

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 2, 1947.

PRESENT: Mr. Eccles, Chairman
 Mr. Draper
 Mr. Evans
 Mr. Vardaman
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Chairman

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 1, 1947, were approved unanimously.

Letter to Mr. Douglas, Vice President of the Federal Reserve Bank of New York, reading as follows:

"The Board of Governors approves the changes in the personnel classification plan of the Federal Reserve Bank of New York, involving the abolition of certain positions in the R. F. C. Custody and Savings Bond Redemption Departments, as submitted with your letter of March 28, 1947."

Approved unanimously.

Letter to Mr. Wysor, Federal Reserve Agent of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of March 31, 1947, the Board of Governors approves the appointment of Mr. George E. Thompson, Jr. as Alternate Assistant Federal Reserve Agent at his present salary of \$2,940.

"This approval is given with the understanding that Mr. Thompson 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

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"as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"It is noted from your letter that Mr. Thompson will execute the usual oath of office which should be forwarded to the Board, and his appointment will become effective at that time."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to the Honorable Charles W. Tobey, United States Senate, reading as follows:

"This is in reply to Mr. Hill's letter of March 13, requesting the opinion of the Board of Governors on the merits of bill S. 414 which is now before the Senate Committee on Banking and Currency.

"The Board does not believe that it would be desirable to institute a government system of export credit insurance or of transfer guarantees at the present time. We therefore do not believe that it would be wise for Congress to enact this bill.

"One of the stated purposes of the bill is to assist small business, and the Board is in general sympathetic with efforts to stimulate development of small business enterprise. It seems doubtful, however, whether the provision of export credit insurance would make any substantial contribution to the problems of small business in our foreign trade. The handling of credit and transfer arrangements is only one of the many points at which foreign trade presents special difficulties to a small domestic firm. It seems more likely that, if the proposed system is set up, such use as may be made of it will be primarily by larger enterprises.

"The bill under consideration would in effect utilize the credit of the government to stimulate private financing of export business. The Board believes that to the extent that such stimulation

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"might succeed merely in expanding the total volume of exports, without regard to the needs of recipient countries, it would run contrary to the basic interests of this country at the present time. There is already a heavy foreign demand for American goods and, at least for the next year or so, there will be no lack of foreign markets for the volume of goods that our domestic economy can afford to export. It is true that the United States Government has been extending assistance to foreign countries to finance exports on a very substantial scale, but such assistance has been justified primarily because it would help in the rehabilitation or development of the recipients' economies or would otherwise promote political and economic stability abroad. These purposes ordinarily call for foreign credits (or grants) that are carefully directed toward specific objectives, and they would not be served by the promotion of exports to the world in general without regard to the use to be made of such exports by the recipient countries.

"Under these circumstances, there appears to be no adequate justification for setting up the proposed system of insurance at the present time. Even from a much longer term point of view, it would appear that our principal economic problem with respect to our foreign trade will be, for many years to come, the development of a level of imports high enough to provide foreign countries with the dollars they need to purchase our exports and to service their debts to us. Any consideration of new government machinery for promoting foreign trade might better be devoted to the field of import stimulation rather than to new systems of export promotion."

Approved unanimously.

Letter to the American Installment Credit Corporation,
103 Park Avenue, New York 17, New York, reading as follows:

"We have recently received a number of complaints concerning an advertisement of the American Bank Credit Plan appearing in the February 24 issue of Automotive News.

"We wish to call your attention to the fact that the advertisement cites the 'Federal Reserve Board Bulletin' as a source of the figures presented.

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"The Federal Reserve Bulletin carries no figures on total sales finance company holdings of retail automobile paper and no figures covering all sales finance companies are compiled or estimated by the Board. A figure purporting to represent such holdings derived by subtracting from our estimate of total automobile sale credit outstanding the holdings of commercial banks would represent the holdings of all nonbanking agencies, not of sales finance companies exclusively. There are no figures available which measure directly the amount of automobile sale paper held by each of the various nonbanking agencies or the amount retained by automobile dealers themselves, and which could be used to show changes in the proportions held by each between 1941 and 1946.

"The bar chart in the advertisement purports to show that banks held 32 per cent of the automobile sale paper at the end of 1941 and had increased this proportion to 59.5 per cent by the latter part of 1946. These percentages can be obtained only if the bank figures include both direct retail automobile loans and automobile paper purchased from dealers. Since the chart is entitled 'Auto Time Sales Outstanding,' loans made directly to consumers by banks for the purchase of cars are improperly included.

"Even if the derived figure for sales finance companies shown in the advertisement were an accurate measure of their holdings, there is no statistical justification for comparing paper purchased from dealers by sales finance companies with paper purchased from dealers by banks plus the latter's direct automobile loans. No allowance is made for direct loans of sales finance companies although it is common knowledge that their direct lending has increased sharply in recent years. Inasmuch as the text of the advertisement emphasizes that 'This Dealer-Bank Plan will stop time sales business from going to "Bank-Agent" and "Direct to Public" plans,' it is difficult to understand why direct automobile loans of banks were included.

"Another point to which your attention should be directed is that the year 1946 is an unsatisfactory one to compare with 1941 for purposes of showing competitive trends in instalment financing of automobiles. In 1946 the car market was dominated by cash buyers and, because of prevailing high prices for both new and used

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"cars, catered to upper income groups. Any judgments as to competitive trends as between banks and sales finance companies made at this time, therefore, will be subject to revision when more normal conditions prevail with regard to use of credit in financing car purchases and with regard to car prices. The choice of 1946 as a year to contrast with 1941, even on the basis of comparable data for banks and sales finance companies, were such available, would probably give a more favorable result for banks than will be shown in some future year.

"The Board compiles statistical information covering the consumer credit field to serve the public interest. Every effort is made to provide reliable estimates and to present them in such a way that misinterpretation will be avoided.

"After careful study of this matter, we believe that this advertisement uses figures which are improperly ascribed to the Federal Reserve Bulletin and also that the advertisement is misleading for the reasons above indicated. The Board therefore requests that in the future your company refrain from using this or similar advertisements which, by the partial use of figures published by the Board of Governors in the Federal Reserve Bulletin or otherwise, may tend to produce erroneous impressions. We should appreciate it if you would advise us with respect to whatever steps your company may take in this connection. Also, we should be glad to discuss this matter with representatives of your company personally at your earliest convenience."

Approved unanimously, together
with a letter to Mr. Paul M. Millians,
Vice President, Commercial Credit
Corporation, Baltimore, Maryland,
reading as follows:

"This is with reference to your letter of March 6 requesting information on data used in an advertisement sponsored by the American Installment Credit Corporation.

"As you may know, the Board does not compile figures covering total retail automobile receivables of sales finance companies and has published no such estimates in the Federal Reserve Bulletin. The figures used for sales finance companies represent an independent computation by

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"the American Installment Credit Corporation. The bank figures used in the advertisement are published estimates, but include direct automobile loans as well as retail automobile paper purchased from dealers.

"The figures for automobile time sales outstandings for sales finance companies as shown in the advertisement evidently were derived by deducting from our estimate of automobile sale credit outstanding the amount of purchased automobile paper held by commercial banks. The figures on which this computation was based appear in the January Bulletin, pages 84 and 85, and were obtained as follows:

	<u>In millions of dollars</u>	
	<u>Dec. 31, 1941</u>	<u>Nov. 30, 1946</u>
Automobile sale credit out- standing	1,942	505
Less: Purchased retail automobile paper held by commercial banks	<u>411</u>	<u>174</u>
Residual (shown as sales finance company holdings)	1,531	331

"The advertisement also cites figures on the unpaid balances of time sales contracts acquired by banks from dealers or direct, amounting to 721 million dollars at the end of 1941 and to 488 millions on November 30, 1946. The so-called direct automobile loans of banks are unpaid balances of loans 'arising from the retail sale of and secured by automobiles.' The advertisement does not show separately the paper purchased from dealers although the chart is titled, 'Auto Times Sales Outstandings.' The estimated breakdown of automobile paper held by banks is given below.

	<u>In millions of dollars</u>	
	<u>Dec. 31, 1941</u>	<u>Nov. 30, 1946</u>
Total retail automobile in- stalment paper outstanding at commercial banks:		
Purchased paper	<u>411</u>	<u>174</u>
Direct loans	310	314

"The comparisons in the chart would be quite different if they were based on the amount of automobile paper purchased from dealers as the caption would lead you to expect.

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"We do not agree with the conclusions reached by the American Installment Credit Corporation, nor do we approve of this company's interpretation of our estimates. We are taking prompt steps to prevent a repetition of such misuse of our statistics."

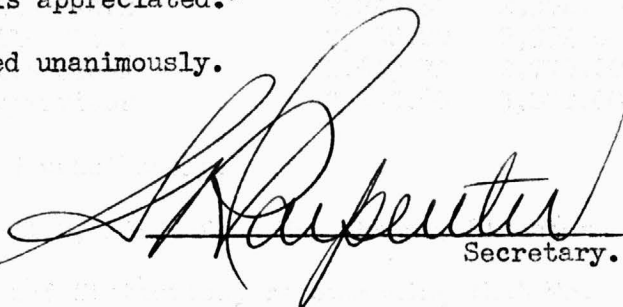
Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of March 25, 1947, outlining a proposal to raze the building on the lot adjoining the New Orleans Branch building so that the lot can be used for loading and unloading purposes. It is noted that although this building is now rented for \$500 a month the building has been unoccupied for some months and the lease will expire soon.

"It is understood that the project will include putting an entrance from the present branch building to the lot and making certain other improvements to the lot and building, and that the cost of the work will be about \$10,000.

"The Board will interpose no objection to your proceeding with the plans as outlined in your letter and the architects' report. Your keeping us advised of developments with respect to the branch building construction programs is appreciated."

Approved unanimously.


Secretary.

Approved:

Chairman.