

Minutes of actions taken by the Board of Governors of the  
Federal Reserve System on Thursday, February 13, 1947.

PRESENT: Mr. Eccles, Chairman  
Mr. Evans

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Thurston, Assistant to the Chairman

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

"This refers to your letter of January 23 regarding the penalty of \$22.36 incurred by Beach Haven National Bank and Trust Company, Beach Haven, New Jersey, as a result of a deficiency in reserves for the period ended December 31, 1946.

"It is noted that the member bank has not incurred a penalty for deficiency in reserves for over three years; that your request for authority to waive the penalty was forwarded at the request of the member bank and without recommendation on your part; that the bank gave as its reason for the deficiency the nonreceipt of a notice of withdrawal of part of its War loan deposit, the amount of which was subsequently charged to its reserve account; that notices announcing this war loan deposit withdrawal were sent to all war loan depositories affected in your District; that daily statements of reserve accounts are sent to all member banks, so that the Beach Haven Bank knew within a day that its reserve account had been charged for the war loan withdrawal; and that the Vice President of the member bank states that, although the charge was called to the attention of the bank's bookkeeper, he waited for an advice and must have overlooked it for several days.

"Since this is the first penalty incurred by the subject member bank in over three years and since it is not greatly in excess of the amount your Bank could waive under the rules enclosed with the Board's letter S-902 of March 5, 1946, the Board authorizes your Bank not to make the assessment, if in its opinion the assessment would serve no useful purpose."

Approved unanimously.

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

"This is in reply to your letter of January 25, 1947, which enclosed a letter from Automobile Banking Corporation, Philadelphia, relating to Regulation W.

"We agree with you that it would be undesirable for the Board to adopt your correspondent's suggestion to limit the price of new automobiles for the purpose of determining the maximum credit value under Regulation W. As you observe, it is not the purpose of the regulation to police the actual cash prices at which cars are sold. The appraisal guide limitation on the credit value of used cars, in Part 4 of the Supplement, is not designed to limit the prices of these cars, but to restrict the practice of inflating the price of both the used car sold and the car traded in in order to evade the down payment requirement.

"We recognize that the regulation may appear inconsistent, in its terms for new cars, to the extent that new car dealers are in fact selling cars as new at prices above the list price. It has been our understanding, however, that in most instances when a current-year model car has been sold for more than its list it has been sold as a used car rather than as new. It would seem that the interests of both the manufacturers and the dealers would influence authorized new car dealers generally to avoid overt sales of new cars at prices above the list, though in some cases they may so sell them as used cars, for example, as demonstrators or after a dummy titling. As indicated by the Board's letter S-952, dated January 7, 1947, a current-year model car sold as a used car may be presumed to be a used car and subject to the appraisal guide provision of the regulation.

"It may be significant in this connection that certain appraisal guides currently quote higher prices for used 1946 car models than the factory delivered price. Hence, it is permissible under the regulation for the credit value of a 1946 model car to exceed two-thirds of the authorized delivered price, if it is sold as a used car and the appraisal guide value is more than the list price. Although

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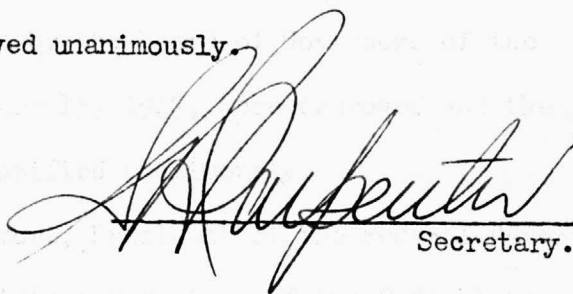
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"some inflation of credit values may occur in this way, it has seemed advisable for administrative reasons that in general we consider sales of current-year model cars at prices above the list to be used car transactions, so that they are subject to the appraisal guide provision.

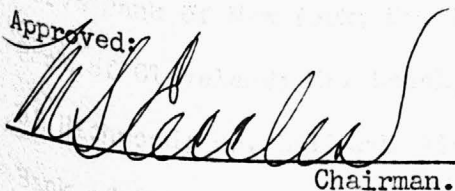
"Most retail values of used 1946 models in the more widely used appraisal guides are now less than the local delivered new car price, and the appraisal guide provision should become an increasingly effective limitation on the credit extended on current-year model cars as the markets reflect more normal supply-demand relations. As inferred above, we doubt that many new-car dealers would be willing to jeopardize their relations with their factories and customers by claiming that a current-year car model sold above the factory authorized price was new rather than used, in order to circumvent the appraisal guide limitation on the credit extended.

"In view of these considerations, we had not thought that the inconsistency referred to by your correspondent was of material importance in practice, but we appreciate his interest and will keep this point in mind in our continuing studies of the regulation."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.