

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 30, 1950.

PRESENT: Mr. McCabe, Chairman  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Norton

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

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks held on November 29, 1950, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 29, 1950, were approved unanimously.

Memorandum dated November 29, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of John Henry Battle as a laborer in that Division on a temporary basis for a period of two months, with basic salary at the rate of \$2,120 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.

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

"Reference is made to your letter of November 16, 1950, in which you advised that it appears ex-

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"penses for certain functions at your head office will exceed the 1950 budget estimates as follows:

<u>Functions</u>	<u>Amount</u>
General Overhead	\$ 80,000
Securities	10,000
Federal Reserve note issues	410,000

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

Approved unanimously.

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

"This refers to your letter of November 22, 1950, regarding the question whether a bank located in Alaska or any Territory or possession outside the continental United States may submit an application for a V-loan guarantee and, if so, how such application should be submitted.

"The Defense Production Act of 1950 provides that its provisions 'shall be applicable to the United States, its Territories and possessions, and the District of Columbia'; and there is nothing in section 301 of the Act or in Executive Order No. 10161 which would seem to preclude the submission of applications for guarantees by banks located in the Territories or possessions. Consequently, where an application is submitted by a bank located in a Territory or insular possession, the provision of section 3(a) of Regulation V to the effect that a financing institution should submit its application 'to the Federal Reserve Bank of its district' should be construed as referring to the Federal Reserve Bank which is most convenient to the lending institution. Thus, an application for a V-loan guarantee by a bank in Alaska would ordinarily be submitted to the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to Honorable Victor Wickersham, House of Representatives, Washington 25, D. C., reading as follows:

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"We appreciate the opportunity to comment on Mr. Wade Watson's letter of November 16, 1950, which refers to a letter which you had received from us, presumably our letter of November 2, 1950, regarding Regulation W. In view of the fact that Mr. Watson says - 'I note that it is acknowledged that they violated the section of the law relative to the hearing...', it appears that he has misunderstood our previous letter, and we are especially grateful for the opportunity to clarify the matter.

"As stated in our letter, the Board consulted fully with trade representatives, including representatives of automobile dealers, before the original regulation was issued effective September 18, 1950, and it also took those views fully into account in connection with both the original regulation and the amendment effective October 16, 1950, that followed soon afterward. As further indicated in our letter of November 2, the issuance of the October 16 amendment without further consultation was in complete accord with all requirements of law.

"On August 10, 1950, Senator Sparkman gave a clear explanation of the provisions of the Defense Production Act regarding consultation, and we are quoting it below from page 12378 of the Congressional Record, because it is of particular interest here:

"The bill would require consultation wherever practicable. Of course, there will be some occasions where it would not be appropriate to consult in advance. There may not be time, when speed is vital. Sometimes giving advance notice of a proposed restriction would defeat the purpose of the restriction, or consulting a few people in an industry would give them an unfair advantage over the rest of the industry."

Approved unanimously.

Letter for the signature of the Chairman to Mr. Edgar F. Kaiser, Kaiser - Frazer Corporation, Willow Run, Michigan, reading as follows:

"Thank you for your letter of November 18, 1950 regarding Regulation W. We have noted your

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"views on the effect of the regulation and your suggestion that the terms be relaxed.

"The data you have submitted on production, sales, and stocks have been helpful to us in rounding out the statistics available to us on current developments in the automobile field.

"You appreciate, I am sure, that, although supply-demand conditions in markets for the specifically regulated articles, including automobiles, have a definite bearing on the appropriate level of restrictions in Regulation W, these are not the sole criteria which the Board must consider in carrying out its responsibility for administering the regulation. The over-all purpose of the regulation, of course, is to supplement other credit and fiscal measures designed to restrict general inflationary pressures and to facilitate the defense program. The serious danger of these inflationary pressures in the defense emergency must be a primary consideration in establishing the terms of the regulation at this time.

"I assure you that we always welcome information and suggestions which throw additional light on the problem and help us to administer this regulation in the best interests of the country. Your views will receive careful consideration in our continuing studies of the regulation."

Approved unanimously.

Letter to Mr. Mart Manley, Chairman, National Affairs Committee, Vacuum Cleaner Manufacturers Association, 1070 East 152nd Street, Cleveland 10, Ohio, reading as follows:

"This refers to the request of Vacuum Cleaner Manufacturers Association for an amendment to Regulation W which would provide that the required down payment on vacuum cleaners could be obtained in the form of cash, trade-in, or both, as is now provided by the regulation in the case of the instalment sale of an automobile. We appreciate receiving the copies of trade-in guides for vacuum cleaners submitted with your letter of November 20 and the opportunity we had in our meetings on November 4 and November 21 to discuss this problem with you and the members of your committee.

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"There are basic reasons for the differences in treatment under Regulation W of trade-in allowances in the case of automobiles and trade-in allowances in the case of the other articles listed in the Supplement to Regulation W. Among others, there is an active market for individual buyers and sellers of used automobiles which has been reflected in widely recognized retail values for the different models and makes. Reflecting this situation there are several publications of average retail sales values of used automobiles by models and makes which, as described in Part 4 of the Supplement to Regulation W, can be and are used to prevent widespread avoidance of the down payment provisions of the regulation as they apply to extensions of credit for the purchase of used automobiles. These appraisal guides are not used under the regulation to establish the value of the trade-in or the amount of credit extended on the purchase of a new automobile. Also it has been traditional in the trade for many years to permit the owner to transfer the value of his used car as a part of the purchase price of and down payment for a replacement automobile.

"This condition does not prevail in the appliance market. There is no established pattern or retail sale prices for used appliances by models and makes. While automobiles are traded after relatively short periods, appliances are usually held by the original purchaser for considerably longer periods, and a used appliance market which might result in definite price patterns as to makes and models comparable to that for automobiles simply does not exist. Normally, trade-in allowances for used appliances are more in the nature of a sales discount and are so regarded generally by the trade. Reflecting the differences in initial price and the typical age at which they are first traded in, a much greater value is involved in the case of automobile trade-ins than in the case of appliance trade-ins. In view of the difference in the amounts involved, the trade-in rule that applies to appliances under the regulation is substantially less restrictive in the case of appliance sales than it would be if prescribed in the case of automobile sales.

"The basic difference between the markets for used automobiles and those for used appliances, including vacuum cleaners, is reflected in differences between the automobile appraisal guides and the trade-in guides used by appliance manufacturers. The latter are designed

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"to determine the amount to be allowed for the used appliance as a trade-in on the purchase of a new appliance. On the other hand, the retail values quoted in the automobile appraisal guides are estimated on the basis of the actual sales value of the used car in the retail market.

"The Board has therefore decided against approving your request at this time. It is recognized that in the administration of any such measure as Regulation W there are bound to be hardships to particular businesses and individuals. While it is likely that the restraint on the continuous rapid expansion of purchasing power imposed by present fiscal and credit policies will result in readjustments all along the line, it would seem that once these readjustments are made to a more sustainable level of expenditures and the present inflationary spiral is checked, the general public and business will benefit. On the other hand, if the inflationary spiral is not restrained exceedingly serious consequences will accrue to the nation as a whole."

Approved unanimously.

Letter to Honorable William K. Divers, Chairman, Home Loan Bank Board, 101 Indiana Avenue, N. W., Washington, D. C., reading as follows:

"We have had preliminary discussions with various representatives of the Home Loan Bank Board and have also written to you about Regulation X relating to residential real estate credit, and the enforcement of the Regulation.

"To accomplish the purposes of the Regulation, which is authorized by the Defense Production Act of 1950 and Executive Order No. 10161, there must be an effective and uniform enforcement; and to realize this objective we have prepared an Enforcement Program, a copy of which is attached hereto, which was submitted to the Home Loan Bank Board in our letter of November 17, 1950. Concurrently with this letter we sent copies of the Enforcement Program to all Federal supervisory agencies and the Federal Reserve

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"Banks. The State supervisory authorities will be requested by the Federal Reserve Banks to cooperate in the Enforcement Program.

"The Board would like to have the cooperation of your Agency in the enforcement of the Regulation with respect to institutions under its supervision in accordance with the measures set forth in the attached Outline. It is hoped that your representatives in the field will avail themselves of the assistance which the Federal Reserve Banks can give them in the Enforcement Program and also in respect to questions which occur in connection with the administration of the Regulation.

"It would be most helpful if each agency having supervision of lending institutions would make clear to its examiners that the effective enforcement of the Regulation is a matter in which the agency has a genuine interest, and the Board hopes that you will do so in respect to your examiners.

"We have had preliminary discussions with and have written to other agencies with responsibilities for the supervision of banks and other financial institutions coming within the scope of the Regulation. Such agencies have concurred in the Enforcement Program and have given assurances of cooperation.

"The Board is appreciative of the great interest in the Regulation shown by your representatives, and of the assurances of cooperation which your representatives have given. If there is any way that we may be of assistance to you in either the enforcement of the Regulation or with respect to questions affecting its administration, we will be glad to cooperate with you."

Approved unanimously.

Letter to Mr. J. G. Korner, Jr., Blair, Korner, Doyle & Appel, Transportation Building, Washington 6, D. C., reading as follows:

"This refers to your letter of November 21, 1950 and enclosure, inquiring whether Regulation X, relating to residential real estate credit, applies to the building or improvement of fraternity houses.

"It is the Board's opinion that a structure which is used, serving or designed as a fraternity house is 'used, serving or designed for dwelling pur-

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"poses"; and, accordingly, if such structure does not include more than two family units, it is a 'residence' within the meaning of section 2(k) of Regulation X. While it is recognized that there may be exceptional cases in which, depending on the particular facts involved, a fraternity house might not be a 'residence', it is the Board's view that the usual type of fraternity house does not include more than two family units and, therefore, would be subject to the provisions of Regulation X.

"It should be noted, however, that the regulation does not apply to credit with respect to residences on which construction was begun prior to August 3, 1950, although it does apply to major additions or major improvements to residences built before that date if the cost of such additions or improvements exceeds \$2,500. In the case of construction begun after August 3 and before October 12, 1950, the regulation does not apply with respect to any real estate construction credit extended prior to May 1, 1951."

Approved unanimously.

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

"This refers to Mr. Strothman's letter of November 24, 1950, concerning his discussions with representatives of Northwest Bancorporation, Minneapolis, Minnesota, with respect to a form of statement which might be used by that Corporation's subsidiary banks for the purpose of demonstrating that credit is not real estate construction credit within the meaning of Regulation X.

"We have no objection to the use of the alternative form of rubber stamp legend set forth in Mr. Strothman's letter as a method of complying with the first paragraph of section 4(c) of Regulation X; and you may advise Northwest Bancorporation to this effect.

"In view of the fact that Northwest Bancorporation also has subsidiary banks in the seventh and tenth Federal Reserve Districts, we are sending copies



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"of Mr. Strothman's letter and this reply to the Federal Reserve Bank of Chicago and the Federal Reserve Bank of Kansas City."

Approved unanimously.

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

"A loan of the kind described in the second sentence of section 5(b) of Regulation X will be deemed to comply with the requirements of that sentence in so far as maturity and amortization are concerned if the terms of repayment are such that, commencing on a date within 32 days from the date of completion of construction, the loan will thereafter conform with the maturity and amortization requirements set forth in the Supplement to Regulation X. Thus, in a case where the 20-year maturity limitation is applicable, the requirements will be satisfied if the terms of the loan are such that, in the event construction is completed, for example, during the month of March 1951, the loan is to be fully repaid by equal monthly payments commencing on May 1, 1951, and ending on April 1, 1971. The foregoing assumes, of course, that the loan agreement provides that in any event the loan will be brought into conformity with Regulation X not later than 18 months after it is made."

Approved unanimously.

Letter to Mr. Gilbert, Chairman of the Board of Trustees of the Retirement System of the Federal Reserve Banks, Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of November 28, 1950, advising the Board of Governors that the Trustees of the Retirement System have voted to approve the plan outlined in the report of the Retirement Committee dated September 8, 1950, for integrating the benefits of the Retirement System of

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"the Federal Reserve Banks with those of the Social Security Act, as amended. You request the Board to approve certain amendments to the Rules and Regulations made necessary by the integration plan and other minor changes of a clarifying nature.

"The Board approves the amendments to the Rules and Regulations as outlined in the enclosures with your letter of November 28.

"The Board's feeling with respect to certain corollary features of the integration plan was expressed in its letter to you dated October 26, 1950."

Approved unanimously.

Memorandum dated November 27, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the Board authorize the removal of one tennis court from the Board's parking lot, together with the resetting of the fence and the paving of the area involved, and that the appropriate classification in the budget of the Division of Administrative Services be increased to cover the cost, i.e., approximately \$2,500.

Approved unanimously.

Memorandum dated November 13, 1950 submitting for approval by the Board a budget in the amount of \$40,850 covering the estimated cost of operating the Office of Real Estate Credit for the year ending December 31, 1950, inclusive.

Approved unanimously.

  
Secretary.