Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 10, 1950. The Board met in the Special Library at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Evans
Mr. Vardaman

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Millard, Director, Division of Examinations
Mr. Young, Director, Division of Research and Statistics
Mr. Shay, Assistant Counsel
Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
Mr. Pawley, Economist, Division of Research and Statistics

Mr. Lewis, Assistant Vice President of the Federal Reserve Bank of St. Louis, and Mr. Heath, Assistant Cashier and Assistant Secretary of the Federal Reserve Bank of Chicago, who are assisting the Board's staff temporarily in its work on the regulation of consumer credit, also attended the meeting.

Mr. Evans stated that in accordance with the understanding on July 18, he had been meeting regularly with an informal staff group which was considering the form of a consumer credit regulation and the terms that might be set thereunder should the Board be given responsibility in formulating and administering such a regulation under legislation now pending before the Congress. Mr. Evans reviewed the work accomplished to date, explaining that the staff had, among other things, held numerous conferences with representatives of interested organizations, all of whom had exhibited a high degree of cooperation. He went on to say that the work had now progressed to the stage where it would be desirable to have an expression of the Board's opinion as to the scope of a regulation, if one were to be put into effect, and the general nature of the terms to be fixed thereunder.

Mr. Evans then called upon Mr. Leonard who stated that the staff group recommended a regulation having approximately the same coverage as that in effect at the time Regulation W expired on June 30, 1949, except that, for reasons which he stated, the group felt that instalment credit for home improvement, repair, and modernization also should be covered in any new regulation. Mr. Leonard went on to say that the group proposed that charge accounts and single payment loans not be regulated at this time.

Mr. Evans stated that he concurred in the foregoing recommendations, and during the ensuing discussion it was the consensus of the members of the Board present that the staff should proceed with its work on a draft of regulation along the lines suggested.

Turning to the question of terms that might be appropriate in a regulation, Mr. Evans stated that after consideration of the prevailing terms of credit, it was the consensus of the staff and his own recommendation that it would be appropriate to fix a minimum down payment of 33 1/3% and a maximum maturity of 21 months on instalment credit for the purchase of new automobiles. A maximum maturity of 21 months would be definitely restrictive under present conditions, Mr. Evans felt, and would leave the way open for further restriction later on if that appeared necessary.

Mr. Eccles expressed the opinion that the terms recommended by Mr. Evans would be too lax, stating that he would strongly favor a down payment on automobiles of at least 40 per cent and a maximum maturity not in excess of 18 months. He went on to say that the purpose of such regulation was anti-inflationary through bringing prevailing demand into line with current supply, that his observations led him to conclude that little would be accomplished by the terms suggested by Mr. Evans, and that if the regulation failed to accomplish its purpose the alternatives might be direct price and rationing controls, which should be avoided unless an all out war situation developed.

There followed a discussion of terms to be set for the extension of credit for the purchase of new automobiles during which Mr. Evans reiterated that he felt a maximum maturity of 21 months would be sufficiently restrictive under current conditions and that it would be preferable to establish terms at the outset which could be tightened later on if that appeared necessary, rather than to establish terms that were unnecessarily restrictive and relax them subsequently.

During the foregoing discussion Mr. Thomas, Economic Adviser, and Mr. Williams, Chief, National Income, Money Flows, and Labor Section, Division of Research and Statistics, joined the meeting.

Mr. Vardaman said that he would prefer that the maximum maturity applicable to new automobiles be no longer than 18 months, but that in view of the study which had been given this matter by Mr. Evans and the staff he would reluctantly concur if a majority of the Board felt the 21 month maturity should be adopted.

The discussion then turned to the terms which might be imposed over the extension of credit for the purchase of used automobiles, Mr. Evans stating that there had been suggestions from the trade in support of a series of staggered maximum maturities, the period to be shorter for older model used cars than for the more recent models. On the other hand, Mr. Evans said, there was some reason to believe that it might be preferable to establish a single maximum maturity on all used automobiles. This question as well as the definition of a used car for the purpose of the regulation was discussed, it being suggested that such a definition should include all cars resold or handled by any one other than the original dealer.

The meeting then recessed and reconvened at 2:30 p.m. with the same attendance as at the conclusion of the morning session except that Messrs. Eccles, Riefler, and Williams were not present.

Discussion of the terms that might be set under a consumer credit regulation continued, during which various maximum maturities and minimum down payment provisions were suggested for automobiles, home appliances, and furniture. There was also a discussion of the terms that might be set on credit extensions for home modernization and repairs. At the conclusion of the discussion it was understood that the staff would prepare for the consideration of the Board a draft of regulation based upon the terms suggested during this meeting.

Chairman McCabe stated that since the discussion at the meeting of August 3, both he and Mr. Vardaman had talked by telephone with Chairman Neely of the Federal Reserve Bank of Atlanta concerning the proposed branch building program at Jacksonville and that Chairman Neely had stated that he and the Bank's Executive Committee felt very strongly that in view of the acute need for space at the Jacksonville Branch the Reserve Bank should be permitted to call for bids on construction of a new building in accordance with the plans and specifications submitted in a letter from the Bank's architect dated July 21, 1950, with the understanding that further consideration would be given to the matter when bids were received.

Mr. Evans stated that in view of the urgency of the situation at the Jacksonville Branch, he felt the Board should authorize the Atlanta Bank to obtain bids for construction of the proposed building.

Mr. Vardaman stated that he would like to have bids obtained but that he felt the question whether contracts should be let would depend on the amounts of the bids and conditions prevailing at the time they were opened, and that no commitment on that question should be made at this time.

Following a discussion upon motion by Mr. Vardaman, a telegram to the Federal Reserve Bank of Atlanta was approved unanimously in the following form. In taking this action, it was understood that there was no commitment that the Board would approve the letting of contracts for construction and that the matter would be given further consideration after bids were submitted:

"The Board authorizes your Bank to proceed with the obtaining of bids for construction of Jacksonville branch building on basis of plans and specifications forwarded with Mr. Toombs' letter of July 21. It is understood that before the contract for this work is awarded the bids will be submitted to Board of Governors."

Chairman McCabe then referred to the discussion at the meeting of the Board on August 3, 1950, concerning the proposed addition to the head office building of the Federal Reserve Bank of Richmond and said that Mr. Rust, director of that Bank who serves as Chairman of the Building Committee, called him on the telephone last Saturday to state that the directors of the Richmond Bank felt unanimously that it would be desirable to award a contract on the basis of the low bid received, as reported in a letter from Mr. Walden, First Vice President of the Bank, dated August 1, 1950, but that, if the Board did not see fit to approve at this time, the directors would be willing to defer action for about two weeks and then bring the matter again to the Board's attention.

During the discussion which followed Mr. Vardaman expressed the opinion that, if the contract were to be awarded on the basis of the low bid received, which bid appeared satisfactory, it would be preferable to take this action immediately rather than to wait for two weeks, since the bid might be withdrawn under the pressure of rising costs. Mr. Evans stated that, inasmuch as a firm bid had been received and it appeared that actual construction could proceed rapidly, he would suggest that the Board approve the awarding of the contract by the Richmond Bank. This, he felt, would not be incompatible with the understanding reached at the meeting on August 3 that except for urgently needed facilities no major construction work either at head offices or branches should proceed beyond the planning stage under prevailing economic conditions.

Thereupon, upon motion by Mr. Vardaman, unanimous approval was given to a telegram in the following form to Mr. Leach, President of the Federal Reserve Bank of Richmond:

"Board will interpose no objection to awarding contract for addition to Richmond building on basis of lowest bid, in accordance with recommendation of your Directors, as reported in Mr. Walden's letter of August 1."

At this point all of the members of the staff with the exception of Messrs. Sherman and Kenyon withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated August 8, 1950, from Mr. Marget, Director of the Division of International Finance, recommending that William E. Hardy, a messenger in the Division of Research and Statistics, be transferred to the Division of International Finance as a messenger, with no change in his present basic salary of $2,412 per annum, effective August 10, 1950. The memorandum also stated that Mr. Young is agreeable to this transfer.

Approved unanimously.

Memorandum dated August 9, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that Thomas N. Buckley, telegraph operator in that Division, be granted leave of absence without pay beginning August 11, 1950, for the purpose of reporting for active duty with the United States Naval Reserve, that he be granted the benefits outlined in the Board's policy, adopted August 1, 1950, for all employees called for military service, that he be granted one month's unearned salary, and that any accumulated and accrued annual leave remain to his credit until his return from military service.

Approved unanimously.

Memorandum dated August 8, 1950, from Mr. Chase, Assistant Solicitor, recommending the appointment of Miss Joan Alice Temple as a typist in the Office of the Solicitor, on a temporary indefinite basis, with basic salary at the rate of $2,450 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 August 9, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the resignation of Mrs. Jane L. Clayton, a statistical clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business September 1, 1950.

Approved unanimously.

Memorandum dated August 10, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Nancy Claire Petrey as a clerk-stenographer in that Division, with basic salary at the rate of $2,650 per annum, subject to satisfactory completion of investigation of references and effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Telegram to John E. Corette, Montana Power Company, Butte, Montana, reading as follows:

> "Board of Governors of the Federal Reserve System has appointed you director of Helena Branch of the Federal Reserve Bank of Minneapolis for unexpired portion of term ending December 31, 1950, and will be pleased to have your acceptance by collect telegram. It is understood that you are not a director of a bank

"and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Minneapolis."

Approved unanimously.

Letter to The Chase National Bank of the City of New York, New York, New York, reading as follows:

"The Board of Governors of the Federal Reserve System authorizes The Chase National Bank of the City of New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in Marianao, Cuba, and to operate and maintain such branch subject to the provisions of such section; upon condition that unless the branch is actually established and opened for business on or before September 1, 1951, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date."

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.

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

"In accordance with the recommendation contained in your letter of August 3, 1950, the Board approves the expenditure of approximately $311,500 by the First Trust & Savings Bank of Kankakee, Kankakee, Illinois, for the purpose of remodeling its banking premises and installing new fixtures and equipment. This approval covers the uninsured fire loss of $34,100 referred to in your letter, as well as $40,600 of fixtures and equipment which have been purchased and charged to expense in connection with the remodeling program. It also supersedes the approval given in the Board's letter of November 14, 1947.

"It is understood that the management, subject to approval of supervising authorities, intends to "charge down the banking premises and furniture and fixtures to $200,000 and $50,000, respectively, and that provision will be made for an appropriate program of depreciation."

Approved unanimously.

Memorandum dated August 4, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that, pending promulgation of a comprehensive program for the free distribution of system publications among professors of money and banking, the Board authorize the Director of the Division of Administrative Services to furnish one complimentary copy of any available Board publications to any professor at an established college or university who sends a written request to the Board.

Approved unanimously.

Assistant Secretary.