

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, February 21, 1949. The Board met in the Board Room at 2:45 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
Mr. Townsend, Solicitor
Mr. Millard, Director of the Division of Examinations
Mr. Young, Associate Director of the Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Lewis, Chief, Regulation W Section of the Division of Bank Operations
Mr. Pawley, Division of Bank Operations

Mr. Evans stated that the staff committee had been reviewing Regulation W, Consumer Instalment Credit, for some weeks for the purpose of determining whether a modification in the terms of the Regulation was desirable, and that it was now ready to make a recommendation.

At Mr. Evans' request, Mr. Leonard stated that, as part of the committee's study, a wire dated February 7 was sent to the Vice

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President in charge of administration of the Regulation at each Federal Reserve Bank asking for comments on whether the Regulation should be amended to (a) provide maximum maturities of 18 months for all listed articles and for unclassified loans and (b) reduce the down payments for Group B articles from 20 per cent to 10 per cent. With respect to the first question, he said the replies indicated that six of the Reserve Banks favored the longer maturity suggested while the remaining six were opposed to such a change at this time. With respect to the second question, four of the Reserve Banks favored such a change and eight were opposed.

Mr. Leonard referred to other information that had come to the Board with reference to the liberalization of the Regulation and the various factors taken into account by the committee in considering the changes in the Regulation that might be proposed to the Board. With respect to automobiles, he stated there appeared to be no indication of a desire on the part of manufacturers, dealers, or financing agents to lower the existing one-third down payment provision and that for the most part manufacturers and financing agents did not wish to have the maturity provisions extended but felt that when the present maturity provisions were changed, they should be discontinued altogether.

As a result of its study, Mr. Leonard said, it was the consensus of the staff committee that the Regulation should be amended

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to reduce the down payment for Group B articles to 15 per cent as compared with the existing requirement of 20 per cent, and to fix maximum maturities for both Group A and Group B articles and for unclassified loans at 18 months. The latter provision, he noted, would represent a relaxation of maturity requirements for automobiles where the credit extended was in a principal amount of \$1,000 or less.

There was a discussion of the matter in the light of the material presented by Mr. Leonard and of various alternative actions as well as of the question whether, in the light of current economic conditions, any change should be made in the Regulation at the present time. In the course of the discussion Chairman McCabe suggested that consideration be given to extending maturities for credits covering all listed articles and unclassified loans to 20 months, his feeling being that if Group B articles were given a longer maturity it might be desirable to lengthen maturities somewhat on automobiles. This suggestion was discussed and a majority of the Board indicated that they were prepared to vote to amend the Regulation to provide for a maximum maturity of 18 months for all listed articles and unclassified loans and a minimum down payment for Group B articles of 15 per cent, the effective date of the amendment to be determined after further consultation.

In a further discussion Chairman McCabe suggested that no

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action be taken at this meeting with respect to an amendment to the Regulation but that the matter be taken up at a meeting later this week.

Chairman McCabe's suggestion was approved unanimously.

Messrs. Leonard, Young, Lewis, and Pawley withdrew from the meeting at this time.

Mr. Szymczak referred to the discussion at the meeting on February 18, 1949, of the applications of Bank of America N.T. & S.A. for permission to establish foreign branches at Bremen, Frankfurt-am-Main, and Hamburg, Germany, and at Bangkok, Siam, and moved for purposes of discussion that, for the reasons set forth at the meeting on February 18, the applications for such branches be denied.

Mr. Clayton stated that his recommendation would be the reverse of that made by Mr. Szymczak and that, for the reasons stated by him at the meeting on February 18, he felt it would be preferable to approve the four pending applications with the understanding that the Bank would be informed that the Board was not satisfied with the capital position and certain policies in the Bank and that it felt that they should be changed before favorable consideration could be given to additional applications for branches.

There followed an extended discussion along the lines recorded in the minutes of the meeting of February 18 and January 27,

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1949, of the recommendations made by Mr. Szymczak and Mr. Clayton. During this discussion both Mr. Vardaman and Mr. Clayton stated that they would not vote in favor of Mr. Szymczak's motion denying all of the applications.

Mr. Szymczak stated that he felt a unanimous vote on this matter would be highly desirable if possible and that, if there could not be unanimity on the motion which he had made, he was prepared to recommend an alternative course rather than have a split vote. He added that all the facts and figures were given by him at previous meetings of the Board, that the conference with the Comptroller of the Currency on February 15 substantiated his position, and that in his opinion there were only three courses for the Board to follow: (1) to approve the applications for branches in Germany and Siam with a clear statement of the Board's position in relation to the extended position of the Bank of America; (2) to deny the granting of the branches with a full statement of reasons as indicated by him in the discussions on the subject; (3) to advise Bank of America that the Board has been considering the applications for considerable time but before acting on them would like to have a representative or representatives of Bank of America meet with representatives of the Board on the subject of the extended position of the Bank and after such conference the Board would be in a position to act. He also said that a compromise of

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granting one application and not the others, as suggested at the meeting on February 18, would lose sight of the principal reason for disapproving further expansion, make no corrections in the condition of the Bank, and place the Board in an awkward position in relation to its responsibilities as indicated by the Federal Reserve Act. (A memorandum under date of February 21, 1949, giving the reasons why he opposed granting the Siam application and denying the application for the three German branches has been placed in the files.)

In the circumstances, Mr. Szymczak said, although he felt more could be accomplished in the way of correcting the unsatisfactory conditions of the Bank of America by denying all pending applications for foreign branches at this time, he would withdraw his first motion and move that the Bank be notified that the applications had been given careful study, not only by the Board but also in consultation with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and that before a decision was reached on the four pending applications the Board felt it should discuss some matters concerning the condition and certain operating policies of the Bank with its representatives.

This motion was discussed but none of the other members of the Board indicated they would favor it.

Mr. Szymczak then withdrew his second motion and again moved that the Board deny all four pending applications for foreign branches with advice to the Bank of the reasons for the Board's action.

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Mr. Evans stated that he would not vote to approve the application for all four branches as recommended by Mr. Clayton and that he would not vote to approve any of the branches applied for in Germany, but that he would approve a suggestion made by Chairman McCabe during the discussion that the Board approve the application for a branch in Bangkok, Siam, and disapprove the application for the three branches in Germany.

Following a further discussion, Mr. Szymczak's motion was put by the Chair and lost, Messrs. Eccles, Szymczak, and Draper voting "aye", Messrs. McCabe, Vardaman, and Clayton voting "no", and Mr. Evans "not voting".

Mr. Clayton then moved that the pending applications for all four branches be approved with the understanding that the Bank of America would be informed of the Board's views as to the unsatisfactory capital position and certain operating policies of the Bank.

Mr. Clayton's motion was put by the Chair and lost, Messrs. McCabe, Eccles, Szymczak, Draper, and Evans voting "no", and Messrs. Vardaman and Clayton voting "yes".

It was then proposed that the position be taken that the Board would approve the application for a branch in Bangkok, Siam, but would disapprove the applications for the three branches in Germany, and that Messrs. Szymczak, Clayton, Vest, Townsend, and Millard prepare a draft of letter for consideration at a subsequent meeting of the Board stating the position of the Board and

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the reasons why it was not prepared at this time to approve the establishment of the three German branches.

This suggestion was approved, Messrs. McCabe, Evans, Vardaman, and Clayton voting "aye" and Messrs. Eccles, Szymczak, and Draper voting "no".

At this point Messrs. Riefler, Thomas, Vest, Townsend, Millard, and Solomon withdrew and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 18, 1949, were approved unanimously.

Memorandum from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective March 6, 1949:

Name	Title	Salary Increase	
		From	To
Leone W. Klaprat	Clerk	\$3100.20	\$3175.44
Percy C. Riston	Asst. Frmn., Lbrs. (N)	3024.96	3100.20
Beverly A. Carter	Mail Clerk	2573.52	2648.76

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the reports on the number, classification and salaries of employees submitted with your letter of January 12, 1949.

"A review of the reports indicates that the salaries of all employees listed conform to the schedule approved for the Federal Reserve Bank of

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"Minneapolis and the Helena Branch under the Plan of Job Classification and Salary Administration, with the exception of the following instance.

"In reviewing the reports it was noted that, at the Head Office, Clayton R. Walters, Junior Coin Teller, Currency Department, is reported to be receiving a salary at the rate of \$1,770 per annum, which is \$90 below the minimum established for the position he occupies.

"Your advice with respect to the salary paid Mr. Walters would be appreciated."

Approved unanimously.

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

"On January 19, 1949, the Board placed for a temporary period of ninety days the Republic of the Philippines on the list of countries approved for the drawing of drafts to furnish dollar exchange in accordance with paragraph 12, section 13 of the Federal Reserve Act and the Board's Regulation C.

"The action taken was of an emergency nature, occasioned by the drawings of the Central Bank of the Philippines on its New York correspondent of drafts to create dollar exchange in a substantial aggregate amount. The drafts could not be accepted under the provisions of Regulation C unless the Philippines were placed on the list of countries approved for such drawings. The Board's temporary action was taken pending a comprehensive investigation whether the usages of trade justified the drawing of dollar exchange drafts and to avoid serious embarrassment to the new Central Bank, which had started operations on January 3, 1949, through the dishonor of its drafts by non-acceptance.

"In view of all the circumstances, no publicity has been given to the temporary action taken by the Board and this information is being supplied to you in confidence."

Approved unanimously.

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

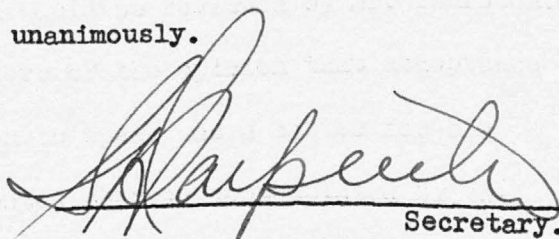
"This refers to your letter of January 25, 1949, and its enclosure, concerning the application of Regulation W to a 30-day loan for \$1,100 which, at its due date, was reduced by \$500 and the balance renewed, payable in 15 monthly payments of \$42.50. The purpose of the loan was to cover the unpaid balance on the purchase price of a \$2,100 automobile.

"The Board agrees that, although the lender knew the purpose of the 30-day loan, such loan would not be subject to the regulation unless, at the time the loan was made, there was an understanding or agreement for such reduction and renewal. (Regulation W Service #400 and #844).

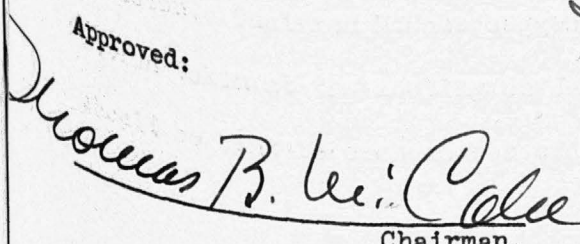
"The Board also agrees that, if there were such an understanding or agreement, then the transaction constituted an extension of instalment credit, the terms of which failed to comply with Part 2 of the Supplement to the regulation. As you point out, the \$500 payment plus the 15 monthly payments of \$42.50 result in an average monthly payment of \$71.09. However, the requirement of the regulation is that 'the instalment payments shall not be less than \$70 per month.'

"The foregoing may seem somewhat technical where the obligation, as in this case, is scheduled for repayment within the time permitted by the regulation; but the \$70 monthly payment requirement is designed to supplement the maturity limitation. The case described is of the unusual kind that can occur under a regulation of general application."

Approved unanimously.


Secretary.

Approved:


Chairman.