

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 2, 1949. The Board met in the Board Room at 11:35 a.m.

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

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. Vest, General Counsel
Mr. Leonard, Director of the Division of Bank Operations
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, Economist, Division of Bank Operations

Reference was made to the discussion at the meeting yesterday afternoon concerning the proposed amendment of Regulation W, Consumer Instalment Credit, and to the understanding that further consideration would be given to the matter at this meeting.

Mr. Vardaman moved that Regulation W be amended to provide for a maximum maturity of 21 months instead of 15 to 18 months on instalment sale credits and unclassified loans subject to the Regulation and for a minimum down payment on Group B articles of 15 per cent instead of 20 per cent.

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Mr. Clayton moved that Mr. Vardaman's motion be amended to provide for a uniform maximum maturity of 18 months for instalment sales credits covering listed articles in Groups A and B and for unclassified instalment loans, and that the down payment for Group B articles be reduced from 20 per cent to 15 per cent.

Following a discussion, Mr. Clayton's motion was put by the chair and lost, Mr. Clayton voting "aye" and Messrs. McCabe, Eccles, Szymczak, Draper, and Vardaman voting "no".

Mr. Clayton stated that he would vote with reluctance to approve Mr. Vardaman's motion, but that he would rather see the proposed change providing for maximum maturities of 21 months on all listed articles in effect than to have no action taken at this time to relax the Regulation on Group B articles. He added that he still felt that action to relax materially the maturity provisions on automobile credits would retard the downward adjustment in prices that probably was inevitable in any event.

Mr. Eccles said that he had reached the conclusion that he should vote against these motions because he felt that the proposed relaxation at this time would be premature and inconsistent with the purpose of Congress as expressed in the report of the Senate Banking and Currency Committee recommending enactment of the present consumer credit legislation. In that report, the Committee pointed out that only harm could result from inducing millions

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of American families to go heavily into debt on too easy terms at high prices. Excessive credit built up in that way would not only increase inflationary pressures but would have to be liquidated out of current income should a downswing occur.

Mr. Eccles pointed out that this is the season of the year when ordinarily demand for listed articles is slack and that the reductions in prices for some listed articles other than automobiles, recently announced, are comparatively small. Certain important commodities such as steel are still in short supply. If the proposed modification were confined to Group B articles, however, and could be completely disassociated from Group A, Mr. Eccles felt that the proposed modification would be relatively minor and that he would have less objection to that action alone than he would have with respect to automobiles. Nevertheless, even in Group B, the slight adjustment in prices and downturn in volume of sales has not been sufficient up to this time to justify a decision in favor of the proposed relaxation.

List prices of new automobiles generally have not been reduced. On the contrary, manufacturers of cars making up more than two-thirds of the market, instead of reducing prices, have raised prices of current models materially or announced substantial increases in new models. Moreover, the proposed relaxation would in fact be more liberal for most used cars than the trade believes to be sound or would use.

In these circumstances, Mr. Eccles felt that it was too soon

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to form a satisfactory judgment as to the advisability of a relaxation of the terms of Regulation W and that it would be wiser to defer action until a better appraisal of the situation could be made. The anti-deflationary cushion of easier credit terms should not be used prematurely. The existing terms are more liberal than those in the regulation when it was terminated on November 1, 1947 and have had only a moderate restraining effect on the expansion of credit which, until recently, has proceeded at a high rate. Easing of credit terms at this time would tend, through further expansion of credit, to defer a needed and healthy adjustment in prices and therefore to sustain inflationary conditions. It would have the effect of encouraging the part of the public that can least afford it to incur additional obligations at high prices and to subject them to greater hardships in case of a later adjustment in economic conditions, when prices as well as competitive conditions would be more advantageous to people of small incomes.

Mr. Eccles was also of the opinion that consideration of a reduction of margin requirements under Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, should precede action to liberalize Regulation W, on the ground that a stronger case could be made at this time from a credit standpoint for lowering margin requirements than can be made for the proposed liberalization of Regulation W.

Following a discussion, Mr. Vardaman's motion was put by the chair and

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carried, Messrs. McCabe, Szymczak, Draper, Vardaman, and Clayton voting "aye" and Mr. Eccles voting "no".

To carry out Mr. Vardaman's motion, the following amendment to Regulation W was approved:

"AMENDMENT NO. 3 TO REGULATION W

"Issued by the Board of Governors of the Federal Reserve System
"Regulation W is hereby amended in the following respects,
effective March 7, 1949:

"1. By inserting the following immediately after the words 'structure or' and immediately before the number '(2)' in section 7(g) of the regulation:

'other entire unit designed for residential occupancy, or'

"2. By changing '20 per cent' and '80 per cent' in Part 1, Group B of the Supplement to read, respectively, '15 per cent' and '85 per cent'.

"3. By changing Part 2 of the Supplement to read as follows:

'Part 2. Maturities. - The maximum maturity for all listed articles and for unclassified instalment loans is 21 months.'

"4. By changing the figure '20' to '24' in Part 3 of the Supplement."

Approval was also given to the following statement for the Press for release in the morning papers of Thursday, March 3, 1949, it being understood that the amendment and press release would be sent by wire to the Federal Reserve Banks with the request that they print and make appropriate distribution of the amendment:

"The Board of Governors announced today modification of Regulation W, effective next Monday, March 7, making the maximum maturity uniformly 21 months, instead of 15 to 18 months, on all extensions of consumer instalment credit, and reducing down payments on furniture, appliances, etc., from 20 per cent to 15 per cent, while retaining the 33-1/3 down payment on automobiles.

"This modification is based on continuous study of the operations of the Regulation since it was reinstated last September, and on the experience of Federal Reserve Banks and their branches in its administration in the field.

"In recommending last summer that Congress authorize reinstatement of the Regulation, the Board stated that the authority would be used flexibly and that the Board

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"would be ready at all times to tighten or relax the terms in accordance with the objectives of the authority and with a view to sound credit conditions. The amendment also contains two minor modifications of a technical nature.

"The text of the amendment is attached."

A statement for the Federal Register reading in part as follows also was approved:

"The notice, public participation, and deferred effective date described in section 4 of the Administrative Procedure Act are not followed in connection with this amendment for the reasons and good cause found, as stated in section 2(e) of the Board's Rules of Procedure [12 CFR 262.2(e)], and especially because in connection with this permissive amendment such procedures are unnecessary as they would not aid the persons affected and would serve no other useful purpose."

Secretary's Note: During the discussion, Mr. Carpenter talked by telephone with Mr. Evans, who was on his way to the West Coast in connection with the Transamerica hearing, and reported to the Board that Mr. Evans had no comment to make on the proposed amendment as approved by the Board.

Mr. Szymczak referred to the draft of letter to the Bank of America N.T. & S.A. with respect to permission to establish foreign branches as discussed at the meeting on February 24, 1949, and stated that he would like to suggest an alternative procedure under which the Bank would be informed that the application to establish the Bangkok, Siam, branch was approved, and at a later date a second letter would be sent stating the reasons why the Board was not prepared to approve the applications for permission to

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establish the three branches in Germany. This suggestion was discussed but was not accepted.

During the discussion, a draft of letter along the lines suggested at the meeting on February 27, 1949 was presented by Mr. Clayton who stated that the letter was satisfactory to him.

Mr. Eccles suggested that inasmuch as action authorizing the establishment of a branch in Bangkok, Siam, and denying permission to establish branches in Germany was approved by Messrs. McCabe, Evans, Vardaman, and Clayton, the letter informing the bank of the action of the Board be prepared in a form satisfactory to them.

Upon motion by Mr. Clayton, this suggestion was approved, Messrs. Eccles, Szymczak, and Draper stating that when the letter was submitted to the Board they would ask to be recorded as not voting.

At this point Messrs. Riefler, Thomas, Vest, Leonard, Millard, Young, Solomon, Lewis, and Pawley 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 March 1, 1949, were approved unanimously.

Memorandum dated March 1, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the

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resignation of Mr. John H. Neill, Jr., an Administrative Assistant in that Division, be accepted to be effective, in accordance with his request, at the close of business on March 4, 1949.

Approved unanimously.

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

"For the reasons outlined in your letter of February 23, 1949, the Board of Governors approves the payment of salaries to the following employees at rates which are below the minimums of their respective grades with the understanding that the salaries will be brought within range as soon as practicable or no later than October 1, 1949:

<u>Name</u>	<u>Title</u>
Elwood V. Denton	Personnel Manager
Elwyn E. Kopp	Secretary to Senior Officer
Jeannette Marks	Secretary to Junior Officer
John E. Orin	Manager of Fiscal Agency Dept.
Augustine A. Schmitz	Manager of Credit, Loans & Investments Dept.
George R. Hancox	Consumer Credit Investigator
<u>Cincinnati Branch</u>	
James Kelly	Consumer Credit Investigator
Wilbur Noelcke	Consumer Credit Investigator
Mary Lee Smith	Redemption Advice Typist
<u>Pittsburgh Branch</u>	
Walter L. Bedel	Head of Accounting Dept.
Thomas B. Crawford	Head of Noncash Collection Dept.
John E. Hockenberger	Chief Engineer
James L. Lutton	Consumer Credit Investigator
Annette Biondo	Case Operator
Clifford Bonistall	Check Sorter and Lister (P.T.)
Ora M. Cogswell	Redemption Clerk-Typist
Jeanne Elzer	Redemption Clerk-Typist
Bertha Frenzoz	Check Sorter and Lister
June Henderson	Case Operator
Leone Marko	Check Sorter and Lister
Dorothy Morris	Check Sorter and Lister
Katherine Ruyechan	Redemption Clerk-Typist
Jerome Telin	Check Sorter and Lister (P.T.)
Roland Williams	Check Sorter and Lister (P.T.)"

Approved unanimously.

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Telegram to Mr. Peterson, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reurlet February 23 regarding deposit of uninvested trust funds on time basis, action in this matter has been deferred pending receipt of views of Federal Reserve Banks and all such views were not received until February 24. Reserve Banks are not in accord and matter will require some further study but a decision will be reached as promptly as possible. In the meantime, if a member bank inquires whether it may carry reasonable portion of uninvested trust funds as time deposit in banking department, pending final decision of this question, you may state that no penalty for reserve deficiency resulting from difference in classification will be imposed for period prior to Board's decision. It should be emphasized in any such case, however, that matter is under consideration and that what Board's determination may be is entirely problematical at this time. Believe such advice may be given both member banks mentioned in your letter."

Approved unanimously.

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

"In reply to a recent inquiry concerning Regulation W, the Board issued the following interpretation.

"When insurance relating to a listed article is sold or financed in connection with the listed article by the Registrant who sells or finances the listed article, the insurance cannot be treated as a separate exempted sale of an unlisted article, but must be included in the 'time balance' as specified in section 6(c), and must be scheduled for repayment within the applicable maximum maturity as specified in sections 3(a) and 3(b). The same treatment is required in the case of instalment loans."

Approved unanimously.

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Letter prepared for Chairman McCabe's signature to the Honorable Wright Patman, House of Representatives, reading as follows:

"This refers to your letter of February 21, 1949. As I understand your inquiry, you wish confirmation of your view that veterans' loans guaranteed by the Veterans' Administration are exempted from the Board's Regulation W.

"In this regard, may I advise you that section 7(d)(5) of Regulation W exempts from coverage under the regulation any extension of credit 'guaranteed or insured in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944.'

"We appreciate this opportunity to be of service to you."

Approved unanimously.

Telegram to Mr. G. A. Leukhart, National Used Car Market Report, Inc., 900 South Wabash Avenue, Chicago, Illinois, reading as follows:

"In response to your telephone inquiry and confirming our advice the statement in our letter of January 27 that appraisal guide provisions of Regulation W will no longer apply to used 1938 models effective April 1, 1949, may be incorporated in the statement on Regulation W in your guides effective April 1, 1949, by changing the number 1938 to read 1939 in the sixth line of the fourth paragraph, and changing the number 1937 in the next line to read 1938."

Approved unanimously.

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

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"This refers to your letter of February 17, 1949, concerning the application of the exemption in section 7(b) of Regulation W relating to demonstrators for automobile salesmen. You inquire whether this exemption covers an extension of instalment credit by a finance company for the purchase of an automobile, in good faith, by the individual owner of an automobile dealership, where such owner is also a salesman and will use the automobile principally as a demonstrator.

"The Board agrees that such a case would be exempt under section 7(b), so long as it otherwise qualifies for exemption under the principles stated in W-29 (#710, Regulation W Service)."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Honorable Edwin C. Johnson, Chairman, Committee on Interstate and Foreign Commerce, United States Senate, reading as follows:

"This refers to your letters of February 18 and February 19, 1949 in which you advise that your Committee will appreciate receiving comments regarding S. 1008 and an Amendment to S. 236, both of which apparently relate to the legality under the anti-trust laws of certain pricing practices in interstate commerce, a question which was recently considered by the Supreme Court of the United States.

"Since neither S. 1008 nor the Amendment to S. 236 appears to affect the monetary and credit functions or other activities with which the Federal Reserve System is directly concerned, the Board has no comments to offer concerning them. We appreciate, however, the opportunity which you have afforded us to consider this matter."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to the Honorable Burnet R. Maybank, Chairman, Committee on Banking and Currency, United States Senate, reading as follows:

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"This refers to Mr. McMurray's letter of January 28, 1949, requesting the Board's opinion regarding S. J. Res. 9, which would provide for the establishment of a National Monetary Commission to inquire and report to Congress as to possible changes in the fiscal policy of the United States and the laws relating to money, banking and credit and also in the character of governmental machinery now provided for the administration of such laws.

"In this connection, the Board understands that the Commission on Organization of the Executive Branch of the Government, which is currently making its report to Congress on the various aspects of its investigation, is expected to include in its report a consideration of matters closely related to the subjects which would be investigated by the proposed National Monetary Commission. In the circumstances, the Board wishes to defer making a report on S. J. Res. 9 until it has had an opportunity to consider the report of the Commission on Organization of the Executive Branch of the Government on these matters. We hope that this procedure will be agreeable to you."

Approved unanimously.

Letter to the Honorable Frank Pace, Jr., Director of the Bureau of the Budget, reading as follows:

"In compliance with a request received from the Senate Committee on Banking and Currency, the Board has prepared the enclosed report on the Bill S. 529 which would be known as the 'Veterans Economic Development Corporation Act of 1949'.

"Before transmitting this report, the Board will appreciate advice as to the relationship of the proposed legislation to the program of the President."

Approved unanimously.

Letter prepared for Chairman McCabe's signature in accordance with action on February 24, 1949, to the Honorable Preston Delano, Comptroller of the Currency, reading as follows:

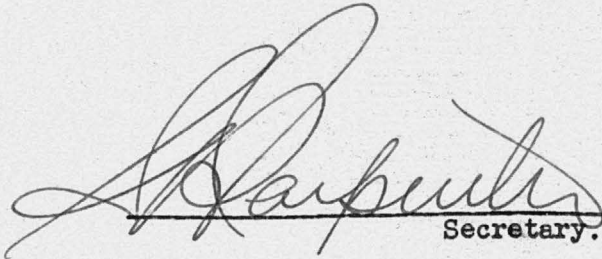
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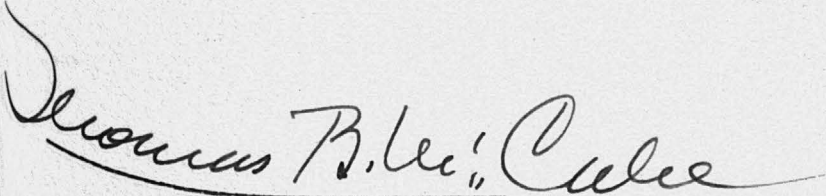
"I am very grateful to you for your assistance with the meetings which I have been holding with representatives of bank holding companies, the American Bankers Association, the Reserve City Bankers Association, the two independent groups, and the Association of State Supervisors, in connection with the proposed bank holding legislation. Since these meetings the Board has considered the many suggestions made by each of these groups and has now incorporated the principal suggestions in a tentative draft.

"Because of your vital interest in this legislation I am enclosing herewith three copies of the recently revised draft in the hope that you will consider this proposed legislation and let me have the benefit of any suggestions or recommendations which you may have regarding it."

Approved unanimously, with similar letters to Messrs. Snyder and Harl, Secretary of the Treasury and Chairman of the Federal Deposit Insurance Corporation, respectively.


Secretary.

Approved:


Chairman.