

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

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
 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. Young, Director, Division of Research and Statistics
 Mr. Marget, Director, Division of International Finance
 Mr. Noyes, Assistant Administrator, Office of Real Estate Credit
 Mr. Hirschman, Chief, Western European and British Commonwealth Section, Division of International Finance
 Mr. Hersey, Chief, Special Studies Section, Division of International Finance
 Mr. Fauver, Administrative Assistant to the Chairman

There were presented telegrams to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 8, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on November 9, 1950, of the rates of discount and purchase in their existing schedules.

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Approved unanimously.

Mr. Szymczak stated that, pursuant to the discussion at the meeting on November 7, the draft of memorandum on Treasury-central bank relationships in foreign countries prepared by the staff in response to a request from Senator O'Mahoney, Chairman, Joint Committee on the Economic Report dated September 20, 1950, had been reviewed and revised further in the light of suggestions made by Messrs. E. A. Goldenweiser, former Economic Adviser to the Board and presently serving as Consultant in connection with the Clayton Act proceeding against Transamerica Corporation, Harold V. Roelse, Vice President, Federal Reserve Bank of New York, Henry Wallich, Chief, Foreign Research Division, Research Department, Federal Reserve Bank of New York, Richard M. Bissell, Jr., Assistant Administrator for Program, Economic Cooperation Administration, and others, as well as by members of the staff and the Board, and that a revised copy of the memorandum together with a statement showing changes made had been distributed to the members of the Board before this meeting.

Chairman McCabe stated that he had gone over the revised memorandum and that unless there was objection, he would suggest that it be approved for transmission to Senator O'Mahoney.

Mr. Vardaman questioned the advisability of the Board responding to requests of this kind even though they were received from duly constituted committees of the Congress. The other members present felt that it was entirely appropriate for the Board to re-

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spond to such requests and that in the absence of very special circumstances it should do so.

Thereupon, upon motion by Mr. Szymczak, it was agreed that the memorandum should be transmitted to Senator O'Mahoney as a report prepared by the staff of the Board of Governors which did not necessarily represent the views of the Board. On this action Mr. Vardaman requested that he be recorded as not voting.

Messrs. Marget, Hirschman, and Hersey withdrew from the meeting at this point.

Mr. Norton referred to a memorandum dated November 9, 1950, from the staff working on Regulation X, Real Estate Credit, submitting and recommending that, with the concurrence of the Administrator of the Housing and Home Finance Agency the Board adopt a proposed amendment to the Regulation which would (1) provide an additional exemption from the Regulation and (2) an extension of time pursuant to subsection (b) of section 6 of the Regulation. The exemption was for the purpose of providing relief for a limited number of persons and contractors who (1) were building dwellings for their own use and occupancy who had started construction after August 3, 1950, but before October 12, 1950, and who had failed to arrange for permanent financing or (2) were constructing for sale dwellings which had been started after August 3, 1950, but before October 12, 1950, and who had not obtained firm commitments for permanent financing for prospective buyers. The memorandum stated that both of these classes

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were basically similar, that the exemptions now permitted under the Regulation were not available to them, and that in discussing the various questions at issue Mr. Fisher, Administrator of the Office of Real Estate Credit, had stated that the known cases involved persons who had started construction unaware of the proposed Regulation, that substantial investments had been made by them in partly finished buildings, that none could finance the required equity under the provisions of the Regulation, and that a substantial and serious economic waste would be caused by forcing such persons to halt construction before the buildings were habitable.

With respect to the extension of time under section 6(b), the memorandum stated that under the Regulation advice of firm commitments (not in writing) made prior to the date of the Regulation must be sent to the Federal Reserve Banks within 30 days after such date in order that extensions of credit may be made under them without regard to the restrictions of the Regulation, and that advice had been received that many registrants had not filed letters within this period because of lack of knowledge of the Regulation and that it was thought that much confusion would be avoided and no harm done for the purposes of the Regulation by an extension of time.

Mr. Norton then moved that the Board approve the following amendment to Regulation X, Real Estate Credit, subject to concurrence by Mr. Foley, Administrator, Housing and Home Finance Agency:

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"AMENDMENT NO. 1 TO REGULATION X

"Issued by the Board of Governors of the Federal Reserve System with the concurrence of the Housing and Home Finance Administrator

"Regulation X is hereby amended in the following respects, effective November 14, 1950:

1. By striking out 'within 30 days after the effective date of this regulation' in the last sentence of section 6(b) and inserting in lieu thereof 'prior to January 1, 1951'.

2. By adding the following subsection (k) to section 5:

'(k) New Construction Begun Before October 12, 1950. - The prohibitions of this regulation shall not apply to any real estate construction credit extended prior to May 1, 1951 with respect to new construction begun prior to October 12, 1950.'"

Mr. Norton's motion was put by the Chair and approved unanimously with the understanding that upon receipt of advice of concurrence of Mr. Foley the amendment would be issued effective the following day, that a press release in a form approved by Mr. Norton would be issued, and that advice of the action would be sent by telegram to the Presidents of all Federal Reserve Banks and managing officers of all Federal Reserve Bank branches.

The following statement for publication in the Federal Register was also approved unanimously with the understanding that it would be sent upon receipt of advice of concurrence of Mr. Foley in the amendment:

"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.

"Special circumstances have rendered impracticable consultation with industry representatives, including trade

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"association representatives, in the formulation of the above amendments; and, therefore, as authorized by the aforesaid section 709, the amendments have been issued without such consultation."

Secretary's Note: Advice of concurrence by Mr. Foley not having been received until Monday, November 13, 1950, the amendment was issued effective Tuesday, November 14, 1950, and the following statement for the press was issued for release in the morning papers on Tuesday, November 14, 1950:

"The Board of Governors of the Federal Reserve System announced today an amendment to Regulation X, covering residential real estate credit, which exempts from the prohibitions of the regulation real estate construction credit extended prior to May 1, 1951, on new construction begun prior to October 12, 1950, the effective date of the Regulation. The amendment also extends until December 31, 1950, the time permitted for filing with the Federal Reserve Banks statements of facts with respect to unwritten agreements to extend credit which were entered into prior to October 12."

The following telegram was sent to the Presidents of all Federal Reserve Banks and managing officers of Federal Reserve Bank branches on November 13, 1950:

"This wire to all Federal Reserve Banks is also being sent to all Federal Reserve Bank Branches for their information. Effective Tuesday, November 14, the Board has adopted Amendment No. 1 to Regulation X. It will be appreciated if you will print and distribute copies to interested persons in your district. The press statement which the Board is issuing for release in the morning papers of Tuesday, November 14, 1950, and the text of the amendment are as follows."

Mr. Evans referred to the Clayton Act proceeding against Transamerica Corporation, stating that the hearing had recessed on

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November 8, 1950, with the understanding that it would reconvene in San Francisco on Monday, December 4, 1950, for the purpose of enabling both the Solicitor of the Board and attorneys for the Respondent to put in additional evidence which could be obtained only in California. Mr. Evans expressed the hope that the hearing might be completed before the end of this year.

Chairman McCabe stated that following the adjournment of the hearing Mr. L. M. Giannini, President of Bank of America N. T. & S. A., San Francisco, had called to see him on November 9, and that after discussing the conflict in Korea he expressed the hope that the Board would either increase reserve requirements of member banks or announce that it was not going to increase such requirements for some time in order to remove the present uncertainty in that respect.

The Chairman stated that as Mr. Giannini was leaving, he (Mr. Giannini) handed him a copy of a portion of the transcript of the hearing and suggested that he read certain parts indicated, adding that he (Mr. Giannini) took exception to the procedure followed by Mr. Townsend, Solicitor of the Board, in the case, that one of the things he objected to was the introduction into the record of a letter he had written to Chairman McCabe under date of September 20, 1949 concerning the possible branching into Bank of America N. T. & S. A. of certain Transamerica-owned banks, that he felt such a letter was a privileged communication, and that he was greatly embarrassed

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by its being brought into the public record. Another thing to which Mr. Giannini expressed objection, Chairman McCabe said, was the revelation of the names of 17 banks in connection with his (Mr. Giannini's) testimony as to banks which he or his father had been offered opportunities to buy but which he had stated had been rejected.

Mr. Szymczak stated that Mr. Giannini called upon him after he left Chairman McCabe's office, that he left copies of the excerpts of the transcript of the hearing to which the Chairman referred and suggested that he (Mr. Szymczak) read them, and that he also discussed reserve requirements of member banks along the lines Chairman McCabe had stated.

Mr. Vardaman said that Mr. Giannini also called to see him and that aside from discussing the matters referred to by Chairman McCabe and Mr. Szymczak, he discussed the effects of the recent tightening of Regulation W, Consumer Credit, in the Pacific Coast area, expressing the opinion that it might cause the bankruptcy of a good many automobile dealers.

The comments of Mr. Giannini were discussed in the light of the action taken by the Board on October 23, 1950, in which it authorized Mr. Townsend to use any official correspondence received by the Board which was not confidential in character, and none of the members of the Board expressed disagreement with the manner in which the matter had been handled by Mr. Townsend.

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At this point Mr. Leonard, Director of the Division of Bank Operations, and Mr. Horbett, Assistant Director, joined the meeting.

Chairman McCabe stated that Mr. Keyserling, Chairman of the Council of Economic Advisers, had lunch with him on Wednesday, November 8, at which time the question of an increase in reserve requirements of member banks was discussed. In the course of the discussion, the Chairman said, Mr. Keyserling stated that he had been in favor of an increase in reserve requirements in 1948 because he felt that everything possible should be done not only by the use of selective credit controls, but also by increasing reserve requirements of banks, to reduce the volume of business investment. Now, however, with the defense program in view, and with the necessity of keeping the economy strong, he favored strongly cutting down on non-essential investment and doing everything possible to facilitate credit for defense production, that if there was any way legally and practically by which the Board could differentiate between credit for non-essential and defense production, that course should be followed, and that his objection to an increase in reserve requirements was that it restricted all loans and did not make that differentiation. The Chairman stated that he mentioned the possibility of use of a voluntary program for credit restraint, perhaps through the American Bankers Association, and that Mr. Keyserling felt any-

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thing possible along this line that might be done should be undertaken.

Chairman McCabe also said that he had not been able to complete his discussions of the problem with other interested parties and he suggested that the matter be carried over for further consideration at the meeting of the Board on Tuesday, November 14, 1950, to afford him an opportunity for such discussions.

Mr. Szymczak stated that he was afraid the Board was getting into a position where the longer action was postponed the more difficult (if not impossible) it would be to take action, either toward increasing reserve requirements or toward presenting a program for supplementary reserve requirements to the Congress. Loans by banks were increasing steadily and he reported what he had said on previous occasions, i.e. that all of the facts of the economic situation called for action to increase reserve requirements, and while he saw no objection to conferring with representatives of other agencies, he did not feel that the Board should fail to use the instruments that had been given to it by the Congress when, in a period like the present, the economic situation, so far as he was able to judge it, called for action. The credit condition and the responsibility of the Board in the credit field called for action by the Board. In response to a question from the Chairman, Mr. Szymczak said that he would vote to increase reserve requirements now, since, on the basis of the economic situation, other agencies should have been advised before this of the

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need for such action. He would then advise the other agencies concerned as soon as possible after action by the Board but before it is publicly announced, that this was a matter for which the Board alone had responsibility, that it had considered all angles of the matter, and that it had determined that the increase in reserve requirements was in the public interest as a move against inflation. He said that if the Board did not act now to make the increase effective before the Treasury announcement of the refunding of over \$8 billion of securities maturing December 15 and January 1, the Board would not act until after January 1, by which time inflation will have progressed much further, and pressure will then be exerted by banks not to increase reserve requirements because there would be a seasonal downturn in credit. Mr. Szymczak felt that the Board could not expect that bankers would ever favor an increase in reserve requirements, that the position of the Treasury is that there will be churning in the market which would be true at any time but orderly conditions could be maintained by the Federal Reserve, and that the opposition of Mr. Keyserling to the increase was based on an entirely different philosophy which, if accepted at all, would lead to elimination of all general instruments (reserve requirements, discount rate, and open market operations) and adoption by the Congress of only selective credit controls. He feared that if the Board did not act soon to increase reserve requirements it would not act either now or in January, and that the increase in cost of living would then force the Administration to impose direct controls which he thinks would be

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a mistake under present circumstances of a long defense program.

Mr. Evans said that he found himself in agreement with Mr. Szymczak, that if reserve requirements were not to be increased it might be necessary for the System to consider whether it had not allowed short-term interest rates to rise too far, that he had been one of the strongest advocates of an increase in reserve requirements, that he felt the Board was late in taking such action, but that under the circumstances outlined by Chairman McCabe he would not urge that reserve requirements be increased until the Chairman had had an opportunity to complete his discussions. He felt, however, that the Board would be at a disadvantage if called before Congress and had not used the powers available to it.

In the ensuing discussion, Chairman McCabe renewed his suggestion that no action be taken by the Board until he had had an opportunity to discuss the matter further, and it was agreed unanimously that the question would be taken up again at the meeting of the Board on Tuesday, November 14, 1950.

In this connection, Mr. Thomas stated that if the Board should decide to increase reserve requirements, action could not be delayed much longer without interfering with the Treasury December financing.

Chairman McCabe said that he was giving some thought to the possibility of the Board sending a letter to all member banks which would call their attention to the present inflationary situation and

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to the part that expansion of bank credit played in the situation, and which would appeal to the banks to restrict credit expansion on a voluntary basis. He added that the letter might ask the banks to report the sources of the demand for increased bank loans that had been made during recent months.

In a discussion of this suggestion, Mr. Powell favored the suggestion that had been offered that a spot check be made of bank loans and proposed that the Federal Reserve Banks be requested to make such a check for the purpose of determining the character of the growth in loans during recent months.

At the conclusion of the discussion it was understood that Mr. Powell, working with members of the staff, would draft a letter along the lines suggested by Chairman McCabe and submit it for consideration at a later meeting of the Board.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 9, 1950, were approved unanimously.

Memorandum dated November 6, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that Mrs. H. Pauline Franklin, a clerk in the Division of Research and Statistics, be transferred to the Division of Bank Operations as a statistical clerk, with an increase in her salary from \$2,730 to \$2,875 per annum,

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effective November 12, 1950. The memorandum also stated that the Division of Research and Statistics was agreeable to this transfer.

Approved unanimously.

Memorandum dated November 7, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending increases in the basic annual salaries of the following employees in that Division, effective November 12, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Lee W. Langham	Supvr., Call Report Unit	\$4,075	\$4,200
Robert P. Fuhrer	Analyst	4,075	4,200
Patricia B. Ivie	Secretary to Mr. Myrick	3,225	3,350
Pearle E. Randour	Statistical Clerk	2,955	3,225
Marjorie Eaton	Clerk-Stenographer	3,195	3,275
Carrie S. Turner	Clerk-Stenographer	2,890	2,970

Approved unanimously.

Memorandum dated November 8, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Miss Orlena Ruth Sylvester as a clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,810 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination, and subject to the receipt of satisfactory references.

Approved unanimously.

Memorandum dated November 8, 1950, from Mr. Vest, General Counsel, recommending the appointment of Richard J. Lewis, as a Law Clerk in the Legal Division, with basic salary at the rate of

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\$3,950 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 9, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Miss Marian Elizabeth Fadeley as a clerk-typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,610 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to completion of satisfactory reference check.

Approved unanimously.

Memorandum dated November 10, 1950, from Mr. Leonard, Director of the Division of Bank Operations, stating that the services of Francis R. Pawley, an economist in the Division of Research and Statistics, would be utilized by the Division of Bank Operations in connection with the administration of Regulation W for a period of six months, and recommending that his salary be charged against the budget of the Division of Bank Operations effective November 12, 1950. The memorandum stated that the Division of Research and Statistics was agreeable to this arrangement.

Approved unanimously.

Memorandum dated November 10, 1950, from Mr. Hilkert, Acting Director of the Division of Personnel Administration, recommending

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that Miss Marianne Stuart, a page in the Division of Administrative Services, be transferred to the Division of Personnel Administration as leave clerk, with an increase in her salary from \$2,200 to \$2,450 per annum, effective November 12, 1950. The memorandum also stated that Mr. Bethea is agreeable to the transfer.

Approved unanimously.

Memorandum dated November 7, 1950, from Mr. Millard, Director of the Division of Examinations, recommending that Harry J. Meyer, an examiner for the Federal Reserve Bank of New York, Alfred Kirmss, an assistant examiner, and R. R. Tompkins, Special Assistant in the Bank Examination Department of the Federal Reserve Bank of New York, be appointed by the Board of Governors as examiners for the purpose of participating in an examination of Bank of America, New York, New York, a corporation organized under Section 25(a) of the Federal Reserve Act.

Approved unanimously.

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

"For the reasons outlined in your letter of November 6, 1950, the Board of Governors approves the payment of salary to Edwin A. Rich, Jr., at the rate of \$3,480 per annum which is in excess of the maximum salary for the grade in which his job is classified."

Approved unanimously.

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

"Reference is made to your letter of November 1, 1950, requesting the Board of Governors to approve an

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"increase in the salary structures of the Federal Reserve Bank of San Francisco, including its Branches.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades, effective immediately:

Head Office

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1800	\$2460
2	1980	2700
3	2160	2940
4	2340	3180
5	2520	3420
6	2760	3700
7	3000	4100
8	3300	4400
9	3700	4900
10	4100	5500
11	4500	6100
12	4900	6700
13	5500	7400
14	6000	8100
15	6600	8900
16	7200	9700

Salt Lake City

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1500	\$2040
2	1620	2160
3	1740	2340
4	1920	2580
5	2100	2820
6	2280	3060
7	2520	3420
8	2820	3700
9	3180	4300
10	3540	4800
11	3900	5300
12	4400	5900
13	4900	6500
14	5400	7300
15	6000	8100
16	6600	8900

Los Angeles-Portland-Seattle

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1680	\$2280
2	1800	2460
3	1980	2700
4	2160	2940
5	2340	3180

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Los Angeles-Portland-Seattle

Grade	Minimum Salary	Maximum Salary
6	\$2520	\$3420
7	2760	3700
8	3000	4100
9	3360	4500
10	3700	5000
11	4100	5500
12	4600	6100
13	5100	6800
14	5600	7600
15	6200	8400
16	6800	9200

"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 31, 1951."

Approved unanimously.

Letter to The National City Bank of New York, New York,

reading as follows:

"The Board of Governors of the Federal Reserve System authorizes The National City Bank of New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish an additional branch in the City of Sao Paulo, Brazil, and to operate and maintain such branch subject to the provisions of such section; upon condition that unless the branch is actually established and opened for business on or before December 1, 1951, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted shall automatically terminate on such date."

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

Letter to Miss Margaret P. Hogan, Secretary to Honorable

Peter W. Rodino, Jr., House of Representatives, Washington, D. C.,

reading as follows:

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"We are pleased to have this opportunity to comment on the letter of October 31, 1950 that Mr. Rodino received from Mr. C. S. Whitman, Jr., Herdman Motor Company, Newark, New Jersey. Mr. Whitman protests against the terms of this Board's Regulation W, governing consumer credit, and in particular affirms that the Board did not comply with the law regarding consultation with the trade.

"All aspects of the regulation were thoroughly explored with representatives of various industries before the original regulation was issued effective September 18, 1950. There were a number of conferences with representatives of automobile dealers, including the National Automobile Dealers Association and the National Used Car Dealers Association.

"The Board fully recognized that the trade representatives favored terms even easier than those prescribed in the original regulation. As a result of these consultations the Board was also well aware that many sellers and lenders would not be in sympathy with the amendment on October 16 which tightened the terms of the regulation.

"The Board was faced with the fact that in the period prior to the September 18 effective date of the original regulation there had been a large expansion of credit as a result of forward buying and high-pressure selling based on the anticipated terms of the new regulation. In addition to the fact that the Board was fully cognizant of the views of the industry representatives, the publicity attendant upon further consultations with such representatives would have raised serious danger of further expansion of credit similar to that which had preceded the September 18 effective date.

"The Board was convinced, and stated in publishing the October 16 amendment in the Federal Register, that: 'Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation.'

"It appears that Mr. Whitman's protest is largely anticipatory of the effect of the regulation in the future. While the regulation, if it is to carry out the

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"intent of the Congress as expressed in the Defense Production Act of 1950, must dampen the demand for instalment credit arising out of the sale of automobiles and other consumers' goods, it certainly is not intended to have any effect as drastic as that predicted.

"The Board intends at all times to administer the regulation flexibly and to keep it closely related to economic developments as they occur in the light of our continuing studies of the problem."

Approved unanimously.

Letter to Mr. H. R. Marsh, President, H. R. Marsh & Son, Inc., 21711 Michigan Avenue, Dearborn, Michigan, reading as follows:

"This is in reply to your letter of October 30, 1950 concerning the recent amendment to the Board's Regulation W concerning consumer credit.

"It is indeed gratifying that you appreciate and understand the need for some sort of regulation of consumer credit during this period of severe inflationary pressures. We feel certain that you will also appreciate the fact that it is difficult to consider Regulation W and its intended purposes apart from other monetary and fiscal policies all of which are directed toward resisting further inflation. As a consequence you will understand, we feel certain, that the provisions of the regulation, at any period of time, must be determined in the light of the many factors involved. On the basis of the appraisal of all the factors the Board concluded that the regulation, if it were to accomplish its intended purposes, should provide for a fifteen months maximum maturity in respect of all instalment sales of consumers durables subject to the regulation, including automobiles.

"The Board recognizes that to the extent that the regulation is effective in dampening consumer demand it will have a depressing effect on some businesses, and will impose hardships on some individuals. We regret that this is so and you may be certain that the Board will continue to review the terms of the regulation in the light of all the facts which come to its attention."

Approved unanimously.

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Letter to Mr. E. H. Cashell, General Manager, H. B. Leary, Jr. and Bros., Inc., 1612-22 You Street, N. W., Washington 9, D. C., reading as follows:

"This refers to your letter of November 2, 1950 relative to a question concerning the status of a transaction involving the sale of an automobile. It is our understanding that negotiations relative to the sale were commenced prior to the original effective date of the regulation but that the sale was not consummated until after the date of the Board's recent amendment to the regulation.

"Ordinarily administrative questions involving the regulation are referred to the appropriate Federal Reserve Bank or branch since administration of the regulation is decentralized among the several Federal Reserve Banks and their branches. In this instance, however, we shall endeavor to answer your inquiry directly in order to avoid any further loss of time to you or to your customer.

"As we are certain you will appreciate, neither the Board nor the Federal Reserve Banks are in a position to pass on the merits of individual transactions. You will understand that, because of differences in the many details, some transactions of the sort you mention will be subject to the provisions of the regulation, as amended, while others will not be so subject. As a consequence the Board is in a position merely to set out the basic principles on the basis of which individual registrants, on the basis of all the facts in their possession, must make the determination as to the status of a particular sale.

"In this connection the Board has set forth the following principle:

1. The exemption in section 8(h) for 'any valid contract or obligation' entered into before September 18 applies not only to credit actually extended before that date, but also to any valid contract or obligation to make a contract. The exemption, therefore, includes a valid commitment made in good faith before September 18 to extend credit after September 18, and includes also the credit extended pursuant to such a commitment.

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"2. In order for the exemption to apply there must have been a valid contract or obligation. The general test is that the party seeking the credit should, aside from the regulation, have been able to maintain a suit for damages if the credit had not been granted pursuant to the contract or commitment to extend the credit. Some of the requirements for such a contract may be briefly summarized:

(a) A contract to sell or even a contract of sale for future delivery is not necessarily an agreement to extend credit for the article involved. There must have been a valid contract relating to the credit for the purchase of the article.

(b) There must be considerably more than general negotiations or indefinite 'understandings' that credit would be extended. There must have been an agreement to extend the credit and a reasonably exact agreement as to terms and amount.

(c) While not always essential, the case is much clearer if there is written evidence of the commitment. The time as of which the credit itself is dated is not important, the significant date being that of the prior commitment.

3. Substance and good faith rather than technicalities and formalities control in determining whether there is a valid pre-September 18 contract. The most elaborate written documents do not constitute such a contract unless they represent a bona fide commitment made as a part of a regular business transaction and not as a means of evading the regulation."

Approved unanimously.

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

"A question has been presented concerning the application of section 6(g) of Regulation W relating to sets and groups of articles.

"In determining whether several articles constitute 'a single listed article' under section 6(g)

1. The articles must be so related as to con-

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"stitute a set, group, or assembly, or

2. They must be merchandised as a single unit; and, in either case

3. They must be sold or delivered at substantially the same time.

"Requisites 1 and 2, it will be noted, are stated in the alternative. Consequently, if a given case meets either or both of these requisites, section 6(g) will apply, assuming that the third requisite, which is self-explanatory, is also satisfied.

"If the items are functionally related as in the case of a dining room or bedroom suite, the first requisite would be met. However, even if the items are not functionally related, but are merchandised as a set, group, or assembly, the second requisite would be met and the absence of functional relationship would be immaterial.

"With respect to the second requisite, important considerations are how the items are offered to customers, advertised, or ticketed, and the merchandising practices of a particular seller or practices in the particular trade. If listed articles are sold pursuant to an offering of the articles as a set, group, or assembly, the articles constitute a single listed article regardless of functional relationship and regardless of whether they are offered at a combination price which is lower than the price of each article if bought separately."

Approved unanimously.

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

"This refers to your letter of October 26, 1950, and its enclosures, concerning the conflict between the minimum \$5 monthly and \$1.25 weekly instalment payment requirements of Regulation W and the Arizona small loan statute. Arizona Code Anno., 1939, section 51-817. As you indicate, the State statute in question requires in certain instances that an instalment credit be arranged for repayment in approximately equal weekly or monthly instalments of principal during not less than 5 months. Conse-

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"quently, a loan in an amount of \$15 or \$20, for example, would require monthly instalments of only \$3 or \$4.

"Of course, the conflict in question may be resolved conclusively only by the courts. However, on the basis of established legal principles as they have been developed by the courts, including recent decisions of the United States Supreme Court, it is the Board's view that Regulation W should be considered as having precedence over the State law. From the enclosures with your letter, we note that this is the position that has been taken by Counsel for your Bank and also by Counsel for the Federal Reserve Bank in San Francisco."

Approved unanimously.

Letter to Mr. Byron Clayton, Associate General Counsel,
Metropolitan Life Insurance Company, One Madison Avenue, New York
10, New York, reading as follows:

"This refers to your letter of October 16, 1950, to Mr. W. A. Clarke, raising various questions concerning the interpretation of Regulation X. We understand that Mr. Clarke has discussed these questions with you but that you desire written advice for your records. Accordingly, each of the matters mentioned in your letter is discussed below.

"Purchase of credits exempt under section 6(b).
- Enclosed is a copy of a ruling by the Board dated October 17, 1950, covering this subject. The substance of this ruling has been published in the Federal Register.

"Statement from seller in section 6(b)(1) cases.
- We agree that the purchaser of a credit instrument may rely upon a statement, accepted in good faith, in which the seller of the credit instrument states that the credit was extended pursuant to a section 6(b)(1) firm commitment which he had made prior to the effective date of the regulation. It is suggested, however, that a copy of the commitment itself might provide a better record.

"Copy of letter sent to Federal Reserve Bank in section 6(b)(2) cases. - We agree that a purchaser of

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"a credit instrument may rely upon a copy of the letter which the seller of the credit instrument sent to the appropriate Federal Reserve Bank in compliance with section 6(b)(2), if the letter on its face shows facts necessary to meet the requirements of section 6(b)(2) and the copy of the letter is accepted by the purchaser in good faith. In connection with both this topic and the preceding topic, it perhaps should be mentioned that if the purchaser of the credit obtained a copy of the Statement of the Borrower, which was obtained by the original mortgagee pursuant to section 4(c), the purchaser of the credit could rely upon facts stated therein with respect to the exemption of the credit.

"Reliance on borrower's statement as to cost or sale price. - Section 6(g) provides that the facts set forth in any signed Statement of the Borrower which a Registrant accepts and relies upon in good faith shall be deemed to be correct for the purposes of the Registrant. In view of this provision, we agree that the purchaser of a credit instrument may rely upon the facts stated in a Statement of the Borrower with respect to bona fide cost or estimated cost or bona fide sale price, assuming that the statement is accepted in good faith and the purchaser has no reason to believe that the facts are not correctly stated.

"Certification as to start of construction. - We agree that the purchaser of a credit instrument may rely upon a statement accepted in good faith from the borrower, builder, or original lender with respect to whether construction was begun before or after August 3, 1950.

"Term of loan - amortization. - Enclosed is a copy of a ruling by the Board dated November 3, 1950, dealing with the problem created by trade practices under which the first instalment on a loan is due on the first day of the second calendar month after the month in which the credit is extended. This ruling will be published in the Federal Register in the near future. With respect to the 'building and permanent loan case' described by you, it is believed that this type of case is covered by the second sentence of section 5(b) of the regulation.

"The administration of Regulation X, like other regulations of the Board, is handled through the Federal Reserve Banks on a decentralized basis; and, hence, we

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"suggest that you may find it more convenient and expeditious in the future to take up with the Federal Reserve Bank of New York any problems which may arise in connection with Regulation X."

Approved unanimously.

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

"Retel November 6 concerning request for exemption under section 5(g) of Regulation X in a case where the builder is unable to obtain FHA or Veterans' Administration financing on basis contemplated by him and a mortgage company. We see no reason to differ with your proposed denial of exemption under section 5(g)."

Approved unanimously.

Letter for the signature of the Chairman to Honorable J. Howard McGrath, The Attorney General, Washington 25, D. C., reading as follows:

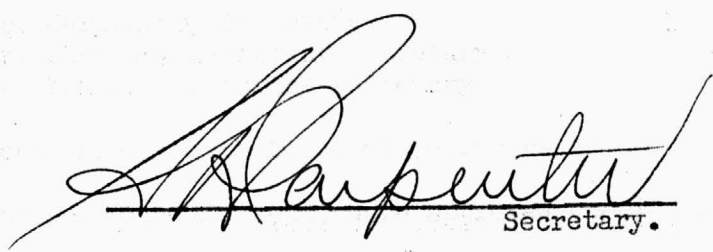
"This refers to your letter of October 19, 1950, referring to the President's memorandum of September 28, 1950, with regard to consultation with the Attorney General and the Chairman of the Federal Trade Commission in connection with functions delegated to or vested in the Board by Executive Order 10161, pursuant to the Defense Production Act of 1950, and suggesting that I appoint a representative of the Board to serve as liaison officer to formulate appropriate procedures for the handling of matters in connection with the President's memorandum.

"This is to advise you that I have designated Mr. George B. Vest, the Board's General Counsel, to serve in the capacity indicated above. I want to assure you of our earnest desire to cooperate to the fullest extent possible with your Department in

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"carrying out the functions delegated under the Executive Order 10161."

Approved unanimously together with an identical letter to Honorable James M. Mead, Chairman, Federal Trade Commission, Washington 25, D. C.


Secretary.