

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 23, 1950. The Board met in the Board Room at 12:00 o'clock noon.

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

Mr. Carpenter, Secretary
Mr. Morrill, Special Adviser to the Board
Mr. Thurston, Assistant to the Board
Mr. Townsend, Solicitor

Chairman McCabe reviewed, for the benefit of Messrs. Szymczak and Norton, the discussion at the meeting of the Board on Friday, October 20, with respect to the question whether the memorandum which the Comptroller of the Currency addressed under date of August 31, 1945, to Mr. Vinson, then Secretary of the Treasury, and which the latter in 1945 turned over to Mr. Eccles, then Chairman of the Board, should be introduced by Mr. Townsend during the Clayton Act proceeding against Transamerica Corporation. The Chairman stated that a decision on the matter was deferred at the meeting on Friday in order to afford the absent members opportunity to consider the matter and express their views.

The various aspects of the problem, as discussed at the meeting on October 20, were again considered and reference was made particularly to the possibility of presenting the memorandum in confidence to the Hearing Officer so that it subsequently might be brought to the confidential attention of the Court of Appeals and, if necessary, to the Supreme

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Court. Mr. Townsend outlined the reasons why, in a public hearing of this kind and the court proceeding that would follow, it would not be possible to have the memorandum put into the record on a confidential basis. In response to an inquiry as to how it would be possible to put into the record only the parts of the memorandum relating to the question of monopoly without putting in the portions relating to the condition of the bank and the character of its management, Mr. Townsend outlined how that could be done.

There was a full discussion of the possible effects of making applicable portions of the memorandum a part of the public record and also of withholding them from the record.

During the discussion Mr. Townsend stated that it would be highly desirable to put into the record of the hearing the correspondence which the Board had with the Comptroller of the Currency in which he indicated that he would support the Board's position and would not grant authority for additional branches for Bank of America N. T. and S. A. while the Clayton Act proceeding was pending. The members of the Board stated that they would have no objection to the introduction of any official correspondence received by the Board in this connection which was not confidential in character.

At the conclusion of the discussion it was understood that, since a decision on the question whether the memorandum from the Comptroller of the Currency should be put into the record of the hearing

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need not be made until just before the close of the hearing, the matter would be deferred for a further discussion at a later meeting of the Board.

At this point all of the members of the staff with the exception of Mr. Carpenter 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 October 20, 1950, were approved unanimously.

Memorandum dated October 16, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that the temporary appointment of Duncan Holthausen, consultant in that Division, be extended for a period of approximately 30 days with no change in his fee of \$40.00 for each day of service for the Board and with no change in his transportation allowance or in the per diem allowance of \$9.00 in lieu of subsistence for each day away from home.

Approved unanimously.

Memorandum dated October 20, 1950, from Mr. Noyes, Assistant Administrator of the Office of Real Estate Credit, recommending that the Board approve the designation of David Eastburn, Economist in the Research Department of the Federal Reserve Bank of Philadelphia, as an Assistant in the Office of Real Estate Credit, with the understanding that his salary and the Bank's retirement contributions in his behalf will continue to be paid by the Federal Reserve Bank of

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Philadelphia subject to reimbursement by the Board, and that he will be allowed a per diem in lieu of subsistence at the rate of \$9 while away from Philadelphia on official business for the Board, such per diem to be paid directly by the Board.

Approved unanimously.

Letter to Mr. Bilby, Vice President of the Federal Reserve Bank of New York, reading as follows:

"For the reasons outlined in your letter of October 18, 1950, the Board of Governors approves the payment of salary to each of the fifty-four employees named on the list which accompanied your letter at the rate indicated, which in each case is in excess of the maximum of the grade in which the employee is classified.

"The Board of Governors also approves the payment of salaries to Harold A. Crane at the rate of \$7,083 and to Joseph M. O'Brien at the rate of \$8,858 per annum which rates are above the maximums of the grades in which their positions are classified."

Approved unanimously.

Letter to First National Bank in Lake Worth, Lake Worth, Florida, reading as follows:

"The Board of Governors has given consideration to your fiduciary application and grants you authority to act, when not in contravention of State or local law, as trustee of the Construction Fund Trust Agreement in connection with the issue of \$1,775,000 City of Lake Worth, Florida, Water and Electric Revenue Certificates, Series 1950, dated May 1, 1950. The exercise of such authority shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary power granted by the Board pending the preparation of a formal certificate covering such

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"authorization, which will be forwarded to you in due course."

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

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

"In connection with Registration Statement under Regulation W a corporation operating on a nation-wide basis through a number of subsidiaries has stated that it would be relatively easy to supply the information set out in item IV of the Lender's Form on a nation-wide basis for the corporation and its subsidiaries but that it would be a considerable clerical burden to prepare such a breakdown of the information for each of the subsidiaries. It has asked whether it would be permissible for each subsidiary to register, but to file figures of the national organization, and an indication of its affiliation with the national organization, in lieu of the subsidiary's individual figures. The Board is of the view that such procedure would be satisfactory."

Approved unanimously.

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

"The Board has considered a case under Regulation W in which an automobile was so badly damaged in a collision that the insurance company, exercising its option under its insurance policy on the car, is willing to replace the car with another of the same make and model. The insured would make no payment except \$50 covering the deductible portion of the policy. The Board was asked whether the finance company that holds the paper may accept a mortgage on the replacement car in lieu of the mortgage which was originally received on the demolished car, without payment by the obligor of more than the \$50 deductible part of the policy."

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"It appeared that the obligor would receive no new funds and that the change in collateral would be due to the collision rather than to any deliberate action by the obligor, by the Registrant auto dealer, or by the Registrant finance company. In the circumstances, the Board is of the view that the proposed settlement of the insurance claim and acceptance of the new collateral by the finance company need not be considered to be a renewal or revision of the obligation. Accordingly, it would be permissible without having to comply with the down payment, loan value, and maturity requirements of the regulation.

"The Board has considered another case in which a bank prior to September 18 purchased from an automobile dealer the instalment paper on a used 1949 Ford station wagon on which the financing was more liberal than that permitted under Regulation W. Subsequent to September 18, and as a result of a change in his employment and his needs, the owner of the station wagon wished to turn in the 1949 Ford station wagon to the automobile dealer on the basis of an even exchange for a 1949 Ford coach with no other consideration involved.

"The automobile dealer was willing to make the exchange and the bank wished to know whether the transaction could be carried out, the coach being substituted as collateral for the station wagon, without complying with the requirements of the regulation for a new extension of credit.

"The Board is of the view that the transaction should be considered to be subject to the requirements of the regulation as a new extension of credit involving a sale of the coach with the station wagon accepted as a trade-in."

Approved unanimously.

Letter to Honorable Preston Delano, Comptroller of the Currency, Washington, D. C., reading as follows:

"The Board's Regulation W relating to consumer credit, which was issued under the authority of the Defense Production Act of 1950, became effective September 18, 1950. Copies of the regulation and of

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"the Board's press release dated September 8, 1950 regarding the regulation are enclosed.

"To accomplish the purposes of the regulation it is apparent that there must be effective and uniform enforcement. Such a program is essential in fairness to the consuming public and to those subject to the regulation.

"In order to avoid unnecessary duplication of investigations, particularly of banks and other financial institutions which are already subject to comprehensive examination programs, the Board, as it did when the regulation was in force on previous occasions, is again seeking the cooperation of State and Federal banking agencies in the administration and enforcement program.

"The attached outline of an enforcement program has been prepared for the Federal Reserve Banks. It is similar to the outline used in 1948-49. Since it relates to violations with criminal penalties, the general program has been cleared with the Department of Justice.

"The Board would like to have the cooperation of your agency in the enforcement of the regulation with respect to the banks under its supervision. As during the previous program, it is suggested that the cooperation be along the following lines:

1. Your examiners take appropriate steps in the course of their examinations to promote understanding of, and compliance with, Regulation W, and to determine whether violations of the regulation exist either as to credits originated by the institution or credits acquired by it from others. This would include discussion with lending officers to ascertain their familiarity with the regulation and a spot check of loans.
2. If violations are discovered which in the opinion of representatives of your agency are inadvertent, your representatives may seek to obtain correction of the violations along the lines which it is contemplated may be taken by the Federal Reserve Banks in similar circumstances under section II-A of the enclosed Outline of Enforcement Program.

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"3. If violations are discovered which in the opinion of representatives of your agency are apparently willful, the facts in the case be reported to the Federal Reserve Bank of the district in which the apparently willful violations occur or to the Board of Governors.

"It is hoped that close informal relations between your representatives in the field and those in the Federal Reserve Banks will be maintained in the administration of Regulation W. The Regulation W departments of the Federal Reserve Banks stand ready to be of any assistance possible to your field representatives in connection with questions arising in the administration of the regulation.

"The Board is deeply concerned over reports it has received from sales finance companies and other trade organizations to the effect that in the past the regulation was not enforced as strictly with respect to banks as it was with respect to other classes of registrants, particularly sales finance companies. Strong representations have been made to the Board that in some cases banks extended consumer credit on a non-conforming basis after the deals had been rejected by sales finance companies as non-conforming and that Regulation W thus placed the conforming registrants at a competitive disadvantage.

"In view of the large volume of paper subject to the regulation held by banks, it is highly important that the enforcement of the regulation be as effective with respect to banks as it is with respect to other classes of registrants. This objective of the program has already been taken up with the Reserve Banks and the Board has emphasized to the Presidents, the officers in charge of the bank examination departments, and the officers in charge of Regulation W work, the necessity that there be no basis for such criticism of the work of representatives of the Federal Reserve Banks.

"It would be most helpful if each agency having supervision of banks would make clear to its examiners that the effective enforcement of the regulation is a matter in which the agency has a real interest, and the Board hopes that you will do so with respect to your examiners.

"We have had preliminary discussions with, and are writing to, other agencies with responsibilities for the

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"supervision of banks and other financing institutions coming within the scope of the regulation, and expect to receive their continuing cooperation."

Approved unanimously, together with similar letters regarding enforcement of Regulation W, Consumer Credit, appropriately modified to apply to the agencies addressed, to the Department of Agriculture, Federal Deposit Insurance Corporation, Federal Security Agency, and Home Loan Bank Board, Washington, D. C., and National Association of State Small Loan Supervisors, Des Moines, Iowa.

Letter to Mr. Warner, Manager, Credit Department, Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of October 3, 1950, regarding questions presented to you under Regulation W by General Motors Acceptance Corporation, Nash-Kelvinator Sales Corporation and Trade Bank and Trust Company. The questions relate to sales of refrigerators in large quantities, with the total contract aggregating more than \$2,500, but with a series of individual deliveries which would each involve less than \$2,500.

"As you know, Regulation W applied to instalment sales of listed articles regardless of amount from its beginning in 1941 until a dollar ceiling of \$1,500 (later changed to \$2,000) was placed on such credits in 1946. That figure was raised to \$5,000 in 1948, and in the present regulation is at that amount for automobiles, but has been reduced to \$2,500 for articles other than automobiles.

"The Board has recognized that sales of refrigerators (and some other listed articles) in large quantities may have characteristics somewhat different from sales of the articles in smaller quantities. On the other hand, such large orders also have many of the features that are common to any other sales of the articles. As a matter of practical administration, it

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"has not seemed feasible to try to draw a distinction between such transactions except on the basis of the amount of the credit. For similar reasons, it has not seemed desirable or feasible to attempt to prescribe a rule that would vary with the many different versions of contracts for large quantities. It has seemed to be sounder to treat each delivery as a separate extension of credit unless and until such individual credits are combined into a single larger debt.

"Accordingly, individual deliveries should be considered subject to the regulation when the individual amount of credit involved in the delivery is \$2,500 or less. This would be true even though the deliveries are made under a contract providing for eventual deliveries and credit in excess of that amount. However, when several deliveries have been made, the regulation would not prevent the individual credits being combined into a single obligation, and the combined obligation then would be exempt under section 7(a) if it exceeded \$2,500 and did not involve automobiles."

Approved unanimously.

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

"It is the Board's view that painting, reroofing, and repairs constitute a 'major improvement', within the meaning of section 2(g) of Regulation X, if their cost exceeds \$2,500."

Approved unanimously.

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

"Inquiries have been received regarding the application of Regulation X to a sale of residential property on which there is new construction, where the vendee assumes, or takes the property subject to, indebtedness secured by a mortgage on the property and such indebtedness exceeds the maximum loan value of the property but

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"evidences credit extended prior to October 12, 1950, the effective date of the regulation.

"Regulation X does not prohibit such a sale or require that the indebtedness be reduced to the maximum loan value of the property. Under the definition contained in section 2(d) of Regulation X, such a sale constitutes an extension of credit by the vendor of the property; but, even though the vendor may be a Registrant, the sale is not prohibited by Regulation X because the provisions of section 4(a)(6) of the regulation, which deal specifically with such transactions, prohibit a sale only 'if the amount of outstanding credit (including any credit exempt from, or not subject to the prohibitions of, this regulation) which was extended after the effective date of the regulation with respect to the property exceeds, or as a result of such sale or transfer would exceed, the applicable maximum loan value of such property, or if any outstanding real estate construction credit (subject to and not exempt from this regulation) with respect to such property does not conform with the provisions of this regulation and the Supplement thereto.' However, any additional extension of credit by a Registrant (including the vendor if he is a Registrant) in connection with such a sale would be prohibited by section 4(a)(1) of Regulation X.

"For example, in a sale of residential property on which there is new construction where the bona fide sale price is \$12,000, and the vendee pays \$2,000 for the equity of redemption and assumes, or takes such property subject to, a \$10,000 mortgage which evidences credit extended prior to October 12, it is not necessary that the \$10,000 mortgage be rewritten to conform with Regulation X. However, no part of the \$2,000 paid by the vendee for the equity of redemption may be borrowed from a Registrant because the amount of credit outstanding with respect to the property already exceeds the maximum loan value of the property."

Approved unanimously.

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

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"Inquiries have been received under section 2(i)(2)(B) of Regulation X where the facts are these: A prospective borrower owns a vacant lot on which he, with the help of his family and friends, will perform the necessary labor to build a residence. He applies to a Registrant for credit to be secured by a mortgage upon the residential property, the proceeds of the loan to be used to pay for materials used in the new construction. The question is: How does a Registrant determine the 'value' of the residential property?

"If the entire cost of the property has been incurred by the prospective borrower not more than 12 months prior to the extension of credit or is to be incurred by him after such extension of credit, the 'value' is the bona fide cost of the property to the borrower, including a bona fide estimate of the cost of completing the new construction. It is the view of the Board that a reasonable bona fide estimate of the value of the labor to be performed by the prospective borrower, his family, and friends may be included in the 'bona fide estimate of the cost of completing new construction'.

"If the lot has been purchased or any other part of the cost of the property has been incurred by the prospective borrower more than 12 months prior to the extension of credit, or if any part of such property has been acquired by gift, exchange, or inheritance, the 'value' shall be the appraised value as determined in good faith by the Registrant."

Approved unanimously.

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

"Inquiries have been received regarding the application of Regulation X to extensions of credit for mixed purposes. For example, a prospective borrower applies to a Registrant for a loan to be secured by a mortgage on residential property on which there is no new construction. A part of the loan is for the purpose of financing a major addition to the residence which will cost \$8,000, and \$2,000 of the loan will be used (a) to retire an existing mortgage on the

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"property, or (b) to retire outstanding indebtedness not secured by a mortgage on the property, or (c) for some other purpose which would not make the loan subject to Regulation X. The question is: How much credit can the Registrant extend and on what terms?

"It is the view of the Board that in such cases Regulation X requires that the amount and terms of the loan shall be such as would result if the loan were divided into two or more parts on the basis of the purposes of the loan and each part were treated as if it stood alone; and the amount and terms of the loan would comply with Regulation X if they satisfied the requirements of the regulation applicable to that part which is subject to Regulation X.

"By way of illustration, in each of the examples set forth above, the maximum amount of credit permitted by Regulation X would be \$8,450, that is, \$6,450 (the maximum loan value of the \$8,000 major addition) plus \$2,000. The maturity and amortization of that part (\$6,450) which is subject to Regulation X would have to conform with the provisions of the Supplement; or, in other words, the payments on the loan would have to be such as to repay \$6,450 of the loan within the time and at the rate required by the Supplement.

"The same principles apply in the case of a loan secured by a mortgage on farm property where part of the loan is for the purpose of financing the construction of a residence on such property and the remainder of the loan is for purposes which would not make the loan subject to Regulation X."

Approved unanimously.

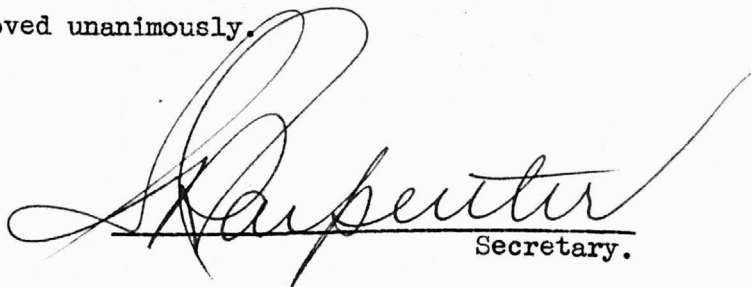
Memorandum dated October 10, 1950, from Mr. Thomas, Economic Adviser to the Board, stating that, in the absence of objection, he would appoint a special editorial committee, of which he would serve as Chairman, to work as technical consultants on a proposed handbook on the mechanics of Federal Reserve operations in the money market, a preliminary outline of which had been prepared in

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accordance with a report of a Special Subcommittee of the Conference of Presidents on Relations of the Federal Reserve System with Schools and Colleges. The memorandum also stated that the editorial committee would work according to the procedure established for System technical studies, which provides that upon completion, the study is recommended by the Chairman of the System Research Advisory Committee to the Board for publication.

Approved unanimously.


Secretary.