10/29/46

Mr. Parry -

Seems to need reply for M.S.E.'s signature - Letter Check with Elliott to see that he is not at work on this. Would like your views of this issue.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dr. Parry:

How about this?
Has he caught us
somewhat off base?

EG

JOSEPH E. BIRNIE, PRESIDENT
ATLANTA GEORGIA
LINWOOD P HARRELL FIRST VICE-PRESIDENT
WASHINGTON D. C
H. I. HARRIS, SECOND VICE-PRESIDENT
TOPEKA, KANSAS

THE MORRIS PLAN

MORRIS PLAN BANKERS ASSOCIATION

GARY M. UNDERHILL, EXECUTIVE DIRECTOR
J. P. YODER, DIRECTOR PUBLIC RELATIONS
CALVIN C. VANE, TREASURER
ALICE G. WYKOFF, ASSISTANT TREASURER

1025 CONNECTICUT AVE., N. W.
WASHINGTON 6, D.C.

October 28, 1946

Hon. Marriner S. Eccles
Chairman of the Board of Governors
Federal Reserve System
Washington 25, D. C.

My dear Governor Eccles:

I have before me a copy of your address before the New England Bank Management Conference in Boston on October 25. Knowing the previous official position of this Association, you will, I feel sure, pardon me if I write you this open letter in comment upon certain of your remarks in connection with Consumer Credit.

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You state that certain objectives could be accomplished, in your opinion, "by focusing regulation primarily on the major durable goods customarily sold on the instalment plan. They compose the great dollar bulk of consumer credit. It has been felt for some time by the Reserve Board that the present regulation could be greatly improved administratively by focusing it on the major durables, eliminating the major part of single-payment loans and charge accounts from its scope, together with the soft goods and less important durables that were included when the Regulation was originally drawn as an anti-inflationary device in war-time."

The underlines in the above quotation are my own. I am frankly at a complete loss to understand such a statement emanating from a Federal Reserve official. "Total Installment Sale Credit," covering instalment sales of automobiles, other consumer durables, as well as sale of non-durables on the instalment plan, has never amounted to more than 38% of "Total Consumer Credit." This was the peak ratio reached at the end of 1941. The ratio of "Total Installment Sale Credit" to "Total Consumer Credit" was only 14% at the end of this past August, the latest date for which figures were published in the October Federal Reserve Bulletin.

It is further interesting to note, in accordance with the attached table of statistics, that "Total Installment Sale Credit" at the end of August was two-thirds below its own 1941 peak, and is the only type of Consumer Credit which remains below its own 1941 peak.

"Single-Payment Loans" are now 6% greater than in 1941. "Charge Accounts" are now 37% greater than in 1941. "Service Credit" now stands 37% greater than in 1941. Yet, it is these types of credit which the Reserve Board apparently may release first from Regulation. Why?

We find ourselves completely in accord, on the other hand, with your statement that: "It is important, of course, to bear in mind that these selective controls, relating to listed stocks and consumer credit, can at best play only a relatively minor role in assuring stability in our economic life. Likewise, monetary policy is even more limited in its influence under present day conditions than ever before. Overshadowing all of these aspects of Governmental policy are national, fiscal and budgetary measures, together with other broad policies relating to business, labor and agriculture."

Will you be good enough to reconcile for our information your statement as to the relative importance of instalment sale credit in the whole consumer credit picture with the available statistics from your office, as well as to explain the emphasis placed on regulation of this type of credit, in view of its relation to 1941 outstandings in comparison with single-payment loans, charge accounts, and service credit.

Respectfully yours,

GMUnderhill

Gary M. Underhill
Executive Director
CONSUMER BANKERS ASSOCIATION

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CC: United Press
American Banker

CONSUMER CREDIT STATISTICS

(Estimated amounts outstanding - $000,000 omitted)

	Total Consumer Credit (A)	Total Instalment Sale Credit (B)	% B/A	Single Payment Loans	Charge Accounts	Service Credit
1929	7,637	2,515	33%	2,125	1,749	596
1931	5,528	1,595	29%	1,402	1,381	531
1933	3,905	1,122	29%	776	1,081	467
1935	5,419	1,805	33%	1,048	1,292	472
1937	7,467	2,752	37%	1,504	1,459	557
1939	7,981	2,792	35%	1,468	1,544	533
1941	9,899	3,744	38%	1,601	1,764	610
1943	5,338	814	15%	1,192	1,498	687
1945	6,734	903	13%	1,616	1,981	772
1946*	8,131	1,122	14%	1,704	2,414	837
1946/1941	82%	30%		106%	137%	137%

Source: Federal Reserve Bulletin, October, 1946

*Preliminary figure as of 8/31/46

October 31, 1946.

Mr. Gary M. Underhill, Executive Director,
Consumer Bankers Association,
Morris Plan Bankers Association,
1025 Connecticut Avenue, N. W.,
Washington 6, D. C.

Dear Mr. Underhill:

This is to acknowledge your letter of October 28 which you gave to the press. I am aware, of course, that your Association has strenuously opposed, even during the war, that part of the Government's economic stabilization program which called for restraints upon consumer credit.

I am grateful to you, however, for your letter because I agree with you that the phrase I used, to the effect that major durable goods customarily sold on the installment plan "compose the great dollar bulk of consumer credit", needs qualification. Accordingly, I have added to the end of that sentence in the copy which will be printed in the Federal Reserve Bulletin a qualifying clause so that it will read: "They compose the great dollar bulk of consumer credit in which the range of expansion and contraction is widest."

Other components of total consumer credit, such as single payment loans, charge accounts and service credits, show comparatively little fluctuation. Hence, if regulation is to be continued by Congress with a view to exerting a stabilizing influence it should logically be applied to the area in which the fluctuations are the widest, that is, to installment credit centering on major durable goods. That was the point I sought to make in my discussion of this subject and explains why the emphasis was placed on this important segment of consumer credit. I enclose a chart from which you will note that installment credit has been subject to extremely wide swings whereas in the same period single payment loans, charge accounts and service credit remained comparatively stable, though there has been some upturn in charge accounts recently, as was to be expected.

FILE COPY

If you will take note of the figures in the table in the Federal Reserve Bulletin for October, from which your statistics on consumer credit were taken, you will see, of course, that total installment credit in a number of pre-war years, after the worst of the depression was over, bulked very large and amounted to more than half of total consumer credit in 1936, 1937, 1938, 1939, 1940 and 1941.

Our staff people who have had experience with Regulation W are of the opinion that to focus the regulation, if it is to be continued, on the area I have mentioned would produce a stabilizing effect on the general level of all consumer credit and this, of course, would be one of the primary objectives of any regulation. As it was drafted, in consultation with other agencies, including the OPA, for the specific war-time purpose of aiding, even in a minor way, in the anti-inflationary program, the regulation was made much more comprehensive than would have been the case had it been drawn in peacetime as a regulatory measure. As I indicated in my talk in Boston, it is felt that the regulation can be made more workable from an administrative and enforcement standpoint by centering it on a more limited list of durables which are the most important items in the broader economic picture of consumer credit.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

Enclosure

ET:[illegible]

FILE COPY

MORRIS PLAN BANKERS ASSOCIATION

1025 CONNECTICUT AVE., N. W.
WASHINGTON 6, D.C.

November 1, 1946

Hon. Marriner S. Eccles
Chairman of the Board of Governors
Federal Reserve System
Washington 25, D. C.

Dear Governor Eccles:

Thank you very much for your letter of October 31. I gather from your remarks that the primary purpose of Regulation W has shifted in the past several months from its anti-inflationary aspects to the aspect of the control of the business cycle.

In making my report to our membership at Virginia Beach, certain parts thereof were "off the record" as far as the press was concerned. As I reread this particular part of the report, I find the following paragraph to which I should like to call your attention:

"I cannot help but believe that had this regulation (U), as well as that one represented by the twenty-third letter of the alphabet, been based exclusively upon the period of time for repayment, rather than exclusively in the case of one and partly in the case of the other, upon percentages of down payment, they would have both been more practically effective and less onerous to administer. Speaking only of Regulation U, there would have been no such crashing of the stock market in 1929 as took place had those stocks been sold to buyers who were paying for them out of income over a reasonable period of time. It is a very simple example in arithmetic that the smaller the down payment the purchaser can or does make, the larger the unpaid balance will be and the more out of each month's income it will take to pay it off in a given period of time. The larger the payments out of income that will be required, the smaller the total amount of the purchase will be. It is also axiomatic from the banker's point of view that the smaller the down payment made, the faster the borrower or purchaser must be required to pay it off from a credit point of view, Regulation or no Regulation."

This may or may not be a new idea to you. I do not recall ever having seen or heard it expressed before.

Even though we are on opposite sides of the fence with respect to the desirability and practicability and efficacy of the control of consumer credit as ~~the~~ a regulatory factor in the business cycle, I should like very much to talk with you in person in a perfectly open and frank manner. There are certain problems in connection with the regulation of consumer credit from a practical point of view, in dealing with millions of individuals, which I feel have not been given sufficient consideration.

Hon. Marriner S. Eccles
November 1, 1946
Page 2

I have a very high personal regard for the official personnel of the Federal Reserve System. Dr. E. A. Kincaid, Vice President, and Hugh Leach, President, of the Federal Reserve Bank of Richmond, have been friends of mine for a good many years. Since coming to Washington from Richmond, I have become very pleasantly acquainted with Bonnar Brown and Elliott Thurston. I have also had very pleasant conversations with Governor Vardaman and Governor Ransom, though I have not seen the latter for slightly more than a year, just prior to being released from the Navy.

Please be assured of my unreserved willingness and desire to give you a frank expression of the viewpoint of our members, as far as I can interpret it, at any time.

Sincerely yours,

G M Underhill

Gary M. Underhill
Executive Director
CONSUMER BANKERS ASSOCIATION

PEG

November 5, 1946.

Mr. Gary M. Underhill,
Executive Director,
Consumer Bankers Association,
1025 Connecticut Avenue,
Washington 6, D. C.

Dear Mr. Underhill:

The suggestion in your letter of November 1 in regard to having any regulation of consumer or instalment credit limited to the so-called maturity prong of the regulation was considered carefully at the time the present regulation was written and has been put forward from time to time since then by some of the registrants. However, it has not appealed to the Board or to the staff who have been familiar with the particular problems of the regulation as a feasible or workable idea. The conclusion, in which I venture to say almost all of the Federal Reserve Banks would concur, is that elimination of a down payment would result in the writing of a far greater number of contracts for goods than would be the case if a substantial down payment were required, and that the end result would be innumerable defaults if the maturity period were short enough to have any real influence.

You are frankly opposed, I know, to having Congress enact legislation extending some form or degree of controls over consumer credit. If the Congress decides at least to give the matter a hearing, I imagine there will be quite a mixture of opinion from the trade in general. Some groups, like your own, are vigorously opposed while others appear to be favorable.

I would be glad always to have the benefit of your views as a practical matter in dealing with such a regulation. I hope you will not hesitate also to pass them on to Ronald Ransom who, as you know, has had the special responsibility of supervising this regulation for the Board.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b