

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 2, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 1, 1950, were approved unanimously.

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

"The Board of Governors approves the payment of salary to Curtis R. Bowman as General Auditor at the rate of \$13,000 per annum for the period November 1, 1950, through March 31, 1951, which, according to your letter of October 24, 1950, is the rate fixed by the Directors."

Approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of October 24, 1950, requesting the Board of Governors to approve an increase of approximately ten per cent in the salary structure of the Federal Reserve Bank of Atlanta.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades of the Federal Reserve Bank of Atlanta, including the Branches, effective November 1, 1950:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1560	\$2100
2	1620	2160

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<u>"Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
3	\$1740	\$2340
4	1860	2520
5	2040	2760
6	2220	3000
7	2460	3300
8	2760	3700
9	3060	4100
10	3420	4600
11	3800	5100
12	4200	5700
13	4700	6300
14	5300	7100
15	6000	8100
16	6900	9300

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than January 1, 1951."

Approved unanimously.

Letter for the signature of the Chairman to Mr. M. Y. Sutton,
Vice President, Lowndes Savings Bank & Trust Company, 135 S. Third
Street, Clarksburg, West Virginia, reading as follows:

"I appreciate your writing to me about Regulation W, and I am glad that you felt free to give me your thoughts on the subject.

"This Board certainly does not want to cause anyone any unnecessary work in connection with the regulation. You may recall that when the regulation was first being introduced during World War II the Statement of Borrower had to be on a prescribed form and could not be included in the lender's regular application form. That requirement was relaxed even before the adoption of the present regulation that became effective September 18, 1950, and the statement can now be incorporated in the lender's regular loan application. I understand many lenders follow that procedure.

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"In a regulation that has to apply to a great many different people and different transactions, it is always important to have the rules as simple as possible. Exceptions to the rules add complications. Even if they are exceptions in the direction of relaxation, they can some times cause extra uncertainties and raise more operating problems than they cure.

"I would not want to give you the impression that I think the present provisions of Regulation W on this point are necessarily perfect. We are constantly working on such problems in order to make the Board's regulations work as smoothly as possible and with the least possible interference with usual business practices. It is helpful to us to have your comments on the point, and I can assure you that they will receive careful consideration in our continuing study of the problem.

"I also want to thank you for your frank comments on the number of months now permitted for instalment loans. The Board naturally does not wish to cause hardship to anyone or to interfere with the orderly movement of goods from producer to consumer. In fact, Regulation W is intended to have the opposite effects. By helping to restrain inflation and maintain the purchasing power of the dollar, it can help to protect consumers against high prices and help to protect business generally against the disastrous consequences of inflation.

"It has seemed to me that there is considerable force in the following statement made by the Banking and Currency Committee of the United States Senate in its report on Public Law 905 of August 16, 1948, which authorized the regulation of consumer credit:

'The person of small income is the one hit hardest when inflation pushes prices beyond his reach, and the one who suffers most when the resulting deflation throws him out of a job. The legislation should tend to result in directing competition along the line of decreasing prices rather than extending excessive credit terms. By making some contribution toward preventing further inflation at this time, and thus

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"toward moderating any ensuing deflation, consumer installment credit controls can especially serve the interests of the person of low income in addition to serving the interests of all other consumers affected by our national economy.'

"In view of the sincere concern for the national welfare that your letter reflects, I believe you may also find the enclosed statement of the Board to be of interest."

Approved unanimously.

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

"Your letter of October 13, 1950, forwarded a copy of a letter from General Motors Acceptance Corporation suggesting that they be allowed to disregard shortages of not more than \$1.00 in down payments under Regulation W.

"You stated that you felt there was some merit in the suggestion, particularly in the light of section 6(e) which makes such provision in the case of mail orders.

"Of course, one difficulty with such proposals is that they may tend to become a mere reduction of the down payment requirement by \$1.00, with inconveniences developing at the lower level very much like those that existed at the previous level. Another problem is that such a rule may tend to encourage advertising of a sort that would be undesirable from the viewpoint of the regulation.

"In an effort to meet the practical problem confronting Registrants, while at the same time attempting to avoid the difficulties mentioned above, a tentative draft of a possible revision of section 6(e) has been prepared in the form attached. The draft has not been considered by the Board. It will be appreciated if you will treat the draft as confidential at this stage, but you may submit it to General Motors Acceptance Corporation on that basis for their comments, and we would appreciate your views on the draft at an early date.

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"It should be understood, of course, that even if the draft should appear to be satisfactory, it might be desirable to defer its adoption to some time when it could be adopted as part of a larger amendment in order to avoid the disadvantages that can arise from making numerous amendments to the regulation."

Approved unanimously.

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

"Enclosed is a copy of a letter received from Mr. C. K. Reynolds, Jr., Lake State Products, Inc., Cleveland, Ohio, and a copy of our acknowledgment.

"Apparently some models of the Lake State Products, Inc. 'electro sinks' include articles listed in Group B above item 6, 'Combination units incorporating any listed article in the foregoing classifications of this Group B'. For such models, of course, the entire sinks would be combination units listed in Group B and would be subject to the down payment and maximum maturity provisions relating thereto."

Approved unanimously.

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

"Reurtel October 27, 1950, concerning interpretation in 1947 Federal Reserve Bulletin, page 28, and interpretation W-21, October 25, 1948, concerning conversion of noninstalment credit to instalment basis. Views expressed in these interpretations and also in 1949 Federal Reserve Bulletin, page 21, are effective under present Regulation W. Thus, if the noninstalment credit originated in good faith and not as subterfuge, the instalment obligation resulting from such conversion would not be subject to Regulation W and, therefore, may be made repayable on terms agreeable to parties without regard to Regulation W. However, fairly plain inference of violation of section 6(h) would arise if Registrant permits

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"undue number of such conversions. As used herein, 'noninstalment credit' does not, of course, include a 'balloon payment' or a 'balloon note' in connection with an instalment credit."

Approved unanimously.

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

"The question has been raised whether Regulation X applies to extensions of credit in connection with sales of house trailers. It is the view of the Board that such extensions of credit are subject to the regulation where the trailers are to be used for dwelling purposes and the wheel assemblies are to be detached and the trailer placed on a foundation constructed on real property."

Approved unanimously.

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

"The staff has been giving consideration to the questions that have arisen in connection with section 5(g) of Regulation X. The following tentative conclusions have been reached:

(1) Section 5(g) should be retained in its present form and should continue to be interpreted strictly as indicated in S-1169 (X-5). In addition, it should be required that all applications, in order to be considered, must be sent to the Reserve Bank by a certain date, say, January 1, 1951. An amendment to that effect would be made to the section.

(2) A new exemption should be added along the lines of the possible amendment set out below in order to provide relief for the general type of cases in which construction of a particular residence had been begun prior to October 12, 1950, but there was no firm commitment for temporary or permanent financing.

"It will be appreciated if you will let us have your views regarding the tentative conclusions and the

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"amendment by Monday, November 6, 1950. Among other things, is such an amendment needed? If so, should an application to and a certificate from a Reserve Bank be required, or should there be an exemption for new construction begun prior to October 12, 1950, and the Registrant allowed to rely upon a signed Statement of the Borrower to that effect? What is your estimate of the number of residences in your district that would be affected by such an amendment?

"The tentative conclusions and the draft of the amendment have not been considered by the Board, and it will be appreciated if you will treat them as confidential at this time.

"In view of the fact that such general questions relating to section 5(g) are under consideration, the Board requests that you not issue any certificates under that section until further notice from the Board, although consideration of applications may be continued.

"The tentative draft of a possible amendment is as follows:

'(k) New Construction Begun Before October 12, 1950. - Any person building, purchasing, or selling new construction begun prior to October 12, 1950, may apply to the Federal Reserve Bank of the district in which the new construction is located for an exemption from this regulation for such new construction, showing the facts and submitting the necessary supporting documents to establish that the new construction was begun prior to October 12, 1950. The Federal Reserve Bank receiving the application may issue to such person a certificate approving such application and specifying an expiration date of the certificate of exemption, and thereupon any extension of credit by any Registrant in connection with the building, purchasing, or sale of the new construction that may be specified in such certificate shall be exempt from the prohibitions of this regulation if such credit is extended prior to the expiration date of the certificate of exemption. Applications under this subsection must be sent to the Federal Reserve Bank prior to January 1, 1951.'

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Approved unanimously.

Telegram to Mr. Wotawa, General Auditor of the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire October 27 re computation of maximum loan value under section 2(i) of Regulation X in a transaction where a prospective borrower buys a house which is not new construction and moves the house intact to another lot and annexes it to a foundation thereon, the lot having been acquired and the foundation installed after August 3, 1950. In the Board's opinion this transaction should not be regarded as involving a major addition or major improvement to an existing structure, but instead the house in its new location should be treated as a new structure begun after August 3, 1950. Accordingly, the maximum loan value would be based upon the value of the new lot with the house annexed. The value of such property, computed in accordance with section 2(i)(2)(B) of Regulation X, would be the bona fide cost of the property to the borrower, including the cost of the lot, the cost of installing the foundation, the cost of the house, the cost of moving the house, and any other cost to be incurred by the borrower in completing the new construction."

Approved unanimously.

Letter to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letter of October 24, 1950 with reference to the employment of special counsel to perform legal services in connection with the administration of Regulations V, W and X. It is noted that such counsel will be employed on a temporary basis and that the situation will be reviewed with the Board's General Counsel at the end of six months.

"In view of the circumstances and with the understanding that employment of such counsel is to be on a temporary basis, the Board will interpose no objection to the proposal as stated in your letter.

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"Of course, any fees or other payments in connection with the proposed services would continue to be subject to approval by the Board of Governors in accordance with S-206 and S-1092."

Approved unanimously.

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

"It is desired that the regular annual report to the Board on Form F. R. 437 be obtained from Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, covering its fiscal year ended October 31, 1950. Please request the Corporation to file its report in duplicate with your Bank on or before December 1, 1950. However, if the Corporation's annual audit by public accountants has not been completed by that date, the Corporation may, if it so desires, await the completion of the audit and file its report to the Board as soon as practicable thereafter.

"We are enclosing six copies of Form F. R. 437 for use in obtaining the report from Wisconsin Bankshares Corporation.

"It is requested that one copy of the report be forwarded to us immediately after receipt by your Bank, to be followed later by such additional data and explanations as it may be necessary to obtain from the Corporation to complete or correct the report. After your Bank has reviewed the report, and other relevant information, we shall appreciate receiving a copy of the memorandum relating to such review, together with any recommendations, comments, or suggestions which you may have regarding the group."

Approved unanimously.

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

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"There follows the Board's views on certain questions that have been raised concerning application of Regulation W to house trailers.

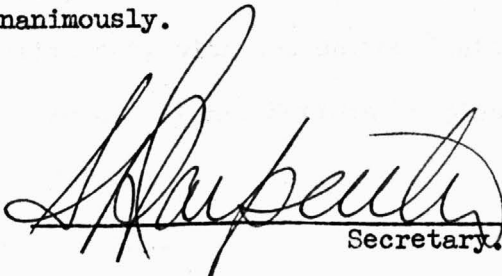
"1. Instalment credit for the purchase of a house trailer designed for residential use is exempt under section 7(h) of the regulation. This is true whether the purchaser intends that the trailer remain mobile or whether he intends to detach the wheel assemblies and place the trailer on a foundation constructed on real property. In the latter event, the credit is exempt under either section 7(h)(1) or 7(h)(2). With respect to section 7(h)(3) see S-1184 (X-11) of this date.

"2. If the wheels of house trailer are detached and it is placed on a foundation constructed on real property, then the trailer is an 'existing structure' for purposes of Group D of the Supplement to Regulation W."

Approved unanimously.

Memorandum dated November 1, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the Board approve payment of the bill submitted by Price, Waterhouse & Co. in the total amount of \$15,300, composed of a fee of \$13,000 and \$2,300 for travel and other out-of-pocket expenses, for the survey of the Board's budgetary and accounting system and other activities made in accordance with the action taken by the Board on February 10, 1950.

Approved unanimously.


Secretary.