

11/6/52 Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 6, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
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. Marget, Director, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Dembitz, Assistant Director, Division of International Finance

Governor Robertson discussed plans being made for a second session of the Inter-Agency Bank Examiners School, which would begin on November 17, 1952, and continue for a period of four or five weeks. He said that there was some question whether assistant examiners of the Federal Deposit Insurance Corporation would participate, but that, in any event, it was intended to proceed with the plans for the second session.

The other members of the Board indicated that they approved Governor Robertson's plans for holding the second session of the school on the dates mentioned.

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There were presented authorizations covering travel by Chairman Martin to Absecon, New Jersey, on November 7-9, to Charlotte, North Carolina, on November 11 and 12, and to Cleveland, Ohio, on November 19 and 20, 1952.

Approved unanimously.

Mr. Marget discussed the contents of a confidential paper prepared by representatives of the Mutual Security Agency proposing, among other things, the creation of an "Atlantic Reserve System".

Following a discussion based on Mr. Marget's comments, all of the members of the staff except Messrs. Carpenter, Vest, and Solomon withdrew from the meeting.

Chairman Martin called attention to a memorandum dated October 21, 1952, from the Division of Personnel Administration which had been circulated among the members of the Board with respect to a proposal approved by the Board of Directors of the Federal Reserve Bank of Cleveland that, as of January 1, 1953: (1) Mr. Wilbur D. Fulton, Vice President in charge of the Cincinnati Branch, be appointed First Vice President of the Federal Reserve Bank of Cleveland for the term ending February 28, 1956, with salary at the rate of \$18,000 per annum; (2) Mr. Wilbur T. Blair, Vice President, Counsel, and Secretary at the head office be transferred to the position of

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Vice President in charge of the Cincinnati Branch, with salary at the rate of \$16,000 per annum; and (3) Mr. Roger R. Clouse, Vice President, be appointed Vice President and Secretary, with salary at the rate of \$12,500 per annum. The memorandum recommended that the Board of Governors take no action with respect to the proposed appointment of Mr. Fulton and the proposed salaries for the three officers until such time as Messrs. Virden and Gidney, Deputy Chairman and President, respectively, of the Cleveland Bank, could come to Washington to discuss Mr. Fulton's appointment with the Board.

In the ensuing discussion, during which question was raised as to the qualifications that should be possessed by a First Vice President of a Federal Reserve Bank, it was agreed unanimously that no action should be taken on the appointment of Mr. Fulton and the proposed salaries for the three officers until the matter could be discussed with Messrs. Virden and Gidney, and that such discussion should be postponed until after the Board had had an opportunity to consider the report on salaries of officers of Federal Reserve Banks to be submitted by the special committee composed of Messrs. Szymczak, Mills, and Robertson.

Mr. Chase, Assistant Solicitor, joined the meeting at this point.

The Chairman referred to a memorandum which he had circulated among the members of the Board under date of October 31, 1952, in which

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he stated that representatives of the Personal Finance Company of New York, which is the defendant in a criminal case pending in the United States District Court for the Southern District of New York for alleged violations of Regulation W, Consumer Credit, called on him on Tuesday, October 28, and asked permission to leave a memorandum regarding the position in which the company was placed by the case. The latter memorandum stated that the judges in the district court would not accept a plea of nolo contendere, that this made it impossible to dispose of the case without admitting guilt or going to trial, and that either of these alternatives would have adverse effects on the company out of proportion to the offenses alleged, first, because the company would be prejudiced before the jury as a "money lender", and, second, because a guilty plea or verdict would jeopardize its license to do business under the small loan law. The memorandum also asserted that the company was not given a chance to make corrections before the criminal action was brought against it, that the charges as filed gave an exaggerated impression of the volume of any violations, and that the company already had suffered substantially as a result of the adverse publicity.

Chairman Martin's memorandum of October 31 stated that the representatives would like to have the Board recommend to the Department of Justice that the case be dismissed, that he had made it clear to the

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representatives that he could give them no commitment or assurance, but that he had told them he would pass their memorandum along to the Board for its consideration as promptly as practicable. The representatives stated during the conference with the Chairman that they would not use or refer to the submission of the memorandum to the Board in connection with any attempt by them to obtain postponement of the trial.

In the ensuing discussion, in which the view was expressed by members of the Board that there was no basis at this stage of the proceeding on which the Board could take any action whatsoever since it was entirely in the hands of the Department of Justice, Governor Vardaman referred to the statement contained in the memorandum left by the representatives of the company that the proceeding was instituted by the United States Department of Justice following "an informal conference between three representatives of the Company and two representatives of the Federal Reserve Bank in New York in April, 1951, at which time assurances were given the Company that the subject of the Board's inquiry would not be subject to any action without an opportunity first being afforded to the Company to discuss, with the Board's representatives, the results of the investigation then in progress. No such opportunity was ever given." Governor Vardaman

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stated that it was his view that the Board should ascertain whether there was any substance to that statement and what, if any, action the Board should take in connection with it.

In response to Governor Vardaman's comment, it was stated that representatives of the company had discussed the pending case with various representatives of the Board from time to time but that the question of such assurances had not been raised. It was also stated that if any such assurances were given, they were given by representatives of the Federal Reserve Bank of New York and not by representatives of the Board.

Governor Evans stated that representatives of the company had called on him and had discussed the case on different occasions but that this point had not been raised.

The suggestion was made that prompt steps be taken to ascertain whether the records of the Federal Reserve Bank of New York would disclose anything that could be used as an indication that such assurances were given, but it was the consensus that even if the indications were that assurances were given that would not be sufficient basis for a request by the Board to the Department of Justice that the case be dismissed.

There was agreement with the suggestion that in any event the Federal Reserve Bank of New York should be asked to review its records

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on the case and to write a letter to the Board giving the substance of what its records disclosed as to whether or not such assurances were given so that on this point the Board's records might also be complete.

Governor Robertson pointed out that, as stated in the memorandum left by representatives of the company with Chairman Martin, the information was filed in July of 1951, that if the company felt that it had been given assurances that had not been lived up to, that point should have been raised at that time rather than now, and that while it would be desirable for the Board to clarify the record as to whether any assurances were given, the point was not an adequate basis for any action by the Board in connection with the case.

Mr. Carpenter stated that last week he received a telephone call from Mr. DeWitt Paul, an official of the Personal Finance Company, asking for an opportunity to come to Washington to discuss the pending case. Mr. Carpenter said he told Mr. Paul that he knew nothing about the matter but that if he wanted to come in he could do so on Thursday of this week. Mr. Carpenter also said that after discussing the matter with Messrs. Solomon and Chase he had called Mr. Paul to say that in all frankness he should say that he did not know of anything that he could do or suggest to the Board that it do in the matter but

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that Mr. Paul still wanted to call and was going to do so at noon today. Mr. Carpenter said that he proposed to say to Mr. Paul that the case was in the hands of the Department of Justice and that in his opinion there was nothing that the Board could do in connection with the matter.

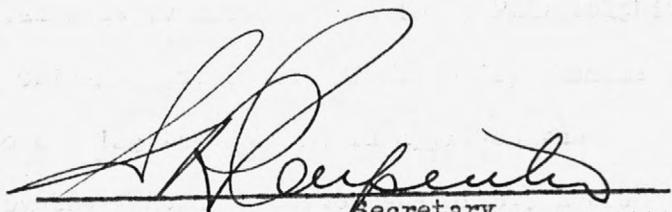
Governor Robertson suggested that instead of Mr. Carpenter meeting with Mr. Paul as an individual he talk to him as the representative of the Board and say that the Board had reviewed the matter and saw no basis for any action.

In a discussion of Governor Robertson's suggestion it was agreed that Mr. Vest should call the New York Bank and ask them to advise the Board by telephone tomorrow, if possible, and by letter as promptly as possible what the records of the Bank disclosed as to whether assurances of any kind were given to the company that no action would be taken without an opportunity first being afforded to the company to discuss the results of the investigation made before the suit was instituted. It was also agreed that when the letter from New York was received a letter would be written to Mr. Climenko, attorney for the company, stating that the Board saw no basis upon which it could take any action in the matter, and that when Mr. Carpenter met with Mr. Paul today he should say that the Board had considered the memorandum left with Chairman Martin by Mr. Climenko, that the case was in the hands of the Department of Justice, that the Board saw no basis upon which it would be justified in taking any action, and that the Board's conclusion would be transmitted to the company.

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At this point Messrs. Vest, Solomon, and Chase withdrew from the meeting and the following additional action was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 5, 1952, were approved unanimously.


Secretary