Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 30, 1950. The Board met in the Board Room at 2:35 p.m.

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

Mr. Carpenter, Secretary
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. Solomon, Assistant General Counsel
Mr. Fauver, Administrative Assistant to the Chairman
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

Messrs. Norton and Powell, members-designate of the Board of Governors.

Mr. Lewis, Assistant Vice President, Federal Reserve Bank of St. Louis, and Mr. Heath, Assistant Cashier and Assistant Secretary, Federal Reserve Bank of Chicago, who were assisting the Board's staff temporarily in connection with consumer credit activities, were also present.

Chairman McCabe stated that pursuant to the understanding at the meeting yesterday there had been prepared a draft of reply to the Budget Bureau's letter of August 28, 1950, requesting the Board's comments on a proposed executive order delegating certain functions of the President under the Defense Production Act of 1950. At the Chairman's request the Secretary read the draft which stated that the Board saw no objection to delegating the functions with respect to real estate construction credit to the Housing and Home Finance Administrator, that it felt it most important that the agency to which the authority was delegated should have full authority both to prescribe and administer regulations regarding real estate construction credit and to make the policies and set the terms relating to such credit controls, that the Board preferred not to be involved in the administration of the real estate construction credit program, that it felt it could be most helpful by making available its technical skills and giving advice and counsel on policy problems, and that it would be glad to make available to the agency to have the function the tentative results of work done on the subject up to this time.

Mr. Riefler reported the substance of a discussion at a meeting he had been requested to attend this morning at the White House at which representatives of the housing agencies were present, to consider more fully the manner of administering the regulation of real estate credit. Mr. Riefler said that it was noted at that meeting that Mr.

Foley, Housing and Home Finance Administrator, to whom responsibility for the regulation would be delegated under the proposed executive order referred to above, had indicated that he would not wish to assume that responsibility, that his agency was not familar with the mortgage market outside the housing field, and that he felt the authority should be delegated to some other agency with the understanding that regulations relating to housing credit should have his concurrence before they became effective. Mr. Riefler went on to say that he indicated to the group that the Board discussed the proposed executive order yesterday and requested the staff to prepare a reply to the Budget Bureau along the lines of the draft referred to above. During further discussion, Mr. Riefler said it developed that the representatives of the other agencies at the meeting felt the authority should be delegated to the Federal Reserve, in response to which he commented that while he could not speak for the Board, he felt the Board would not wish to have such responsibility. Nevertheless, he said, there was presented for the informal consideration of those present at the meeting a revision of the proposed executive order which would provide that the authority over construction credit provided in Section 602 of the Defense Production Act of 1950 would be delegated to the Board with the understanding that before any regulations pertaining to credit for housing or residential construction were issued, the concurrence of the Housing and Home Finance Administrator should be obtained, and that the authority contained in Section 605 of the Act pertaining to the reduction or suspension of the Government housing programs would be delegated to the Housing Administrator with the understanding that in the exercise of this authority he would take actions with respect to the Government programs which in his judgment would be in conformity with the regulations issued by the Board of Governors with his concurrence.

At this point Mr. Charles T. Fisher, Jr., who was assisting the Board temporarily as a special consultant in connection with financial and credit matters, and Mr. Wood, Economist, Division of Research and Statistics, joined the meeting.

During the discussion that followed, the view was expressed that although a regulation of real estate credit would be very difficult to administer, the revised informal proposal presented by Mr. Riefler appeared to offer as workable a method for administration of the regulation as could be worked out.

Mr. Szymczak stated that regardless of the difficulties involved in the administration of the regulation of real estate credit, he felt such regulation was essentially an instrument of credit control that the central bank should exercise, and that, therefore, it should be handled by the Board.

Mr. Eccles agreed that the regulation properly belonged with the Federal Reserve as an additional instrument of selective credit control which could be used, along with over-all credit control, to help maintain economic stability as far as possible in the realm of monetary and credit policy, and that, if the proposal were worked out along the lines now proposed, it would not be desirable to continue to urge that another agency be given the responsibility.

Chairman McCabe suggested that the draft of reply to the Budget Bureau's letter above referred to be revised along the lines of the foregoing discussion to take account of the additional information presented by Mr. Riefler.

> Chairman McCabe's suggestion was approved unanimously, with the understanding that a revised draft of letter would be submitted for consideration by the Board.

Mr. Evans stated that since the meeting on August 3, at which possible terms under a consumer credit regulation were discussed, the staff had proceeded with its consideration of the scope of a possible regulation and the terms which should be prescribed thereunder, that a tentative draft of regulation had been prepared under date of August 29, and that he wished to present for the Board's consideration the staff's recommendations, in which he concurred, for minimum down payments and maximum maturities with respect to various items to be covered by the regulation as presented in a memorandum from Mr. Leonard dated August 30, 1950.

Mr. Evans went on to say that he and the staff had drawn on the experience gained in the past in administering a consumer credit regulation and that conferences held with representatives of many trade organizations and other interested groups had been most helpful in arriving at conclusions as to existing trade practices and the probable effect of various sets of terms that might be prescribed. The general scope of the regulation proposed would be about the same as that in effect prior to June 30, 1949, Mr. Evans said, except that home improvement credits would be covered. The regulation should, he felt, set definitely restrictive but not harsh terms at the outset with the expectation of tightening them as the situation developed. He also emphasized the view that the restrictive effect of terms should be compared with existing practices rather than with terms in effect during some previous phase of consumer credit regulation.

After stating in some detail the prevailing terms in the trade and summarizing the recommendations of the Federal Reserve Banks, Mr. Evans said that he would recommend adoption of a regulation as soon as the Defense Production Act of 1950 was signed by the President substantially in the form of the draft dated August 29, 1950, and with terms which would permit for group A articles (automobiles) a down payment of not less than 1/3 and a maximum maturity of 21 months; for group B articles (appliances) a down payment of not less than 15 per cent and a maximum maturity of 18 months; for group C articles (furniture) a down payment of not less than 10 per cent and a maximum maturity of 18 months; for group D articles (home improvement credits) a down payment of not less than 10 per cent and a maximum maturity of 30 months on the assumption the Federal Housing Administration also would adopt such terms in connection with credits insured under Title I of the Federal Housing Act; and a maximum maturity of 18 months for unclassified loans.

Mr. Evans added that in the case of new automobiles the suggested terms would be restrictive upon 80 per cent of the instalment credit for purchase of automobiles on the basis of the pattern established for such credit during the first half of 1950. He also said that he had come to the conclusion that a uniform maximum maturity should be prescribed for all automobiles rather than to set a shorter maturity for purchase of used automobiles as recommended by most of the trade. In a further comment, Mr. Evans said that, while he felt the suggested terms would be definitely restrictive, if credit expansion continued and the situation called for it he would be prepared to recommend a tightening of the regulation, that he felt this probably would be necessary within 60 days, but that from the standpoint of administration of the regulation, and in view of the definite restriction that would result under the proposed terms, it would be much better to adopt the terms recommended in the initial reimposition of the regulation than to impose more restrictive terms and find it necessary shortly to relax them.

Mr. Eccles raised a question as to the growth of consumer credit during recent months and in response Mr. Young presented figures indicating that the expansion in such credit since May had been at a record rate and that it was continuing at a high level during the month of August. Mr. Young stated that although seasonally such credit extension might be expected to rise during the summer months, the increase this year has been unusually large and apparently was showing no signs of slackening as would be customary in the early fall months.

Mr. Eccles referred to the figures presented by Mr. Young for recent months which showed a rate of expansion in consumer credit of around \$7 or \$8 billion a year and to the growth in total bank credit of approximately \$1½ billion during the past two months, and stated that in the light of these conditions and in view of the inflationary pressures inherent in a period of increased defense expenditures and deficits, it would be contrary to his best judgment to vote for a maximum maturity for the purchase of new automobiles longer than 18 months. The purpose of the regulation, he felt, should be to stop the growth in consumer instalment credit and perhaps to reduce the outstanding volume of such credit, and failure to attain this objective might result in alternative measures such as price controls and rationing. He also said that in view of the actions taken by the System to restrict the overall expansion of bank credit, any action which permitted terms for the purchase of automobiles in excess of 18 months maturity would appear to be only a gesture, that he would be inclined to favor a 40 per cent down payment requirement with a maximum maturity of 15 months on new cars, but that as a compromise he would approve 1/3 down and 18 months maximum maturity. Mr. Eccles added that should the Board go to Congress as indicated in its press statement of August 18, 1950, with a request for additional powers to restrain credit expansion, it would have to be prepared to show that it had used the powers already available to it effectively and he did not feel that the proposed terms would be considered sufficiently restrictive to demonstrate this.

Mr. Szymczak agreed with the views expressed by Mr. Eccles which he said he understood were shared by some members of the research staff. He stated that the key to the regulation was to be found in terms set for automobile credit, that a slow adjustment of terms that would suit the trade was one way of handling the situation, but that in his opinion the increasing volume of credit even before the Korean crisis made it necessary to restrict instalment credit, and that developments since June convinced him that if the action of the Board in imposing a consumer credit regulation was to be sufficiently effective the maturity for new automobile credits should not be more than 18 months. In this connection he referred to statistics prepared by the Division of Research and Statistics relating to the very rapid growth of consumer instalment credit in recent months and to the need for a regulation which would effectively limit that growth. Mr. Szymczak added that he was not concerned about the maturities proposed for other articles since they would be related to whatever terms were established for automobiles.

In connection with an inquiry as to the views of Messrs. Draper and Vardaman, it was stated that Mr. Vardaman had said that while he would prefer tighter terms than proposed by Mr. Evans, he would be willing to vote for the terms recommended by Mr. Evans and the staff. It was also stated that Mr. Draper had indicated that he would accept Mr. Evans' recommendation.

During the foregoing discussion Mr. Norton withdrew from the meeting.

Chairman McCabe then called upon Mr. Powell who raised the question whether an objective of the regulation should be to create unemployment. Mr. Powell went on to say that expenditures for defense production would mount rather slowly and that too sharp a cutback in production of automobiles might bring on unemployment before defense orders were sufficient to take up the slack. For this and other reasons which he stated, Mr. Powell felt that the initial terms of the regulation should be set so as to be moderately restrictive and that in the light of the information presented he would be inclined to approve the 21 months maturity for automobiles with a minimum down-payment of 1/3 as recommended by Mr. Evans.

There followed a discussion of the relative severity of the proposed terms in comparison with restrictions recently placed on real estate credits by the Federal Housing Administration and the Veterans Administration. During this discussion, Mr. Riefler expressed the view that the real estate credit restrictions were relatively more severe than those proposed by Mr. Evans for consumer credit indicating that he felt a shorter maturity might be desirable.

Mr. Young stated that the situation called for a restriction that might give a jolt to sales of automobiles, but that he appreciated the administrative problems in the initial imposition of the regulation. It was his opinion that if anything like the present rate of consumer demand continued a tighter regulation would be needed very promptly.

Chairman McCabe stated that he had given a great deal of thought to the terms that should be imposed in the regulation, and that he felt a regulation which would be restrictive on 80 per cent of the credit sales of automobiles could not be looked upon as a mild measure. He also said that he did not wish to impose terms that were so restrictive as to necessitate relaxing them shortly, that the full effect of the terms proposed by Mr. Evans could not be judged with certainty at this time, and that he would prefer to approve the terms recommended by Mr. Evans for the initial imposition of the regulation with the thought that tighter terms might be adopted within 30 to 90 days.

Mr. Szymczak suggested that since no formal vote on the regulation could be taken at this meeting there be a further discussion of terms that might be adopted at a meeting tomorrow and it was understood this procedure would be followed.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 August 29, 1950, were approved unanimously.

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

"In the circumstances described in your letter of August 21, 1950, and in view of your recommendation, the Board of Governors hereby gives written consent pursuant to the provisions of Section 12B(v)(4) of the Federal Reserve Act, as amended, to the assumption of the deposit liabilities of The Thomaston National Bank, Thomaston, Connecticut, by The Colonial Trust Company, Waterbury, Connecticut, without an increase in the capital and surplus accounts of The Colonial Trust Company.

"The establishment of a branch in Thomaston by The Colonial Trust Company was approved by the Board on July 20, 1950, with the provision, among others, that the absorption of The Thomaston National Bank would be effected substantially in accordance with the plan then submitted which did not contemplate an increase in the capital or surplus of The Colonial Trust Company."

Approved unanimously.

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

"Referring to your letter of August 22, 1950, the Board of Governors concurs in the opinion of counsel for your bank that the undertaking of 'The Chardon Savings Bank Company', Chardon, Ohio, as described, cannot be construed to include the assumption of liability to pay any deposits made in the Central National Bank of Cleveland, and consequently the transaction does not require the Board's consent under the provisions of Section 12B (v) (4) of the Federal Reserve Act, as amended."

Approved unanimously.

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

"In the circumstances described in your letter of August 23, 1950, and in view of your recommendation, the Board of Governors hereby gives written consent, pursuant to the provisions of Section 12B (v) (4) of the Federal Reserve Act, as amended, to the assumption of the deposit liabilities of The Citizens National Bank of Bentleyville, Bentleyville, Pennsylvania, by the 'Peoples City Bank', McKeesport, Pennsylvania, without an increase in the capital and surplus accounts of the Peoples City Bank.

"The establishment of a branch in Bentleyville by the Peoples City Bank was approved by the Board on June 9, 1950, with the provision, among others, that the absorption of The Citizens National Bank of Bentleyville would be effected substantially in accordance with the plan then submitted which did not contemplate an increase in the capital or surplus of the Peoples City Bank."

Approved unanimously.

S. R. Carpenter

Secretary.