

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 2, 1948.

PRESENT: Mr. Draper, Chairman pro tem.
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser

Memorandum dated August 26, 1948, from Mr. Leonard, Director of the Division of Examinations, recommending increases in the basic annual salaries of the following employees in that Division, effective September 5, 1948:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Arthur H. Lang	Federal Reserve Examiner	\$6,953.40	\$7,432.20
John N. Kiley, Jr.	Asst. Fed. Res. Examiner	4,855.80	4,981.20
J. Earle McGeary	Asst. Fed. Res. Examiner	3,978.00	4,228.80
John F. Clark	Asst. Fed. Res. Examiner	4,103.40	4,228.80
Louis W. Zidek	Asst. Fed. Res. Examiner	3,852.60	3,978.00
Helene L. Ahalt	Secretary to Mr. Leonard	3,852.60	3,978.00
Frances Scott	Secretary to Mr. Millard	3,476.40	3,601.80

Approved unanimously.

Telegram to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"Retel September 1. Board approves appointment of Henry B. Hoppe as Federal Reserve Agent's Representative, New Orleans Branch, with salary at rate of \$4,000 per annum.

"This approval is given with the understanding that Mr. Hoppe 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,

9/2/48

-2-

"and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Federal Reserve Agent's Representative he may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of the New Orleans Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

"Mr. Hoppe should execute the usual oath of office which should be forwarded to Board together with advice of effective date of appointment."

Approved unanimously.

Letter to the Attorney General, for the attention of Mr. Alexander M. Campbell, Assistant Attorney General in charge of the Criminal Division, reading as follows:

"On May 27, 1942 (WB:WHM:rh-146-17-012) your Department wrote to this Board that it was in accord with the proposals regarding the enforcement of Regulation W (relating to Consumer Credit) which the Board had set forth in its letter of May 22 to your Department.

"In view of the enactment of Public Law 905, approved August 16, 1948, and the consequent reissue by the Board of Regulation W to become effective September 20, 1948 (13 F.R. 4865-4877), the enforcement of the Regulation is again a matter of interest. The authority in Public Law 905 for civil suits may have a bearing on some phases of enforcement procedure, and it is possible in present circumstances that there may be greater need for the Board to refer cases to you for the possible institution of criminal proceedings. However, the arrangements set out in the previous correspondence would seem to be generally appropriate as an enforcement procedure at the present time.

"It will be appreciated if you will confirm this understanding."

Approved unanimously.

-3-

9/2/48

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

"As indicated in the Board's wire of August 18, 1948, advising you of the adoption of Regulation W, the direct responsibility which the law has placed on the Federal Reserve System makes it essential that adequate steps be taken to assure compliance with the regulation.

"The June 30, 1949, Expiration Date -- The Board recognizes the difficulties that arise from the June 30, 1949, expiration date that appears in Public Law 905. Among other things, that date will have a tendency to impair compliance with the regulation before that date, and the Board believes that a vigorous educational and enforcement program by all the Reserve Banks is especially necessary in order to prevent such impairment.

"No one can know whether the June 30, 1949, date will be extended -- and that is true not only of the Board and the Reserve Banks, but also of such Registrants as might be inclined to neglect their obligations under the regulation. A realization on the part of all Registrants that enforcement will begin early and continue vigorously should be one of the best means of maintaining respect for the regulation and compliance with its terms. The new enforcement powers in Public Law 905 should be helpful in this connection.

"General Program -- The Board believes that the program outlined in its letter (S-909, F.R.L.S. #8504) of April 30, 1946, affords, in the main, a sound basis for the enforcement of the present regulation. However, the Board believes that the activities there outlined should be conducted on a more extensive scale and with a more selective approach as outlined in the following paragraph.

"As a new measure for minimum investigative work in the field the Board requests that each Reserve Bank undertake a program which would result in the completion in nine months of about the same amount of investigative activity as was requested by the Board in S-909 for a twelve months' period. This would not, however, be

-4-

9/2/48

"measured in terms of any set percentage of Registrants to be investigated. A selective approach is suggested which will concentrate the effort at those points where the most can be accomplished. Such an approach will place considerable emphasis on the checking of purchased paper at financial institutions, mainly banks and sales finance companies, where paper from many sources can be inspected at one time. In this connection, the Board feels that the Reserve Banks should take full responsibility for the investigation of all sales finance companies in their districts and should reach an understanding to that effect with any State authorities that have supervisory responsibility for sales finance companies. The Reserve Banks will also need to give special attention to Registrants who retain much of their paper and who are of a type that might have violations in some appreciable amount.

"Section II of the 'Outline of Enforcement Program under Regulation W', sent to the Federal Reserve Banks with the Board's letter of April 30, 1946, mentioned previously in this letter, has been changed to read as set forth in the attached enclosure.

"Staffs and Reports -- The Board is cognizant of the difficulties which may be involved in building adequate staffs of investigators, particularly in view of the June 30, 1949, expiration date. However, it is prepared to approve whatever additional cost may be reasonably necessary and would appreciate resumption of full scale field work among the Federal Reserve Banks by early October. It will also appreciate the resumption of reports as outlined in the Board's letter (S-930, F.R.L.S. #8504.11), of August 27, 1948, the first report to cover enforcement activities for the month of October 1948. A supply of the forms will be furnished to you in due course.

"Effective Administration -- The effective administration of Regulation W -- whether for a few months, or for a longer period -- requires an active two-way flow of information between the Board and the Reserve Banks. It is hoped that you will keep the Board fully informed as to your observation of how the regulation and its administration are working in actual operation, and that you will not hesitate to advise it of any changes that you would care to recommend from time to time in the light of your experience."

-5-

Approved unanimously, together with the revision in the "Outline of Enforcement Program under Regulation W" referred to, reading as follows:

"II Scope of Program

"A. Referring to such credit grantors as are investigated in connection with the regular examinations of supervisory agencies, it is expected that under the usual schedule all these will be covered at least once a year.

"B. For such credit grantors as are investigated by the Federal Reserve Banks' instalment credit investigators, each Federal Reserve Bank will maintain a program which will result in all sales finance companies being investigated in a nine-month period and, in addition, investigations and reinvestigations of other selected Registrants so that, in the aggregate, the enforcement activity in a nine-month period will be equal to the annual activity contemplated by the Board in 1946 as set forth in S-909. While the program does not require an equal amount of enforcement activity in each month or quarter, it is expected that the field work will be reasonably continuous and will not be handicapped by the use of the regular investigators for other work over any extended period. The investigations called for by the minimum standard will be of the type referred to in section I-A-2.

"C. With the exception of sales finance companies, all of which should be investigated in a nine-month period, the distribution of the investigations among the various classes of Registrants and by geographic areas will be determined by each Federal Reserve Bank in such fashion as to obtain the most effective coverage, considering that in certain classes and areas the problem may be more serious than in others."

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

"The following interpretation of Regulation W will appear in the Federal Reserve Bulletin and we suggest

-6-

9/2/48

"you circulate it to interested persons as promptly as possible:

"The Board has been asked about the application of Part 2 of the Supplement to Regulation W which specifies a maximum maturity of 15 months for extensions of credit of \$1,000 or less and a maximum maturity of 18 months for extensions of credit of more than \$1,000 with the exception that for credits of more than \$1,000 the instalment payments shall not be less than \$70 per month. The particular question is whether the \$70 figure applies to the total monthly payment or only to the amount of that payment applicable to the principal of the obligation not including interest or finance charge.

"The instalment payment referred to in the \$70 clause is the total monthly payment. An example of its use in connection with the purchase of an automobile is as follows:

\$1,500.00	Purchase price
<u>500.00</u>	Down payment
1,000.00	Balance of purchase price
<u>90.00</u>	Insurance (15-18 months)
1,090.00	Unpaid balance (principal amount)
<u>98.10</u>	Finance charge at 6% for 18 months
<u>1,188.10</u>	Amount of total obligation

66.01 Monthly payment at 18 months

"As this amount of monthly payment is less than \$70, the number of months over which the contract is payable must be reduced. The longest term available for this transaction with equal monthly payments would be 16 months as shown by the following calculation:

\$1,090.00	Unpaid balance as above
<u>87.20</u>	Finance charge at 6% for 16 months
<u>1,177.20</u>	Amount of total obligation

73.58 Monthly payment at 16 months

"In the usual case, the Registrant will not need to go through these calculations in detail as he will have

-7-

9/2/48

"an appropriate payment chart which will give him the necessary figures directly.

"The Board has also been asked about the application of Part 2 in cases where the insurance and finance charge are not separated and it is not possible to determine the exact 'principal amount'. These are usually cases in which the obligation is purchased from a dealer by a financial institution which furnishes the dealer with charts showing the payments necessary for various balances (purchase price less down payment), the cost of insurance and the finance charge being included in the payments. The balances which can be financed at various maturities can be determined from the charts by following the principle that a balance can be financed at 18 months, at 17 months, or at 16 months if the payments specified in the chart applicable to the transaction for the particular maturity desired are at least \$70 per month.

"This principle is illustrated by the following procedure. The Registrant can ascertain from the chart the smallest balance which requires monthly payments of \$70 or more with an 18-months' maturity. That balance and all larger balances may be written with an 18-months' maturity. If the chart shows payments for a 17-months' maturity, the Registrant can ascertain the smallest balance which requires monthly payments of \$70 or more with a 17-months' maturity. That balance and all larger balances may be written with a 17-months' maturity. A similar procedure can be followed if the chart shows payments for a 16-months' maturity. The charts will in many instances be set up by the financial institutions to show these breaking points and it is of course optional with the financial institution whether or not it will take contracts with 16-months' or 17 months' maturities. For ease in handling, the financial institution may prefer to omit the 16-months' and 17-months' maturities, in which case no balance smaller than the balance which requires monthly payments of \$70 or more with an 18-months' maturity could be written with a maturity of more than 15 months."

Approved unanimously.

9/2/48

-8-

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

"Re Regulation W. The Board has realized that the Reserve Banks would be asked questions concerning the status under Regulation W of extensions of credit where arrangements of some kind are made prior to September 20, 1948, but the transaction is not actually completed until after that date. Since there are many different circumstances under which these questions can arise and since almost any ruling might be more of an inducement to than a restraint on avoidance of the regulation by such means, the Board has believed it inadvisable to publish any interpretation on this subject prior to September 20. In the meantime, it may be helpful to you in dealing with inquiries for us to suggest certain aspects which might be kept in mind:

(1) The regulation does not contain any such provision with respect to pre-existing contracts as was contained in the 1941 version. (2) The regulation by its terms applies to all extensions of credit made on or after September 20. (3) For an extension of credit to have been made before September 20, the contract must be complete in all details including an obligation in a specific amount setting forth the specific payments to be made and the dates thereof. The article involved in an instalment sale must be a specific item. A bona fide delivery after the effective date would be permissible provided all the other conditions are met.

(4) The extension of credit may be the subject of an evasive side agreement such as is referred to in section 6(i). Any arrangement after August 20 where it is contemplated that the article will not be delivered or the funds will not be disbursed until after September 20 would be subject to serious question unless the transaction is of such a nature as commonly handled under such an arrangement according to the customary business practices of the vendor. (5) The burden would be on the Registrant to show that a transaction completed after September 20 was not subject to the regulation."

Approved unanimously.

9/2/48

-9-

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

"In connection with publication in Federal Register of proposed changes in Regulation W we would suggest that, if you have not already done so, you discuss subject with national associations the head offices of which are in your district."

Approved unanimously.

Letter to Mr. H. L. Combs, C. & B. Electric, Inc., 116 Delaware Street, Walton, New York, reading as follows:

"This refers to your letter of August 23, 1948, relative to the Board's Regulation W which becomes effective on September 20.

"As a consequence of detailed studies and extended testimony the Congress and the Board concurred in the belief that uncontrolled consumer instalment credit, while not the only nor even the primary factor in our present economic dilemma, was nonetheless exerting undue upward pressure on prices to the extent that the structure of terms had deteriorated unreasonably. It was recognized that consumer instalment credit arising out of the sale of consumers' durables was one of the more volatile elements in the economy and an important factor in contributing toward or detracting from reasonable economic stability. In recognition of these principles the present regulation seeks to permit and to encourage consumer instalment credit to perform its traditional function in the distribution of consumers' durables while at the same time it seeks to discourage its over-expansion. From the majority of the comments about which we have been informed it would appear that most of the trades affected by the new regulation agree that its provisions will not seriously interfere with normal trading activity and that it will provide for a sounder structure of terms.

"You may be certain that the Board recognizes its responsibilities for enforcement of the regulation,

9/2/48

-10-

"and you may rest assured that the several Federal Reserve Banks will vigorously enforce its provisions in their respective districts."

Approved unanimously.

Letter to Mr. W. E. Stremel, Stremel Bros. Manufacturing Company, 260 Plymouth Avenue, North, Minneapolis 11, Minnesota, reading as follows:

"We have read with great interest your letter of July 26, 1948, to Chairman McCabe in which you suggest that, with the view of halting black and gray market transactions in steel, the use of bank credit for such transactions should be prevented through action by the bank supervisory authorities.

"The question whether the Board or other bank supervisory authorities should be granted the authority necessary to effectively regulate the use of bank credit for such purposes is one which would require careful consideration. As an indirect approach to the problem of controlling prices of commodities in short supply, your suggestion raises the basic questions of policy involved in any price control program. In addition, it may be doubted whether regulation of bank credit alone would be sufficient to accomplish the results which you contemplate in view of the other methods which could be used to finance such transactions.

"If the use of credit in transactions involving steel were to be regulated, presumably there would be similar authority to regulate the use of credit in transactions involving other commodities. The exercise of this authority would place a great administrative burden upon the bank supervisory authorities; and, in the absence of a general price control program administered by another agency, it would require the performance of duties which are beyond the scope of the usual functions of such authorities and for which they are not presently prepared.

"We regret that we are unable to make a more favorable reply but assure you that we sincerely appreciate your having written to us."

Approved unanimously.

9/2/48

-11-

Letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to Mr. Mangels' letter of August 14, 1948, transmitting final plans and outline specifications for the proposed Portland Branch building and requesting the Board's approval including authority to procure firm bids for the construction.

"It is noted that the architect estimates that the cost of the building, including contractor's and architect's fees and allowances for contingencies but excluding vaults, will be approximately \$1,882,000, and that the cost of a two-level vault with 30-inch walls and 20-inch doors will approximate \$400,000.

"In view of the considerations outlined in your letter the Board will interpose no objection to the procuring of firm bids for the construction of a building to house the Portland Branch on the basis of proposed plans and specifications, with the understanding that the bids will be submitted to the Board for approval before a contract for the construction of the building is entered into by your Bank."

Approved unanimously.

Letter to Mr. Frank H. Neely, Chairman, Federal Reserve Bank of Atlanta, reading as follows:

"We have cleared with the American Bar Association the matter of further distribution of Mr. Frederic Solomon's article, which is the subject of your letter of August 2. Your suggestion regarding the distribution to be given the article has been discussed, and after consulting with Mr. Solomon it has been decided that the Board should not undertake the primary distribution but leave it to the American Bar Association. The article, excellent as it is, seems clearly to lie outside the field of material for which the Bulletin is intended.

"The Board, however, is in agreement with your view as to the value of the paper and is having it printed separately. When copies are ready, we shall be glad to

9/2/48

-12-

"supply the Federal Reserve Banks with such number as they may wish to have for distribution in their own districts. Thank you for your letter and with kindest regards, I am."

Approved unanimously.

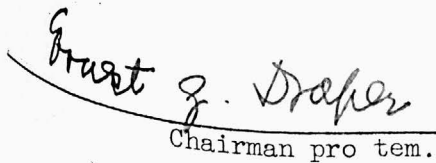
Letter to Mr. Lewis B. Reynolds, Editor and Publisher, Walker's Manual, Inc., 369 Pine Street, San Francisco 4, California, reading as follows:

"Replying to your letter of August 30, 1948, please be advised that, with respect to any proceedings which the Board might institute at any time under the Clayton Act, the Board has adopted a policy that all such proceedings will be treated by it as confidential until such time as a full and complete record may have been made. At the present time there are no Clayton Act cases on the Board's docket in which such a record has been made."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.