

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, January 2, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Townsend, Solicitor
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Noyes, Assistant Director, Division of Selective Credit Regulation
Mr. Chase, Assistant Solicitor
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics

Before this meeting there had been sent to each member of the Board a memorandum from Messrs. Riefler, Thomas, Young, and Youngdahl dated January 2, 1951, transmitting a draft of proposed comments by the staff on the "Credit and Debt Management" section of the draft of the Annual Economic Review of the Council of Economic Advisers, a copy of which was transmitted on Friday, December 29, 1950, with a request that staff comments and suggestions be returned to the Council by Tuesday afternoon, January 2, 1951.

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The Secretary read the draft of comments and there followed a discussion during which certain changes were suggested.

During the discussion, Mr. Koch, Chief, Banking Section, Division of Research and Statistics, joined the meeting.

In the course of the discussion, Mr. Vardaman suggested that the staff be requested to revise the memorandum of comment in the light of the discussion at this meeting, with the understanding that when the statement was in form satisfactory to Chairman McCabe and to other members of the Board it would be sent to the Council of Economic Advisers.

This suggestion was approved unanimously.

At this point, Messrs. Thomas, Youngdahl, and Koch withdrew, and Mr. Solomon, Assistant General Counsel, joined the meeting.

Further reference was made to the memorandum from Messrs. Young and Noyes dated December 22, 1950, discussed briefly at the meetings of the Board on December 22 and 26, recommending that the Director of the Division of Research and Statistics be authorized to notify the Housing and Home Finance Agency and the Bureau of the Budget that the Board was prepared to undertake responsibility for the collection of current information from lending institutions with respect to non-farm mortgage lending activities.

At the request of Messrs. Norton and Powell, Mr. Young

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stated that the Defense Production Act of 1950 provided that in prescribing regulations with respect to real estate credit, consideration should be given, among other factors, to the level and trend of real estate construction credit and to the effect of the use of such credit upon (1) purchasing power, (2) demand for real property and improvements thereon and for other goods and services, (3) the need in the national economy for the maintenance of sound credit conditions, and (4) the need for increased defense production. He also said that the Act provided that persons extending real estate credit should maintain records and make reports as required, and that it clearly contemplated that such information would be collected and analyzed by the agencies responsible for real estate credit regulation. Mr. Young further stated that, pursuant to the above legislation, the Board's staff and the Housing and Home Finance Agency had developed a program for the assembly of necessary information with respect to construction activity, costs, and financing, that some of this information would be supplied through the administrative machinery established by the System in connection with Regulation X, Real Estate Credit, and through records already maintained by Federal Housing Administration and Veterans' Administration, and that another important group of data would be obtained through the survey of home purchases which was authorized by the Board on December 26, 1950. He added that the

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bulk of the remaining information was to be assembled and analyzed by the Housing and Home Finance Agency, which had submitted a request to the Bureau of the Budget for approximately \$870 thousand to cover the cost of the work, including \$200 thousand for the collection, on a quarterly basis, of information with respect to non-farm mortgage lending activities, which was the part for which it was proposed that the Board assume responsibility, and that if the System assumed this responsibility it was contemplated that data with respect to non-member insured banks would be collected by the Federal Deposit Insurance Corporation and for savings and loan associations by the Home Loan Bank Board. Mr. Young also stated that it was felt that the cost to the System for compiling the data would be less than the \$200 thousand which the Housing and Home Finance Agency had requested from the Bureau of the Budget for the work.

Mr. Powell stated that the proposed procedure would be in keeping with the position taken in the past of trying to collect necessary statistics from banks through the agencies with which the banks normally dealt, rather than having them collected by other Governmental agencies, and that in his opinion the banks would prefer, if they were called upon to furnish such reports, to do so in conjunction with other statistical reports already being submitted to the bank supervisory agencies.

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During the ensuing discussion, Chairman McCabe suggested that the staff be authorized to inform the Housing and Home Finance Agency and the Bureau of the Budget that the facilities of the Federal Reserve System were available for the collection of the data if they felt it should be done by the System, but that if they preferred that some other agency do the job the System would have no objection.

This suggestion was approved
unanimously.

Mr. Horbett withdrew from the meeting at this point.

In connection with an inquiry from Mr. Evans as to the legislation to be proposed at the present session of Congress, reference was made to the letter sent to the Bureau of the Budget under date of December 1, 1950, with respect to bank reserve requirements, consumer and real estate credit, bank holding company regulation, capital requirements of State member banks of the Federal Reserve System, limitation on cost of Federal Reserve branch buildings, and paying out Federal Reserve Notes by Federal Reserve Banks. During a discussion, Chairman McCabe suggested that at an early meeting the Board consider when and in what circumstances legislation on the various subjects referred to in the letter should be presented to the Congress and that Messrs. Carpenter, Vest, and Townsend be requested to submit suggestions along this line for consideration by the Board.

It was agreed unanimously that
this procedure would be followed.

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Mr. Szymczak then presented a memorandum prepared for Chairman McCabe's signature under date of December 29, 1950, in the absence of Mr. Norton, recommending that Mr. Frazar B. Wilde, President of the Connecticut General Life Insurance Company, Hartford, Connecticut, be appointed as Consultant in the Division of Selective Credit Regulation effective as of the date upon which he assumed his duties, and recommending further that Mr. Wilde's compensation be at the rate of \$50 per day for each day worked for the Board in connection with this assignment, and that he be reimbursed for all necessary travel between Hartford, Connecticut and Washington, D. C., and on official business in connection with his work, in accordance with the provisions of the Board's official travel regulations applicable to directors and assistant directors of divisions, except that he be paid per diem in lieu of subsistence at the rate of \$15 during the period he is away from Hartford in connection with his work for the Board.

Mr. Szymczak stated that he was not opposed to the appointment of Mr. Wilde as a Consultant, but that as a member of the Personnel Committee he wished to bring the matter to the attention of the Board so that it would have in mind the extent to which Consultants were being utilized in connection with the real estate credit program.

Mr. Vardaman questioned the need for an additional Consultant and in response to a question from Chairman McCabe, Mr. Riefler

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stated that he had discussed the matter with Mr. Charles T. Fisher, Jr., who felt strongly that Regulation X should be extended to cover commercial building and multiple family housing, that Mr. Wilde had had a great deal of experience extending credit in this field, and that Mr. Fisher felt it would be highly desirable to have Mr. Wilde spend as much of the month of January as possible serving as a Consultant in connection with the matter.

Thereupon, the recommendation contained in the memorandum was approved unanimously with the understanding that Mr. Wilde would be requested to spend as much of the month of January assisting the Board as possible.

Mr. Szymczak withdrew from the meeting at this time to keep another appointment.

Mr. Pawley, technical assistant in the Division of Selective Credit Regulation, joined the meeting at this point.

Mr. Townsend referred to a letter dated December 20, 1950 from Mr. Gidney, President of the Federal Reserve Bank of Cleveland, submitting reports of an investigation of Fifth Avenue Motor Sales, Inc., of Columbus, Ohio, a used car dealer, showing that the firm had failed to register under Regulation W, Consumer Credit, and that it had pursued a policy of violating the regulation in numerous transactions. Mr. Townsend stated that while Mr. Gidney recommended that the Board proceed against the firm with a criminal suit he

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felt that since this was the first case of litigation since Regulation W was reinstated last September it would be preferable, for reasons which he stated, to proceed with a civil suit, that this would involve making an investigation to obtain sworn statements from persons having knowledge of the violations, and, if that confirmed the report of the Cleveland Bank, taking necessary steps to obtain an injunction against the firm to prevent continued violation of the regulation.

Mr. Vardaman stated that he would be opposed to any civil action against a violator of Regulation W unless it was accompanied by criminal prosecution. He then withdrew from the meeting.

Mr. Townsend then read a draft of proposed order as follows:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal
Reserve System held at its offices in the City of
Washington, D. C., on the 2nd day of January, A. D., 1951

In the Matter of
FIFTH AVENUE MOTOR SALES, INC.

ORDER DIRECTING INVESTI-
GATION AND DESIGNATING
OFFICERS TO TAKE TESTIMONY

I

"Members of the staff of the Federal Reserve Bank of Cleveland have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

- A. Fifth Avenue Motor Sales, Inc. has failed to file with the Federal Reserve Bank of Cleveland a registration statement as required by Regulation W of the Board of Governors of the Federal Reserve System;
- B. Fifth Avenue Motor Sales, Inc. has made instalment sales of automobiles subject to Regulation W:

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- "1. Without obtaining a down payment of not less than one-third of the purchase price of the automobile as required by Regulation W;
2. When those acting on its behalf knew or had reason to know that other credit was, or was to be, extended in connection with the purchase of the automobile which would bring the total amount of credit extended in connection with such purchase beyond the amount permitted by Regulation W;
3. Without maintaining and preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of said Regulation.

II

"The Board, having considered the aforesaid report by members of the staff of the Federal Reserve Bank of Cleveland, and for the purpose of (1) determining whether Fifth Avenue Motor Sales, Inc. has violated the provisions of Regulation W and (2) aiding in the enforcement of said Regulation, deems it necessary and appropriate that an investigation be made to determine whether Fifth Avenue Motor Sales, Inc. has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

III

"IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950 that an investigation be made to determine the matters set forth in paragraph II hereof.

"IT IS FURTHER ORDERED, pursuant to the provisions of Section 604 of the Defense Production Act of 1950 that for the purpose of such investigation G. Howland Chase and Wilbur T. Blair, and each of them, is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

"By the Board.

(Signed) S. R. Carpenter,
Secretary."

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Following a discussion, upon motion by Mr. Norton, it was agreed unanimously that steps looking to a criminal action would not be taken at this time, and the foregoing order was approved unanimously with the understanding that Mr. Chase would be authorized to incur such expenses for reporting service in conducting the investigation as in his judgment might be necessary, and that the 1951 budget of the Office of the Solicitor would be increased by an amount sufficient to cover such costs.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 December 29, 1950, were approved unanimously.

Mr. Carpenter reported that the Comptroller of the Currency would issue a call on January 4, 1951, on all national banks for reports of condition as of the close of business December 30, 1950, and that, in accordance with the usual practice and the Board's letter of December 15, 1950, a call would be made on January 4 on behalf of the Board of Governors of the Federal Reserve System on all State member banks for report of condition as of December 30, 1950.

The call to be made on behalf of the Board on January 4, 1951, was approved unanimously.

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Memorandum dated December 27, 1950, from Mr. Sloan, Assistant Director of the Division of Examinations, recommending an increase in the basic salary of Frances Scott, Secretary to Director of Division, from \$3,950 to \$4,075 per annum, effective January 7, 1951.

Approved unanimously.

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

"In accordance with the request contained in your letter of December 27, 1950, the Board approves the designation of Loring C. Nye, an assistant examiner who was transferred to the Credit Department of your Bank effective December 11, 1950, as a special assistant examiner for the Federal Reserve Bank of Boston."

Approved unanimously.

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

"In accordance with the request contained in your letter of December 27, 1950, the Board approves the designation of Stuart P. Fishburne as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to Mr. W. A. Denecke, Box 508, Bozeman, Montana, reading as follows:

"Your letter of December 21, 1950, to Chairman McCabe submitting your resignation as a director of the Helena Branch of the Federal Reserve Bank of Minneapolis has been brought to the attention of the Board of Governors and the Board accepts your resignation, effective December 31, 1950.

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"Your services as a director of the Helena Branch are greatly appreciated and the Board is pleased to know that you are to continue in service with the Federal Reserve System as a Class B director of the Federal Reserve Bank of Minneapolis.

"The comments contained in your letter with respect to your association with the Helena Branch are most gratifying."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, Washington 25, D. C., reading as follows:

"Pursuant to the provisions of section 4(b) of the Federal Deposit Insurance Act, the Board of Governors of the Federal Reserve System hereby certifies that 'The People's Bank of Fleming County, Kentucky', Flemingsburg, Kentucky, became a member of the Federal Reserve System on December 27, 1950, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in section 6 of the Federal Deposit Insurance Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act."

Approved unanimously.

Memorandum dated December 29, 1950, from Mr. Daniels, Chief Reserve Bank Operations Section, Division of Bank Operations, reporting a telephone conversation with Mr. Erickson, President of the

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Federal Reserve Bank of Boston, with respect to that Bank's calling for bids for the addition to and remodeling of its building pursuant to the action of the Board on November 7, 1950, at which time the Bank was authorized to proceed with plans for the building program with the understanding that it would advise the Board before bids were requested in order to avoid calling for bids if any unforeseen developments should make it inadvisable to proceed with construction. Mr. Norton recommended that the Bank now be authorized to call for bids.

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System under authority of the fourth paragraph of Section 16 of the Federal Reserve Act hereby establishes for the three months' period ending December 31, 1950, the rate of (1) per cent interest per annum on that amount of the Federal Reserve notes of your Bank which equals the average daily amount of its outstanding Federal Reserve notes during such period less the average daily amount of gold certificates held during such period by the Federal Reserve Agent as collateral security for such notes.

"Using \$ (2) as average daily amount of outstanding notes of your Bank during fourth quarter not covered by gold certificates with Agent, payment to Treasury for last quarter of 1950 will be \$ (3). Payment should be credited to the Treasurer's General Account as Miscellaneous Receipts, Symbol 1841-Interest Collected, Section 16 Federal Reserve Act as amended. No statement being given to press with respect to this action.

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	(1)	(2)	(3)
"Boston	.9548	1,021,204,233	2,457,649.69
New York	5.9771	613,808,887	9,247,378.99
Philadelphia	1.1146	934,358,162	2,624,988.38
Cleveland	1.0940	1,293,889,856	3,567,874.69
Richmond	.9885	977,828,716	2,436,320.52
Atlanta	1.1797	693,828,868	2,063,093.49
Chicago	1.3704	1,748,995,772	6,041,309.32
St. Louis	1.0415	767,348,622	2,014,405.76
Minneapolis	1.1775	403,907,557	1,198,775.50
Kansas City	1.0357	658,622,541	1,719,354.89
Dallas	1.4271	461,148,733	1,658,786.10
San Francisco	2.3268	573,229,405	3,361,882.10"

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks,
dated December 30, 1950, reading as follows:

"Comments of Federal Reserve Banks on the proposed new section 5 (1) in the possible revision of Regulation X now under consideration indicate that the purpose of the provision does not seem to be readily apparent. The provision is essentially a technical one but it may be worth while to outline something of its purpose and background. The provision is an effort to meet certain problems affecting large sellers of building materials such as Sears Roebuck and Company. The problems arise chiefly from three factors as outlined below:

- (1) Section 5 (a) of Regulation X does not exempt all credits that do not exceed \$2500 but only those credits in which the total borrowing with respect to the same property, including borrowings from others as well as from the particular registrant, does not exceed that figure. The definition of major addition or improvement turns on whether the cost of the project exceeds \$2500 and not merely on whether a particular credit or sale exceeds that figure. These requirements, coupled with the records requirements of Sections 4(c) and 6(d),

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"would seem to require certain extra documentation in connection with credit sales of building materials even in cases in which, as a practical matter, the credit terms are stricter than those required by Regulation X.

- (2) The exemption in Section 5(b) of Regulation X for 18 month construction credits relieves only part of the problem. This is because the records requirements still apply, and also because some materials such as furnaces, oil burners, etc., are typically sold on credit extending beyond 18 months.
- (3) Compliance with stricter credit terms of Regulation W instead of more lenient terms of Regulation X would not solve the registrants recording problem under Regulation X because Section 7(h)(3) of Regulation W makes Regulation X rather than Regulation W controlling in such cases.

"The proposed Section 5(1) attempts to meet the particular problem without being so sweeping as to exempt other transactions in a way that would weaken the regulation. In effect it exempts sales of building materials from Regulation X if they meet the 10 per cent and 30 months requirements of Regulation W. Incidentally, present thinking is to omit the bracketed reference to \$2500 in the proposed provision. Hence, in order to get the exemption from Regulation X, transactions must comply with those requirements even though they might actually be exempt from Regulation W for some reason, such as, for example, the fact that the credit exceeds \$2500. On the other hand, as indicated by proposed footnote 13, in a sale of an article such as a combination dish washer unit that requires 25 per cent and 15 months as a Group B article under Regulation W, a registrant could not use Section 5(1) of Regulation X to give easier terms since the exclusion of the credit from Regulation X brings it under Regulation W in those cases where Regulation W would apply in the absence of Regulation X.

"We are wiring you at some length on this rather complicated technical problem with the thought that this background may be helpful in understanding the proposed provision and explaining it to others. We would also be glad to receive any suggestions that might occur to you

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"for possible changes to improve the provision or otherwise to aid in solving the general problem at which it is directed, although the need to complete work on the amendments to Regulation X as soon as possible will permit us to use only such suggestions as reach us before January 3."

Approved unanimously.

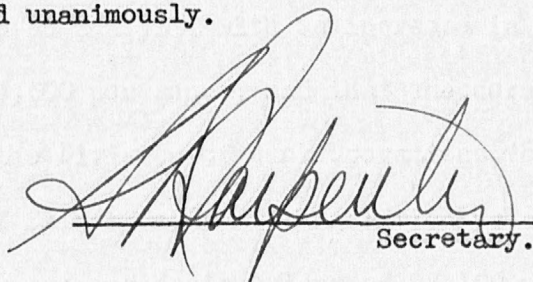
Letter to the Presidents of all Federal Reserve Banks,
reading as follows:

"The Board has just received a letter from Mr. Millard Caldwell, Administrator of the Federal Civil Defense Administration, with respect to cooperation of Federal agencies in advancing the cause of civil defense, and requesting that the Federal Reserve Banks cooperate in every way possible with State and local civil defense authorities. A copy of his letter is attached.

"The Board is advising Mr. Caldwell that the 12 Federal Reserve Banks and their 24 branches will be glad to comply with his request and to do everything they can to further the program for civil defense in their respective communities.

"Information with respect to the program undoubtedly will be made available through the local authorities and any further information received by the Board with respect to the matter will be forwarded to your bank promptly."

Approved unanimously.


Secretary.