

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, November 21, 1950.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
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 20, 1950, were approved unanimously.

Memorandum dated November 20, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective November 26, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
William J. Powers	Economist	\$3,825	\$3,950
Elva T. Divine	Library Assistant	3,195	3,275
Edwin J. Swindler	Research Assistant	3,100	3,225
Tressa B. Hemminger	Secretary	3,725	3,850
Ethel L. Evans	Clerk	4,450	4,575
Patricia Anne V. Johnson	Clerk-Stenographer	3,115	3,195
June Truitt	Clerk-Stenographer	3,115	3,195
Joan N. Yamamoto	Clerk-Typist	2,450	2,530

Approved unanimously.

Memorandum dated November 17, 1950, from Mr. Vardaman, recommending that Mrs. Laura K. Thomas, Stenographer in his office, be granted leave of absence without pay beginning December 4, 1950, for the purpose of reporting for active duty with the United States

11/21/50

-2-

Naval Reserve, that she be granted the benefits outlined in the Board's policy, adopted August 1, 1950, for all employees called for military service, that she be granted one month's unearned salary, and that she receive a lump sum payment for any accumulated and accrued annual leave remaining to her credit at this time.

Approved unanimously.

Memorandum dated November 16, 1950, from Mr. Noyes, Assistant Administrator of the Office of Real Estate Credit, recommending the appointment of William Lucius Thalley as a messenger in the Office of Real Estate Credit, on a temporary indefinite basis, with basic salary at the rate of \$2,252 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.

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

"Reurtel November 20, 1950, addressed to Sloan. Board approves designation of Leonard W. Cole as a special assistant examiner for the Federal Reserve Bank of Chicago."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of November 2, 1950, and to Mr. Core's letter of November 13, 1950, requesting the Board of Governors to approve an increase of approximately ten per cent in the

11/21/50

-3-

"salary structure of the Federal Reserve Bank of Minneapolis, including the Helena Branch.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades of the Federal Reserve Bank of Minneapolis, including the Helena Branch, effective immediately:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1380	\$1860
2	1500	2000
3	1740	2300
4	1980	2640
5	2220	3000
6	2520	3400
7	2820	3800
8	3200	4200
9	3600	4750
10	4000	5300
11	4400	5900
12	4900	6500
13	5400	7200
14	5900	8000
15	6500	8800
16	7200	9700

"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 understood from Mr. Core's telegram of November 16 to Mr. Hilbert that the necessary adjustments to the minimums will be made within three months after the effective date of the new salary structure. Any unusual cases which you feel can not properly be raised to the minimum during this time may, of course, be presented to the Board of Governors for specific authorization."

Approved unanimously.

Telegram to Mr. Woolley, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reurlet November 13. Board approves appointment of Samuel McCaffree as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise effective date of appointment and salary rate."

11/21/50

-4-

Approved unanimously.

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

"Reference is made to your letter of November 13, 1950, submitting the request of 'The Union Bank of Commerce Company', Cleveland, Ohio, for permission to reduce its capital \$13,605 in order to effect the retirement of 1,360-1/2 shares of its common stock of the par value of \$10 per share.

"In view of the circumstances recited in your letter and your favorable recommendation, the Board of Governors approves the proposed reduction of \$13,605 in the bank's capital, with the understanding that counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the reduction."

Approved unanimously.

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

"In your letter of October 30, 1950, you called attention to certain contemplated replacements of fixed machinery and equipment and to the proposed construction of a new vault for wrapped coin.

"The Board will interpose no objection to your proceeding with these projects as outlined in your October 30 letter and its enclosures. It is understood that the cost of replacing the elevators will be about \$40,000 and that the architect's estimated cost of the coin vault is \$25,000."

Approved unanimously.

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

"Reference is made to Mr. Van Zante's letter of November 9, 1950, submitting the application of the First Bank of Berne, Berne, Indiana, for permission to exercise fiduciary powers.

11/21/50

-5-

"In view of the Reserve Bank's recommendation and the information submitted, the Board of Governors of the Federal Reserve System grants the applicant permission, under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of Indiana.

"You are requested to advise the First Bank of Berne, Berne, Indiana, of the Board's action."

Approved unanimously.

Letter to Mr. Peterson, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of November 6 relating to the recent acceptance by the Peoples Exchange Bank of Russellville, Arkansas, of an appointment as trustee of a small trust created for the care and maintenance of a cemetery lot, as disclosed by the examination of such bank made as of July 31, 1950.

"It appears that the bank has not previously exercised trust powers and, in fact, does not have trust authority under Arkansas law; that the trust in question was accepted as an accommodation to the estate of a former president and director of the bank; that it is neither the intent nor desire of management of the bank to transact a general trust business; and that no criticism of the acceptance or administration of this trust is being made by the State Banking Department. It is further observed that the administrative duties are largely of a ministerial nature and that the responsibilities assumed are quite limited, with no discretionary investment authority being granted the trustee.

"In view of all the circumstances, the Board will raise no objection, under the applicable provisions of condition of membership numbered 1, to the acceptance and administration of this one small trust by the Peoples Exchange Bank of Russellville, Arkansas, with the understanding that it will not acquire any other fiduciary business without first obtaining permission of the Board. Please advise the bank accordingly."

11/21/50

-6-

Approved unanimously.

Letter to Mr. Lazar Emanuel, Attorney at Law, 50 Broad Street, New York 4, New York, reading as follows:

"This refers to your letter dated October 31, 1950 in which you suggest that imported articles, such as sewing machines, be exempted from compliance with this Board's Regulation W, concerning consumer credit.

"It is the Board's view that, entirely apart from other considerations, it would be undesirable from a credit control standpoint to accord preferential treatment to imported articles. Any such treatment would tend to undermine the regulation which is concerned with reducing inflationary pressures generated throughout the entire economy by unduly liberal credit whether arising out of the instalment sale of domestic or imported consumer durables."

Approved unanimously.

Letter to Mr. T. J. Hawthorne, Chairman, Retail Appliance Division, Charlotte Merchants Association, P. O. Box 1599, Charlotte, North Carolina, reading as follows:

"This refers to your letter of November 1, 1950 relative to the Board's Regulation W concerning consumer credit.

"As you know, as a consequence of the defense needs of the nation and the mounting spiral of higher prices the Board was empowered under the Defense Production Act of 1950 to regulate consumer credit. Any such regulation, if it is to be effective, must be flexible and must be reasonably well adapted to the magnitude of the problem with which it is expected to cope. In the light of inflationary pressures which were found to be unabated the Board decided to amend the regulation in order that it might contribute more effectively to the general anti-inflationary program.

"It is difficult to consider Regulation W and its intended purpose apart from other monetary and

11/21/50

-7-

"fiscal policies all of which are directed at reducing heavy inflationary pressures which tend to push upward on the entire price structure. The regulation, of course, is designed specifically to dampen demand for consumer credit because of the heavy impact of such credit throughout the economy during a period such as the present when unrestrained additions to the money supply are inimical to the national welfare.

"We recognize that in the administration of any such measure as Regulation W there are bound to be hardships on particular businesses and individuals. 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 expected. It is inevitable that any worthwhile slowing down in the rate of sale of any significant commodity will require readjustments all along the line. 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.

"The emergency which confronts the nation is one which grows directly out of our need to equip ourselves and our allies quickly with the means of defending ourselves while at the same time not permitting a disastrous inflation to weaken us internally. The Board, in connection with the administration of the regulation has followed the practice of consulting closely with industry both before the regulation was adopted on September 18 and frequently subsequent to that time. You may rest assured that the Board will continue to follow that policy and will continue to study the regulation in the light of all the facts which come to its attention. In that connection we appreciate your interest in the matter and we shall welcome any additional data you may care to submit. We feel certain you will understand that while the Board is particularly interested in factual data supplied by the various industries subject to the provisions of the regulation these data are not and can not be the sole basis for decisions of the Board. In the final analysis such decisions must be based on an appraisal of all the factors tending to influence the money supply."

11/21/50

-8-

Approved unanimously.

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

"Retel November 10 concerning application of Regulations W and X to a loan for the purpose of financing a \$2,600 major improvement to a residence. Assuming that there is no other credit involved, the Registrant could lend up to but not in excess of \$2,500 exempt from the prohibitions of Regulation X pursuant to section 5(a). Since such credit in an amount not exceeding \$2,500 would be exempt from Regulation X, it would be subject to Regulation W, including the maturity limitations prescribed in the Supplement to Regulation W."

Approved unanimously.

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

"This refers to your letter of October 19, 1950, concerning the application of Regulation W to the instalment financing of insurance relating to an automobile or other listed article where the insurance is sold to the same person by the Registrant who also sold or financed the listed article. This letter was acknowledged by our wire of November 6.

"As you indicate, section 4(a)(2) requires that the amount of any insurance premium involved in a loan to purchase a listed article must be included as a part of the loan balance subject to the maximum maturity provisions of the regulation. The same treatment of insurance premium is required by sections 3(a) and 6(c) in the case of an instalment sale of a listed article. While charges for insurance are excluded by section 8(j)(7) from the definition of 'cash price', the only other specific reference in the regulation to insurance is in section 7(f) which denies preferential treatment where the policy relates to any listed article sold to a customer, or financed for him, by the Registrant financing the insurance.

"The examples in your letter appear to assume situations in which the insurance is sold or financed

11/21/50

-9-

"by the Registrant subsequent to the sale by him of the listed article to which it relates. In the circumstances, such examples are strikingly reminiscent of the rather interesting sales-promotion plans described in the letter of February 3, 1949, from your Los Angeles Branch to the Board and involved in our wire of February 18, 1949, to which you referred.

"After a careful study of the general situations that the Kelley Kar Company appears to have presented to you at this time, the Board does not find anything to distinguish them from the general principles stated in our wire of February 18, 1949 that 'when insurance in connection with listed article is sold or financed in connection with the listed article by person who sells or finances the listed article, insurance cannot be treated as separate exempted sale of unlisted article. It must be included in "time balance" as specified in section 6(c), and must be repaid within applicable maximum maturity as specified in sections 3(a) and 3(b).'

"Although it might not be entirely correct to say that there would never in any circumstances be any exception to those principles, it is clear that any exception that might exist would be an extremely rare and unusual case, and not of a character to be susceptible of the kind of sales promotion in which the Kelley Kar Company has shown itself to be interested.

"Another factor may deserve mention here. The Board and the Reserve Banks do on some occasions express opinions regarding classes or types of situations without all the facts of a particular case having been fully presented. However, the present situation presents an entirely different type of problem. It emphasizes the need for full information before ruling on questions, especially before issuing a ruling that might have more sweeping consequences than expected or that might invite evasions. In the circumstances, the Board is convinced that it would be impracticable and undesirable to state that any transaction such as here involved was outside the scope of the regulation without first giving the question the most careful consideration on the basis of a full statement of all the facts and circumstances of a particular case, including information as to how the question arises, how frequently or infrequently the situation occurs, etc."

Approved unanimously.

11/21/50

-10-

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

"A question has been presented concerning the application of Regulation W to the instalment refinancing by a bank or finance company of an instalment obligation which had been made payable to the vendor by the purchaser of an unlisted article and which thereafter had been purchased or discounted by the bank or finance company at a date subsequent to the sale of the article. In the case presented the refinancing would be accomplished by the Registrant taking an instalment note payable to itself which would replace the original obligation purchased or discounted. Inasmuch as the transaction between the purchaser and vendor was not regulated, the Board is of the view that such refinancing, whether or not evidenced by a new obligation, likewise would not be a regulated transaction. In all such cases, however, the Registrant would have a duty under section 8(a) of being able to demonstrate that any such refinancing on unregulated terms was permissible."

Approved unanimously.

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

"For convenient reference, this letter regarding the enforcement of Regulation W supersedes the Board's telegram of September 13, 1950, (S-1138 W-64) and the Board's letter of September 22, 1948 (S-1041), referred to in that telegram.

"The Board recognizes the difficulties that arise from the June 30, 1951 expiration date for Regulation W written into the Defense Production Act of 1950. A similar situation existed in 1948, notwithstanding which a creditable job of enforcement was performed. In retrospect it appears that the thoroughness and vigor with which the Reserve Banks carried on educational and enforcement activities from the outset of the 1948-1949 regulation largely accounted for the good pattern of compliance on the part of Registrants.

11/21/50

-11-

"At the same time it must be recognized that against the present background of supply and trade practices the regulation is considerably more restrictive than was the case during 1948-1949. This and the broadened scope of the regulation may well mean that the Reserve Banks must be prepared to cope with more difficult enforcement problems than ever before.

"General Program--Effective and uniform enforcement of the regulation among all classes of registrants and in all localities is necessary to accomplish the purposes of the regulation and is important in fairness to the consuming public and to the registrants. As pointed out in the telegram of September 13, 1950, (S-1138 W-64), the Board believes it will be desirable for each Reserve Bank to undertake and maintain a program that will result in at least as much investigative activity, in relation to the number of registrants, as was undertaken in the 1948-1949 program. In view of the present situation, however, such a program would appear to call for somewhat larger investigative staffs than in 1948-1949.

"As a general principle the Board feels that each Reserve Bank should schedule its investigative activity in a manner which will result in substantially uniform coverage of all classes of registrants. Although sales finance companies constitute a significant and strategic group of registrants and there may be circumstances which call for concentration of attention at the wholesale level, the Board is not disposed to set standards for investigative activity for sales finance companies different from the standard for other registrants.

"The Board is deeply concerned over reports it has received to the effect that the regulation was not enforced as strictly in the past with respect to banks as it was with respect to other classes of registrants, particularly sales finance companies. The Board in its letters to Federal cooperating agencies which will cover banks has emphasized the necessity for equally vigorous enforcement in the case of banks. At the same time it recognizes the possibility that some of the complaints may have been due in large part to the all-inclusive coverage of finance companies during the 1948-1949 regulation.

"Enclosed is a revised Outline of Enforcement Program under Regulation W. Copies of the outline have been

11/21/50

-12-

"sent to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Association of Supervisors of State Banks, and other cooperating agencies having supervision over lenders coming within the scope of the regulation.

"Cooperation of Other Agencies--As mentioned in section I-B-2 of the attached Outline, the Board will maintain a close relationship with the head offices of the cooperating Federal supervisory agencies and expects the Federal Reserve Banks to maintain similarly close relationships with the regional offices of those agencies, assisting them in any way possible.

"In addition each Federal Reserve Bank should work closely with the State Supervisory Agencies to provide effective coverage of financial institutions which are subject to examination by State authorities only. It will be the responsibility of the Federal Reserve Banks to work out with the State authorities means for appropriate coverage of registrants not effectively checked for Regulation W compliance under the State program.

"It is anticipated that credit grantors subject to the jurisdiction of cooperating supervisory authorities will be subject to investigation in accordance with the customary examination schedule of those agencies. It may be, however, that complaints or reports of non-compliance might indicate the desirability of attention at times other than according to the regular examination schedule and in those cases the Reserve Banks should seek the assistance of the cooperating agency to investigate the complaint or, under appropriate arrangements, have one of its own investigators do so, reporting the results of the investigation to the cooperating agency.

"Reserve Bank Program--For such credit grantors as are investigated by the Federal Reserve Banks' investigators, while the program does not require an equal amount of enforcement activity within any given period it is expected that the field work will be reasonably continuous and will not be handicapped by the use of the regular investigators for other work over any extended period. The investigation called for by the minimum standard should be of the type referred to in section I-A-2 of the attached Outline.

"Distribution of investigations as between classes of registrants and geographically should be determined by each Federal Reserve Bank in such fashion as to pro-

11/21/50

-13-

"vide both the most effective and equitable coverage, considering that in certain classes or areas problems of compliance may be more serious than in others. In this connection the importance of reasonably uniform geographical coverage within districts as an important corollary to equitable coverage of the various classes of registrants should not be overlooked. There have been some indications that registrants located in the smaller, relatively less accessible communities were largely omitted from previous enforcement programs.

"Reports--It is requested that the Federal Reserve Banks continue to forward monthly report forms in the form outlined in our telegram of October 26, these reports to reach the Board as soon after the end of each month as possible.

"Effective Administration--This restatement of the enforcement program is not intended to suggest any relaxation in so far as the other administrative activities of the Federal Reserve Banks in relation to Regulation W are concerned. Possibly to a considerably greater extent than at any time heretofore, the educational activities of the Federal Reserve Banks are of the utmost significance. It is important that those subject to the regulation understand its basic objectives. For that reason the Federal Reserve Banks should use every means at their disposal to make certain that the need for the regulation at this time is clearly understood.

"The effective administration of Regulation W has been possible in the past largely because of an active two-way flow of information between the Board and the Reserve Banks. For that reason it is hoped that you will continue to keep the Board fully informed as to your observation of how the regulation and its administration are working in actual operation, and that you will not hesitate to advise the Board of any changes that you would care to recommend from time to time in the light of your experience.

"Apparently, from the views expressed at the System conference in September, the regional type of conference as held in 1948-1949 proved helpful in maintaining reasonable administrative and investigative uniformity. Plans for similar conferences early in January are being made and your advice and assistance in that connection will be requested later."

Approved unanimously.

11/21/50

-14-

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

"A recent inquiry received by the Board raised a question concerning the application of section 4(d) of Regulation W in the case of an instalment loan for the purpose of purchasing residential repairs, alterations, or improvements covered under Part 1, Group D of the Supplement to the regulation. The specific question is whether, in the case of any such loan for which FHA insurance is sought, the 'FHA Title I Credit Application' form and the 'FHA Title I Cash Down Payment Certificate' form, when both are properly completed by the borrower, are sufficient to satisfy the requirements of section 4(d) concerning the Statement of the Borrower. The aforementioned forms are designated, respectively, 'Form FH-1, (Rev. 6-50)' and 'Form FH-9, Rev. 7-50'.

"The Board's understanding is that a separate Credit Application to the lender is required to be executed by the borrower for each such loan, and that such Credit Application and a Down Payment Certificate executed by the borrower are required to be obtained by the lender prior to any disbursement of the loan. The Credit Application form specifically states that the proceeds of the loan applied for will be used to finance the repairs or improvements which the form requires the borrower to describe. It is understood also that the 'total cost', exclusive of financing charges, required to be set out in the Down Payment Certificate represents the actual cost of the repairs or improvements described in the Credit Application, and that no discrepancy is permitted between this figure and the cost as revealed by the Credit Application. In addition, it is understood, and the Down Payment Certificate indicates, that the borrower must specify in such Certificate the amount of any trade-in or other allowance.

"On the basis of the foregoing and from an examination of the FHA forms in question, the Board is of the view that such forms, when properly completed by the borrower, are sufficient to satisfy the requirements of section 4(d) of Regulation W. In such a case, the borrower states the purpose of the loan and indicates that the entire proceeds of the loan are to be

11/21/50

-15-

"used for that purpose. And, as the purpose is to purchase a listed article, the borrower identifies such article, supplies sufficient information with respect to its price and also with respect to any trade-in or allowance. Consequently, in cases of this kind section 4(d) would not require of the borrower an additional statement.

"Of course, the information reflected in the aforementioned forms when completed by the borrower will not necessarily indicate compliance with requirements of Regulation W other than section 4(d). For example, in a given case, a down payment greater than the 10 per cent requirement specified by the Down Payment Certificate may be necessary under Regulation W. This would occur by virtue of Group B of the Supplement where a modernization job would include, for example, the installation of a kitchen sink unit incorporating a mechanical dishwasher."

Approved unanimously, with
a similar letter to Mr. Arthur J.
Frentz, Assistant Commissioner,
Federal Housing Administration,
Washington 25, D. C.

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

"Within the past two weeks or so there have been persistent rumors to the effect that Board action is imminent on an amendment to Regulation W bringing within its scope the long list of articles, charge accounts, and so-called budget or revolving credit accounts. Rumors set the date for action first at November 10 and then at November 17. In replying to questions received here regarding those rumors we are stating that the Board does not have any such action under consideration at present.

"With specific reference to inquiries referring to rumors that a new Group E category is to be included in the Regulation, we are stating that the Board's staff, often in consultation with the Federal Reserve Banks, is constantly considering ideas and suggestions in connection with the general work of the System including proposals in relation to

11/21/50

-16-

"Regulation W, that this method of operation insures thorough consideration of the various technical and other aspects of these problems and often results in many tentative ideas being discarded without any need for outside consultation or formal Board consideration, and that this is done on a confidential basis to avoid the very thing that the incoming communication illustrates since it is not the Board's wish to cause needless unrest among trade groups because of staff studies of possibilities which may never be considered by the Board."

Approved unanimously.

Letter to William A. Jump Memorial Award Committee, Room 103, Administration Building, United States Department of Agriculture, Washington 25, D. C., reading as follows:

"In a letter dated November 14, 1950, Mr. Daniel W. Bell advises Chairman McCabe that the annual William A. Jump Memorial Award will be given in the Spring of 1951. Mr. Bell expresses the hope that the Board of Governors will find it possible to arrange for the selection of a candidate for this award.

"At the present time the Board of Governors has no one on its staff, which is relatively small, who would appear to be qualified to compete for the 1951 award. The work of the Board is such that many of its staff are necessarily specialized professionals whose work does not lend itself to achievements in the area covered by the William A. Jump Memorial Award."

Approved unanimously


Secretary.