

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 24, 1948.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 23, 1948, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 21, by the Federal Reserve Bank of St. Louis on September 22, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and Dallas on September 23, 1948, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated September 24, 1948, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the resignation of Miss Loverne Templeton, a stenographer in the office of Mr. Szymczak, be accepted to be effective, in accordance with her request, at the close of business September 22, 1948, with

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the understanding that a lump sum payment would be made for annual leave remaining to her credit as of that date.

Approved unanimously.

Memorandum dated September 23, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Chester A. Dozier be appointed as a laborer in that Division, on a temporary basis for a period of two months, with basic salary at the rate of \$2,020 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that, because of the temporary nature of his appointment, Mr. Dozier would not become a member of the Federal Reserve retirement system.

Approved unanimously.

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

"Mr. John Grant returned to New York last week after spending a month working with the Board's staff in the preparations for the reinstatement of Regulation W. Mr. Grant was most cooperative, his work was of high order, and his participation was a great help. The Board wishes to record its appreciation of his assistance.

"The Board also wishes to express its appreciation of your cooperation in making Mr. Grant's services available to the Board for a month."

Approved unanimously.

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

"In accordance with the request contained in your letter of September 21, 1948, the Board approves the appointment of Stanley J. Grigalunas, as an assistant examiner for the Federal Reserve Bank of Philadelphia. If the appointment is not made effective October 1, as planned, please advise us."

Approved unanimously.

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

"This refers to your letter of September 17, 1948, enclosing a letter from the New York Stock Exchange regarding Regulation T.

"It appears that the margin clerk of a member firm stated to a customer that if registered stocks were sold in an undermargined account and simultaneously an equal amount of United States Government bonds (exempted securities) were purchased in the account, that subsequently, upon the sale of the exempted securities, registered stocks could then be purchased in an amount equal to the stocks originally sold. After the customer had effected a series of transactions on the basis of the above statement, the member firm discovered the mistake and demanded additional margin, as required by the Regulation, with respect to a purchase of stocks accompanied by a simultaneous sale of exempted securities of equal market value. The customer now refuses to deposit the required margin and threatens to bring suit for damages if the member firm sells securities from the account, as it is required to do by Section 3(e) of the Regulation. The member firm has now discovered that, inasmuch as the customary maximum loan value of the exempted securities is 95%, as contrasted with the prescribed maximum loan value of 25% for registered non-exempted securities, it would have been permissible to sell registered stocks on one day and repurchase an equivalent amount of registered stocks on a subsequent date if the sale and repurchase had been accompanied by a simultaneous purchase and sale, respectively, of exempted securities having a current market value of approximately 15 times the amount of registered stocks so sold and repurchased.

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"The member firm has asked whether it may now purchase, without the deposit of additional margin, the amount of exempted securities which it could have purchased when the registered securities were sold in the account. You have explained to the member firm that Regulation T does not authorize such a transaction, but at the firm's request you have submitted the matter to the Board. The New York Stock Exchange has granted a temporary extension of time within which the member firm is required to obtain the deposit of the required margin or to effect liquidating transactions in lieu of such deposit.

"As you indicated to the member firm, the regulation does not permit the transaction which the firm now proposes. The orderly operation of the regulation requires that certain rules be followed in connection with transactions subject to the regulation. These rules sometimes permit transactions to be effected at certain times and in certain circumstances when they would not be permitted at other times or in different circumstances. Comparable situations are, of course, found in many other fields, for example, in connection with statutes of limitations, tax laws, and negotiable instruments, to mention only a few instances.

"Quite aside from the fact that it appears to be conjectural on the facts as outlined whether the customer has sustained any loss which would be recognizable by the courts, the regulation cannot attempt to provide for a situation such as the firm now presents; nor does it seem reasonable for the customer to expect the broker, at his peril, to anticipate and advise the customer regarding the wide variety of trading possibilities under the regulation that might result in profit or loss, depending on market movements, the customer's skill and other such variable factors."

Approved unanimously.

Letter to Gotham Credit Corporation, Five Columbus Circle,
New York, New York, reading as follows:

"This will acknowledge and thank you for your letter of September 16, 1948, concerning the proposed amendment to Regulation W which would make unenforceable contracts not conforming to requirements of the Regulation.

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"You stated your understanding to be that the Board also was considering a proposed amendment to include under the Regulation credit extended for repairs to automobiles. While the Board has under consideration a proposed amendment which would bring under the Regulation instalment credit for home repair and improvements, no consideration is being given to the matter of repairs to automobiles.

"The Board appreciates your interest in the Regulation and wishes to assure you that the comments submitted by you will receive full consideration."

Approved unanimously.

Letter to Mr. E. L. Wilson, Managing Director, Trailer Coach Manufacturers Association, 20 North Wacker Drive, Chicago, Illinois, reading as follows:

"This refers to the request of the Trailer Coach Manufacturers Association for a ruling on whether or not instalment sales of trailer coaches by dealers are subject to the provisions of Regulation W, which regulates certain types of consumer instalment credit.

"Regulation W, as effective September 20, 1948, prescribes minimum down payments and maximum maturities for credit arising out of the instalment sale by dealers of a number of kinds of consumers' durable goods. Since trailer coaches are not included in the list of articles, instalment contracts payable to dealers are not subject to the regulation. Such contracts may be purchased or discounted by financial institutions without restriction, and it is immaterial whether they are sold with or without recourse.

"Regulation W is also applicable to cash loans made by financial institutions in the amount of \$5,000 or less for purposes other than financing the purchase of listed articles. For these loans maximum maturities of 15 to 18 months are prescribed. Accordingly, a cash loan to finance the purchase of a trailer coach would be subject to the regulation.

"The application of the regulation, for administrative reasons, is therefore dependent on the way in which the financing is arranged. Since most trailer coach

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"financing is through sales contracts entered into by the dealer with the customer, it is assumed that the regulation would have little bearing in this field."

Approved unanimously.

Letter to Mr. Joe W. Thiele, President, Joe Thiele, Inc.,
Room 440, Mayflower Hotel, Washington, D. C., reading as follows:

"Your letter of August 31, 1948, to the San Antonio Branch of the Federal Reserve Bank of Dallas asked about the application of section 6(g) of Regulation W to a certain practice used in demonstrating washing machines.

"The practice you refer to may be described as follows: The salesman takes a washing machine to the home of a prospective purchaser and demonstrates it. If the sale is made at that time, a down payment in the amount required by the regulation is obtained and a sales contract with instalment payments conforming to the regulation is executed. If the sale is not made at that time, the washing machine is not left with the prospective customer.

"In these circumstances, the washing machine would not leave the possession of the salesman and therefore would not be delivered to the customer. Accordingly, no deposit or down payment would be required unless a sale should be made."

Approved unanimously.

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

"Your wire September 23. Board approves the making of a loan or loans on gold by your Bank of up to a total of \$10,000,000 to De Javasche Bank on terms and conditions specified in your wire as follows:

- (A) Such loan or loans to be made up to 98 per cent of the value of gold held in your vaults as collateral;
- (B) Each such loan to mature three months from the date thereof;
- (C) Any such loan to be requested and made on or before March 31, 1949;

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"(D) Each such loan to bear interest from the date such loan is made until paid, at the discount rate of your Bank in effect on the date on which such loan is made;

(E) Renewal if any of any such loan or loans to be subject to agreement between De Javasche Bank and your Bank with no commitment by you for renewal.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

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

"Your wire September 23. Board approves extension by your Bank to March 31, 1949, of the availability of the unused \$20,000,000 balance of the \$50,000,000 gold loan or loans to De Nederlandsche Bank on the same terms and conditions approved in the Board's telegrams of March 26 and 29, 1948.

"It is understood that the usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

Letter to Mrs. Valerie R. Frank, Secretary, Retirement Committee, Retirement System of the Federal Reserve Banks, Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of September 15, 1948, transmitting a copy of the Working Rules for the Board of Governors Plan for submission to the Board.

"The Board of Governors approves the rules as submitted with the understanding that approval of the Retirement Committee will be obtained before they are put into use.

"It is understood that these rules are for purposes of clarification and do not amend or modify the provisions of the Board plan."

Approved unanimously.

Approved:

Mrs. Symmsak
Chairman pro tem.

Secretary
Secretary.