate the opportunity afforded by Mr. Adkins' letter to comment on this troublesome matter."

Approved unanimously.

Letter to Mr. Cornelius P. Cotter, 551 Fifth Avenue, New York, New York, reading as follows:

"This is in further reference to your letter of July 3, 1951, and its enclosures, concerning Regulation W and the leasing of automobiles by your client, Contract Vehicles, Inc. This correspondence was acknowledged under date of July 19 and was also the subject of your letter of August 10.

"Briefly, your position appears to be that since a lessee of an automobile leased by your client 'has no option of becoming the owner thereof and does not obligate himself to pay as compensation a "sum substantially equivalent thereto or in excess of the value thereof"', there is

"no authority for the regulation of such leases. In this regard you refer to section 4(e) of Executive Order 8843 defining 'Extension of credit', and suggest that recourse to the last clause thereof covering 'any transaction or series of transactions having a similar purpose or effect' is unwarranted because of noscitur a sociis and ejusdem generis.

"Noscitur a sociis and ejusdem generis, of course, are well-recognized aids in the construction of statutes in appropriate cases. However, they 'are useful only to assist in ascertaining the legislative intent', as stated in the treatise in 1 McKinney's Consolidated Laws of New York, section 239, to which you referred. Thus, as indicated, in Danciger v. Cooley, 248 U.S. 319, 326, the principle embodied in these maxims 'is far from being of universal application, and never is applied when to do so will give to a statute an operation different from that intended by the body enacting it. Its proper office is to give effect to the true intention of that body, not to defeat it'.

"For example, if 'the particular words exhaust the class, the general words must be construed as embracing something outside of that class', for otherwise 'the rule would defeat its own purpose'. United States v. Mescall, 215 U.S. 26, 31-32; Mason v. United States, 260 U.S. 545, 554-555. The rule 'cannot be employed to render general words meaningless'. Alpers v. United States, 338 U.S. 680, 682. Being 'only an instrumentality for ascertaining the correct meaning of words', the rule 'does not require rejection of that sense of the words which best harmonizes with the context and the end in view'. Gooch v. United States, 297 U.S. 124, 128; Kane v. Walsh, 48 N.Y.S. 2d 370, 372, affirmed 293 N.Y. 923, 60 N.E. 2d 131.

"There are, of course, other reasons for considering noscitur a sociis and ejusdem generis inapplicable in these circumstances. This finds support in section 239 of 1 McKinney's Consolidated Laws, p. 307 and in Caddy v. Interborough Rapid Transit, 195 N.Y. 415, 88 N.E. 747, 749, because of the absence of 'others' before the last clause of section 4(e) of the Executive Order. In addition, it appears that if the terms of a statute preceding the general clause thereof are also general, 'there is no place for . . . (the) rule (in question) to apply'. People v. Gravenhorst, 32 N.Y. S 2d 760, 773; Prussian v. United

"States, 282 U.S. 675,679.

"In this latter regard, the court in Thamart v. Moline, 156 P. 2d (Idaho) 187, said that 'credit . . . covers an almost limitless field of transactions'. And, in passing upon the term 'credit' as used in another Executive Order under section 5(b) of the Trading with the Enemy Act - the very Act under which the consumer credit Executive Order originated - the court said that the term covered 'the obligation due on an accounting between parties to transactions'. Propper v. Clark, 337 U.S. 472. Thus, not only is the word 'credit', itself, extremely general in meaning, but so also, for example, is the phrase 'any loan' in section 4(e) of the Order. A loan of property (i.e., a lease of it) is fully as much a 'loan' as a loan of money. It is interesting to note here that the court, in Gray v. Powell, 314 U.S. 402, refused to be guided by the 'preoccupation of Congress in sales' in a particular statute relating to the coal industry under which a transaction involving a lease in the procurement of coal was claimed to be exempt. The court said that 'the purpose of Congress . . . was to stabilize the industry' and that this 'would be hampered by an interpretation that required a transfer of title, in the technical sense'.

"As indicated in Mr. Scheffer's letter to you of June 22, a copy of which you enclosed, an instalment leasing arrangement can supply a person with the use of an automobile in substantially the same way as, for example, a conditional sale contract. Aside, however, from technical, legal considerations, all leases of automobiles are not, of course, covered under the regulation. The regulation does not extend to single-payment transactions; and, as you indicate, two general classes of instalment leases are specifically exempted by section 7(1) of the regulation. In addition, an instalment lease arrangement involving a value in excess of $5,000 in the case of automobiles is also exempted. In any event, the regulation does not prohibit leases, as you know.

"The Board will be glad to consider any further information or memoranda which you might like to present in connection with this matter or with regard to the feasibility of modifying the regulation in any respect as it applies to instalment leasing arrangements of the kind employed by your client.

"We regret our delay in answering your letter of July 3. Such delay was occasioned by the extra work which arose in connection with the extension and amendment of the Defense Production Act of 1950 pursuant to which the regulation was reinstituted in 1950, and the resulting changes in the regulation effective July 31, 1951. As you no doubt know, one such change was to extend from 15 to 18 months the maximum maturity provision applicable to automobiles."

Approved unanimously.

Secretary.