

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 14, 1950. The Board met in the Board Room at 10:55 a.m.

PRESENT: Mr. McCabe, Chairman  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Verdaman  
 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. Leonard, Director, Division of Bank Operations  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Horbett, Assistant Director, Division of Bank Operations  
 Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics  
 Mr. Koch, Chief, Banking Section, Division of Research and Statistics

Mr. Thomas gave a report of developments in the money market during the past week, especially with respect to trading in long-term bank eligible bonds, intermediate bonds, and longer notes.

Chairman McCabe stated that he had not been able to have the conversations with others concerning a possible increase in reserve requirements of member banks as contemplated at the meeting on November 10, and it was understood no action would be taken at this meeting of the Board. It was also understood that consideration of

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what, if any, action should be taken to change the margin requirements prescribed in the Board's Regulations T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, would be deferred until a decision had been made on the question whether reserve requirements of member banks should be increased.

Mr. Powell referred to the discussion at the meeting on November 10 of a possible voluntary program by the American Bankers Association to restrain bank credit, and stated that in discussions of the matter with the Association officials, he had learned that a letter had been sent to the members of the Association calling on the banks to screen loans and calling their attention to the credit conference to be held in Chicago in December. Mr. Powell said that the American Bankers Association had also sent a questionnaire to 500 banks which was expected to bring in some information on where the expansion of loans had been taking place. He added that a telegram also had been prepared in the Board's offices to the Federal Reserve Banks today asking them to make a spot check of bank loans and report by November 22 on the nature of the increase in commercial and industrial loans at reporting member banks.

The telegram, which read as follows, was approved unanimously:

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"Bank credit has continued to expand rapidly and over two-thirds of recent loan expansion is in commercial and industrial loans, for which practically no breakdown is available. Increases in commercial, industrial, and agricultural loans at all weekly reporting member banks between June 28 and November 1 were \$2,921 million or 21.5 per cent. In your District, comparable figures were \$ A million and B per cent.

"To provide background for policy decisions, please make spot check of each weekly reporting bank that shows an increase since June of over C per cent, but disregarding those where such increase amounted to less than \$ D million, and telegraph tabular summary indicating types of business and purpose of loans.

"We are most interested in purpose classification but realize it is more difficult to ascertain than industry classification. The following is a suggested type of summary illustrating the possible types of businesses and purposes of borrowings. Names of individual companies may be included in special cases.

Type of Business of Borrower	Purpose of Borrowing	Increase June 28 or 30 to November 1 in millions
Manufacturing:		
Food and liquor	Inventory, normal	8
	Other working capital	15
Tobacco	Inventory, normal	20
Textiles, apparel, and leather	Inventory, normal	8
	Inventory, additional	18
	Defense contracts	7
	Plant and equipment	9
	Retirement of other debt and preferred stock	5
Metal and metal products	(Similar breakdowns as above for remaining types of business)	etc.
Petroleum, coal, chemicals, and rubber		
All other manufacturing		
Trade (retail and wholesale)		
Public Utilities		
Sales finance		
Construction		
Commodity dealers:		
cotton		
Other		
All other		
Totals		

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"Data should be obtained from the banks preferably by personal interview or telephone, on the basis of information already available to their loan officers. Examination reports might be valuable for banks examined recently. If October 4 condition report indicates unusually large increases in commercial and industrial loans since June 30 at individual banks not in weekly series, please make similar inquiries of them.

"Please wire summary in whatever detail time permits to arrive by November 22. Details, comments on individual loans, results from inquiries of non-weekly reporting banks, and other available information on the subject may follow by mail.

	A	B	C	D
Boston	128	18.7	10	5
New York	1,197	24.0	15	25
Philadelphia	83	16.1	10	5
Cleveland	84	10.4	10	5
Richmond	89	21.0	15	5
Atlanta	130	24.9	15	5
Chicago	332	20.6	15	10
St. Louis	209	44.5	15	10
Minneapolis	42	18.7	10	5
Kansas City	119	20.2	10	5
Dallas	150	18.1	10	5
San Francisco	358	18.9	10	10"

Mr. Powell then presented two drafts of a letter that might be sent to all member banks which had been prepared in accordance with the discussion at the meeting of the Board on November 10.

The drafts were read and during the discussion that followed, Mr.

Vardaman suggested that, for reasons which he stated, it might be

preferable for the letter to be sent by the President of each of the

Federal Reserve Banks to the member banks in their respective Federal

Reserve districts, rather than by the Board. Mr. Vardaman went on

to say that he felt that it would be desirable to send the proposed

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letter and that if the Board decided it should be sent direct or if the Federal Reserve Bank Presidents believed that it would be preferable to send it direct, he would concur.

Chairman McCabe suggested that Mr. Powell discuss the letter and the question raised by Mr. Vardaman with several of the Federal Reserve Bank Presidents to ascertain their views, and that a draft of the letter be sent to all Reserve Bank Presidents for comment.

Mr. Szymczak stated that while he felt there was no objection to sending the letter, he would prefer that the Board take action to increase reserve requirements of member banks, that he felt the letter would result in delaying action on reserve requirements at a time when loans and investments of member banks were still expanding, and that an increase in reserve requirements at this time could be related to the present economic situation and to proposals that might be submitted to Congress with respect to additional authority for dealing with the inflationary situation.

Following the discussion, it was agreed unanimously that Mr. Powell should revise the draft of letter along the lines suggested at this meeting, that he should discuss with several Reserve Bank Presidents the question whether the letter should be sent by the Board or by the Federal Reserve Banks, and that when the letter was in form satisfactory to Mr. Powell and Chairman McCabe it would be sent either direct or through the Federal Reserve Banks to all member banks.

Secretary's Note: In accordance with the above action, the following letter, prepared for Chairman McCabe's signature, was mailed to the Chief Executive Officers of all Member Banks under date of November 17, 1950. Before the letter was mailed a copy was sent by telegram to all of the Federal Reserve Banks for comment, and Mr. Powell reported to the Secretary that he had discussed it by telephone

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with several of the Presidents and all but one preferred that the letter be sent direct by the Board, that the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation informally expressed approval of the letter, and that a copy had been sent to the President of the National Association of Supervisors of State Banks:

"The success of the battle against inflationary dangers depends in large measure upon maintaining a reasonable balance between available goods and services and the supply of dollars bidding in the market place. Since early summer the persistent and unprecedented rise in bank loans has been the major factor in the country's increasing money supply.

"From mid-year to mid-November total loans at all commercial banks rose well over five billion dollars. This was a much greater expansion than occurred in the corresponding period of any previous year on record. Continued growth of bank credit, not balanced by increases in production of civilian goods, would put additional upward pressure on prices, impairing the buying power of the dollar and adding to the cost of the Nation's defense program.

"The Board of Governors of the Federal Reserve System therefore again wishes to call to the attention of every member bank the loan policy announcement of August 4, 1950 which was unanimously approved by the Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks. As you will recall, that joint statement stressed the importance of sensible and restrained action by businessmen, laborers, farmers, and consumers, as well as governmental agencies, national and State, to curb excessive credit expansion. The joint declaration concluded:

'A continuation of the rapid growth of credit resulting from consumer demand for houses and other goods and speculative accumulation of inventories by business would add to inflationary pressures and seriously handicap the necessary expansion of military production. Therefore, lenders should carefully analyze all loan applications and avoid making loans which would have these adverse effects.'



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"The purpose of this letter is to request your utmost cooperation in helping to achieve the objectives of the foregoing appeal. Every bank has it within its power to make an important contribution to sound money by limiting loan extensions, and by advising would-be borrowers to hold their borrowing requirements to the lowest limits consistent with their rock-bottom needs.

"We realize that bankers have been exercising selection in the kind of credit they are extending. The point we wish to emphasize is that in a period like this even sound individual credits are inflationary if, in the aggregate, they add unduly to a growing supply of money. With full employment, high level production, and rising wages and prices, almost everyone's credit appears to be good. Further expansion in bank credit means more dollars competing for limited supplies of labor and materials. Unless such expansion of credit is checked it is bound to raise prices. Defense dollars will soon be added to civilian dollars in competition for available goods. The nation's defense needs must be adequately met without runaway prices.

"To meet its statutory responsibilities and to play its part in restraining over-expansion of bank credit, the Federal Reserve System has adopted an anti-inflationary program. As integral parts of this program, the Federal Reserve, under the authorization of the Defense Production Act of 1950, has instituted consumer credit regulations. With the concurrence of the Housing and Home Finance Agency, it has also adopted curbs on residential construction credit.

"Commercial banks can also do their part in bringing about restraint of credit by advising borrowers to avoid overstocking of inventories and to postpone unnecessary business expansion and by discouraging various types of loans that do not make a definite contribution to the defense effort. The sacrifice of some earnings at this time is a small price to pay for the defense of the dollar which is of paramount importance.

"The Federal Reserve people are eager to know what the commercial bankers are thinking about the trend in bank loans. It would be greatly appreciated if you would care to write a letter to the President of the Federal Reserve Bank of your District so that we may have the

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"benefit of your views with regard to the following questions or any other information that you would care to communicate: What types or classes of borrowers occasioned most of the new loans in your bank since mid-year? Can you say whether their borrowing is or is not largely seasonal? If not seasonal can you identify a principal purpose? Do you expect the large demand for credit to taper off, continue, or increase in the next three months? Such other information and views as you would care to express on our mutual problem of curbing inflation would also be most welcome to the Federal Reserve System."

At this point, all of the members of the staff with the exception of Messrs. Carpenter and Riefler withdrew from the meeting.

Reference was made to informal discussions by members of the Board, by the Personnel Committee, and at the meeting of the Board on Friday, November 10, 1950, of a recommendation submitted to the Personnel Committee by Mr. Vardaman that the salary of Mr. Boothe, Assistant Director of the Division of Administrative Services, be increased in recognition of the work he was doing as Deputy Administrator of the V-loan program. Mr. Szymczak said that the Personnel Committee had given the matter further consideration this morning in the light of memoranda submitted by Mr. Hilkert and Mr. Carpenter under date of November 13, and by Mr. Boothe under date of November 14, and that it was the recommendation of the Committee that (1) a salary increase of \$1,000 per annum be approved for Mr. Boothe, (2) that Mr. Boothe and the activities which he performs in connection with the V-loan program be transferred to the Division



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of Bank Operations, and (3) that the Board immediately undertake a study of the changes that should be made in the salaries of the members of the Board's official staff.

The recommendation of the Personnel Committee was discussed at length and it was voted unanimously (1) to increase Mr. Boothe's salary from \$10,305 to \$11,500 per annum effective as of the beginning of the next payroll period, and (2) to request the Personnel Committee to submit recommendations with respect to (a) the changes that should be made in the staff organization for the handling of the V-loan program, and (b) changes in the salaries of the members of the Board's official staff.

At this point Mr. Riefler 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 13, 1950, were approved unanimously.

Memorandum dated November 1, 1950, from Mr. Szymczak, recommending an increase in the basic salary of Miss Ruth E. Morris, a stenographer in his office, from \$3,475 to \$3,600 per annum, effective November 26, 1950.

Approved unanimously.

Letter dated November 3, 1950, from E. R. Millard, Director of the Division of Examinations, submitting his resignation to be effective, in accordance with his request, November 30, 1950.

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Approved unanimously.

Letter to Honorable Camille Gutt, Managing Director and Chairman of the Executive Board, International Monetary Fund, Washington, D. C., reading as follows:

"We wish to acknowledge receipt of your letter of November 2, 1950, stating that you have received a request from the Minister of Finance of the Republic of Paraguay to make available to that government for a period of from four to five weeks, beginning on or about November 13, the services of two technicians to analyze the financial system and assist in the preparation of the budget, and requesting that the Federal Reserve System supply a qualified person to undertake the duties of chief of the mission. It is noted that the International Monetary Fund will undertake to provide an economist thoroughly versed in Paraguayan financial affairs who will act as assistant economist and translator for the mission.

"We are pleased to inform you that the Federal Reserve Bank of Richmond has agreed to make available for this purpose Mr. J. Dewey Daane, an economist on the staff of that Bank's Research Department. It is proposed that Mr. Daane will remain on the pay roll of the Federal Reserve Bank of Richmond during the time that he is engaged in the mission, and that his transportation expenses, living allowances, and other expenses be furnished by the International Monetary Fund in accordance with the regulations applicable to personnel of your organization.

"We believe that Mr. Daane's education and experience make him well qualified to undertake this assignment and trust that his services will prove entirely satisfactory."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

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"Reference is made to your letter of October 30, 1950, in which you advised that it appears expenses for certain functions at your head office and branches will exceed the 1950 budget estimates as follows:

<u>Function</u>	<u>Richmond</u>	<u>Baltimore</u>	<u>Charlotte</u>
Furniture and equipment			\$4,000
Postage and expressage			9,500
Stock of supplies		\$7,000	1,000
Consumer credit	\$17,540	3,941	4,300
Currency and coin			12,500
Bank and public relations			2,200
Auditing			1,600

"The Board accepts the revised figures as submitted and appropriate notations are being made in the Board's records."

Approved unanimously.

Letter to The Honorable, The Attorney General, Washington 25, D. C., reading as follows:

"On October 5, 1950 (JMM:JTG:IK 146-17-012), your Department wrote to this Board that it was in accord with proposals regarding the enforcement of Regulation W (relating to Consumer Credit) which were the subject of the Board's letter to your Department of September 18, 1950. As the Board's letter indicated, the authority to regulate consumer credit was placed in the Board by the Defense Production Act of 1950, particularly, section 601 of that Act.

"Section 602 of the Defense Production Act of 1950 authorized the President to prescribe regulations with respect to real estate construction credit. This authority was delegated by the President to the Board in Part V of Executive Order No. 10161, dated September 9, 1950. Pursuant to this delegation the Board issued and filed with the Federal Register its Regulation X (relating to Residential Real Estate Credit). The effective date of the regulation was October 12, 1950.

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"A copy of Regulation X is enclosed herewith.

"The Board believes that it would be appropriate to establish an enforcement program with respect to Regulation X along the lines of that concerning Regulation W, and there is enclosed a copy of a memorandum entitled 'Outline of Enforcement Program for Regulation X'. This outline is very similar to the outline for Regulation W submitted with the Board's letter of September 18, 1950. As in the case of Regulation W, it is proposed that the enclosed outline serve as a general basis for the enforcement program with respect to Regulation X, and it will be appreciated if you will advise us whether or not your Department would have any objection to such a procedure.

"We would, of course, be happy to make available as many copies as your Department might desire of Regulation X and the enforcement program for that regulation. We would also appreciate it if, as was done in connection with Regulation W, you could supply us with copies of any instructions from your Department to the United States Attorneys with respect to Regulation X. As you know, your circular letter of October 3, 1950, concerning Regulation W requested that no proceedings should be instituted in cases involving violations of Regulation W without prior authority from your Department."

Approved unanimously.

Letter to Mr. S. H. Kelley, Assistant Publisher, Kelley Blue Book, 1221 South Figueroa Street, Los Angeles 15, California, reading as follows:

"Thank you for your letter of October 18 in reply to the Board's letter of October 9.

"As stated in the Board's letter of October 9, and also the Board's letter of September 9, 1950, the Board has not designated any appraisal guides or services, as such, but has merely designated certain specified issues. In other words, the designations are not merely limited as to periods of time but also as to particular issues.

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"The Board does not care to suggest at this time that you send out to your subscribers any correction regarding the designation of certain of your issues. We believe you will appreciate that a correction can rarely catch up with an earlier statement and remedy the misapprehensions it may have caused. In addition, the Board does not wish to undertake to pass individually upon the various steps of a publisher's operations. As indicated in the Board's letter of October 9, such individual determinations by the Board would not only involve additional labor and expense, but also could not provide a satisfactory substitute for the extremely high degree of responsibility that is essential on the part of publishers of designated issues of guides if the designations are to serve their purpose."

Approved unanimously.

Letter to Mr. Carl R. Lane, Executive Vice President,  
Connecticut Automotive Trades Association, Inc., 252 Asylum Street,  
Hartford 3, Connecticut, reading as follows:

"Thank you for your letter of October 30, 1950 and the summary of your survey of the effect of Regulation W on Connecticut automobile dealers. We have also received, and thank you for, the individual dealer replies to your questionnaire.

"We appreciate your interest in providing us with this information and wish to assure you that the data will be carefully considered in our studies of the effect of the regulation. We are always glad to hear from businessmen and others who can report currently on the incidence of our regulations. We regret that inflationary tendencies and national defense have made it necessary to impose credit restrictions that affect particular businesses and individuals.

"As you can understand, since the particular purpose of Regulation W is to dampen consumer demand for instalment credit we can not discharge our responsibility without restraining this type of



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"credit where it is most active. After most careful consideration of all available information we placed the present requirements at 1/3 down payment and 15 months maturity for automobile credits with the hope that they would bring about the necessary curtailment without causing too much hardship in individual cases.

"Regulation W, together with other credit restraints recently effected by the Board and the special fiscal measures taken by the Government, is directed towards stopping the present inflationary spiral. The purpose, of course, is to serve the public interest in a time of emergency. If this purpose can be accomplished all business including the automobile industry will benefit as well as all consumers.

"The scope and terms of Regulation W are under constant study and may be changed from time to time as conditions warrant. You may be interested in the attached statement dated October 17 concerning the reasons for the amendment effective October 16."

Approved unanimously.

Letter to Mr. A. B. Lewis, A. B. Lewis Company, Fannin at Polk, Houston 2, Texas, reading as follows:

"This is in reply to your letter of October 28, 1950 concerning the recent amendment to the Board's Regulation W relating to 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



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"of all instalment sales of consumers durables subject to the regulation, including automobiles.

"We recognize that in the administration of any such measure as Regulation W there are bound to be hardships on particular businesses and individuals. We regret that this is so and every effort has been made to keep such hardships at a minimum. The regulation, of course, far from prohibits the instalment sale of articles subject to its provisions. It is likely that, to the extent the regulation is effective, a material slowing down in the unprecedentedly high rate at which consumer durables have been manufactured, distributed, and sold is to be anticipated. It is inevitable that any considerable slowing down in the rate of sale of any significant commodity will require readjustments all along the line. It would appear that readjustments to the present level of terms under the regulation will be made with considerably less hardship than is now anticipated. The readjustments, once they are made, should minimize the threat of extreme hardship which could be expected to accrue to the nation as a whole were the present inflationary spiral to continue unchecked.

"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 and in that connection will welcome any data that automobile dealers and others may care to submit."

Approved unanimously.

Letter to Mr. Lawrence Krueger, 2543 Pittsfield Boulevard, R. R. 45, Ann Arbor, Michigan, reading as follows:

"Your letter of October 31, 1950 to Mr. Symington, in which you request a ruling on the question whether Regulation W applies to public entities such as a school district when the reimbursement is guaranteed by an act of the State legislature, has been referred to the Board of Governors for reply.

"You state that under the State School Acts of 1946 and particularly under the Public School Code of Michigan, school districts are permitted to purchase buses under a contract extending payment for a three

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"to five year period. You further state as an example that if a school bus should cost \$4,000, the terms permitted might be a down payment of \$400 and three instalments of \$1,200 each.

"Under the above circumstances credit extended to school districts, being agencies of the State of Michigan, would be exempt under section 7(d) of Regulation W from the provisions of the regulation.

"We are enclosing a copy of Regulation W and we trust the above adequately answers your question."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks,

reading as follows:

"A transaction does not cease to be subject to Regulation W merely because the parties choose to call it a 'rental' rather than a 'sale'. Without attempting to describe all the various arrangements that are subject to the regulation, it should be noted that the definition of credits that are subject to the regulation, includes, among other things, 'any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; \* \* \* and any transaction or series of transactions having a similar purpose or effect.'"

Approved unanimously.

Telegram to Mr. Olson, Vice President of the Federal Reserve

Bank of Chicago, reading as follows:

"Retel November 9 concerning liens resulting from loans permitted by exemption under section 5(g) of Regulation X and question whether subsequent purchasers may acquire title subject to such liens without regard to Regulation X. Your understanding with respect to this matter is correct. In case of sale by non-registrant, it is assumed that there is no other extension of credit which would be subject to Regulation X."

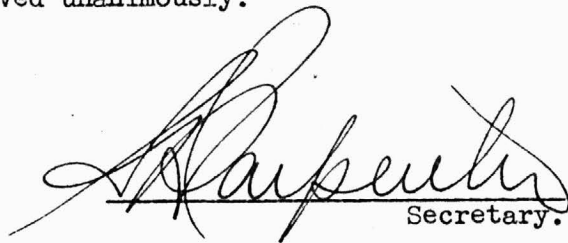
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Approved unanimously.

Memorandum dated November 13, 1950, from Mr. Hooff, Assistant Counsel, recommending that in addition to the material previously submitted for publication in the Law Department of the November issue of the Federal Reserve Bulletin statement in the form attached to the memorandum with respect to Amendment No. 1 to Regulation X, together with the introductory statement be included.

Approved unanimously.

  
Secretary.