

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, December 4, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Vardaman  
Mr. Norton  
Mr. Powell

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 1, 1950, were approved unanimously.

Memorandum dated November 30, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of George H. Russell, Jr. as an Operator (Mimeograph) in that Division on a temporary basis for a period of six 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.

Memorandum dated November 29, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase in the basic salary of Joseph H. Hoyle, Pay Roll Clerk in that Division, from \$3,115 to \$3,225 per annum, effective December 10, 1950.

Approved unanimously.

Memorandum dated November 29, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending an increase

12/4/50

-2-

in the basic salary of William R. McDonald, a clerk in that Division, from \$2,730 to \$2,875 per annum, effective December 10, 1950.

Approved unanimously.

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

"The Act of August 17, 1950 (Public Law 706-81st Congress), amended section 9 of the Federal Reserve Act so as to provide that, upon the conversion of a national bank into a State bank, the resulting bank may be admitted to membership in the Federal Reserve System, but otherwise the Federal Reserve Bank stock owned by the national bank shall be cancelled and paid for as provided in section 5 of the Federal Reserve Act.

"Until Regulation I is amended to provide specifically for the cancellation of Federal Reserve Bank stock in the case of the conversion of a national bank into a State nonmember bank, the procedure prescribed in section 7 of Regulation I for cases involving voluntary liquidation of member banks should be followed and Form 86, with appropriate changes, should be executed and filed prior to the date on which the conversion is to be effected in order that the stock may be cancelled on that date."

Approved unanimously.

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

"It has come to the Board's attention that a number of financing institutions have indicated their reluctance to participate in the current V-loan program for financing defense production because of their fear that, after full payment of a guaranteed loan secured by an assignment of the contractor's claims under his contract, the Government might recover from the assignee financing institution amounts claimed by the Govern-

12/4/50

-3-

"ment against the contractor. Apparently, this fear has been prompted largely by certain recent rulings of the Comptroller General with respect to the Government's right of recovery from an assignee bank on account of price revision, renegotiation, or tax claims against the contractor.

"In this connection, some banks have raised the question whether, in the event of such recovery by the Government from an assignee bank, the amounts recovered would be regarded as constituting a 'loss on the loan' within the meaning of the standard form of guarantee agreement so that the guaranteeing agency would be obligated to share the resulting loss to the bank according to the specified percentage of guarantee in the particular case.

"It is believed that under the present form of guarantee agreement this question clearly should be answered in the affirmative. However, the fact that many banks appear to be concerned by the question has suggested the desirability of a clarifying amendment to the form of guarantee agreement. This matter was recently discussed at a meeting with representatives of the guaranteeing agencies and it was their feeling that such an amendment is desirable.

"Accordingly, after consultation with the guaranteeing agencies, the Board has prescribed the following amendment to the standard form of guarantee agreement of September 27, 1950:

'Within the meaning of section 2(A) and 2(C) of this agreement a loss on the loan shall include any amounts which may have been received by the Financing Institution and applied by it to reduction of the loan but which are subsequently recovered from the Financing Institution, either before or after the date of settlement, by the United States or by any person lawfully entitled to such recovery.'

"This provision should be incorporated as a supplemental section or otherwise in guarantee agreements hereafter executed by the Federal Reserve Banks as fiscal agents on behalf of the guaranteeing agencies; and for the purpose of the standard form of authoriza-

12/4/50

-4-

"tion and definition of the code word 'AJOTE' as defined in the Board's letter of November 13, 1950 (V-3), reference to the standard form of guarantee agreement of September 27, 1950, will be deemed to include authorization for the inclusion of this provision. The provision may also be incorporated in guarantee agreements heretofore executed, if desired by the financing institution, upon authorization by the guaranteeing agency in each particular case.

"It should be understood that the standard form of guarantee agreement, including the amendment here authorized, should be used in all cases and that other amendments to the guarantee agreement in individual cases will not be permitted. It is possible, of course, that, after consultation with the guaranteeing agencies, further amendments might be prescribed for general use in all cases."

Approved unanimously.

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

"An inquiry has been received concerning the application of the 'demonstrator' exemption in section 7(c) of Regulation W to credit extended to a motor car manufacturer's 'salesman, or representative,' to purchase a new automobile to be used as a 'demonstrator in calling on dealers and dealer-salesmen for demonstration to them of merits of new car'.

"With respect to qualifying for such exemption, summary-interpretation 32 in S-1190 (W-97) states, among other things, that the exemption does not extend 'to persons who are not employed principally as salesmen'. Consequently, the fact that a manufacturer's 'representative' is employed to demonstrate the merits or other features of a new automobile to franchise dealers or dealer-salesmen of the manufacturer's line would not, of itself, qualify such 'representative' as a 'bona fide salesman of automobiles' for the purposes of section 7(c). Of course, the 'salesman' referred to in that section is not limited to a person selling cars at retail. Nor would a 'bona fide salesman' be ineligible for exemption merely because he may be designated a 'representative'."

12/4/50

-5-

Approved unanimously.

Telegram to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reurtel November 24 concerning applicability of Regulation W and W-88 to automobile sales contract rewritten as result of replacement by insurance company of completely wrecked automobile. Since in the case you present old obligation is being consolidated with new credit to cover increased insurance costs combined obligation would be subject to section 8(h) and W-88 would not apply."

Approved unanimously.

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

"In order to reply to an inquiry from the Veterans Administration request you telegraph statement of any disaster area exemptions under section 5(c) of Regulation X declared by your Bank to date, including limitations imposed with respect to character of credit and period.

"In any future declarations with respect to disaster areas it is important that character of credit exempted be clearly stated as the Veterans Administration intends to use Federal Reserve Bank exemptions as pattern for parallel exemptions to be issued by their regional offices. In view of the relief afforded by section 5(e) of Regulation X it is hoped that the number of disaster area declarations can be held to a minimum.

"In the past the Federal Reserve Banks have sent to the Board advices of declarations of the existence of an emergency under Regulation W. It will be appreciated if a similar procedure can be followed by your bank under Regulation X, and if, in both cases, prompt advice is sent by wire."

Approved unanimously.

12/4/50

-6-

Letter to Congressman Noble J. Gregory, House of Representatives, Washington, D. C., reading as follows:

"This morning we received your special delivery letter concerning questions about Regulations W and X submitted by the Fulton Building and Loan Association of Fulton, Kentucky. We regret the inconvenience already undergone by the Association and shall endeavor to answer the questions to the best of our ability. It is always difficult to supply definite answers in the absence of all the facts involved, but I hope that the following will be helpful:

Question 1: We have an application for a loan for \$2000.00 on a piece of property which is now mortgaged, same having an unpaid balance of \$1300.00 and the money that the borrower wishes to get is to pay off the present loan and make necessary repairs on the house in the sum of \$700.00. Please advise if this loan is eligible for us to make. The value of the property is \$4000.00.

Answer: Regulation X does not apply to loans on residences started before August 3, 1950. If the house in question was built or started before that date, the loan to pay off the present loan is not subject to Regulation X. Moreover, loans for major additions or major improvements are subject to Regulation X only if the cost or estimated cost of such additions or improvements exceed \$2500. The loan for repairs, however, is subject to Regulation W, which means that there must be a down payment of 10 per cent and the loan must be paid off in at least 30 months. When the remainder of the loan is not for a purpose subject to Regulation W, there is no requirement for down payment or maturity for that portion of the loan.

Question 2: We have an application from a widow who works in one of our local factories for a loan of \$2000.00 on a piece of property which is a construction loan, the borrower, knowing nothing about the new regulations, gave a contract about the first of October to build this house in the sum of \$3500.00 and paid to the contractor the sum of \$1500.00 and therefore owes him a balance of \$2000.00 for which she has made this application. If the loan is not

12/4/50

-7-

"made it will put her in a very embarrassing position as she has no way to pay the \$2000.00 except to borrow same from a loaning company where she can make small monthly payments until the loan is liquidated which under our plan would be a period of twelve and one-half years, otherwise she will lose the amount she has paid the contractor.

Answer: If the construction was begun prior to October 12, 1950, any real estate construction credit extended prior to May 1, 1951, in connection with such construction is not subject to Regulation X.

Question 3: We have an application from a borrower for a loan of \$2800.00 on a piece of property he wishes to purchase which will cost him \$4000.00. Is this loan eligible under the new regulations?

Answer: Whether or not this transaction is subject to Regulation X will depend on whether the property in question involves new residential construction (i.e., begun after August 3, 1950). If it involves new residential construction, the maximum loan value (for conventional and FHA guaranteed loans) on a transaction of \$4000 would be \$3600.

Question 4: We have an application for a loan from a borrower in the sum of \$500.00 on a house in which he lives and on which property we have a present loan for the unpaid balance of \$2000.00. This additional \$500.00 loan is for the purpose of paying off a bank debt and to make some minor repairs to the house. Please advise if this loan is eligible.

Answer: From the facts presented, this loan would not be subject to Regulation X, but the amount to be used for repairs would be subject to Regulation W (i.e., there must be a down payment of 10 per cent, and the loan must be paid off in at least 30 months). As indicated above, if the remainder of the loan is for a purpose not covered by Regulation W, there is no definite requirement of minimum down payment or maximum maturity for that portion of the loan.

Question 5: In the case where a house has been built more than six months prior to August 3rd, 1950, therefore is not a new construction, and is now being sold and the purchaser wishes to borrow part of the purchase price of property, does a loan of this kind come under Regulations W and X and if so, which



12/4/50

-8-

"regulation, or is same exempt from regulations?

Answer: In such a case neither Regulation X nor Regulation W applies. Of course, if there are any repairs, additions, or improvements to be made, the credit will be subject to Regulation X if the cost exceeds \$2500 and subject to Regulation W if the credit is \$2500 or less.

"I hope these answers will be helpful. As we stated above, they are given on the basis of the facts presented and might be changed in the event additional information were provided.

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

Approved unanimously.

Letter to Honorable Joseph R. McCarthy, United States Senate, Washington, D. C., reading as follows:

"This is in reply to your note of November 9 referring to us a telegram from Mr. Robert Dane, Jr., Chairman of the Retail Division of the Beloit (Wisconsin) Association of Commerce, protesting against the terms of this Board's Regulations W and X. So far as our Regulation W, governing consumer credit, is concerned, we believe that our letters of October 25 and November 13, written to you in connection with similar protests, may form a base for an appropriate reply also to Mr. Dane.

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

"It is the expectation of the Board and the Federal Housing authorities that Regulation X and the companion restrictions on guaranteed and insured loans will reduce the volume of housing construction from the record levels of 1950. It has been suggested that it would be desirable if the production of new housing units next year could



12/4/50

-9-

"be cut to about 800,000. Should the regulation have that effect, such a level of construction would still compare favorably with the high levels of construction activity in other years since World War II.

"Both the consumer credit and real estate credit controls reflect the general philosophy of the Federal Reserve System that it is better to attack inflation at the source than to combat its symptoms. We feel that in certain situations, such as the present one, indirect controls such as these are preferable to direct controls over prices, wages, and the like which interfere in the daily lives of millions of people. If direct controls prove necessary, these credit controls would still remain a valuable method of combating inflation.

"Please do not hesitate to call upon us if we can be of further service."

Approved unanimously.

Memorandum dated December 4, 1950, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the December issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following:

#### Consumer Credit

- House Trailers
- Pre-effective Date "Balloon" Notes or Payments
- Sets and Groups of Articles
- Home Improvement Incorporating Group B Combination Unit
- Hotel or Motel Repairs or Improvements
- "Rental" Transactions
- Tax or Fee Prerequisite to Auto Tags
- Refinancing of Instalment Sale of Unlisted Article
- Statement of the Borrower
- Summary of Interpretations

#### Residential Real Estate Credit

- House Trailers
- Maximum Maturity
- Short-term Construction Credits
- Exemptions for Contemplated Construction

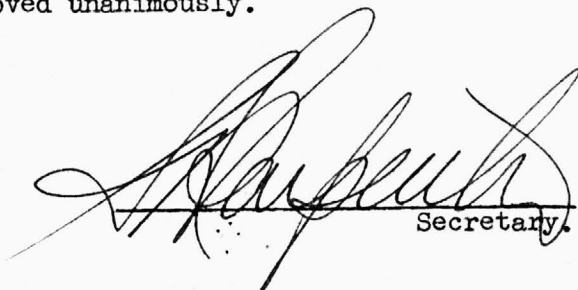
1941

12/4/50

-10-

Modification of Pre-effective Date Firm Commitment  
Motels and Tourist Courts  
Allowance for Builder's Profit and Costs of Sale  
Preservation of Records  
Fraternity House  
Maximum Maturity of Converted Short-Term  
Construction Credit

Approved unanimously.

  
Secretary.