

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 22, 1948. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
Mr. Evans

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Director of the Division of Research and Statistics  
Mr. Leonard, Associate Director of the Division of Bank Operations  
Mr. Townsend, Associate General Counsel  
Mr. Solomon, Assistant General Counsel  
Mr. Lewis, Chief, Consumer Credit Section, Division of Bank Operations.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 19, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on October 21, 1948, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Pursuant to the understanding at the meeting on October 15, 1948, there was a further discussion of the question of amending

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Regulation W, Consumer Instalment Credit, to cover credits for modernization and repair of housing. Mr. Leonard said that, in considering such an amendment to the Regulation and the terms that might be applied, the problem that confronted the Board was entirely different from that which confronted the Federal Housing Administration in placing a 10 per cent down payment on credits since the Federal Housing Administration provision meant that those who wished to insure loans with the Federal Housing Administration had to comply with the required terms but that there was no prohibition against more liberal terms if the loan was not insured. On the other hand, he said, the Board's problem was to prepare an amendment which would prohibit extensions of credit unless they complied with terms permitted under the Regulation. Mr. Leonard went on to say that the staff had been studying the suggestion made at the meeting on October 15 that, as an alternative to covering all repair and modernization credits at the source, the Regulation might be amended to apply restrictions only to financing institutions which made repair and modernization loans or purchased or discounted such paper and to vendors which held paper above a specified volume, that the questions involved in such an approach had not yet been answered, and that no definite amendment along this line had yet been drafted. With respect to terms he stated that discussions with representatives of the Federal Housing Administration indicated they would prefer that the terms be the same as are required

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by the Federal Housing Administration on insured credits, that if a down payment provision were established at more than the 10 per cent figure required for insured credits, there was some opinion that it would open the way to widespread evasion and bring the whole Regulation into disrepute, and that a shortening of the maturity to less than the 36 months permitted by the Federal Housing Administration would affect the earnings of financing institutions and that the Federal Housing Administration advised against it. Mr. Leonard also said the staff felt that, if the Regulation were amended to cover credits of this type, there should be an exemption of credits less than \$200 or \$300 so as to eliminate a substantial percentage of transactions which would otherwise be subject to the Regulation and which would represent only a minor dollar volume. He also said that such an exemption would in practice permit in large degree the absolutely necessary credits to take care of hardship cases which otherwise would call for some special exemption in the Regulation.

In his comments Mr. Leonard referred to the requests from the trade and from members of Congress for public hearings on the question of including repair and modernization credits under the Regulation, stating that the precise form of an amendment would be almost as important as whether one was adopted and the form of the amendment should be discussed with the trade, and it was believed that the earliest possible date on which an amendment could be

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made effective would be January 1, 1949. He added that there had been full opportunity for the public to express views in writing and that it was the view of the staff that if opportunity were given to interested persons to express their views to the Federal Reserve Banks or the Board on the terms of the amendment, there would be little if any advantage in public hearings.

In the ensuing discussion, question was raised as to how a regulation of the type under consideration, if applied only to financing institutions, would differ in effectiveness from the regulation which was operative at the dealer-contractor level during the war, and it was stated that the situation was so different that the experience during 1942 - 1945 would not serve as a guide either to the problems of enforcement that would now be encountered or to the effectiveness of the regulation, and that adoption of an amendment now should not be predicated on the wartime experience.

There was also a reiteration of views expressed at the meeting on October 15 to the effect that the economic situation justified restriction of credits on housing repair and modernization, and that the question was whether an amendment could be worked out which would be practicable and have the effect desired and which would not bring the entire Regulation into disrepute because of administrative and enforcement difficulties.

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In the course of the discussion, Mr. Carpenter read a memorandum from Mr. Clayton dated October 19, 1948, as follows:

"I desire to be recorded as favoring the inclusion of modernization loans under Regulation W, preferably with a 20 per cent down payment. As to the maturity I am not particular whether it is left at 36 months or shortened somewhat under that term."

Mr. Carpenter also said that when he was talking with Mr. Vardaman by telephone on another matter, the latter said he felt the matter of extending Regulation W to cover repair and modernization credits should be fully explored but that in doing so no indication should be given that the Board had reached any conclusions on the matter.

Following the discussion, it was agreed unanimously that a statement with respect to the problem together with a draft of a proposed amendment along the lines discussed at this meeting should be prepared for submission to the Federal Reserve Banks.

In response to a question from Mr. Szymczak, Mr. Townsend stated that the Board's motion to dismiss the complaint for injunction filed by Transamerica Corporation in the District Court on October 8, 1948, was heard on October 20, 1948, and that Judge Morris had stated that he hoped to hand down a decision in the matter early next week.

At this point Messrs. Sherman, Morrill, Thurston, Riefler, Thomas, Leonard, Townsend, Solomon, and Lewis withdrew from the meeting.

There was a further discussion of the present understanding with respect to the use of the Board Members' private dining rooms and it was agreed unanimously that the existing arrangement should be continued

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with the addition of clause (1) shown below  
so that the arrangement would be as follows:

Both the Brown and the Blue dining rooms shall be open to the members of the Board and their guests, the Special Adviser to the Board, the Assistant to the Board and the Assistant to the Chairman, with the understanding (1) that as a general rule a member of the Board will take preferably not more than one guest, and in any event not more than two guests, into the Brown Room, (2) that the Blue Room will continue to be used for special luncheons for the Federal Advisory Council and the Presidents' Conference as in the past, (3) that when a member of the Board wishes to invite a special official guest or guests for a luncheon to which will be invited the other members of the Board, and such members of the staff as the Board member may wish, the Blue Room may be reserved for that purpose and the member arranging the luncheon will advise the other members of the Board and the Supervisor of the cafeteria as far in advance as possible and ask her to reserve the Blue Room for the luncheon, and (4) that when the Blue Room is not being used for a special luncheon as referred to above it will be set up to accommodate eight persons.

The above action was taken with the understanding that as heretofore if any member of the Board was not satisfied with the arrangement he could ask that it be considered by the Board again.

Mr. Szymczak stated that while he was willing to approve the above arrangement as the one most acceptable to a majority of the Board, his personal preference would be (1) to restrict the Brown Room to members of the Board and officers and directors of the Federal Reserve Banks as guests of the Board so that when a member of the Board desired to discuss a System matter such discussion would not be hampered or prevented by the presence of

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guests from outside the System, (2) to limit the Blue Room to official luncheons to which other members of the Board could be invited whenever the nature of the occasion made that desirable, and (3) to take personal guests into the staff dining room or have luncheon served in the Board Member's office, except that in the event the personal guest was someone whom the other members of the Board would be interested in meeting, the guest, in the absence of objection from a member of the Board, could be taken into the Brown Room.

Mr. Eccles suggested that there be placed on the docket for the meeting of the Board on Friday, November 19, 1948, the question of action by the Board further to increase member bank reserve requirements and that the Division of Research and Statistics submit to the Board before that meeting a memorandum outlining the factors that would be considered by the Board in reaching a decision as to the action that it should take.

Mr. Eccles' suggestion was approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 21, 1948, were approved unanimously.

Memorandum dated October 15, 1948, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending

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that the basic salary of Frank R. Garfield, Chief of the Business Conditions Section in that Division, be increased from \$9,706.50 to \$10,305 per annum, effective October 31, 1948.

Approved unanimously.

Memorandum dated October 13, 1948, from Mr. Young, Associate Director of the Division of Research and Statistics, recommending that the basic salary of Mrs. Jennie Lee Glass, a clerk in that Division, be increased from \$2,498.28 to \$2,573.52 per annum, effective October 31, 1948.

Approved unanimously.

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

"The Board notes that, as stated in your letter of September 9 to Mr. Szymczak, you have extended the leaves of Mr. Henry Wallich and Mr. Charles A. Coombs at the request of E.C.A., with which they are serving, and that leave has been granted Mr. Milic Kybal, who is to act as consultant to the Economic Commission for Latin America recently established in Santiago, Chile. We knew of Mr. Philip J. Glaessner's assignment to the Brazilian Mission and of the decision with respect to Mr. John H. Adler, as you say, but were glad to have these cases covered along with the others.

"The arrangement set up in 1945, when the staff and policy groups on foreign interests were established, dealt with such matters as the sending of representatives abroad, research activities in the foreign field, and services to foreign banks and governments or to agencies of this Government involving foreign assignment of System personnel. Whenever the Board or your Bank had occasion to consider sending representatives abroad, the other was to be promptly informed. Since that time

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"there have come into being a number of organizations which were not in existence when the arrangement was adopted, such as the International Fund and Bank, the Economic Cooperation Administration, and various commissions dealing with foreign problems. It is believed that services for such organizations, even though not actually involving service on missions outside the United States, are so closely related to the foreign field which the arrangement was designed to cover that the procedure should be applied to such services as well.

"It would seem clearly desirable that the same principle should apply where Federal Reserve System personnel are asked to serve in advisory or other capacities on projects of private organizations involving relations with foreign governments. For example, while the recent informal assistance given by Mr. Wallich to the Liberia Company would not have fallen strictly within the terms of the 1945 arrangement, the Board feels that any future cases of this kind ought to be treated in the same way as if they involved service for a foreign government.

"In view of these considerations, and for the reasons underlying the 1945 agreement, it is suggested that the Board be informed as soon as a request is received by your Bank for the services of your personnel and before action is taken by the Bank on the request, in order that the matter may be considered in the manner contemplated by the 1945 agreement. The Board will undertake to inform your Bank of such requests in the case of Board personnel and we shall be obliged if you will follow the same procedure."

Approved unanimously.

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

"This will acknowledge receipt of your letter of October 5, 1948 concerning the applicability of Regulation W to instalment sales of the Seeburg record player, and your suggestion that the Board may wish to exclude such sales from the scope of the regulation when they are installed in industrial or commercial establishments.

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"Although the Seeburg instrument plays records in a vertical position instead of horizontally, can play up to 200 selections without repeating or changing and has other rather unusual technical features, there appears to be no basic distinction between it and other higher priced record players commonly used in homes. It is a record player and the brochure published by the Seeburg Company, which you enclosed with your letter, describes its use in the home as well as in factories, clubs, department stores, etc. The case for Seeburg seems somewhat analogous to automobiles used as taxicabs or for other commercial purposes, coin activated washing machines used in customer operated laundries, etc., all of which have been considered in the past as listed articles.

"Although the price of the Seeburg machine is higher than most record players used in homes, it appears to come within the classification of item 8 in Group B of part 1 of the Supplement to Regulation W, because it is not designed exclusively for commercial use and is of a type readily adaptable for household use and it is the Board's view that it is a listed article."

Approved unanimously.

Letter to Mr. Ambrose, Vice President, Los Angeles Branch,  
Federal Reserve Bank of San Francisco, reading as follows:

"There is enclosed a copy of a letter regarding Regulation W, under date of October 2, 1948, from Mr. R. F. Neuman, 354 South Spring Street, Los Angeles 13, California, and it will be appreciated if you will make an appropriate reply.

"Mr. Neuman asks, in effect, whether an arrangement, which may be described for the sake of illustration as follows, would be subject to Regulation W. An automobile dealer would sell three automobiles to three different purchasers with payment to be made in instalments, and the three purchasers would become jointly and severally liable for the entire amount of credit involved in the three sales. The total credit would exceed \$5,000, but the amount involved with respect to each automobile would be less than \$5,000. Each purchaser would be indemnified by a surety bond against defaults by his joint obligors.

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"Viewed in its entirety, it seems clear that the contemplated transaction would really involve three instalment credits, each less than \$5,000, and that it could not properly be regarded as a single credit of more than \$5,000. Accordingly, such transactions would be subject to the Regulation.

"This view is, of course, based on the facts of the particular case presented and, although you probably will not wish to refer to the fact in replying to Mr. Neuman, you will realize that the same conclusion would not necessarily follow in the case of a purchase of several automobiles by an ordinary business partnership or similar group that had an established existence and purpose unrelated to considerations involving Regulation W.

"Mr. Neuman has not been advised that his letter is being referred to you."

Approved unanimously.

Letter to Mr. C. Clinton James, Counsel, District of Columbia Building and Loan League, 818 Washington Loan & Trust Building, Washington, D. C., reading as follows:

"This will acknowledge and thank you for your letter of September 17, 1948, concerning Regulation W.

"Your request, that the Board consider an amendment which would exempt from the scope of the Regulation instalment loans secured by shares of stock in building and loan associations, presents circumstances somewhat analogous to those surrounding instalment loans granted by banks when the borrower has a savings account in the same institution. The subject has been considered before.

"As you know, the purpose of Regulation W is to dampen the rate of expansion of consumer instalment credit because of the inflationary effect such expansion has on an economy in which purchasing power is already excessive as compared with the amount of goods that can be produced for civilian use. To exempt such loans as you describe on the basis of the security only, would be inconsistent with the purpose of the regulation and would present considerable administrative difficulty because of the analogy mentioned above.

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"In view of these considerations, the Board has taken the position that it could not justify the amendment you suggest. We hope you will understand that the decision is one which the Board has made on practical grounds after weighing various considerations on both sides. While there are some situations in which exemption would not make a great deal of difference, the over-all effect would, we believe, be definitely on the inflationary side.

"Your interest in the subject is appreciated."

Approved unanimously.

Letter to Mr. Myron R. Bone, Vice President, American Industrial Bankers Association, 12th Floor Lincoln Tower, Fort Wayne 2, Indiana, reading as follows:

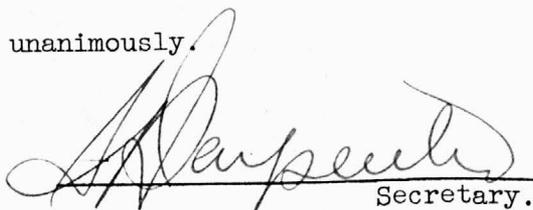
"This will acknowledge and thank you for your letter of October 2, 1948, concerning Regulation W.

"We have noted your protest against certain provisions of the regulation, including differences in the coverage of the instalment loan provisions compared with those applying to instalment sale credit, and the exclusion of certain 'luxury' items and charge accounts from the restrictions of the regulation.

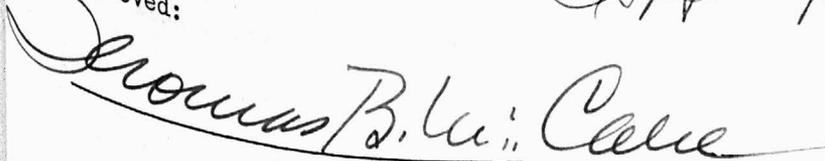
"The exclusion of charge account limitations was directed by Congress in the statute authorizing the regulation. The Board has considered the other provisions of the regulation to which you refer to be appropriate to the purpose of the regulation in helping to restrain the growth of credit inflation.

"The Board is always glad to receive and consider constructive suggestions, however, and we appreciate your interest in writing to us."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.