

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 31, 1950. The Board met in the Board Room at 10:40 a.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. 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 of the Federal Reserve Bank of St. Louis, and Mr. Heath, Assistant Cashier and Assistant Secretary of the Federal Reserve Bank of Chicago, who were assisting the Board's staff temporarily in connection with consumer credit activities, were also present.

Chairman McCabe referred to the release of the Committee for Economic Development issued under date of August 28, 1950, with respect to a program for restraining inflationary forces, and suggested

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that it would be desirable to have the report sent to all commercial banks.

It was understood that Mr. Young would ascertain whether the Committee for Economic Development would have the funds available to distribute this report as proposed and that if not the Board would pay the cost of mailing the report to all commercial banks.

Reference was then made to the revised draft of letter prepared in response to the letter from the Bureau of the Budget dated August 28, 1950, requesting the Board's views on a proposed draft of Executive Order delegating certain functions of the President under the Defense Production Act of 1950. The draft had been changed in the light of the discussion at the meeting yesterday.

The revised draft of letter was read and approved unanimously in the following form:

"This refers to your letter of August 28, 1950, in which you requested our views on a proposed draft of Executive Order delegating certain functions of the President under the Defense Production Act of 1950. There are several provisions in this draft upon which we would like to comment.

"We note that the functions conferred upon the President with respect to real estate construction credit would be delegated by Part VIII of the Executive Order to the Housing and Home Finance Administrator. The Housing and Home Finance Agency already exercises functions in the real estate field and the Board sees no objection to this proposal. The Board has felt that it is most important that the agency to which this authority is 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. It would in the Board's opinion be entirely impracticable to vest in one agency the

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"responsibility for making policy decisions and in another agency the responsibility for carrying out such decisions and administering the controls. The agency having the responsibility should also have full and complete authority.

"The Board earnestly prefers not to be involved in the administration of the real estate construction credit program. We feel that the Board could be most helpful in this matter in offering our technical skills and in giving our advice and counsel on policy problems that arise. In this connection, we would be glad to make available to the agency which is to have this function the tentative results of the work which we have done on this subject up to this time.

"Since we received your letter enclosing a copy of the draft of Executive Order, however, Mr. Riefler has presented to the Board the informal revision of the provisions of the Executive Order relating to real estate construction credit, which was proposed and discussed by representatives of various agencies concerned at a meeting on August 30. We understand that the language of this revision has not yet been finally worked out and also that it has not been definitely agreed to by the other agencies. Subject to this understanding, however, the Board has considered the matter and feels that this informal proposal would provide a method by which the purposes of the real estate credit control authority might be more effectively carried out. In view of this fact, the Board would, with some reluctance, be prepared to accept the task of real estate construction credit control under the conditions of the informal proposal, if it should be the decision of the President that the Board do so.

"We also note that Part VIII of the Executive Order delegates to the Board of Governors of the Federal Reserve System the functions with respect to consumer credit. In the event that the bill as enacted places these functions in the Board of Governors, substantially as provided in the form of bill passed by the Senate, it will be unnecessary to provide such a delegation in the Executive Order, and we understand from your letter that this provision would in that event be deleted.

"Under section 302 of the Executive Order the

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"Armed Services and the Department of Commerce would be authorized to guarantee loans for the national defense, using the Federal Reserve System as the instrumentality to administer this program as was done in connection with the V-loan program in World War II. Section 303 of the Order, however, would authorize and also would direct the Reconstruction Finance Corporation, upon the issuance of a certificate of necessity by an appropriate Government agency, not only to make but to guarantee loans to private business enterprises for the expansion of capacity, development of technological processes, and the production of essential materials. This authority for guarantees by the Reconstruction Finance Corporation would seem to provide, to some extent at least, for a duplication of the authority granted to the Armed Services and other guaranteeing agencies by section 302, and the Board feels that there is no necessity for such a duplication of authority. We suggest, therefore, that appropriate provisions be inserted in the Executive Order to limit the authority which would be conferred upon the Reconstruction Finance Corporation in such a way as to avoid a duplication of the guaranteed loan program which would be set up under section 302 of the bill.

"Section 701 of the Executive Order would delegate to the Secretaries of Interior, Agriculture and Commerce and to a Commissioner of the Interstate Commerce Commission the authority of the President under the Act to consult with representatives of industry, business, financing, agriculture, labor, and other interests, with a view to encouraging the making of voluntary agreements and programs in furtherance of the objectives of the Act, to approve such voluntary agreements and programs, and to request actions pursuant thereto. It will be observed that this authority relates to voluntary agreements by financing interests as well as other interests but that the agencies to which the authority is delegated do not have functions primarily in the financing field. The extension of the voluntary agreements provision to financing interests was provided by action of the Senate Banking and Currency Committee following a suggestion by the Board of Governors. The Federal Reserve System has important functions not only in the field of supervision of banks but also in the field of monetary and credit controls, and we feel, therefore, that it would be appropriate and desirable that the functions con-

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"ferred by section 708 (a) and (b) should be delegated to the Board in so far as they relate to financing.

"We appreciate very much this opportunity to submit our comments on the Executive Order."

Mr. Evans then called upon Mr. Leonard to discuss the proposed provision to be included in the consumer credit regulation with respect to home improvement credits.

Mr. Leonard stated that the Federal Housing Administration was exceedingly desirous that any regulation issued by the Board covering consumer credit contain a provision which would support the Federal Housing Administration rule issued as of August 1, 1950 requiring a 10 per cent down payment on home improvement credits and a limit of 36 months on the maturity of such credits if they were to be eligible for insurance under Title I of the Federal Housing Act. Mr. Leonard also said that he and the staff had studied such a provision exhaustively, that it would be possible to include a similar provision in a regulation issued by the Board, but that the effect of such a provision in the Board's regulation would be different from the rule of the Federal Housing Administration in that the latter simply made nonconforming loans ineligible for insurance whereas a provision in the Board's regulation would make such credits illegal. He added that if such a provision were included the Board should realize in advance that it would be experimental in nature, exceedingly difficult to administer, and subject to a great deal of evasion intentional or otherwise. Mr. Leonard went on to say that he had considerable doubt as to the practicability or the necessity of the down payment provision in connection with home improvement credits, that

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evidence was not available to indicate that it would have much additional restrictive effect, but that the Federal Housing Administration staff felt strongly that the requirement would be effective support of the action the Administration had taken. Mr. Leonard went on to say that if such a provision were to be adopted it would be his recommendation that it require a down payment of 10 per cent of the estimated cost of the home improvement work with a maximum maturity of 30 months, provided the Federal Housing Administration would reduce its terms from 36 months to 30 months, with the understanding that the prescribed down payment should be made not later than the commencement of work.

Mr. Wood, Economist, Division of Research and Statistics, joined the meeting at this point.

There ensued a general discussion of the desirability of restrictions on home improvement credits and it was the consensus that the regulation which the Board expected to issue should include such restrictions, both as to down payment and maturity, recognizing that such restrictions would be experimental in character.

The discussion then turned to the terms that should be prescribed for Group B and C articles, appliances and furniture. Mr. Leonard stated that it was proposed to put furniture in a separate category and, for reasons which he stated, to apply the same maturity as for appliances but a lower down payment. He then described the suggested alternative sets of terms that might be applied to different categories of articles as shown in his memo-

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randum to Mr. Evans dated August 30, 1950 in order to provide a balanced set of terms in the regulation. He stated that if automobile credits were permitted a maximum maturity of 21 months, it was felt that a balanced program would call for maximum maturities of 18 months for appliances and furniture and minimum down payments of 15 per cent on appliances and 10 per cent on furniture. He also said that the maximum maturity for unclassified loans should be the same as the shortest of the maturities prescribed otherwise in the regulation, which would be 18 months under the proposed terms.

There followed a discussion of terms prescribed when the regulation was in effect prior to June 30, 1949, of the relation of the proposed terms to those currently prevailing in the trade, and of recommendations from the trade as to the effect of alternative sets of terms.

During the discussion Mr. Szymczak said that he felt even more strongly than he had yesterday that the terms adopted should be stricter than those recommended by Mr. Evans, that he had no feeling as to the terms for appliances and furniture as such but was concerned with the over-all effects of the Regulation, and that in his judgment terms for automobiles should not be more liberal than 1/3 down (on which there was no disagreement) and a maximum maturity of 18 months.

Mr. Fauver, Administrative Assistant to Chairman McCabe,

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joined the meeting at this point.

Mr. Eccles said that nothing in the discussion had caused him to change the views he expressed yesterday, that with almost \$20 billion of consumer credit outstanding under conditions existing today, and with inflationary forces more acute than in 1948, the growth of such credit should not only be slowed down but the volume outstanding should be reduced, that for reasons stated previously he would support terms for automobiles of 1/3 down and 18 months maximum maturity, and that he felt it would be wrong to require any less than 20% down on appliances and 15% down on furniture or to permit maximum maturities of more than 18 months for either.

Chairman McCabe said that he felt exactly as he did yesterday, that Mr. Evans and the staff had made an exhaustive study of the question, that they were convinced their recommendation would result in a definite restriction on credit, and that he would like to see the recommended terms given a trial for 30 or 60 days and if they were not restrictive enough to tighten them promptly. This, he said, would be a better way to put the regulation into operation than to make it too drastic at the beginning.

Mr. Powell said he had not changed his views from those expressed yesterday on automobiles but that, for reasons which he stated, the proposed terms on other articles seemed to him to be too liberal. This was a small part of the total, however, and he

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would go along with Mr. Evans' recommendation with the expectation that terms would be reviewed within 60 days or less.

Mr. Norton said that he had felt that much of the present inflation was caused by building activity, that he thought credit for automobiles should be restricted, and that the terms suggested for appliances and furniture seemed about right at this time. For these reasons he would be inclined to go along with Mr. Evans' recommendation with the thought that if necessary the regulation could be tightened within a short time.

Chairman McCabe said that Mr. Draper told him that if he were called upon to vote he would favor the terms recommended by Mr. Evans and that Mr. Vardaman expressed the view at the meeting on August 19, 1950 that, while he would prefer more restrictive terms, he would vote to approve the maturity and down payment provisions recommended by Mr. Evans as a result of the study he and the staff were making.

Chairman McCabe then suggested that, although no formal vote could be taken until the Defense Production Act of 1950 became law, it be understood that the staff should proceed to prepare a final draft of the regulation on the basis of the terms recommended by Mr. Evans, including restrictions on home improvement credits and technical changes which he felt were necessary in the regulation, with the understanding that the regulation would be submitted

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for final consideration and action by the Board when the law was enacted, in the expectation that the members of the Board would then vote substantially as indicated in their comments during the meetings yesterday and today. It was understood that this procedure would be followed.

A discussion ensued of the time for announcement of the terms and effective date of the regulation. Mr. Leonard suggested that if it were possible to distribute the regulation sometime prior to Thursday, September 7, the effective date could be September 11, 1950. Any later date would necessitate postponing the effective date and he reiterated the view previously expressed that the effective date should be a Monday. It was agreed that a decision as to the effective date would have to be deferred until it was known when the bill would become law.

Mr. Evans then stated that it was planned to call a conference of officers in charge of administration of the consumer credit regulation at the Federal Reserve Banks to meet in Washington, probably on Monday and Tuesday, September 25 and 26, 1950.

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:

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Federal Reserve System on August 30, 1950, were approved unanimously.

Letter to Manufacturers Trust Company, 55 Broad Street, New York 15, New York, prepared pursuant to the understanding at the meeting on August 24, 1950, reading as follows:

"Reference is made to your letter of August 23, 1950, addressed to the Board of Governors of the Federal Reserve System and to the Federal Reserve Bank of New York, requesting approval in principle of a merger of your bank and the Brooklyn Trust Company, Brooklyn, New York, in accordance with a proposed agreement which has been tentatively outlined in your letter.

"The Federal Reserve Bank of New York has recommended that the Board approve this proposal and the Board of Governors hereby gives consent to the merger, pursuant to the provisions of Section 12B (v) (4) of the Federal Reserve Act, as amended. The foregoing is subject to formal approval by the appropriate State banking authorities and upon condition that, after the merger has been effected, the book capital and surplus of the resulting bank will be approximately \$50,390,000 and \$69,440,000, respectively."

Approved, for transmittal
through the Federal Reserve Bank
of New York, Messrs. Draper and
Evans voting "no" for the reasons
stated at the meeting on August 24,
1950.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to Mr. Kline's letter of August 21, 1950, and its enclosures, regarding the possible effect of paragraph (5) of section 287.230 of the Kentucky Revised Statutes upon the power of your Bank to make advances to State member banks operating com-

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"mon trust funds.

"The statute in question provides that the beneficiaries of any trust or estate shall have a claim prior to any and all other claims against the bank or trust company for any money due the trust or estate. We understand that in 1946 the State Attorney General ruled that the statute, while constitutional, applies only to beneficiaries of common trust funds; that the question was raised as to whether the claims of such beneficiaries would have priority over the claim of a Federal Reserve Bank making an advance to the member bank secured by a pledge of Government bonds or other eligible collateral; that the State Supervisor of Banks at that time adopted a policy of not approving the establishment of common trust funds by State banks; and that the question has now been raised again because the present Supervisor of Banks is authorizing State banks to establish common trust funds.

"You state that it has been proposed that your Bank interpose no objection to the operation of approved common trust funds by State member banks in Kentucky and that it continue to make advances under section 13 to banks operating such common trust funds unless their financial condition, combined with the possible defect in the collateral, should create doubts which would cause your Bank to regard such advances as no longer warranted.

"It appears that there has been no authoritative determination that claims of beneficiaries of a common trust fund in a State member bank in Kentucky would have priority over those of a Federal Reserve Bank to which assets of the member bank have been pledged as security for an advance. Accordingly, notwithstanding the existence of some uncertainty as to this question, the Board feels that in all the circumstances the course proposed in your letter would be the proper one for your Bank to follow in this matter."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of August 24,

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"1950, in which you advised that it appears expenses for certain functions at the Head Office will exceed the 1950 budget estimates as follows:

<u>Function</u>	<u>Amount</u>
Provision of Space	\$27,000
Furniture and Equipment	25,000

"The Board accepts the revised figures as submitted and appropriate notations are being made in the Board's records."

Approved unanimously.


Secretary.