

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 22, 1949. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Draper
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. Young, Associate Director of the Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Lewis, Chief of the Consumer Instalment Credit Section of the 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 April 19, by the Federal Reserve Banks of New York, Philadelphia, Atlanta, and Chicago on April 21, 1949, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman McCabe referred to the discussion at the meeting

4/22/49

-2-

yesterday of a possible further relaxation in Regulation W, Consumer Instalment Credit.

In this connection, Mr. Carpenter reported a telephone conversation which he had last night with Mr. Eccles in which the latter stated that he would not be prepared to act without knowing more about changes in the total volume of consumer instalment credit, that if such credit was unchanged or moving upward the Regulation should not be relaxed at this time, that it should not be relaxed as a means of helping to move goods at high prices, and that when the situation justified a further change he would rescind the Regulation with respect to articles included in the "B" classification, and similarly, when a further relaxation in terms for automobiles seemed appropriate, he would rescind the Regulation entirely. Mr. Eccles commented, Mr. Carpenter said, that he felt that the Regulation was for the purpose of controlling the inflationary effects of consumer credit and when it was no longer needed for that purpose, it should be rescinded and should not be used to regulate competitive business practices. Mr. Eccles also suggested, Mr. Carpenter said, that minor moves in the credit field might dissipate the System's powers so that at a time when there should be a major effort on the part of the Government to counteract a deflation, any steps that the System might take would be ineffective.

4/22/49

-3-

There was a general discussion of the terms that might be applied in connection with Group B items, during which all of the members of the Board who were present indicated that they felt such terms should be liberalized immediately to provide for a minimum down payment of 10 per cent and maximum maturity of 24 months, and to exempt from the Regulation all articles having a cash price of less than \$100.

Mr. Clayton stated that he felt that further relaxation in maturities for automobiles would be premature at this time in view of the high level of sales of automobiles currently reported. Mr. Szymczak concurred in Mr. Clayton's view.

Messrs. McCabe and Draper stated that they favored changes which would provide the terms suggested for Group B items and a uniform maturity of 24 months for all listed articles, with exemption from the Regulation of all items selling for less than \$100, and Chairman McCabe said that in a telephone conversation with Mr. Evans, the latter stated that he would favor such action. At the meeting yesterday, Mr. Vardaman stated he would favor the more liberal terms.

During a further discussion of the matter, it became apparent that a majority of the Board favored extending the maximum maturity for both Group A and Group B items to 24 months. Messrs. Clayton and Szymczak then stated that rather than vote

4/22/49

-4-

against any action in the direction of relaxation at this time, they would be willing to join in action to increase maturities on all listed articles, including automobiles, to 24 months, to reduce the down payment on Group B articles to a minimum of 10 per cent, and to exempt from the Regulation all articles having a cash price of less than \$100.

Thereupon, Mr. Draper moved that Regulation W be amended to provide for a minimum down payment of 10 per cent on Group B articles and a maximum maturity of 24 months for all listed articles and unclassified loans, and to exempt from the Regulation all articles having a cash price of less than \$100.

Mr. Draper's motion was put by the Chair and carried unanimously.

To carry out the foregoing action, unanimous approval was given to the following amendment to Regulation W, Consumer Instalment Credit:

"AMENDMENT NO. 4 TO REGULATION W

"Issued by the Board of Governors of the Federal Reserve System

"Regulation W is hereby amended in the following respects, effective April 27, 1949:

"1. By changing '\$50.00' in Part 1 of the Supplement to read '\$100.00'.

"2. By changing '15 per cent' and '85 per cent' in Part 1, Group B of the Supplement to read, respectively, '10 per cent' and '90 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 24 months.'

"4. By changing the figure '24' to '27' in Part 3 of the Supplement."

Approval was also given to the following statement for the press for release in the morning newspapers of Saturday, April 23, 1949, it being understood that the amendment and press release

4/22/49

-5-

would be sent by wire to the Federal Reserve Banks with the request that they print and make appropriate distribution of the amendment. In taking this action, it was also understood that Chairman McCabe could add to the statement such comments as he felt might be desirable:

"The Board of Governors has modified Regulation W effective Wednesday, April 27, 1949, making the maximum maturity 24 months instead of 21 months on all extensions of consumer instalment credit and reducing down payments on all articles of furniture, appliances, etc., from 15 per cent to 10 per cent. The one-third down payment required on automobiles is retained. Furniture, appliances and other articles costing less than \$100 are exempted from the scope of the regulation. Previously articles costing less than \$50 were exempted.

"In commenting on the Board's action, Chairman McCabe said:

'This further step in liberalization of the regulation of consumer instalment credit is in conformity with the Board's policy of using flexibly credit and monetary authority entrusted to the Reserve System. It is in accordance with the System's broad purpose of contributing to the national objective of stable economic progress.'

Unanimous approval was also given to the following statement for inclusion in the Federal Register:

"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."

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

4/22/49

-6-

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 21, 1949, were approved unanimously.

Letter to Mr. Thomas, Director of the Division of Research and Statistics, in accordance with action taken by the Board on April 20, 1949, reading as follows:

"The Board hereby authorizes you, in your capacity as Director, Division of Research and Statistics, to proceed to Europe on a tour of European central banks, which according to your tentative itinerary would take you to New York, Le Havre, Paris, Geneva, Rome, Zurich, Basle, Frankfurt (and possibly other places in Germany), Brussels, Amsterdam, Copenhagen, London, Southampton, and possibly Stockholm and Oslo. It is recognized that your whole schedule is subject to change to suit the convenience of the banks you will be visiting. It is understood that you are going to and returning from Europe by boat, but that some of your travel abroad may be by airline, and that the entire trip (including some vacation time) will cover the approximate period from April 25 to July 19, 1949. Upon completion of the above described business, unless otherwise directed, you are to return to Washington, D. C.

"While absent from Washington in connection with the above described trip, in addition to customary traveling expenses, a per diem of \$20.00, except when on shipboard and on vacation, will be paid from funds under the control of the Board. It is understood that while absent on the trip you will take at least 21 days vacation during which time, as stated, the above per diem will not be allowed. Also, you will be allowed, in an amount not exceeding \$500.00, such extraordinary expenses as may be needed for you to properly represent the Board in connection with your travels.

"You shall keep the Board informed of your movements from place to place and of the progress of your work insofar as it is feasible.

"It is requested that you retain the original of this letter, and that the file copy, after being initialed by you, be returned to the Board's files."

Approved unanimously.

Memorandum dated April 15, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Katherine Mary Radicevic as a clerk-typist in that

4/22/49

-7-

Division, on a temporary indefinite basis, with basic salary at the rate of \$2,284 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated April 22, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Edward Lee Hampton as tabulation planner in that Division, with basic salary at the rate of \$3,476.40 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

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

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Cleveland, including its Branches, for the period May 1, 1949, through April 30, 1950, at the rates indicated, which are the rates fixed by the directors as reported in your letter of March 15 and telegram of April 14, 1949:

<u>Name</u>	<u>Title</u> <u>Head Office</u>	<u>Annual</u> <u>Salary</u>
Ray M. Gidney	President	\$25,000
Wm. H. Fletcher	First Vice President	18,000
Roger R. Clouse	Vice President	10,500
A. H. Laning	Vice President and Cashier	12,500
Martin Morrison	Vice President	11,000
Paul C. Stetzelberger	Vice President	10,000
D. S. Thompson	Vice President	13,500
H. E. J. Smith	Assistant Vice President	9,500
J. B. Anderson	Assistant Cashier	6,900
C. J. Bolthouse	Assistant Cashier	8,400
P. B. Didham	Assistant Cashier	6,500
G. H. Emde	Assistant Cashier	8,000

4/22/49

-8-

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
J. R. Lowe	Assistant Cashier	\$7,500
J. M. Miller	Assistant Cashier	7,500
G. R. Ross	Assistant Cashier	7,500
H. M. Boyd	Chief Examiner	8,000
Wilbur T. Blair	Counsel and Secretary	9,000
C. F. Ehninger	Auditor	9,500
H. B. Flinkers	Assistant Secretary	6,500
L. M. Hostetler	Manager, Research Department	8,500
<u>Cincinnati Branch</u>		
W. D. Fulton	Vice President	13,000
H. N. Ott	Cashier	10,000
P. J. Geers	Assistant Cashier	8,200
Clyde Harrell	Assistant Cashier	8,200
Richard G. Johnson	Assistant Cashier	8,300
<u>Pittsburgh Branch</u>		
J. W. Kossin	Vice President	15,250
A. G. Foster	Cashier	11,200
Hunter Nolte	Assistant Cashier	7,500
J. A. Schmidt	Assistant Cashier	8,200
R. J. Steinbrink	Assistant Cashier	7,800"

Approved unanimously.

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

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of San Francisco, including the Branches, for the period May 1, 1949, through April 30, 1950, at the rates indicated, which are the rates fixed by the directors as reported in your letters of March 15 and April 12, 1949:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
C. E. Earhart	President	\$25,000
H. N. Mangels	First Vice President	18,000
J. M. Leisner	Vice President and Cashier	11,000
H. F. Slade	Vice President	13,000
W. F. Volberg	Vice President	12,000
O. P. Wheeler	Vice President	11,000
R. T. Hardy	Assistant Vice President	8,500
E. C. Mailliard	Assistant Vice President	8,000
J. M. Osmer	Assistant Vice President	8,500
R. T. Symms	Assistant Vice President	8,500
H. Armstrong	Assistant Cashier	8,000

4/22/49

-9-

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
T. W. Barrett	Assistant Cashier	\$ 6,500
R. C. Milliken	Assistant Cashier	6,500
R. H. Morrill	Assistant Cashier	7,500
J. A. Randall	Assistant Cashier	8,000
F. H. Holman	General Auditor	11,000
A. C. Agnew	Vice President and General Counsel	16,000
J. A. O'Kane	Assistant General Counsel	8,500
<u>Los Angeles Branch</u>		
W. N. Ambrose	Vice President	14,000
Fred C. Bold	Assistant Manager	11,000
E. R. Barglebaugh	Assistant Manager	7,000
M. McRitchie	Assistant Manager	8,000
L. C. Meyer	Assistant Manager	7,500
C. H. Watkins	Assistant Manager	7,500
<u>Portland Branch</u>		
D. L. Davis	Vice President	13,000
S. A. MacEachron	Assistant Manager	9,000
D. E. Bent	Assistant Manager	7,200
J. P. Blanchard	Assistant Manager	6,000
<u>Salt Lake City Branch</u>		
W. L. Partner	Vice President	12,000
R. E. Everson	Assistant Manager	8,500
O. H. Barnard	Assistant Manager	6,500
H. E. Hemmings	Assistant Manager	6,500
<u>Seattle Branch</u>		
C. R. Shaw	Vice President	13,000
B. A. Russell	Assistant Manager	8,000
W. R. Sandstrom	Assistant Manager	6,000
D. E. Simms	Assistant Manager	7,200"

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 April 19, 1949, the Board of Governors approves the payment

4/22/49

-10-

"of salary to Mr. James M. Hiner through July 31, 1949, and in addition a payment to him equal to the three weeks' vacation to which he is entitled."

Approved unanimously.

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

"In accordance with the request contained in your letter of April 19, 1949, the Board approves the designation of Raymond W. Baxter as a special assistant examiner for the Federal Reserve Bank of Chicago."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks except New York, Atlanta, and Kansas City, reading as follows:

"Recently the Board has given consideration to the classifications now in effect for the election of Class A and Class B directors of the Federal Reserve Banks. The capital and surplus of most banks has increased substantially in recent years, and as a result it appears that in a few cases the number of banks in Group 2 is now greater than the number in Group 3.

"It will be appreciated if you will have the present classification of member banks in your district for electoral purposes reviewed in the light of the formula suggested in the Board's letter of September 19, 1934 (X-8012), and advise the Board what changes, if any, you would recommend in the present classification.

"In replying, please submit an array showing the member banks in the district listed according to their combined capital and surplus beginning with the smallest capital and surplus. This tabulation should include cumulative figures in the form exhibited in the Board's letter of October 12, 1928 (X-6159). The capital and surplus of a member bank for this purpose should be the same as that used in determining its required holdings of Federal Reserve Bank stock."

Approved unanimously.

4/22/49

-11-

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

"Reference is made to your letter of April 14, 1949, submitting the request of the Peoples Commercial and Savings Bank, Bay City, Michigan, for permission to establish a branch in Essexville, Michigan.

"It is understood an investigation has been made by the appropriate State authorities and that they have expressed a willingness to grant a permit to establish the branch. In view of your favorable recommendation and the information submitted, the Board of Governors approves the establishment and operation of a branch in Essexville, Michigan, by the Peoples Commercial and Savings Bank, Bay City, Michigan, provided formal approval of the State banking authorities is obtained, such branch is established within six months of the date of this letter and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

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 has issued the following interpretation:

"A question has been raised as to the application of Regulation W to a proposed instalment loan to purchase (and to be secured by) an automobile where the Registrant already holds the unpaid balance of an earlier, unclassified instalment loan to the same borrower. The Registrant wishes to release his lien covering an older automobile given as security for the unclassified loan. This would be done in order to enable the borrower to use the older car as a trade-in equal to the required down payment on the newer automobile, the remaining part of the cost being financed by the proposed loan.

"It is understood that the parties are acting in

4/22/49

-12-

"good faith and also that the unclassified loan is not consolidated with the proposed loan and is not otherwise changed or modified, except for the release of the lien on the old automobile. In such circumstances, it is the Board's view that the unclassified loan would stand unaffected by the proposed new and separate loan, and that the latter could be made in accordance with the usual requirements of the regulation to the extent of the maximum loan value.

"If, however, the earlier, unpaid loan had been for the purpose of purchasing the older automobile, then under section 6(j) of the regulation neither the same nor another Registrant properly could make the proposed loan since, to do so, would constitute an extension of credit in connection with the purchase of a listed article in excess of that permitted by the regulation and, in effect, there would be a loan to make a down payment on the new car.

"Questions were also raised as to whether it would make a difference if the earlier and later loans, though both to purchase listed articles, had been to purchase different kinds of listed articles. For example, suppose the earlier, unpaid loan had been for the purpose of purchasing a radio and the Registrant's lien thereon was released to enable the borrower to use it as a trade-in on a television. The rule applicable under the regulation would be the same as in the previous paragraph where two loans to purchase two different automobiles were involved. The radio, of course, could not be used in making the down payment on the television since down payments on Group B articles must be made in cash. The arrangement, however, would result in more credit being extended in connection with the purchase of the television than would be permitted by the regulation."

Approved unanimously.

Letter to the Honorable Lyndon B. Johnson, United States Senate, reading as follows:

"The enclosed letter dated March 31 from Mr. B. R. Alexander, owner of the Midway Motor Company, Grand Prairie, Texas, was received April 7 with your recent memorandum addressed to Chairman McCabe.

4/22/49

-13-

"Mr. Alexander states that he is of the opinion that Regulation W has served its purpose and that it is now causing 'many people to lose their cars.' He mentions that it would be better for the laboring class if there was no Regulation W since then monthly payments could be reduced to fit their budgets, that 'with the average working man . . . it is not how long . . . but how much every thirty days.' In this connection the following statement which appears in the report of the Senate Committee on Banking and Currency concerning this legislation is of interest:

'Only harm could result from inducing millions of American families to go heavily into debt on too easy terms for goods at the present high level of prices. The excessive credit built up in that way would not only increase present inflationary pressures; it would have to be liquidated later out of current income should a downswing occur, thus necessarily diverting that income from the channels of consumer expenditures in the ensuing period . . .

' . . . excesses in the field . . . (of consumer credit) can be harmful not only to the people directly involved, but also to millions of others who are penalized by the inflationary effects of such excesses. The person of small income is the one hit hardest when inflation pushes prices beyond his reach and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time and thus toward moderating any ensuing deflation, consumer instalment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy.'

"While Mr. Alexander does not state the circumstances under which the people he refers to have lost their cars, it is possible that Section 5 of Regulation

4/22/49

-14-

"W contains provisions which, when used in good faith, might avoid the necessity for some of the repossessions. Section 5 relates to renewals and revisions and, among other things, there is provision for refinancing to avoid undue hardship upon an obligor arising from circumstances unforeseen by him or beyond his control. There is also a provision which allows the registrant considerable leeway in making a renewal or a revision after a bona fide collection effort. If Mr. Alexander would like to have additional information in regard to particular parts of this section, the Federal Reserve Bank of Dallas will be glad to assist him.

"The Board is constantly studying conditions in the economy generally and trends in the production and marketing of automobiles and other durable goods, and the points raised by Mr. Alexander will be carefully considered."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. H. D. Everett, Jr., Manager, Marketing Research Department, Ford Motor Company, Dearborn, Michigan, reading as follows:

"Both in connection with the administration of Regulation W and its more general responsibilities in the field of credit supervision the Board of Governors of the Federal Reserve System is very much interested in current developments in the automobile industry and is anxious to have accurate up-to-date information on dealers' sales and stocks of new and used automobiles. I understand that your Company and other leading automobile manufacturers obtain and compile this information on a 10-day basis, and I am seeking your cooperation in providing the Board with this information for Ford, Mercury, and Lincoln dealers.

"We would appreciate it very much if you could make this information available to us broken down to show separately new passenger car and truck sales and stocks by makes and used car sales and stocks in totals. If the information is compiled for your purposes on a regional basis, the regional breakdown would also be useful to us, although it is not essential.

4/22/49

-15-

"It is completely understood that any information of this sort which you might be able to furnish us would be on a strictly confidential basis and that the data with respect to your company would not be seen by anyone except the members of the Board's staff responsible for compiling totals for the industry for the use of the Board. Furthermore, it is not our intention to prepare for publication or other release any over-all statistical information for the industry.

"The information would be used rather to assist the Board in evaluating the current economic situation and in arriving at the decisions which are required in the discharge of the Board's responsibilities. In this connection, I am sure that it is unnecessary for me to emphasize to you the tremendous strategic importance of the automobile industry in the business situation at this particular juncture, and I am sure that you will understand why we are anxious to have these data made available to us in this period.

"If there is any other information regarding the nature of the data we desire or the use to which it would be put, please do not hesitate to call on me or on Mr. Ralph A. Young, Associate Director of the Board's Division of Research and Statistics. Mr. E. C. Harris, Vice President of the Chicago Federal Reserve Bank who is in charge of the Detroit Branch, will also be glad to furnish you further information or obtain it for you."

Approved unanimously.

Memorandum dated April 21, 1949, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the May issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Margin Requirements for Purchasing Securities
Amendments to Regulations T and U

Approved unanimously.

Memorandum dated March 17, 1949, from Messrs. Thomas and

4/22/49

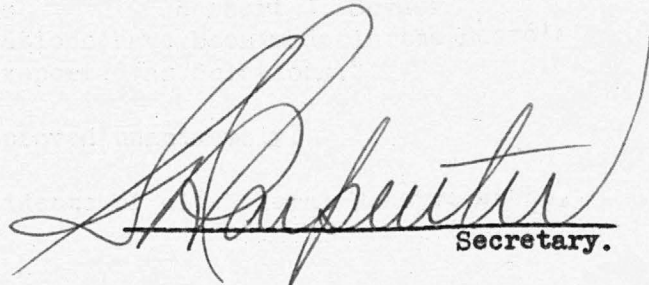
-16-

Young, Director and Associate Director of the Division of Research and Statistics, respectively, reading as follows:

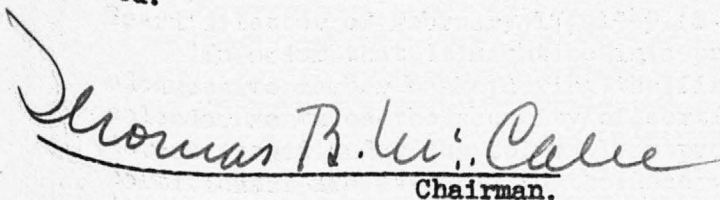
"Attached for your information is a preliminary copy of the Survey of Issues in War Finance, undertaken in response to a request addressed to the Board by the National Security Resources Board. The report was prepared by Mr. Richard Musgrave, Consultant to the Division of Research and Statistics, and Mr. Merton Miller, of the Division's staff. Initiation of the survey as a special project of the Division was authorized by the Board at its meeting on October 1, 1948.

"Authorization is now requested to circulate this preliminary document on a confidential basis to the members of the System Committee on Banking and Credit Policy, and also to the technical staff of the National Security Resources Board, and such consultants of the Security Resources Board as its staff may select. This circulation would be for the purpose of discussion of the issues involved in war finance and also for obtaining comments and suggestions that may be helpful in revision of the manuscript."

Approved unanimously.


Secretary.

Approved:


Chairman.