

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 15, 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 11, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 12, 1951, were approved and the actions recorded therein were ratified unanimously.

Letter to Mr. Clarke, Secretary of the Federal Reserve Bank of New York, reading as follows:

"We acknowledge receipt of your letter of December 27 and note that you have extended the leave of Mr. Thomas J. Roche, now serving as Chief of the Gold Section of the International Monetary Fund, for a further period of six months, to September 1, 1951.

"During his stay at the Fund, Mr. Roche has maintained close contacts with our staff, which have been of considerable value to the Board."

Approved unanimously.

Letter to The Edwards National Bank, Edwards, New York, reading as follows:

"This refers to the resolution adopted on September 13, 1950, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

1/15/51

-2-

"The Board, understanding that your bank has never accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not exercise thereafter any of the powers granted by section 11(k) without first applying for and obtaining a new permit to exercise such powers pursuant to the provisions of section 11(k)."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

Letter to Mr. Peyton, Chairman of the Presidents' Conference,
prepared in accordance with the action at the meeting on December
29, 1950, reading as follows:

"On November 13, 1950, the President issued an Executive Order relating to certain personnel actions in the Executive Branch of the Government on or after December 1, 1950, and until such time as the President advises it no longer necessary in the interests of national defense. In brief, the Order stated that appointments, promotions, and reassignments of personnel should be on a non-permanent basis, excepting that such actions on a permanent basis might be taken when clearly in the interests of the Government. The Board generally will follow the

1/15/51

-3-

"Government policy as prescribed in the Executive Order with respect to its own staff. A copy of the Order is enclosed.

"The experience of World War II has pointed to the difficulties of reducing the size of staff following upon a period of expansion, a situation which is made more complex as a result of the making of large numbers of appointments, promotions, and reassignments on a permanent basis. The Board feels that a discussion of employment policies of the Reserve Banks during the emergency period would be of value and, therefore, requests that the topic be included in the agenda of the next Conference of Presidents."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks,

reading as follows:

"This letter cancels the Board's letter of January 27, 1947, (S-953) and the related letters set forth in FRLS #3949.

"At the time that the request for submission of quarterly reports regarding significant developments in the banking field was made, it was recognized as an experiment and it was contemplated that the preparation of the reports would require a minimum of time and effort. Although the reports submitted have been valuable in many respects, the Board has given consideration to the usefulness of the reports for its purposes in relation to the evident care and work involved in their preparation by the Reserve Banks. It has reached the conclusion that such reports may be discontinued."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks,

reading as follows:

"For your information there is enclosed a copy of a document received by the Board from the National

1/15/51

-4-

"Security Resources Board setting forth certain 'statements of criteria and principles' with respect to V-loan guarantees under section 301 of the Defense Production Act of 1950.

"It will be noted that this document, which is undated, does not indicate on its face that it has been issued or approved by the National Security Resources Board but that the introductory paragraph states merely that the document has been prepared by a committee representing interested agencies and has been submitted to the National Security Resources Board for coordinated issuance. Preparation of the document was originated by members of the staff of the Resources Board but representatives of the guaranteeing agencies and of the Board of Governors were given an opportunity to make suggestions in connection with the drafting of the document.

"It is our understanding that the document has been intentionally issued on an informal basis and that it is intended only for internal use by the guaranteeing agencies, the Board of Governors of the Federal Reserve System and the Federal Reserve Banks. It is requested, therefore, that the document not be given any general circulation or distribution."

Approved unanimously.

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

"As you know, section 7(e)(5) of Regulation W exempts credits 'guaranteed, or insured in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of the Servicemen's Readjustment Act of 1944.'

"From time to time questions have arisen as to the extent to which this exemption was being used, especially for the sale of automobiles, and as to the possibility of its use reaching such proportions that it might, as a practical matter, substantially nullify the effects of the regulation.

"Members of the Board's staff have discussed the matter informally with representatives of the VA, and you may be interested in a brief summary of the discussion.

1/15/51

-5-

"The VA representatives state that the number of such loans has never been large, amounting to only a few thousand a year. Some efforts to use the provision as a promotional device to escape the requirements of the regulation were made under previous versions of the regulation, but they did not achieve any appreciable volume of transactions. It seems unlikely that any very great volume will be developed at the present time.

"One of the factors tending to prevent widespread use of the exemption is the interest rate on such credits, which is 3 per cent discount, equivalent to about 5.7 per cent on outstanding balance. As you know, this is somewhat lower than rates received by many institutions on similar paper.

"There is attached a copy of a letter which the VA addressed to the National Automobile Dealers Association outlining in general the requirements applicable to VA guarantee or insurance of automobile financing. You may feel free to use or quote from the letter to the Automobile Dealers Association.

"You will also be interested to know that the VA appears to have been alert to the possibility of abuse in connection with automobile financing, and had previously advised its field organization in part as follows:

'Notwithstanding the fact that automobiles defined as passenger cars designed for the purpose of transporting less than ten passengers, including taxicabs, is a listed article, loans to veterans guaranteed or insured by the Administrator of Veterans Affairs for the purpose of purchasing an automobile to be used in business are not subject to regulation "W". Due to this fact, it appears possible that increased pressure will be brought to bear to qualify loans to purchase automobiles which would result in a distortion of the conditions under which eligibility has heretofore been based. It is important, therefore, that all applications for the guaranty or insurance of loans for such purpose be examined with particular care.

'It has been construed that if the proposed automobile is essential as a necessary

1/15/51

-6-

"part of the equipment required to operate the veteran's business, profession, or pursuit of a gainful occupation, it would be eligible for guaranty or insurance, and this office has insisted that it be conclusively demonstrated that such is the case. In the absence of such conclusive evidence, or in the event the determination is of a border-line nature, the circumstances should be transmitted to this office for determination of eligibility.

'In connection with such loans, attention is directed to Section 503(4) of the act which requires that purchase price paid or to be paid for the property being purchased does not exceed the reasonable value as determined by proper appraisal made by an appraiser designated by the Administrator. In the event the purchase of the new car involves a trade-in allowance of a used car, the designated appraiser, in making certification that the purchase price represents reasonable value, is responsible for determining that allowance made for the used car represents reasonable value.'

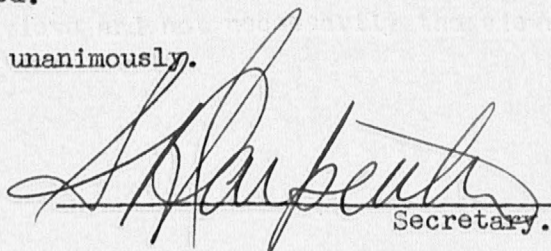
"This advice to the VA field offices is purely for your own information. Unlike the VA letter to the National Automobile Dealers Association, it should not be used or quoted outside your bank."

Approved unanimously.

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

"Revised borrower's statements which may be used in compliance with sections 4(c) and (d) of Regulation X are being prepared. Their completion may take some time but they will be sent to you as soon as necessary clearances have been effected."

Approved unanimously.


Secretary.