

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 8, 1950. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser to the Board
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of
Personnel Administration
Mr. Townsend, Solicitor
Mr. Young, Director, Division of
Research and Statistics

At Mr. Szymczak's request Mr. Townsend made a brief report of recent developments in connection with the Clayton Act proceeding against Transamerica Corporation.

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 5, by the Federal Reserve Banks of Atlanta and St. Louis on September 6, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond,

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Chicago, Minneapolis, and Kansas City on September 7, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Vardaman stated that he had been informed of the understanding reached at the meeting of the Board on September 5 with respect to assignments of Board members, that the proposed assignments were entirely satisfactory to him except that he was unwilling to accept the assignment of veterans problems as he saw no reason or need for such an assignment, and that he would suggest that the item be dropped entirely from the list.

Mr. Vardaman's suggestion was agreed to and, at Mr. Eccles' suggestion, it was understood that the proposed assignments would be given further consideration in executive session at a meeting on Tuesday, September 12, 1950.

It was also agreed that, in the meantime, the Board would operate in accordance with the assignments as discussed at the meeting on September 5, 1950, as changed by Mr. Vardaman's suggestion referred to above.

Mr. Norton then made a statement substantially as follows:

At a meeting in my office yesterday which was attended by Mr. Fisher and members of the staff, we agreed upon the following very tentative program for setting up an organization and adopting a regulation with respect to real estate credit under the authority of the Defense Production Act of 1950 and the Executive Order to be issued by the President thereunder.

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As the members of the Board know, Mr. Fisher has agreed to serve as the head of the group in the Board's organization which will have responsibility for handling work in connection with real estate credit regulation. In accordance with a separate recommendation, the organization set up in the Board's offices to handle this work would be designated the Office of Real Estate Credit Regulation and Mr. Fisher would be given the designation of Administrator of that office.

Arrangements are also being made for the temporary assignment to that office of Mr. Noyes, Assistant Director of the Division of Research and Statistics, and Mr. Ramsay Wood, Economist in the Division of Research and Statistics, and the Federal Reserve Bank of Philadelphia is being requested to make available on a temporary basis for a period of three months or longer the services of Mr. Benner, an examiner at the Philadelphia Bank who has had a broad experience in the real estate field. Additions will be made to this technical staff as the need therefor arises and the appropriate recommendations in connection therewith will be submitted to the Board.

We had a discussion of the type of organization that should be set up to handle the many important matters which will come up in connection with the issuance of the regulation and the determination of policies in connection therewith and the suggestion was made that it would be helpful if there could be made available to the Board the services of top-flight men who are familiar with the programs administered by the Housing and Home Finance Agency and the Veterans Administration, as well as someone who was thoroughly familiar with operations in the conventional mortgage market. The suggestion was also made that it might be desirable for the Board to have available the advice of top-quality representatives from the various segments of the mortgage market including the rural and farm areas, insurance companies, mortgage brokers or agents, savings banks, the various Government programs, etc.

It was felt that a preliminary draft of the regulation (Regulation X) should be made ready as promptly as possible and sent to the Federal Reserve Banks with a request for their comments within a week or 10 days, shortly after which representatives of the Federal Reserve Banks would be called to Washington for a conference.

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As a means of affording an opportunity for a discussion of the draft of regulation with representatives of the various segments of the mortgage market, it was agreed that we would hold a conference during the latter part of next week with ten or twelve outstanding individuals in the real estate field with the thought that the conference might run over a period of two or three days and afford an opportunity for a full discussion of the various problems involved in the issuance of the regulation.

One of the reasons for arranging such a meeting was the thought that an opportunity would be afforded to observe the men attending the conference and that out of the group might be selected top-flight men who would assist Mr. Fisher in staffing the Office of Real Estate Credit Regulation, that these men would be selected as representatives of the various segments of the trade and would be engaged on such temporary basis as might be found to be practicable, and that when the principal problems of policy in connection with the promulgation and operation of the regulation had been solved, their services could be terminated and the work in connection with the regulation could be continued with such staff as appeared necessary at that time.

During Mr. Norton's report Mr. Fauver, Administrative Assistant to the Chairman, joined the meeting.

There followed a general discussion of the organization and procedure outlined by Mr. Norton and of the question whether the function might be handled by one of the existing divisions of the Board or whether it would be better to have a separate office for it.

Following the discussion, Mr. Norton was authorized by unanimous vote to take such steps as were necessary to set up an organization along the lines he had recommended, with the understanding that recommendations for appointments of personnel would be submitted to the Board in the usual manner, that a budget for the new division

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would be submitted as soon as the organization of the division had progressed to a point where that would be practicable, and that in the meantime the Division of Administrative Services would be authorized to incur and pay such reasonable expenses as would be chargeable to the budget of the Division including traveling and other expenses incurred with the approval of Mr. Norton by outside parties invited to attend conferences in connection with the drafting and administration of the new regulation.

Mr. Vardaman stated that he had given thought to the type of organization that should handle the Regulation V program of guarantees of loans for defense production, that it was contemplated that the Regulation would be handled within the existing organization, and that he would submit a proposed program and procedure shortly.

Notice having been received that the President had signed the Defense Production Act of 1950, the following actions were taken:

Regulation W, Consumer Credit, was adopted in the following form, to become effective September 18, 1950, Messrs. Eccles and Szymczak voting "no" for the reasons stated at the meetings on August 30 and 31, 1950:

"REGULATION W
CONSUMER CREDIT

"SECTION 1. SCOPE AND APPLICATION OF REGULATION

"This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the 'Board'), under authority of section 5(b) of the Act of October 6, 1917, as amended, U.S.C., title 50, App., section 5(b); Executive Order No. 8843, dated August 9,

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"1941 (hereinafter called the 'Executive Order'); and the 'Defense Production Act of 1950,' particularly section 601 thereof.

"The regulation applies, in general, to any person who is engaged in the business of extending instalment credit in amounts of \$5,000 or less, or discounting, purchasing or lending on, obligations arising out of such credit. It applies whether the person is a bank, loan company, or finance company, or a person who is so engaged in connection with any other business, such as by extending such credit as a dealer, retailer, or other person in connection with the selling of consumers' durable goods.

"SECTION 2. GENERAL REQUIREMENTS AND REGISTRATION

"(a) General Requirements. - Each person engaged in the business of making instalment sales¹ or instalment loans,² or engaged in the business of lending on the security of or discounting or purchasing obligations arising out of such credit, is referred to in this regulation as a 'Registrant'; and no Registrant shall make or receive any payment which constitutes or arises directly or indirectly out of any such credit extended by him or out of any such obligation lent on or discounted or purchased by him, except on the following conditions:

- (1) He must have a license, and each Registrant is hereby granted such a license, but such license of a Registrant may be suspended in the manner and on the grounds stated in section 8(b); and
- (2) The credit extended, renewed, revised or consolidated by him, or giving rise to the obligation discounted or purchased by him or acquired by him as collateral, must comply with the applicable requirements of this regulation.

¹ 'Instalment sale' is defined to include only instalment credit arising out of the sale of an article listed in the Supplement, hereinafter called a 'listed article.'

² Both 'instalment sale' and 'instalment loan' are defined to exclude credits in a principal amount exceeding \$5,000. Certain instalment sales and instalment loans, including some that are in a principal amount exceeding \$2,500, are exempted from the regulation by section 7.

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"(b) Registration.-Within 60 days after the effective date of this regulation, or 60 days after he becomes subject to section 2(a), whichever is later, each Registrant shall file, with the Federal Reserve Bank or any branch thereof in the district in which the main office of the Registrant is located, a registration statement on a form obtainable from any Federal Reserve Bank or branch. Such statement shall be filed regardless of whether or not the Registrant had filed such a statement under Regulation W as in effect at any time prior to the effective date of this regulation.

"SECTION 3. INSTALMENT SALES: GENERAL RULES

"Except as otherwise provided by this regulation, each instalment sale shall comply with the following requirements:³

(a) Down Payment and Maturity.-There shall be a down payment not less than that specified for the listed article in the Supplement, such down payment to be calculated as therein specified; and the time balance specified in section 6(c) shall have a maturity not exceeding the maximum maturity specified for the listed article in the Supplement.

(b) Amounts and Intervals of Instalments; Record.-Except as permitted by section 6(a) for seasonal incomes, etc., the time balance shall be payable in instalments which shall be (1) substantially equal in amount or so arranged that no instalment is substantially greater than any preceding instalment, (2) payable at approximately equal intervals not exceeding one month, and (3) not less than \$5 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor. The information specified in section 6(c) shall be set forth in a bona fide record of any transaction subject to this section.

(c) Time of Down Payment.-The down payment shall be obtained at or before the time of delivery of the listed article; except that in the case of an article listed in Group D, the down payment shall be obtained at or before the time of beginning the agreed upon repairs, alterations, or improvements.

³ Certain instalment sales, including some that are in a principal amount exceeding \$2,500, are exempted from the regulation by section 7.

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"SECTION 4. INSTALMENT LOANS: GENERAL RULES

"Except as otherwise provided by this regulation, each instalment loan shall comply with the following requirements:⁴

(a) Instalment Loans to Purchase Listed Articles.- If the Registrant knows or has reason to know that the proceeds of an instalment loan are to be used to purchase any listed article:

(1) The principal amount lent (excluding any interest or finance charges and the amount of any insurance premium) shall not exceed the maximum loan value specified for the article in the Supplement, such loan value to be calculated as therein specified; and

(2) The maturity of the instalment credit (including any interest or finance charges, and the amount of any insurance premium and of any items included in the cash price of the article) shall not exceed the maximum maturity specified for the listed article in the Supplement.

(b) Unclassified Instalment Loans.-In the case of an instalment loan which is not subject to section 4(a), the maturity of the instalment credit (including any interest or finance charges and the amount of any insurance premium) shall not exceed the maximum maturity specified for unclassified instalment loans in the Supplement.

(c) Amounts and intervals of Instalments; Record.- Whether subject to section 4(a) or section 4(b), the instalment credit, except as permitted by section 6(a) for seasonal incomes, etc., shall be payable in instalments which shall be (1) substantially equal in amount or so arranged that no instalment is substantially greater in amount than any preceding instalment, (2) payable at approximately equal intervals not exceeding one month, and (3) not less than \$5 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor. The terms of payment shall be set forth in a bona fide record of any instalment credit subject to this section.

⁴ Certain instalment loans, including some that are in a principal amount exceeding \$2,500, are exempted from the regulation by section 7.

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"(d) Statement of the Borrower.-No Registrant shall make any instalment loan subject to section 4(a) or 4(b) unless he shall have accepted in good faith a signed Statement of the Borrower as to the purposes of the loan. Such Statement shall state whether or not any of the proceeds of the loan are to be used to make a down payment on the purchase of a listed article or to be used to purchase any listed article, and if any of the proceeds of the loan are to be used for the latter purpose such Statement shall identify such listed article and shall state the cash price⁵ thereof and the value of any trade-in. If a Registrant relies in good faith on the facts set out by the obligor in such Statement, it shall be deemed to be correct for the purposes of the Registrant.

(e) Loans to Make Down Payments Prohibited.- A Registrant shall not make any instalment loan if he knows or has reason to know that any part of the proceeds thereof is to be used to make a down payment in connection with the purchase of any listed article.

"SECTION 5. RENEWALS, REVISIONS, AND ADDITIONS

"(a) General Requirements.-In the case of an instalment sale or instalment loan which results from a renewal or revision of any instalment credit already outstanding, or which results from the combination of any such outstanding credit with an additional instalment credit, the renewed, revised, or consolidated obligation shall (regardless of when the outstanding credit originated) comply with all the requirements of this regulation as if it were a new credit except that:

- (1) The requirements as to Statement of the Borrower and down payment or maximum loan value, if any, shall not apply to the outstanding credit already held by the Registrant; and

⁵ Part 5 of the Supplement permits the use of a bona fide estimated cash price in certain cases.

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"(2) The renewed, revised, or consolidated obligation may, in so far as the maturity and instalment requirements are concerned, be treated as if it were a new credit with the maximum maturity calculated from the date of the renewal, revision, or consolidation. The payments on such renewed, revised, or consolidated obligation shall not be less than \$5 per month or \$1.25 per week on the aggregate instalment indebtedness of one debtor to the same creditor.

"(b) Statement of Changed Conditions.-Notwithstanding any other provision of this regulation, if a Registrant accepts in good faith a Statement of Changed Conditions as provided in the following paragraph, an instalment credit that refinances any outstanding obligation (whether or not such obligation is held by the Registrant or is itself payable in instalments) may have a maturity not exceeding the maximum maturity specified in the Supplement for refinancing pursuant to such Statements, but such maximum maturity shall be applicable only to the credit refinanced. The payments on the credit refinanced need not be as large as \$5 per month or \$1.25 per week.

"The requirements of a Statement of Changed Conditions will be complied with only if the Registrant accepts in good faith a written statement signed by the obligor that the contemplated refinancing is necessary in order to avoid undue hardship upon the obligor or his dependents resulting from contingencies that were unforeseen by him at the time of obtaining the original credit or which were beyond his control, which statement also sets forth briefly the principal facts and circumstances (1) with respect to the original credit and (2) with respect to such contingencies, and specifically states in addition that the contemplated refinancing is not pursuant to a preconceived plan or an intention to evade or circumvent the requirements of this regulation.

"(c) Bona Fide Collection Effort; Serviceman's Pre-induction Debt.-Nothing in this regulation shall be construed to prevent any Registrant from making any renewal or revision, or taking any action that he shall deem necessary in good faith (1) for the Registrant's own protection in connection with any obligation which is in default and is the subject of bona fide collection effort by the Registrant, or (2) with respect to any obligation of any member or former member of the armed forces of the United States incurred

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"prior to his induction into such service and assignment to active duty: Provided, that the instalment sale of any repossessed article must comply with the applicable requirements of this regulation.

"SECTION 6. CERTAIN TECHNICAL PROVISIONS

"(a) Payment Schedules for Seasonal Incomes, etc.- The schedule of instalment payments otherwise specified by this regulation may be modified, within the applicable maximum maturity, as follows:

(1) If the income received by the obligor from the main sources of his income customarily fluctuates materially from month to month or from season to season and the Registrant has a record of the facts relied upon by him in good faith in that connection, such schedule may be adapted to such customary flow of income provided (i) at least half of the credit is to be repaid within the first half of the applicable maximum maturity or at least two-thirds of the credit is to be repaid within the first two-thirds of the applicable maximum maturity, or (ii) payments are reduced or omitted in not more than 4 months of any calendar year but are otherwise in equal monthly amounts; or

(2) The Registrant may require terms of payment which (i) provide a final or other instalment payment which, as a result of rounding off preceding instalments by amounts less than \$1, is not more than 50 per cent greater in amount than the amount of any preceding instalment, or (ii) provide during the first 4 months of the maturity of the obligation additional instalment payments which are in substantially equal amounts and at approximately equal intervals if, as a result, no instalment is more than twice as large as any preceding instalment.

"(b) Calculating Date of First Instalment and Maximum Maturity.-In calculating the maximum maturity of an instalment obligation, a Registrant may, at his option, use any date not more than 15 days subsequent to the actual date of the loan or delivery of the listed article sold; and except as permitted by section 6(a), the first instalment shall be scheduled for payment not later than one month or, in accordance with such option, one month and 15 days subsequent to the actual date of the loan or

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"delivery of the listed article sold.

"(c) Record of Instalment Sale.-The record of an instalment credit arising from the sale of a listed article and required by section 3(b) shall set forth (in any order) the following information:

- (1) A brief description identifying the article purchased;
- (2) The cash price of the article;
- (3) The amount of the purchaser's down payment
 - (i) in cash and (ii) in goods accepted in trade, together with a brief description identifying such goods and stating the monetary value assigned thereto in good faith;
- (4) The amount of any insurance premium for which credit is extended and of any finance charges or interest by way of discount included in the principal amount of the obligation, or the sum of these amounts;
- (5) The time balance owed by the purchaser, which is the sum of items (2) and (4) minus item (3); and
- (6) The terms of payment.

The record need not include a description of the article if it is purchased by means of a coupon book or similar medium of instalment credit upon which there has been made a cash down payment at least as great as the highest down payment required by this regulation on any article sold by the Registrant. The record need not include the information called for by items (2) and (4) if the Registrant is one who, with respect to the article, customarily quotes to the public a time price only which includes the finance or other charges if any, provided he sets forth such time price in such record, and provided he obtains a cash down payment which is at least as large as would be required if the percentage specified for the article in the Supplement were applicable to the time price.

"(d) Credit for Mixed Purposes.-In case a credit is partly subject to one section of this regulation and partly subject to another section, the amount and terms of such credit shall be such as would result if the credit were divided into two or more parts and each part were treated as if it stood alone; except that the maturity of any such credit may be the maximum maturity applicable to the listed article giving rise to the major part of the credit. In case a credit is partly subject to this regulation (whether for a listed article or because otherwise required to be scheduled for payment within any maximum maturity

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"specified by the regulation) and partly not subject to the regulation, the amount and terms of such credit will comply with the requirements of this regulation if they satisfy the requirements of this regulation applicable to the regulated portion.

"(e) Mail Orders.-An instalment sale shall not be deemed to be in violation of the down payment requirement of section 3(a) if the sale is made upon the receipt of a mail order for one or more articles and the cash deposit received with the order fails by no more than \$1 to equal the sum of the down payments required by this regulation for all of the articles included in the order.

"(f) Delivery in Anticipation of Instalment Sale.- Except as provided in the following paragraph, in case any listed article is delivered in anticipation of, or under any arrangement whereby delivery of a listed article precedes, an instalment sale of that article or a similar article (such as, but not limited to, a delivery 'on approval,' 'on trial,' or as a 'demonstrator'), the Registrant shall require, at or before the time of such delivery, a deposit equal to the down payment that would be required on such an instalment sale.

"In order to qualify as an exception to the preceding paragraph, the article must be an article listed in Group B or in Group C, the delivery must be exclusively for the purpose of a bona fide trial, approval, or demonstration, and the Registrant must, within 10 days after such delivery, obtain the down payment referred to in the preceding paragraph or the return of the article. Every such case shall be evidenced by a written agreement signed by the respective parties, of which a copy shall be given to the prospective purchaser at the time of or before the delivery of the article, and such written agreement shall state clearly and prominently that (1) the delivery is exclusively for the purpose of a bona fide trial, approval, or demonstration, and (2) the prospective purchaser will make the required down payment (the amount of which shall be stated in the agreement) within 10 days after delivery of the article for trial, approval, or demonstration or will return or release the article within such 10-day period.

"(g) Sets and Groups of Articles.-In determining whether the down payment and maximum loan value requirements of this regulation are applicable, any set, group, or assembly commonly

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"considered, sold or used as a single unit shall be deemed to be a single listed article if the component parts thereof are sold or delivered at substantially the same time.

"(h) Evasive Side Agreements.-No credit complies with the requirements of this regulation if at the time the obligation arises there is any agreement, arrangement, or understanding (1) by which the obligation is to be renewed or revised on terms which would permit final payment to be deferred beyond the date permitted by this regulation for such credit at its inception, or (2) by which the obligor is to be enabled to make repayment on conditions inconsistent in any other respect with those required by this regulation, or (3) by which there is to be any evasion or circumvention, or any concealment of any evasion or circumvention, of any requirement of this regulation.

"(i) Side Loan to Make Down Payment.-A Registrant shall not extend any credit for financing the purchase of any listed article if he knows or has reason to know that there is, or that there is to be, any other credit of any kind extended in connection with the purchase of the listed article which would bring the total amount of credit extended in connection with such purchase beyond the amount of instalment credit permitted by this regulation; but, if the Registrant accepts in good faith a written statement signed by the obligor that no such other credit exists or is to be extended, such statement shall be deemed to be correct for the purposes of the Registrant.

"(j) Purchase of Article in Lieu of Trade-in.-Anything which the seller of a listed article buys, or arranges to have bought, from the purchaser at or about the time of the purchase of the listed article shall be regarded as a trade-in for the purposes of this regulation.

"(k) Misuse of Coupon Plans.-No coupon, ticket, or similar medium of credit, whether paid for in instalments or otherwise, shall be accepted by any Registrant in payment, in whole or in part, for any listed article if such acceptance, in effect, would permit the article to be sold on terms not complying with the requirements of this regulation.

"SECTION 7. EXEMPT CREDITS

"The provisions of this regulation, other than section 8(a), do not apply to any of the following:

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"(a) Credits over \$2,500 Not Involving Automobiles.- Any credit in a principal amount exceeding \$2,500, unless it is (1) an instalment sale of an article listed in Group A, or (2) an instalment loan the proceeds of which are to be used to purchase an article listed in Group A.

(b) Business or Agricultural Loans.-Any loan for business purposes to a business enterprise or for agricultural purposes to a person engaged in agriculture, provided the loan is not for the purpose of purchasing a listed article.

(c) Credit to Dealers and Certain Salesmen.-Any credit extended to a wholesaler or retailer to finance the purchase of any article for resale, or any credit extended to a bona fide salesman of automobiles in order to finance the purchase of a new automobile to be used by him principally as a demonstrator.

(d) Credit to Governmental Agencies, Religious Institutions, etc.-Any credit extended to the Federal Government, any State government, any political subdivision, or any department, agency, or establishment thereof, or to any church, hospital, clinic, sanitarium, school, college, or other religious, educational, charitable, or eleemosynary institution.

(e) Credits Under Government Rehabilitation and Readjustment Programs.-Any credit (1) extended by the Land Bank Commissioner on behalf of the Federal Farm Mortgage Corporation or by any Federal land bank and found, pursuant to regulations issued by the Commissioner, to be necessary to maintain or increase production of essential agricultural commodities, (2) extended or insured by the Farmers' Home Administration, (3) extended in accordance with the regulations of the Secretary of the Interior for the economic development or rehabilitation of Indians, (4) extended under section 4(a)(4) of the Reconstruction Finance Corporation Act, as amended, because of floods or other catastrophes, or (5) extended, 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, as amended, or by any State agency pursuant to similar State legislation.

(f) Loans to Pay Fire and Casualty Insurance Premiums.-Any loan to finance a premium in excess of one year on a fire or casualty insurance policy if the loan is fully secured by the unearned portion of such premium

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"and the policy is not related to any listed article sold to the borrower, or financed for him, by the Registrant.

(g) Credit for Purchasing Securities.-Any credit which is subjected to the Board's regulations issued under the Securities Exchange Act of 1934, as amended, or which is otherwise for the purpose of purchasing or carrying stocks, bonds, or other investment securities.

(h) Real Estate Credit.-Any credit extended for the purpose of financing or refinancing (1) the construction or purchase of an entire residential building or other entire structure, (2) the construction or purchase of any other entire unit designed for residential occupancy if such unit does not result from repairs, alterations, or improvements upon an existing structure, or (3) any credit subjected to regulations issued under the Defense Production Act of 1950 concerning real estate construction credit.

(i) Loans to Meet Medical Expenses, etc.-Any loan as to which the Registrant accepts in good faith a written statement signed by the borrower certifying that the proceeds are to be used for bona fide educational, medical, hospital, dental, or funeral expenses, or to pay debts incurred for such expenses, and that such proceeds (unless they are to be used exclusively for educational expenses) are to be paid over in amounts specified in such statement to persons whose names, addresses, and occupations are stated therein.

(j) Disaster Credits.-Any credit extended to finance the repair or replacement of property damaged or lost as a result of a flood or other similar disaster which the Federal Reserve Bank of the district in which the disaster occurred finds has created an emergency affecting a substantial number of the inhabitants of the stricken area, provided such credit is extended prior to the end of the sixth calendar month following the month in which the disaster occurred and the Registrant has a record of the facts relied upon by him in good faith describing the damage or loss.

(k) Certain Loans on Savings Shares or Accounts.-Any loan which is made by a bank, savings and loan association, or similar institution, and is fully secured by withdrawable shares issued by or savings accounts held with the lender.

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"SECTION 8. MISCELLANEOUS PROVISIONS: DEFINITIONS

"(a) Preservation of Records; Inspections.-Every Registrant shall preserve, for the life of the obligation to which they relate, such books of account, records, and other papers (including any statements or agreements required by or obtained pursuant to this regulation) as are relevant to establishing whether or not a credit qualifies for exemption under section 7, or whether or not it is otherwise in conformity with the requirements of this regulation, provided, however, that the Registrant may preserve photographic reproductions in lieu of such books of account, records, or other papers.

"For the purpose of determining whether or not there has been compliance with the requirements of this regulation, every Registrant shall permit the Board or any Federal Reserve Bank by its duly authorized representatives, to make such inspections of his business operations as the Board or Federal Reserve Bank may deem necessary or appropriate, including inspections of books of account, contracts, letters, or other relevant papers wherever located, and, for such purpose, shall furnish such reports as the Board or the Federal Reserve Bank may require. When ordered to do so by the Board, every Registrant shall furnish, under oath or otherwise, such information relative to any transaction within the scope of the authority cited in section 1 as the Board may deem necessary or appropriate for such purpose, including the production of books of account, contracts, letters, or other papers in the custody or control of such person.

"(b) Suspension of License⁶.-The license of any Registrant may, after reasonable notice and opportunity for hearing, be suspended by the Board, in its entirety or as to particular activities or particular offices or for specified periods, because of any willful or negligent failure to comply with any provision of this regulation or any requirement of the Board pursuant thereto.

⁶ In addition, section 604 of the Defense Production Act of 1950 authorizes the Board to institute court proceedings to restrain violations and to compel compliance with the regulation or any order of the Board made in pursuance thereof. Furthermore, section 603 of such Act provides that 'Any person who willfully violates any provision of section 601 (of the Act) *** or any regulation or order issued thereunder, upon conviction thereof, shall be fined not more than \$5,000 or imprisoned not more than one year or both.'

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"A license which is suspended for a specified period will again become effective upon the expiration of such period. A license which is suspended indefinitely may be restored by the Board, in its discretion, if the Board is satisfied that its restoration would not lead to further violations of this regulation and would not be otherwise incompatible with the public interest.

"(c) Enforceability of Contracts.-Except as may subsequently be otherwise provided, all provisions of this regulation are designated, pursuant to section 2(d) of the Executive Order, as being 'for administrative purposes' within the meaning of said section 2(d), which provides that noncompliance with provisions of the regulation so designated shall not affect the right to enforce contracts.

"(d) Clerical Errors.-Any failure to comply with this regulation resulting from a mistake in determining, calculating, or recording any price, down payment, or credit, or other similar matter, shall not be construed to be a violation of this regulation if the Registrant establishes that such failure to comply was the result of excusable error and was not occasioned by a regular course of dealing.

"(e) Noncompliance Due to Facts Outside Registrant's Knowledge.-The prohibitions of this regulation shall not apply to a Registrant with respect to any failure to comply with this regulation in connection with (1) a credit extended by him if, at the time thereof, he did not know or have reason to know any fact by reason of which such credit failed to comply; (2) an obligation purchased, discounted, or acquired as collateral by him if, when he purchased or discounted the obligation or acquired it as collateral, the obligation did not show on its face any failure to comply and he did not know any fact by reason of which the credit giving rise to the obligation failed to comply; or (3) an obligation renewed, revised, or consolidated by him if, at the time when he renewed, revised, or consolidated it, he did not know or have reason to know any fact by reason of which such renewal, revision, or consolidation failed to comply. With respect to any loan on the security of an obligation which arises out of a credit subject to this regulation, the prohibitions of this regulation shall be deemed to apply only to payments arising out of the obligation rather than to payments arising out of the loan.

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"(f) Transactions Outside United States.-Nothing in this regulation shall apply with respect to any credit extended in Alaska, the Panama Canal Zone, or any territory or possession outside the continental United States.

"(g) Right of Registrant to Impose Stricter Requirements.-Any Registrant has the right to refuse to extend credit, or to extend less credit than the amount permitted by this regulation, or to require that repayment be made within a shorter period than the maximum permitted by this regulation.

"(h) Contracts Outstanding on Effective Date of Regulation.-Nothing in this regulation shall prevent the performance of any valid contract or obligation entered into prior to the effective date of this regulation; but, when any obligation arising out of any credit extended on or after such date is combined with any credit extended on or after such date or is the subject of any renewal or revision made on or after such date, such credit shall be treated for the purposes of this regulation as having been extended on the date of such consolidation, renewal, or revision.

"(i) Transactions Subjected to Regulation by Amendment.-Whenever this regulation is amended to add any article to the list of articles in the Supplement or so as to apply to any additional class of transactions, the amendment shall not prevent the performance of any valid contract made prior to the effective date of the amendment; but any renewal, revision, or consolidation of any obligation arising from a credit covering such newly added article or class of transactions shall be subject to the applicable requirements of this regulation.

"(j) Definitions.-For the purposes of this regulation, unless the context otherwise requires:

- (1) 'Person' has the meaning given it in subsection (a) of section 702 of the Defense Production Act of 1950.⁷

⁷ Such Act provides that 'The word "person" includes an individual, corporation, partnership, association, or any other organized group of persons, or legal successor or representative of the foregoing, and includes the United States or any agency thereof, or any other government, or any of its political subdivisions, or any agency of the foregoing: Provided, That no punishment provided by this Act shall apply to the United States, or to any such government, political subdivision, or government agency.'

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"(2) 'Registrant' has the meaning given it in section 2(a).

(3) 'Credit' means 'Extension of credit' as defined in the Executive Order.⁸

(4) 'Instalment Credit' means a credit which the obligor undertakes to repay in two or more scheduled payments or as to which the obligor undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or which has a similar purpose or effect.

(5) 'Instalment Sale' means an instalment credit in a principal amount of \$5,000 or less⁹ which is made as principal, agent, or broker, by any seller of any article listed in the Supplement to this regulation (herein called a 'listed article') and which arises out of a sale of such listed article. For this purpose, 'sale' includes a lease, bailment, or other arrangement for the use of property, or any other transaction, which is similar in purpose or effect to a sale.

(6) 'Instalment Loan' means an instalment credit, other than an instalment sale, in the form of a loan which is in a principal amount of \$5,000 or less;⁹ but the definition does not include any loan upon the security of any obligation which arises out of any instalment sale or instalment loan.

⁸ The pertinent part of the Executive Order reads as follows: 'Extension of credit' means any loan or mortgage; any instalment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim or property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

⁹ Certain instalment sales and instalment loans, including some that are in a principal amount exceeding \$2,500, are exempted from the regulation by section 7.

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"(7) 'Cash Price' means the bona fide cash purchase price of an article (net of any rebate or sales discount), including the bona fide cash purchase price of any accessories, the bona fide charge for any services sold or financed in connection with the article, any bona fide charges for delivery or installation, and any applicable sales taxes, but excluding any charges for interest, finance, or insurance.

"SUPPLEMENT TO REGULATION W

"Part 1. Listed Articles, Down Payments, Loan Values.- For the purposes of Regulation W, the following articles, whether new or used, are 'listed articles,' and the following required down payments and maximum loan values are prescribed (such down payments and loan values to be calculated as specified in Parts 4 and 5 of this Supplement); but such down payment and loan value requirements shall not apply in the case of a listed article having a cash price of less than \$100, exclusive of any applicable sales tax:¹⁰

Group A - 33 1/3 per cent minimum down payment, 66 2/3 per cent maximum loan value:

1. Automobiles (passenger cars designed for the purpose of transporting less than 10 passengers, including taxicabs).

Group B - 15 per cent minimum down payment, 85 per cent maximum loan value:

1. Cooking stoves and ranges, designed for household use.
2. Dishwashers, mechanical, designed for household use.
3. Ironers designed for household use.
4. Refrigerators and food freezers, mechanical, designed for household use.
5. Washing machines or clothes drying machines designed for household use.
6. Combination units incorporating any listed article in the foregoing classifications of this Group B.
7. Air conditioners, room unit; dehumidifiers, mechanical.
8. Radio or television receiving sets, phonographs, or combinations.

¹⁰ The exclusion of sales taxes in this part of the Supplement does not affect the use of the term 'Cash Price' elsewhere in the regulation. 'Cash Price' as defined in section 8(j)(7) generally includes applicable sales taxes.

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- "9. Sewing machines designed for household use.
- 10. Suction cleaners designed for household use.

Group C - 10 per cent minimum down payment, 90 per cent maximum loan value:

- 1. Furniture, household (including ice refrigerators, bed springs, mattresses, and lamps); and floor coverings, soft surface.

Group D - 10 per cent minimum down payment, 90 per cent maximum loan value:

Residential repairs, alterations, or improvements.-
 Materials, articles, and services (other than articles listed elsewhere in the Supplement) in connection with repairs, alterations, or improvements upon urban, suburban, or rural real property in connection with existing structures. This does not relate to structures, or distinct parts thereof, which as so repaired, altered, or improved are designed exclusively for nonresidential use.

"Part 2. Maturities.-The maximum maturities for listed articles and for unclassified instalment loans are:

Group A	21 months
Group B	18 months
Group C	18 months
Group D	30 months
Unclassified Instalment Loans . .	18 months

"Part 3. Refinancing Pursuant to Statement of Changed Conditions.-The maximum maturity of any refinancing pursuant to a Statement of Changed Conditions as specified in section 5(b) is 24 months.

"Part 4. Calculation of Down Payments for Automobiles.-
 The maximum loan value of any automobile shall be the specified percentage of the cash price or of the 'appraisal guide value,' whichever is lower, and the required down payment shall be the difference between the cash price and the maximum loan value as so calculated. Such required down payment in the case of an automobile may be obtained in the form of cash, trade-in, or both.

"Appraisal guide value,' for any given period, means the estimated average retail value as stated in the edition and issue designated by the Board for that period of any regularly published automobile appraisal guide designated by the Board for this purpose, as to guide, edition, and issue, for use in the territory in which such automobile is sold, plus any applicable sales taxes. Information as to the guide or guides, and editions and issues thereof, designated for any given territory may be obtained from any Federal Reserve Bank or branch.

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"Part 5. Calculation of Down Payments for Articles in Groups B, C, and D.-In the case of any article listed in Group B, Group C, or Group D, the required down payment and the maximum loan value shall be (1) the specified percentage of the cash price of the article, or (2), in the event of a trade-in by the purchaser, the specified percentage of the net price of the listed article after deducting from the cash price of that article the amount allowed for the trade-in. Such down payment shall be obtained in cash in addition to any trade-in.

"If the cash price of an article listed in Group D cannot be determined at the time the required down payment must be obtained or at the time of the loan, (1) the Registrant may substitute for the cash price in calculating such down payment a bona fide estimated cash price, or (2) the borrower may substitute for the cash price, and in calculating the maximum loan value the Registrant may rely in good faith on, a bona fide estimated cash price as so stated in the Statement of the Borrower."

Unanimous approval was given to the following telegram to the Federal Reserve Banks:

"Supplementing telegram September 7 re Regulation W. Board has today adopted Regulation W effective September 18, 1950. Please arrange for printing of Regulation from the offset negatives which were forwarded to your Bank recently for distribution of the Regulation within your district.

"Press statement quoted in telegram September 7 will be issued this afternoon for publication in morning papers September 9. Please notify your branches."

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

"Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operations of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof.

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"In the formulation of this part and in accordance with the requirement of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations."

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman 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 September 7, 1950, were approved unanimously.

Memorandum dated September 6, 1950, from Mr. Nelson, Director of the Division of Personnel Administration, recommending an increase in the basic salary of Miss Elizabeth A. McMahon, a clerk-stenographer in that Division, from \$2,970 to \$3,115 per annum, effective September 17, 1950.

Approved unanimously.

Memorandum dated September 8, 1950, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the resignation of Mrs. Frances M. Thompson, substitute nurse in that Division, be accepted to be effective, in accordance with her request, at the close of business September 6, 1950.

Approved unanimously.

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

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"Reurtel September 8. Board approves designation of Edward J. Enright as special assistant examiner for Federal Reserve Bank of Boston."

Approved unanimously.

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

"This refers to your letter of August 7, 1950, with enclosures, and the preliminary plans submitted separately covering proposals for certain alterations and additions to the head office building.

"Various projects included in the program have been considered in the light of the emergency of the needs as rated by your Bank and the general policy that only urgent construction be undertaken at this time.

"On this basis the Board authorizes your Bank to proceed with the following projects as outlined in your letter:

- A-1 Construction of the new vault.
- A-2 Enclosure and alteration of the security court, if this does not depend upon the completion of the proposed new storage building.
- A-4 Modernization of the elevators.
- A-5 Modernization of the electrical and mechanical equipment.
- A-7 Extension of first mezzanine locker room.

It is noted that the estimated cost of these projects amounts to approximately \$697,000 including architect's fees.

"It is noted that the cost of modernizing elevators is estimated at this time at \$174,000, a reduction of \$41,000 from the estimate made last January and that this reduction has apparently been made because Mr. Persina and Mr. Leonard indicated that those estimates seemed high. Their question related to the cost per unit and not to the over-all cost. If after reconsidering the matter your Bank is satisfied that the cost per unit is reasonable, and that it would be good business judgment to proceed with the modernization of the three elevators in the rear instead of two, the Board would not object to the additional expenditure involved.

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"The Board also authorizes your Bank to proceed with the preparation of detail plans and specifications for construction of the proposed new storage building in order that the work may be undertaken promptly when it appears appropriate to proceed with the project. This, of course, is with the understanding that the detail plans will be submitted to the Board before bids are called for. The Board likewise authorizes your Bank to proceed with the preparation of detail plans and specifications for alterations on the third floor under the same conditions, if you should consider it advisable to do so at this time."

Approved unanimously.

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

"There are enclosed herewith copies of a preliminary draft of a regulation which has been prepared by the Board's staff in anticipation of the possibility that the powers of the President relating to the control of real estate construction credit under the Defense Production Act of 1950 will be delegated to the Board. This draft is, of course, in very tentative form at this time and should be so regarded. It has not as yet been taken up with other interested agencies of the Government in Washington, but this will be done at an early date.

"If you should wish to do so, you are at liberty to discuss the substance of the draft on a confidential basis with persons outside of the Federal Reserve Bank. However, it should not be publicized in any way at this time.

"Just what type of organization should be set up here at the Board or within the Federal Reserve System for the purpose of administering the regulation is having our consideration and it is suggested, therefore, that no definite arrangements be made in the Federal Reserve Banks for the handling of real estate credit until this matter can be further explored. You will observe, however, that the regulation as drafted does not contemplate the establishment of local committees for purposes of appraisal of values of real property.

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"We will appreciate very much having your comments and suggestions regarding this draft of regulation. We would like to have your views, first with regard to points of substance and also with regard to the form or language of the draft wherever you think it is not clear or needs modification. Please arrange to submit your comments and suggestions to reach us not later than Monday morning, September 18, 1950."

Approved unanimously.

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

"There have been forwarded to you today under separate cover the indicated number of copies of the following forms, a copy of each of which is attached, for use of State member banks and their affiliates in submitting reports as of the next call date:

Number of
copies

- Form F. R. 105 (Call No. 117), Report of condition of State member banks.
- Form F. R. 105b (Revised August 1939), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
- Form F. R. 105e (Revised May 1948), Publisher's copy of report of condition of State member banks.
- Form F. R. 105e-1 (Revised May 1948), Publisher's copy of report of condition of State member banks.
- Form F. R. 220 (Revised August 1946), Report of affiliate or holding company affiliate.
- Form F. R. 220a (Revised August 1946), Publisher's copy of report of affiliate or holding company affiliate.
- Form F. R. 220b (Revised August 1946), Instructions for the preparation of reports of affiliates and holding company affiliates.

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"All of the forms are the same as those used on June 30, 1950 except for the omission of the residential real estate financing forms used at that call. You will notice that the report of condition, form F. R. 105, includes the loan and security schedules A and B; it is contemplated that the established policy of collecting such data only on the June and December call dates will be continued except for this one call. Changed conditions since June make it advisable to collect these data at this time.

"It is suggested that distribution of these forms to the State member banks not be made until telegraphic advice is received from the Board. Such advice will be sent to you about the time the Comptroller's office begins distribution of blank forms to national banks."

Approved, with the understanding that the letters would be mailed when the forms have been printed.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., prepared in response to his letter of September 1, 1950 with respect to a proposal for reactivation of controls over the publication of statistical information, reading as follows:

"In reply to your letter of September 1, 1950, I am happy to inform you that the Board of Governors of the Federal Reserve System sees no objection to the draft letter transmitted for its comments."

Approved unanimously.

Letter dated September 9, 1950, to the Presidents of all Federal Reserve Banks, reading as follows:

"With respect to the designation of automobile appraisal guides for purposes of Part 4 of the Supplement to Regulation W, as issued effective September 18, 1950 there are enclosed the following:

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- "1. A copy of the press release which the Board issued on September 9, 1950, which states that detailed information as to the designation may be obtained from any Federal Reserve Bank or Branch.
2. A list showing the exact territory to which the designation of each edition applies.
3. A list giving the addresses of the publishers of designated guides and the issues designated.
4. A form of letter from the Board notifying the guide book publishers of their designations.

"In view of the publicity which will be given the designations, it would not appear necessary for the Reserve Banks to make any general distribution of this material, but the Reserve Banks should, of course, feel free to give any circulation to it that they wish."

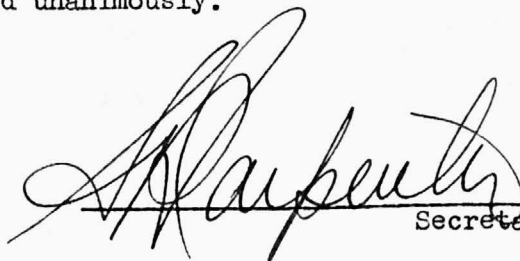
Approved unanimously.

Memorandum dated September 7, 1950, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the September issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following:

Legislation
 Conversion of national banks
 Defense Production Act of 1950

Consumer Credit
 Regulation W

Approved unanimously.


 Secretary.