Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 13, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Brown, Assistant Director of the Division of Research and Statistics
Mr. Solomon, Assistant General Counsel

Upon motion by Mr. Clayton, it was voted unanimously to elect Mr. Eccles to serve as Chairman pro tem. during future absences of the Chairman and Vice Chairman, and to elect the senior member of the Board present to serve as Chairman pro tem. during future absences of the Chairman, Vice Chairman, and Mr. Eccles.

There was presented a telegram to Mr. Johns, Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"Retel August 12, Board approves effective August 16, 1948, rates of 1-1/2 per cent on discounts and advances under Sections 13 and 13a except advances to individuals, partnerships and corporations "other than member banks under last paragraph of Section 13; 2 per cent on advances under Section 10(b); and minimum buying rate of 1-1/2 per cent on bankers' acceptances. Otherwise Board approves establishment without change of the rates of discount and purchase in your existing schedule, advice of which was contained in your telegram dated August 12. Board will announce change at 4 p.m. EDT today."

Approved unanimously.

It appeared most probable at the time of this meeting that the President would sign the bill passed by the special session of the Congress to authorize the Board of Governors to regulate consumer instalment credit. It was stated in that connection that when Regulation W lapsed on November 1, 1947, consumer credit was among the list of subjects assigned to Mr. Evans for primary consideration, but that it was dropped from his assignment in subsequent actions of the Board because of the termination of the Board's authority in that field.

By unanimous vote, the subject of consumer instalment credit was added to Mr. Evans' assignments with the understanding that Mr. Clayton, Mr. Evans' alternate on his other assignments, would be his alternate on this assignment also.

Mr. Evans stated that he had been meeting with the informal staff group to which he had referred at the meeting of the Board on August 10, 1948, to formulate recommendations to be made to the Board at this meeting with respect to the provisions to be included in the new Regulation W to be issued by the Board. He presented the recommendations as agreed upon by the group as follows:

"The regulation should be published at the earliest possible date to be effective September 20, which is Monday. In reaching this conclusion it was thought desirable if possible to defer releasing the regulation until printed copies were available here and at the Federal Reserve Banks which might make the release date Thursday or Friday of next week. Mr. Evans would be given authority to make the release date one week later if unforeseen circumstances should make this desirable.

"The dollar limit on credits subject to the regulation would be fixed at $4,000.

"The regulation should grant a general license to all those subject to the regulation and require the submission by each person subject to the regulation of a simplified statement (which might or might not be called a registration statement) within 60 days after the effective date or 60 days after the person becomes subject to the regulation.

"The provisions with respect to the use of appraisal guides on used automobiles should be made effective as of the effective date of the regulation.

"Inclusion of disposal units in the regulation should be postponed until a decision is reached on repair and modernization loans but mechanical driers should be included.

"No change should be made in the $50 exemption contained in the old regulation or in the minimum monthly payment of $5.

"Repair and modernization loans should not be included at this time, but the press release announcing the regulation should include a statement to the effect that because of the technical difficulties involved such loans are not being covered by the regulation at this time but that the problem is being studied and they may be included later.

"No change in the provisions with respect to the validity of contracts covered by the regulation is recommended at this time because of the problems that such a change would raise.

"The following calendar is suggested:

a. Publish the regulation as soon as possible.
b. Simultaneously with the publication of the regulation a letter should be sent to the Federal Reserve Banks advising them in general terms what the Board expects in the way of additions to the staff at the Federal Reserve Banks and enforcement of the regulation.
c. The regulation would be discussed at the next Presidents Conference during the first week of October.
d. A conference would be held in Washington somewhere around the middle of October of the officers at the Federal Reserve Banks who will have immediate charge of the administration of the regulation.

"Mr. Evans would be authorized to change this schedule if circumstances should make it desirable.

"Mr. Evans would hold a series of conferences with the heads of the FDIC and other agencies who in the past had been looked to to enforce the regulation insofar as it related to the organizations over which the agencies had jurisdiction. He would point out that the regulation is now based on a statute enacted by the Congress, that the Board feels that the regulation should be enforced, that the Board would look to the respective agencies to enforce the regulation as it had done heretofore, that since the Board had a definite responsibility and must know that the regulation was being enforced without favoritism, if the agencies could assure the Board that that could be done so far as they were concerned, the Board would be glad to look to them, but that otherwise the Board would have to take independent steps for enforcement. These conferences would be followed by a letter confirming the understanding so that it would be made a matter of record. It was thought that after the conferences with the FDIC and the Comptroller of the Currency, the chairman of the executive committee of the State Bank Supervisors might be invited to come to Washington for the same kind of conference with respect to nonmember noninsured banks.

"The regulation should require a down payment of 1/3 on automobiles and 20 per cent on other listed articles.

"This would mean no change in the down payment for automobiles, furniture and floor coverings but would be a reduction from 1/2 to 20 per cent for such items as stoves, refrigerators, etc.

"There was agreement that the maturity on automobiles should be 18 months except that the maturity on prewar cars might be 15 months. There was a difference of opinion as to whether the maturity on other items should be 15 or 18 months."

With respect to provisions in the new regulation regarding maturities of loans, Mr. Evans stated that the group had agreed to recommend a maximum maturity of 18 months on automobiles except that the maturity on prewar cars might be 15 months, but that there was a difference of opinion as to whether the maturity on other items would be 15 or 18 months.

There was a discussion of the recommendation that no change be made in the provision in the old regulation to the effect that the failure of contracts covered by the regulation to comply with its provisions would not affect the validity of such contracts.

Mr. Vardaman felt strongly that this provision be changed to make such contracts unenforceable.

Mr. Solomon outlined the reasons why, in the opinion of the Legal Division, this would be an undesirable change at this time, and he and Mr. Vest joined in the view that it would be undesirable to include such a provision in the regulation without first publishing notice and affording interested persons an opportunity to be heard in accordance with the provisions in the

Administrative Procedure Act and the regulations issued by the Board thereafter.

Question was raised whether it would be desirable to comply with the provisions of the Administrative Procedure Act with respect to notice and opportunity for hearing before any regulation was issued by the Board under the authority that would be granted by the new legislation. It was agreed, however, that, because of the emergency circumstances under which the law was passed by the Congress at a special session, the Board would be complying with the provisions of the Administrative Procedure Act if it adopted the regulation to become effective within a reasonable period, say 30 days, after it was issued.

> There was a discussion of the reasons which might be advanced for and against an amended provision in the regulation which would render unenforceable contracts which did not comply with the terms of the regulation, and at the suggestion of Mr. Evans it was agreed unanimously that the decision on this question should be deferred until the meeting of the Board on Tuesday, August 17, 1948, and that in the meantime the Federal Reserve Banks should be asked by wire for their views on the problem.

Reference was then made to the recommendation of Mr. Evans and the staff group that the dollar limit on credits subject to the regulation be fixed at $4,000. Following a discussion of this point it was agreed that the amount described in the regulation should be $5,000.

The question of maturities was considered at length in the light of the possible effect of various maturity requirements on the level of consumer instalment credit outstanding and on the demand for consumer goods covered by the regulation. Mr. Evans stated that the down payments and maturities which had been discussed by the staff group would be somewhat more liberal than those contained in the old Regulation W when it lapsed on November 1, 1947, but that a down payment of 33-1/3 per cent on automobiles and 20 per cent on all other items covered by the regulation and maturities of 18 months on postwar cars and 15 months on all other items would be more restrictive than the terms now generally in effect.

The advantages from an administrative standpoint of a uniform maturity for all instalment sales credits and unclassified credits covered by the regulation were discussed, at the conclusion of which there was agreement on the following points:

1. That substantially the recommendations submitted by Mr. Evans should be incorporated in the new regulation except that the maximum credit covered by the regulation should be $5,000.

2. The regulation should provide for a maximum maturity of 18 months on first-sale automobiles and a maximum maturity of 15 months on all other items covered by the regulation and on unclassified loans.

At this point Messrs. Riefler, Vest, Leonard, Young, Brown, and Solomon withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 12, 1948, were approved unanimously.

Memorandum dated August 11, 1948, from the Division of Personnel Administration submitting recommendations from the respective division heads that increases in the basic annual salaries of the following employees in the indicated divisions be approved, effective August 22, 1948:

Name	Designation	Salary Increase From	To
LEGAL DIVISION			
G. Howland Chase	Assistant Counsel	$8,389.80	$8,808.75
Alfred K. Cherry	Assistant Counsel	8,389.80	8,808.75
RESEARCH AND STATISTICS			
Harold L. Cheadle	Economist	4,479.60	4,730.40
Merton H. Miller	Economist	3,852.60	4,103.40
Caroline Lichtenberg	Research Assistant	2,974.80	3,225.60

Approved unanimously.

Memorandum dated August 9, 1948, from Mr. Vest, General Counsel, recommending (1) that effective August 13, 1948, Frederic Solomon, Assistant Counsel in the Legal Division, be promoted to Assistant General Counsel, that he be in charge of the office in the absence of the General Counsel and the Associate General Counsel, and that his salary be increased from $9,706.50 to $10,330 per annum, effective August 22, 1948; (2) that effective August 13, 1948, John C. Baumann, Assistant Counsel in the Legal Division, be promoted to Assistant General Counsel, that he be in charge of the office in the absence of the General Counsel, the Associate General Counsel, and the other Assistant General Counsel, and that his salary be increased from $9,108 to $10,000 per annum, effective August 22, 1948; and (3) that Mr. Vest be authorized over the next month or two to attempt to find a relatively young lawyer who would be qualified for employment in the office and to recommend his employment by the Board at a salary not to exceed $4,103.40 per annum.

Approved unanimously.

Memorandum dated August 9, 1948, from Mr. Smead, Director of the Division of Bank Operations, recommending the appointment of Mrs. Maria Jo Peterson as a clerk-typist in that Division, on a temporary basis for a period continuing through December 31, 1948, with basic salary at the rate of $2,284 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination. The memorandum also stated that it was not contemplated that Mrs. Peterson would become a member of the Federal Reserve retirement system during the period of her temporary employment.

Approved unanimously.

Letter to the board of directors of the "Security State Bank of Basin", Basin, Wyoming, stating that, subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System, and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved unanimously, for transmission through the Federal Reserve Bank of Kansas City.

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

"Reference is made to your letter of August 9, 1948, submitting certified copies of resolutions adopted by the Board of Directors of the Community State Bank, Grandville, Michigan, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice usually required.

"In view of the Reserve Bank's favorable recommendation, the Board of Governors waives the usual requirement of six months' notice, as requested. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Community State Bank, Grandville, Michigan, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon.

"Inasmuch as the bank has applied for continuance of its insurance with the FDIC, it has four months from the date of this letter to accomplish termination of its membership (F.R.L.S. #3548).

"Please advise the Board of Governors when cancellation is effective and refund is made. The Certificate of Membership issued to the bank should also be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and when it has been effected."

Approved unanimously.

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Telegram to the Presidents of all Federal Reserve Banks reading as follows:

"It will be appreciated if you will consult with your Counsel and others as you may think desirable and give the Board the benefit of your views as early as possible Monday morning regarding the following alternatives:

"1. Retain section 8(c) of old Regulation W (based on section 2(d) of Executive Order), under which noncompliance of contracts with the provisions of the Regulation does not affect the right to enforce contracts.

"2. Change section 8(c), or replace it with a new provision, so that noncompliance with the regulation, or with certain provisions such as those relating to downpayments and maximum maturities, would cause contracts to be unenforceable.

"3. Retain section 8(c) when the new regulation is issued, but publish in the Federal Register notice pursuant to the Administrative Procedure Act that consideration is being given to changing the provision and inviting comments, with a view to possibly changing section 8(c) after new Regulation W has become effective. Such notice would be published when the new regulation is issued, or very promptly thereafter."

Approved unanimously.

Letter to Mr. Frank A. Southard, Jr., Director, Office of International Finance, Treasury Department, reading as follows:

"Reference is made to your letter of July 9, 1948, and our reply dated July 15, concerning the participation of the Federal Reserve System in the Brazilian mission.

"This is to confirm the Board's willingness to make available the services of Mr. Arthur B. Hersey to serve as a member of the technical staff of the mission, in accordance with previous informal discussions.

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"The Board is also glad to note that in accordance with earlier discussions, arrangements have been completed for Mr. H. V. Roelse, Vice President of the Federal Reserve Bank of New York, to serve as a member of the mission and for Mr. P. J. Glaessner of that bank to serve as a member of the technical staff."

Approved unanimously.

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"The procedure outlined in your letter of June 3, 1948, for determining the cost of the Cincinnati branch building and that portion of the cost to be allocated to 'building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures' seems reasonable and is acceptable to the Board.

"It is noted that you will send us a revised Form F.R. 320a to accord with the determinations set forth in your letter. It is suggested that the expenditure of $40,134.25, incurred in connection with the redemption of the bonds, be charged to profit and loss and shown separately in the Profit and Loss statement against appropriate captions."

Approved unanimously.

S R Carpenter
Secretary.

Approved:

M S Eccles
Chairman pro tem.