

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 8, 1951.

PRESENT: Mr. McCabe, Chairman
Mr. Evans
Mr. Vardaman
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 January 5, 1951, were approved unanimously.

Memorandum dated January 4, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Della Payne, cafeteria helper in that Division, be accepted to be effective, in accordance with her request, at the close of business February 28, 1951.

Approved unanimously.

Memorandum dated January 8, 1951, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Miss Barbara Anne Huey as a clerk-typist in the administrative work of the Office of the Secretary, on a temporary basis for a period of six months, with basic salary at the rate of \$2,650 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to completion of a satisfactory check of her references.

Approved unanimously.

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Letter to Honorable I. W. Duggan, Governor, Farm Credit Administration, U. S. Department of Agriculture, Washington 25, D. C., reading as follows:

"This is in response to your letter of December 27, 1950, in which you requested the Board's interpretation as to the application of Regulation X to the following factual situation:

'An applicant requests a loan of \$2,000 to pay part of the cost of completing the construction of a farm residence started after October 12, 1950. The loan is to be set up for complete repayment within one year from farm income. However, the Statement of the Borrower discloses that he has obtained elsewhere \$10,000 credit for part of the cost of construction; and the maximum loan value of the residence, determined pursuant to the Regulation, is \$11,500.'

"The Board considers that Regulation X does not apply to the loan of \$2,000 for construction of the farm residence since it is short-term construction credit under the provisions of the first sentence of section 5(b) of the regulation."

Approved unanimously.

Letter to Honorable Frederick J. Lawton, Director, Bureau of the Budget, Washington 25, D. C., prepared in accordance with the discussion at the meeting on January 9, 1951, reading as follows:

"The Board of Governors proposes to recommend to the Congress an amendment to the Assignment of Claims Act of 1940 for the purpose of removing a serious obstacle to the successful administration of the current guaranteed loan program for financing defense contractors authorized by section 301 of the Defense Production Act of 1950 and the President's Executive Order No. 10161.

"Many banks are unwilling to make loans to defense production contractors on the security of assignments of monies to become due under Government contracts because of apprehension lest payments received from the Government by the assignee bank may subsequently be recovered by the Government on account of other indebtednesses of

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Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., reading as follows:

"This refers to the January 1, 1951 draft of a bill 'To assist the provision of housing and community facilities and services required in connection with the national defense', on which we understand from the staff of your Bureau that you wish to receive the Board's comments.

"The bill consists of a 3-page declaration of policy followed by five separate titles. Title I would add to the National Housing Act a new Title IX which would provide for certain national defense housing insurance for both 1- to 4-family units and multi-family units. Title II would make provision for defense housing in community facilities and services to be provided directly by the Federal Government in certain cases. Title III would make provision for Governmental assistance in the development of sites in connection with isolated defense installations. Title IV relates to financing for prefabricated housing. Title V contains certain amendments to existing laws and general provisions.

"The draft is directed at an important and pressing problem in connection with the defense program. Additional housing will be required in some instances if that program is to be effectively carried out. At the same time, however, the undue use of credit in providing such housing would largely nullify the effectiveness of the regulations of the Board of Governors and the HHFA in the housing field and would add to the dangerous inflationary pressures that damage the general economy on which the defense effort is so heavily dependent.

"It is essential, therefore, that every possible effort be made to assure that, in providing additional housing under this legislation, credit expansion will be held to the lowest practicable figure. To aid in that purpose, the Board feels that it would be desirable to

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"make more explicit and emphatic certain features which are perhaps implicit in the present draft.

"In the first place, it should be made unmistakably plain that all operations under the bill are to be subject to the full control of the President under section 605 of the Defense Production Act. This should be made clear not only with respect to the proposed section 903(d) which Title I of the bill would add to the National Housing Act, but also for all other provisions of the bill as well.

"Second, the declaration of policy, which at present devotes three pages to explaining certain needs to be met by the legislation, should clearly and explicitly emphasize the fact that an additional important objective should be the avoidance of any undue expansion of credit. In other words, it should be stressed that the more generous credit provisions of the Act should be applied only to the extent that such use is essential for accomplishing the other purposes of the bill, and only in those instances in which those other purposes in the particular instance outweigh the objections to the expanded use of credit.

"Third, it is important, as one means of confining expansion of credit to that specifically needed to serve special defense needs, that the housing to be financed under the new bill should be directed by every practicable means to the use of persons who not only are actually engaged in defense production but also would not otherwise be reasonably able to acquire necessary housing. The draft contains certain provisions looking somewhat in that direction. The Board suggests, however, that these be broadened and strengthened, and that there be a clear authorization and direction to take all practicable steps to insure such channeling of the new housing.

"As a somewhat different point, it is noted that section 505 of the draft would provide for an appointee of the Veterans' Administration from among that Administration's own officers or employees to serve on the board of directors of the Federal National Mortgage Association. Such a provision would raise serious issues of undesirable

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"organization and conflicts of interest, and it also does not seem to be related to the defense purposes of the other provisions of the bill. Accordingly, we suggest that it be deleted.

"There is attached a memorandum setting out certain other considerations regarding the draft which we believe to deserve consideration."

Approved unanimously.

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

"Questions have been received concerning the status under Regulation W of an instalment loan obtained from one Registrant to pay off an instalment obligation held by a different Registrant which was incurred either in connection with the purchase of a Group D article or for any of the exempt purposes specified in sections 7(b) through 7(k) of the regulation.

"In accordance with the principles set forth in W-74 and W-84, the requirements of the regulation should be applied to the new loan without regard to the original status under the regulation of the obligation held by the different Registrant.

"Thus, a loan to pay off a Group D obligation held by another Registrant, would not be a Group D loan but would be an unclassified loan subject to section 4(b).

"Similarly, a loan to pay off an exempt obligation held by another Registrant would have to meet the test of the particular exemption of section 7 in order to have the benefit of that exemption, and would not be exempt merely because the original obligation was exempt. However, in examining the exemptions of section 7, it will be seen that most of them would be applicable to the second loan just as they were to the first. For example, section 7(d) exempting 'Any credit extended to the Federal Government' or to certain other borrowers specified therein, would apply to a loan to any of the specified borrowers to pay off a credit that had originally been subject to the

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"exemption. On the other hand, in the case of a loan originally exempt under section 7(k), a loan by a different Registrant to pay off the obligation usually would be unable to meet the test, which would have to be applied independently for the second loan, as to type of lender and security specified in section 7(k)."

Approved unanimously.

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

"Reurtel of December 19, 1950, re Regulation W. Your questions numbered 1 and 2 have been answered in S-1243 W-123 of this date.

"Part 3 of W-74 stated in effect that an instalment loan in a principal amount of \$2,500 or less to pay off an instalment obligation held by another Registrant which arose in connection with the purchase of a listed article is an unclassified instalment loan.

"W-84 states in effect that an instalment loan of more than \$2,500 to pay off an instalment obligation held by another Registrant incurred for the purchase of a listed article would not be one the 'proceeds of which are to be used to purchase' a listed article, so long as the two credits were separated by a reasonable period of time and were unrelated by any prearrangement. In such a case, had the second loan been for \$2,500 or less, it would have been subject to section 4(b) as an unclassified instalment loan. However, as the second loan was for more than \$2,500, it was exempt under section 7(a).

"There would be advantages in considering the first and second credits in such cases on the same basis for the purposes of Regulation W as you suggested. However, the advantages which such view would entail were considered to be outweighed by the difficulties that would arise from a detailed tracing of the purposes of the original obligation."

Approved unanimously.

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

"A trade newspaper with a national circulation, recently under a Washington dateline, began a discussion of section 6(f) of Regulation W with the statement that "'free trial" or "demonstration" arrangements made by appliance retailers to prospective customers are not disturbed by Regulation W * * *'. Needless to say, that statement has resulted in misunderstanding regarding the proper application of section 6(f).

"At the outset it is to be noted that a present sale of a listed article is subject to the regulation in the usual manner, without regard to section 6(f), even though a part of the sales agreement gives the buyer an option to return the article and thereby re-vest ownership in the vendor, instead of paying for the article. Section 6(f) does not apply to such a case. On the other hand, section 6(f) does apply where a listed article or listed article 'demonstrator' is delivered to a prospective instalment buyer who must subsequently in some way manifest his acceptance or willingness to buy before ownership in the article or a similar article passes to him (W-40; W-97, item 28).

"The general purpose and effect of section 6(f) is to consider those cases to which it applies as present instalment sales of the articles delivered or, as indicated in W-107, of the articles which the vendor anticipates selling. Here also, the transaction would be subject to the usual applicable requirements of the regulation including, in accordance with the principle of W-107, the maximum maturity and payment schedule requirements, as well as the down payment requirement. The down payment or equivalent deposit was specifically referred to in section 6(f) because that was the matter most frequently questioned.

"The only effect of the second paragraph of section 6(f) is to delay the application of the requirements of the regulation for a period of 10 days, provided the case is one meeting the conditions set forth in such second paragraph. Section 6(f) affords no other

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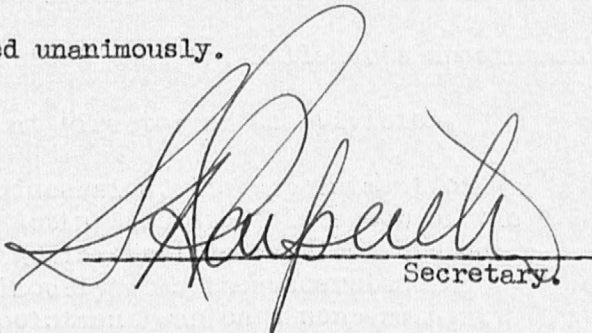
"preferential treatment or concessions.

"The regulation, including section 6(f), does not specifically state the precise time for the execution of the formal contract evidencing an instalment credit. Nevertheless, a Registrant necessarily must be able to show compliance with the regulation. This would involve, among other things, the maintenance of a record of the type described in section 6(c). Furthermore, section 8(a) requires the preservation of such evidence as will show whether or not a transaction is in conformity with the requirements of the regulation, and this section clearly contemplates that formal instalment contracts will be among the evidence a Registrant must preserve in connection with instalment sales or other credit transactions.

"Therefore, just as a Registrant will execute an instalment contract at or about the time of delivery of a listed article under an ordinary instalment sale, compliance with the regulation contemplates also the execution of a formal instalment contract at the time of delivery under the first paragraph of section 6(f), or under the second paragraph of that section, on or before the expiration of the 10-day period referred to where the customer keeps the article. Of course, there is nothing in the regulation to prevent refunds of consideration paid in any case where the transaction is cancelled and the article is returned to the Registrant.

"The Board will be interested in whether evasive practices appear to be developing in this field, and we will appreciate your advising us of any developments that seem to suggest the advisability of re-examining the matter."

Approved unanimously.



Secretary.