

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 12, 1950.

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

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

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

"Reurtel December 11 Board approves designation of Donald L. Bauer and Edward V. Hanrahan as special assistant examiners for Federal Reserve Bank of Chicago."

Approved unanimously.

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

"In accordance with the request contained in your letter of December 4, 1950, the Board approves the designation of William Byrne Dunaway as a special assistant examiner for the Federal Reserve Bank of Dallas."

Approved unanimously.

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

"Reference is made to your letter of December 4, 1950, advising that you have agreed with the State Banking Department to postpone until next year the joint examination of The Liberty Trust Company, Cumberland, Maryland, which had been scheduled tentatively for late December 1950.

"It is noted that the examination of the bank was originally delayed because of the extensive remodeling of the banking house which has been

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"in progress for some time and is not yet completed, and that the State authorities have requested that the bank not be examined this month because they feel that the increased business activity during the Christmas season and the unusual conditions prevailing in the bank would make the examination very difficult if not impractical. However, it is understood that the examination will be undertaken as early as possible in January 1951.

"In the circumstances, the Board interposes no objection to the postponement of the examination as proposed."

Approved unanimously.

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

"Receipt is acknowledged of your letter of November 30, 1950 which refers to the Board's approval on May 26, 1950, of an additional investment of \$33,000 by The Washington Loan and Trust Company, Washington, D. C., which provided that if any portion of the expenditure were capitalized the bank would make provision for depreciation of the entire amount of such additional investment by the end of the current year, and that the charge-off should be in addition to the regular program of depreciation.

"It is noted that the bank feels the requirement was rather severe because the write-off of the expenditure, which represented the cost of rewiring its main building, might not be allowed as a tax deduction in full by income tax authorities. It now requests permission to write off the amount over a three-year period.

"In view of your recommendation and the fact that the amount involved is relatively small, the Board of Governors will interpose no objection to the proposal. However, recent reports of examination made by national examiners show that the depreciated value of the banking house for income tax purposes is approximately \$300,000 less than its carrying value on the bank's books.

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"It is understood, also, that the Office of the Comptroller of the Currency feels that the bank should, as soon as practicable, accelerate the rate of depreciation in order to bring these values more nearly in line. You may wish to bring this situation to the bank's attention when advising it of the Board's action."

Approved unanimously.

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

"Reference is made to your letter of November 28, 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>Functions</u>	<u>San-</u> <u>Fran-</u> <u>cisco</u>	<u>Los</u> <u>Angeles</u>	<u>Portland</u>	<u>Salt</u> <u>Lake</u> <u>City</u>	<u>Seattle</u>
General					
Overhead				\$2,900	\$3,200
Furniture and					
Equipment					12,700
Postage and					
Expressage	\$15,000		\$5,000	5,000	7,500
Stock of					
Supplies					2,000
Insurance	3,600	\$1,900			
Discount and					
Credit					1,000
Consumer Credit	26,900	15,500	5,500	5,200	6,400
Real Estate					
Credit	10,900	2,500	1,900	2,300	2,200
Currency and					
Coin		41,600	13,000	10,500	12,500
Bank and Public					
Relations	6,800				
Auditing	6,500				
Federal Reserve					
note issues	223,700				

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

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Approved unanimously.

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

"From time to time questions arise under Regulation W regarding Registrants' offers of so-called 'free gifts' and other sales inducements. The problems involved are complicated by the variety of forms that the 'free gifts', rebates, discounts, or other sales inducements may take in particular cases. Therefore, the purpose of this letter is to provide certain background and to state certain general principles that may be helpful in dealing with such questions individually as they arise.

"As will be shown later, these principles are applicable whether the 'free gift' or discount is given as cash, savings bonds, gift certificates or in other form. However, for the purpose of explanation, they will first be discussed in terms of a simple cash discount.

"Example of cash discount. - Suppose, for example, that a Registrant is selling a \$260 Group B article on which the required down payment of 25 per cent would be \$65. Suppose further, that he decides to offer a \$50 discount as a sales inducement. If the Registrant obtains the \$65 down payment but at the same time gives the purchaser a check for \$50 as the discount on the \$260 price, the Registrant has done more than give a \$50 discount. He has also rebated part of the required down payment. In other words, he has obtained a down payment of only \$15, which would be deficient under the regulation.

"Section 8(j)(7) of the regulation states that 'cash price' is 'net of any rebate or sales discount'. Hence, in the example, the cash price of the Group B article would be \$210 rather than \$260, and the required down payment need be only \$52.50 instead of \$65. Consequently, on the facts assumed above, the Registrant would have to get from the customer \$37.50 more in cash in order to bring the down payment up to the required minimum of \$52.50

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"The general principle, therefore, is that in such a case both (1) the down payment and (2) the cash price are to be calculated on a net basis. The result is that the down payment requirement is reduced (as it should be) in the same proportion that the cash price is reduced, but that it is not reduced by the amount that the price is reduced. To do the latter would vitiate the requirements of the regulation. In other words, the regulation does not prevent reduction in the price of an article, whether such reduction is a cash discount or in some other form. But the regulation does prevent other features of the arrangement from being such as would frustrate the regulation.

"Principle applies elsewhere. - The same principle would apply to any 'free gift' which, from the viewpoint of the ordinary customer, would be similar to cash -- even though not necessarily identical with cash. For example, if the discount were given in the form of a savings bond, this should be treated as cash, although in practice the bond is not redeemable until the passage of a certain period of time.

"Similarly, if the discount is given in the form of a certificate entitling the customer to receive goods of his own selection, this also should be treated as equivalent to cash for these purposes. This would be true even though the selection might be limited by the nature of the store on which the certificate was drawn, or limited further as, perhaps, only to food, or only to frozen food (as in connection with the sale of a food freezer). It is evident that if the purchaser is given a fairly wide degree of choice among articles that are customarily purchased by the average person, or if there is made available to him articles which it is reasonable to assume that he will purchase, the customer in effect is given a rebate that is roughly equivalent to a cash rebate so far as the purposes of the regulation are concerned.

"An illustration of nonconforming terms in this regard arose recently in a case which was very much like the example of the \$260 Group B article, except that the \$50 discount was in the form of a 'gift certificate' on a department store. A radio

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"advertisement of the Registrant concerned was, in part, as follows:

'Buy your television set at the store where your down payment entitles you to free groceries or your choice of any merchandise.'

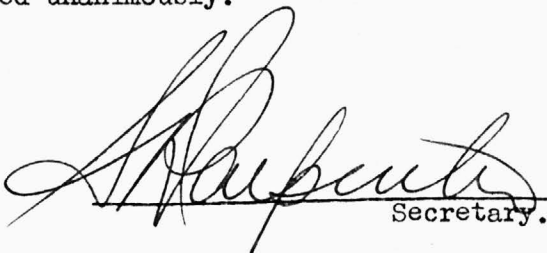
"It would not seem feasible to attempt to state with precision how narrowly the choice of the purchasers would have to be limited before a 'gift certificate' would cease to be equivalent to a cash discount. However, it would seem reasonable to treat the 'gift' of a single specific article as more in the nature of a novelty than a monetary inducement if its appeal would normally vary widely among different people. In such a case, the 'gift' might properly be disregarded for the purposes of the regulation. But even these situations should be considered only on a case-by-case basis and with caution.

"Of course, in any case in which the 'gift' is disregarded, as indicated in the preceding paragraph, the down payment would be required on the full price of the listed article without allowing any discount for the 'gift'.

"It is believed that item 8 of S-1190 (W-97), November 9, 1950, is stated in general terms that do not conflict with the above. However, any rulings under the present regulation or previous versions that might conflict with this letter should be considered modified to the extent of any such conflict.

"You will note that this letter does not deal with questions regarding the amount allowed on an article taken as a trade-in. Under Part 5 of the Supplement, no question arises in that connection so far as articles in Groups B, C, and D are concerned. It can, of course, arise in connection with articles in Group A, and it will be the subject of a separate letter."

Approved unanimously.


Secretary.