

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, November 8, 1950.

PRESENT: Mr. McCabe, Chairman  
Mr. Szymczak  
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 7, 1950, were approved unanimously.

Memorandum dated October 25, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Winfield S. Smith as an Economist in that Division, with basic salary at the rate of \$3,825 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated November 2, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Vincent Thomas LaTorre as Operator (Tabulation Equipment) in that Division, with basic salary at the rate of \$3,225 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to a satisfactory investigation of references.

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Approved unanimously.

Memorandum dated November 2, 1950, from Mr. Noyes, Assistant Administrator of the Office of Real Estate Credit, recommending the designation of Nicholas Stevens as an Assistant in the Office of Real Estate Credit with payment to be made at the rate of \$15 for each day worked for the Board. The memorandum also stated that Mr. Stevens would be reimbursed for all necessary travel between Philadelphia and Washington and on official business in connection with his work, in accordance with the provisions of the Board's official travel regulations, and that the per diem in lieu of subsistence a be at the rate of \$9 per day during the periods he is absent from Philadelphia in connection with his work for the Board. For per diem purposes Mr. Stevens' headquarters will be regarded as Philadelphia.

Approved unanimously.

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

"Reference is made to your letter of November 1, 1950, advising that the Federal Reserve Bank of Philadelphia has secured the services of Mr. Herbert O. Frey, Vice President and Real Estate Officer of the Pennsylvania Company for Banking and Trusts, Philadelphia, as Administrator of the Real Estate Credit Department.

"It is noted from your letter that Mr. Frey has agreed to spend whatever time is necessary on this work and, accordingly, the Board of Governors approves the payment of compensation to him on a part-time basis at the rate of \$400.00 per month."

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Approved unanimously.

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

"Reurlet November 6. Board approves appointment of Daniel Rainey Hale as assistant examiner for Federal Reserve Bank of Atlanta. Advise effective date."

Approved unanimously.

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

"Reurlet November 2, 1950. Board approves designation of Maurice A. Tharp, Jr., as a special assistant examiner for the Federal Reserve Bank of Dallas."

Approved unanimously.

Letter for the signature of the Chairman to Mr. W. Stuart Symington, Chairman, National Security Resources Board, Executive Office of the President, Washington 25, D. C., reading as follows:

"Thank you for your note of October 25 and the attached letter from Mr. Edgar F. Kaiser dated October 21 concerning automotive data. Mr. Kaiser suggested that information such as he mentioned for the two months prior to September 18, when this Board's Regulation relating to consumer credit became effective, and for the period September 18--October 16, 1950, during which the Regulation provided a maximum maturity of 21 months for automobile credits, might quickly determine the effects of the Regulation.

"During the two months preceding September 18 extraordinary expansion in demand for automobiles and other goods resulted from the Korean crisis. While it may be assumed that by mid-September demand had fallen off considerably from the peak levels reached in the summer, the fact remains that inflationary pressures continued great after the issuance of the Board's

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"Regulation on September 9 to become effective September 18. Statistics which merely demonstrate that the pressure of forward buying was not as great during the first four weeks of the consumer credit controls as during the extraordinary July-August period could hardly be taken as a measure of the effectiveness of the Regulation, and certainly could not be looked upon as a conclusive guide to an appropriate credit policy.

"As you know, the Board feels it is vitally important that it have adequate statistics and other information, carefully analyzed, available for its consideration in arriving at policy actions and in determining the effects of such actions. For some months we have been receiving confidential information on dealer sales and stocks of new and used cars as reported by a small sample of leading automobile manufacturers. We have been negotiating with other manufacturers to obtain similar data from them. If we are successful in obtaining this material to supplement data already received from other sources, we would have available practically all of the information suggested by Mr. Kaiser. Since the statistics we have been receiving directly from automobile manufacturers were given to us on a confidential basis we naturally could not disclose them to the Kaiser-Frazer representative who recently met with the Board's staff. We also have other confidential information showing current developments in other fields subject to credit controls.

"While we feel that it is important to observe developments in the automobile field, it seems to us that the effectiveness of the Regulation cannot be measured solely in the specifically regulated trades; a major part of the story lies in data showing a more general picture of the inflationary forces. In this connection, a number of weekly series are available relating to wholesale prices, department store sales, bank credit, and physical volume of production in several important industries, and these data were brought to bear on the Board's consideration of Regulation W policy.

"We are including in the next issue of the Federal Reserve Bulletin a leading article on the subject of consumer credit regulation. A draft of the proposed

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"article is enclosed for your information. The text, of course, is still subject to revision."

Approved unanimously.

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

"Enclosed herewith is a copy of a letter dated October 31, 1950, from Mr. Edward M. Watson of Hinckley, Allen, Salisbury & Parsons, Counselors at Law, Providence, Rhode Island, concerning the application of Regulation W.

"On the basis of the facts set forth in the enclosed letter, it would seem clear that the new note in the principal amount of \$6,000 would not be subject to the regulation. It will be appreciated if you will make appropriate reply to Mr. Watson."

Approved unanimously.

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

"Your letter of October 31, 1950, regarding 'balloon notes' and their relationship to sections 8(h), 8(e), 8(a) and 5(c) of Regulation W has been received.

"The Board agrees both with your clear analysis of the problems and your conclusions on the questions presented."

Approved unanimously.

Letter to Mr. Allen G. McCabe, Secretary, Virginia Industrial Bankers Association, Petersburg, Virginia, reading as follows:

"Thank you for your letter of October 25 enclosing copy of the resolution passed by the Virginia Industrial Bankers Association.

"As you may know, our consumer credit series is now undergoing review and we plan to make extensive

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"revisions in the light of data available from the 1948 Census of Business and the tabulation of Registration Statements submitted in connection with Regulation W. At the same time we are examining the content of the series and in this connection will take into consideration the reaction of trade groups such as yours.

"The single payment loan component of our series has been revised and the revised estimates will be published in the November issue of the Federal Reserve Bulletin.

"In establishing terms in connection with Regulation W the estimates of consumer instalment credit were regarded as relevant rather than our estimates of total consumer credit. The terms were established in the light of all available information with respect to the current economic situation and not solely on the basis of the trend of consumer instalment credit. We took advantage of numerous reports from the trade with respect to supply and demand conditions. The trend of prices was another important factor in our decision.

"Regulation W is being subjected to continuous study and whenever the current inflationary situation changes in any fundamental respects the terms will be altered as promptly as possible to meet the new situation."

Approved unanimously.

Letter to Honorable Harry P. Cain, United States Senate,  
Washington, D. C., reading as follows:

"In reference to your letter of October 26, 1950, to Mr. McCabe, we are glad of the opportunity to send you an analysis of Regulation X.

"The new regulations, as you know, were authorized by Congress in the Defense Production Act of 1950. In writing Title VI of this Act Congress recognized the substantial inflation already existing in the housing field and took vigorous steps to prevent further inflationary pressures and to assure the availability of materials and labor required for the defense program.



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"Pursuant to the Defense Production Act, Executive Order 10161 delegated the responsibility for control of residential mortgages made, insured or guaranteed by any branch of the Government to the Housing and Home Finance Administrator. The Board of Governors of the Federal Reserve System was given responsibility over non-Government-aided credit on new residential construction (that is, construction begun after August 3). Effective October 12, the Board of Governors issued regulations applicable to the latter type of credit, and companion restrictions on Government-aided housing finance, on a basis conforming to those applied to other types of private credit, were announced by the HHFA Administrator.

"I am enclosing, for your convenience, an analysis of the background for and a summary of the regulation. You will also find a copy of the regulation itself, in case you wish to analyze the terms in detail.

"If we can be of further service, please do not hesitate to call upon us."

Approved unanimously.

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

"In answer to questions that have been raised concerning the exemption in the first sentence of section 5(b) of Regulation X for short-term construction credits having a maturity of not more than 18 months, it is the opinion of the Board (1) that a demand note complies with the 18 months' maturity limitation if it is understood by the parties that payment will be demanded within a reasonable time and in any event within 18 months from the date the credit is extended; and (2) that a note having a maturity of less than 18 months may be renewed pending completion of construction if the date of maturity of the renewal is not more than 18 months after the date the credit originally was extended."

Approved unanimously.

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Memorandum dated November 3, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the Division's 1950 budget for telephone and telegraph expenses be increased from \$3,000 to \$3,900.

Approved unanimously.

Memorandum dated November 6, 1950, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the November issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following:

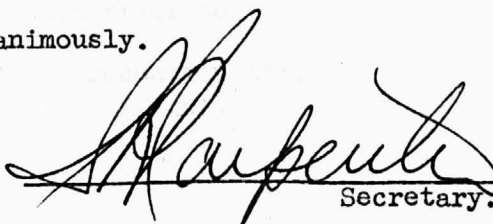
Consumer Credit

- Refrigerators and Food Freezers
- Revisions of and Additions to Pre-effective Date Credit
- Revision by Original or Other Registrant
- Tape or Wire Recorders
- Side Loans Prohibited
- Loans for Business Purposes
- Home Improvement "Materials and Articles"
- "Used" Automobiles

Residential Real Estate Credit

- Statement of Borrower Where Credit Secured by Mortgage Collateral
- Necessity for Statement of Borrower for Non-regulated Credit
- Instruments Evidencing Exempt Credit
- Registrant's Records of Nonregulated Credit
- Firm Commitment Prior to Effective Date
- Painting, Reroofing and Repairs as "Major Improvement"
- Sale of New Residence Subject to Pre-effective Date Indebtedness
- Allowance for Labor
- Mixed Purpose Loans

Approved unanimously.

  
Secretary.