

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, February 21, 1951. The Board met in the Board Room at 10:50 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Norton  
 Mr. Powell

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 Mr. Vest, General Counsel  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Hilkert, Acting Director, Division of Personnel Administration  
 Mr. Phelan, Acting Director, Division of Selective Credit Regulation  
 Mr. Benner, Assistant Director, Division of Selective Credit Regulation  
 Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics

Chairman McCabe was unable to attend this meeting because of unexpected interruptions which necessitated his attending another meeting this morning.

Mr. Vardaman requested that the minutes contain a statement that prior to receiving notice of this special meeting, he had made other appointments at the Capitol which made it impossible for him to attend a Board meeting this morning.

Mr. Norton stated that an amendment to Regulation X, Real Estate Credit, had been prepared which would provide for exemption

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under certain conditions of defense construction from the terms of the Regulation. He then called upon Mr. Vest, who stated that the wording of an amendment to the Regulation which would provide necessary exemptions but which would not open the door to wide-spread evasion had progressed to the point where the Housing and Home Finance Administrator agreed with the proposal, and, although the Office of Defense Mobilization did not wish to assume any responsibility in connection with designating defense areas or projects, it was understood that it would not object to an exemption such as was proposed. Mr. Vest went on to say that defense projects for the Atomic Energy Commission were under way near Paducah, Kentucky and in the Savannah River area of South Carolina which made it desirable to have a procedure for relaxing the terms of the Regulation for the specific projects in those areas as well as in others which might be expected to develop in the future, and that it was believed that the proposed amendment to the Regulation would meet the need satisfactorily. Mr. Vest then read a draft of the proposed amendment which would add subsection 6(p) to Regulation X to provide that terms different from those prescribed by the regulation and the supplement thereto, to be applicable to specific new construction necessary to the national defense, may be authorized in areas designated by the Housing and Home Finance Administrator after consultation with the Board and after surveys had been made by the Administrator with respect to the needs for

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such necessary construction within such areas, with the understanding that such different terms when so authorized would be applicable only to such new construction as might be specified by the Administrator within such designated areas and would be subject to such conditions as might be prescribed by him after consultation with the Board.

During the ensuing discussion, question was raised as to why the Housing and Home Finance Administrator should make the designation after consultation with the Board, and it was suggested that in the light of the responsibility placed on the Board by Executive Order 10161 the amendment should provide for the Board's concurrence in the exemptions.

Mr. Norton said that in discussing the matter, Mr. Foley, Housing and Home Finance Administrator, had agreed that the number of housing units to be started under the proposed exemption during this year should be included within the target of 850,000 units agreed upon at the time Regulation X was adopted.

After a discussion, upon motion by Mr. Norton, unanimous approval was given to the following amendment to Section 6 of Regulation X, Real Estate Credit, to become effective February 26, 1951. This action was taken with the understanding that if the Housing and Home Finance Administrator did not concur in both the amendment and the effective date the matter would be given further consideration by the Board, but that if he did concur, the amendment would be sent to all Federal Reserve Banks by telegram, a press statement would be issued in a form satisfactory to Mr. Norton, and a notice of the action would be published in the Federal Register.



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"(p) Defense Construction. - Terms different from those prescribed by this regulation and the Supplement thereto, to be applicable to specific new construction necessary to the national defense, may be authorized in areas designated by the Housing and Home Finance Administrator after concurrence by the Board and after surveys have been made by the Housing and Home Finance Administrator with respect to the needs for such necessary construction within such areas. Such different terms when so authorized will be applicable only to such new construction as may be specified by the Housing and Home Finance Administrator within such designated areas and will be subject to such conditions as may be prescribed by the Administrator after concurrence by the Board."

It was understood that if the amendment became effective letters would be addressed to the Housing and Home Finance Administrator concurring in the designations of the Paducah and Savannah River areas as defense areas.

Secretary's Note: Later in the meeting, Mr. Benner reported that Mr. Foley, Housing and Home Finance Administrator, felt that the requirement for concurrence by the Board as contemplated by the amendment would not be a workable arrangement. It was agreed unanimously that the matter should be considered further at a later meeting of the Board after Mr. Norton had had further discussions with Mr. Foley.

Mr. Evans stated that yesterday morning he had been asked to come to Senator Robertson's office for the purpose of meeting with a group of automobile dealers from the State of Virginia who requested relaxation of the terms of Regulation W, Consumer Credit. He stated that he informed the group that the pressure of the economic situation



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appeared to be for further tightening of the Regulation rather than for relaxation, but that the Board was continuing to study the matter.

Mr. Solomon, Assistant General Counsel, joined the meeting at this point.

Mr. Evans referred to the discussion at the meeting on February 15 of Mr. Phelan's memorandum dated February 14 with respect to leasing arrangements under Regulation W and to the recommendations contained in that memorandum, i.e., that the Board reaffirm the principle stated in the Board's letter of December 11, 1950, and later published in the Federal Register, to the effect that leasing arrangements other than those limited to a single payment in general were subject to the Regulation, and that the Regulation be amended to exempt short-term rentals or leases that usually serve a seasonal or other temporary purpose such as automobiles rented in resort communities or sewing machines rented for special occasions. Following the February 15 meeting, Mr. Phelan had prepared a further memorandum dated February 19 and Mr. Solomon had prepared a memorandum setting forth the reasons for his opinion that all instalment payment leases of listed articles were subject to regulation by the Board under the consumer credit regulation. Copies of these memoranda were sent to the members of the Board before this meeting.

Mr. Evans stated that although the Board had agreed at the meeting on February 15 that both the Legal Division and the Solicitor's

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office should prepare briefs for circulation to the members of the Board concerning the legal questions involved, Mr. Townsend, Solicitor, had discussed the matter with him subsequently and stated that because of his work on the Transamerica case, he did not know when he would be able to complete a brief supporting the views he had expressed at the meeting on February 15 to the effect that leases were not within the scope of Regulation W under the terms of the law and Executive Order No. 8843. Mr. Evans added that, on the basis of further discussions of the matter, he had assumed that no briefs would be prepared pursuant to the action at the meeting on February 15 and that he had instructed Mr. Townsend not to prepare one because he did not wish him to take time from work connected with the Clayton Act proceeding against Transamerica, particularly since Mr. Townsend was leaving this week to go to the West Coast in connection with an enforcement matter on Regulation W where it was anticipated that an injunction proceeding would be instituted against the Duke Randall Motors Co., San Pedro, California, along lines similar to other recent proceedings in the case of willful violations of the Regulation.

Mr. Eccles stated that he agreed that Mr. Townsend should not be taken from his work on the Transamerica case to prepare a brief on the leasing question and that he felt he should not spend time in connection with Regulation W enforcement matters unless they were of extreme importance, and Mr. Evans stated that some other arrangement

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would be worked out so that Mr. Townsend would not need to make trips such as the one mentioned.

Mr. Phelan then commented on the proposal with respect to leasing arrangements contained in his memorandum of February 14, stating that in view of publication of the Board's notice in the Federal Register in December which said that the Board was studying the matter, there was some uncertainty in the trade and among the Reserve Banks as to whether all types of instalment payment leases were subject to the Regulation, and that the matter should be clarified so that concerns which now felt they might not be subject to the Regulation could determine their status.

Mr. Eccles suggested that, in the light of all available information, including the opinion of the Legal Division that the Board had authority for regulating leasing arrangements, as well as Mr. Townsend's opinion that it lacked authority to regulate certain types of instalment leases, and, in view of the position previously taken by the Board after careful consideration that leases were subject to the Regulation, the best procedure would be to proceed on that assumption and to issue the amendment to the Regulation along the lines suggested by Mr. Phelan.

Mr. Evans stated that, inasmuch as the Solicitor of the Board would have responsibility for enforcing the Regulation, he would prefer to determine at this time the question of the Board's authority as



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raised by Mr. Townsend, and that perhaps the question should be presented to the Congress.

Following a further discussion, during which the other members present expressed the view that the Board should reaffirm its present position and should not take the matter up with the Congress at this time, upon motion by Mr. Szymczak, the recommendation contained in Mr. Phelan's memorandum of February 14 was approved, Mr. Evans voting "no".

To carry this action into effect, the following amendment to Regulation W, Consumer Credit, was approved effective February 26, 1951, Mr. Evans voting "no".

"Effective February 26, 1951, section 7 of Regulation W is hereby amended by adding, at the end thereof after the present subsection (k), a new subsection (l) reading as follows:

"(1) Certain temporary rentals. - Any contract or similar arrangement for the rental, leasing or bailment of a listed article for a specified period of not more than 3 months if (1) the transaction is to be terminated, and the article returned to the Registrant, on or before the expiration of the specified period, and (2) the transaction is not renewable and does not directly or indirectly relate to or involve any subsequent lease, use of, or other interest in, the article or any similar article."

Approval was also given to the following telegram to all Federal Reserve Bank presidents:

"(This telegram to all Reserve Bank Presidents also being sent to Managing Officers of all Federal Reserve Branches for their information.)

"The Board has today adopted Amendment No. 2 to Regulation W, effective February 26, 1951, and it will be appreciated if you will print and distribute copies to interested persons in your district.

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"The press statement which the Board has issued for immediate release and the text of the amendment are as follows:

"The Board of Governors of the Federal Reserve System has today adopted Amendment No. 2 to Regulation W--Consumer Credit, effective Monday, February 26, 1951. The amendment exempts from the down payment and monthly payment requirements of Regulation W certain short-term, non-renewable leases which neither extend beyond three months nor involve a delivery in connection with subsequent leasing or sale arrangements.

"Regulation W, as reissued by the Board of Governors effective September 18, 1950, prescribes down payment and monthly payment requirements for leasing arrangements, instalment sales, and other instalment financing of automobiles, household electrical appliances, furniture, major consumer durable goods, and consumer instalment loans in general. The amendment serves to relax the regulation with respect to certain seasonal and other specialized short-term leases."

The following statement for publication in the Federal Register was also approved:

"(b) In 15 Federal Register 8856, December 14, 1950, sec. 222.126, relating to "Rental" transactions', the Board stated that it was examining further into the characteristics of leasing arrangements and that it would consider whether or not any such arrangements were of such a special character as to make it desirable or feasible to relax any of the provisions of Regulation W to any extent for their benefit; and to aid in such examination and consideration, the Board invited the submission to it of any relevant explanations, data or other information.

"This amendment was adopted by the Board after consideration of all relevant matter, including that presented to it pursuant to the abovementioned notice in the Federal Register. Special circumstances rendered impracticable further consultation with industry representatives, including trade association representatives, in the formulation of the above amendment,



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"especially in view of the relaxing nature thereof; and, therefore, as authorized by section 709 of the Defense Production Act of 1950, the amendment has been issued without such further consultation. Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operation of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof."

Letter to Mr. Hodgkinson, Chairman, Federal Reserve Bank of Boston, reading as follows:

"In accordance with your letter of February 5, 1951, the Board of Governors approves the appointment of Mr. Joseph A. Erickson as President of the Federal Reserve Bank of Boston and of Mr. Alfred C. Neal as First Vice President of the Federal Reserve Bank of Boston for terms of five years beginning March 1, 1951.

"The Board has taken no action on your proposal that the present salary limits for the President and First Vice President be increased to \$35,000 and \$20,000 per annum, respectively. Consideration of these proposed adjustments must await clarification of the regulations which have been issued by the Wage Stabilization Board; and, in addition, will have to take into account other aspects of the general problem, including those which have been considered by the Board in the past and with which you are familiar.

"The Board does approve the payment of salary to Mr. Erickson at the rate of \$25,000 per annum for the period March 1, 1951, through April 30, 1952, provided this rate is fixed by the board of directors. With respect to Mr. Neal's compensation, the Board feels, as it has in the past, that the initial salary of a new appointee to the First Vice Presidency should not be set at the maximum salary for the position, which currently is \$18,000. The Board wishes to adhere to the policy in this case. The Board does approve, however, the payment of salary to Mr. Neal at the rate of \$16,000 per annum for the period March 1, 1951, through April 30, 1952, provided this rate is fixed by your board of directors."

Approved unanimously.



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Mr. Szymczak referred to a memorandum which Mr. Vardaman sent to the members of the Board under date of February 2, 1951, stating that he understood that assignments of the members of the Board would be reviewed early next month and requesting that the Personnel Committee have the question placed on the agenda for consideration by the Board at some convenient date before March 1. Mr. Szymczak went on to say that when present assignments of Board members were approved on September 12, 1950, it was agreed that they would be reviewed in February of every other year or whenever there was a change in the membership of the Board, and therefore there would be no purpose in discussing Mr. Vardaman's memorandum at this time.

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 the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 20, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 20, 1951, were approved unanimously.

Memorandum dated February 19, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases

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in the basic annual salaries of the following employees in that Division, effective March 4, 1951:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Mrs. Ileen C. Shephard	Clerk	\$3,275	\$3,355
Percy C. Riston	Assistant Foreman of Laborers (N.)	3,300	3,380

Approved unanimously.

Memorandum dated February 19, 1951, from Mr. Powell, recommending an increase in the basic salary of Michael L. Jamison, messenger in Mr. Powell's office, from \$2,770 to \$2,850 per annum, effective March 4, 1951.

Approved unanimously.

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

"The Board of Governors approves the reappointments of Messrs. Charles R. Moore, Lawrence S. Pollock, Ira T. Moore, and Jake L. Hamon as members of the Industrial Advisory Committee for the Eleventh Federal Reserve District to serve for terms of one year each, beginning March 1, 1951, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Dallas, as reported in your letter of February 14, 1951.

"The members of the Board of Governors sincerely regret to learn from your telegram of February 19 of the death of Mr. E. P. Simmons, who had been appointed a member of the Industrial Advisory Committee, and it will be appreciated if you will extend the Board's deepest sympathy to Mr. Simmons' family.

"It is noted from the telegram that you will request your Board of Directors to appoint a successor to Mr. Simmons at its meeting next month."

Approved unanimously.

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Letter to Mr. Wilbur, Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of January 23, 1951, requesting the Board's approval of certain salary increases for members of the official staff at the Head Office and Branches.

"While it has been the intention of the Board to review all officers' salaries, except those of the President and First Vice President, in advance of the usual time, General Regulation No. 5 issued by the Wage Stabilization Board specifies that merit and/or length-of-service increases may be made only at the time salaries would 'normally be reviewed'. Since it has been customary for the Board to consider the salaries of your officers in April of each year to be effective May 1, it appears that it will be necessary for the Board to defer consideration of adjustments for senior officers and for Mr. Bold until April.

"Since the policy of reviewing the salaries of junior officers whose current rates of compensation are within the range of the employees' salary structure was actually established prior to the effective date of the Government order regulating salaries such officers may receive salary increases immediately. Accordingly, the Board approves the payment of salary to the following officers at the rates indicated for the period beginning January 1, 1951, through April 30, 1952:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
R. E. Everson	Assistant Vice President	\$9,500
R. H. Morrill	Assistant Vice President	9,000
E. J. Swan	Assistant Vice President	9,500
J. L. Barbonchielli	Assistant Cashier	7,000
T. W. Barrett	Assistant Cashier	7,500
H. E. Hemmings	Assistant Cashier	7,500
R. C. Milliken	Assistant Cashier	7,500
G. D. Parker	Assistant Cashier	7,000
	<u>Los Angeles Branch</u>	
J. R. Robinson	Assistant Manager	6,800
C. H. Watkins	Assistant Manager	9,500
	<u>Portland Branch</u>	
J. A. Randall	Assistant Manager	10,000
J. P. Blanchard	Assistant Manager	6,500



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	<u>Salt Lake City Branch</u>	
E. R. Barglebaugh	Assistant Manager	\$8,500
O. H. Barnard	Assistant Manager	7,500
A. L. Price	Assistant Manager	6,500
	<u>Seattle Branch</u>	
B. A. Russell	Assistant Manager	9,500
W. R. Sandstrom	Assistant Manager	7,000
D. E. Simms	Assistant Manager	8,000"

Approved unanimously.

Letter to Honorable E. C. Gathings, House of Representatives,  
Washington, D. C., reading as follows:

"A copy of the letter from Mr. J. M. Scoggins, Manager, Phillips County Chamber of Commerce, Helena, Arkansas, dated February 9, and a copy of the enclosure have been forwarded to the Federal Reserve Bank of St. Louis (together with a copy of your letter of February 13 to the Board) with a request that the Bank conduct an investigation of the operations under Regulation W of the Arkansas Home Building and Repairing Company, Little Rock, Arkansas.

"We shall be glad to write you further upon receipt of a report from the Federal Reserve Bank of St. Louis. As requested in your letter, we are returning Mr. Scoggins' letter and enclosure to you."

Approved unanimously.

Letter to Mr. Irving S. Michelman, Vice President, Security  
Finance Company, Inc., 475 Fifth Avenue, New York 17, New York,  
reading as follows:

"This refers to your letter of February 19 and telephone conversation with our Mr. Heath regarding a possible policy of the Board of Governors with respect to increases in the number of consumer credit facilities.

"As stated by Mr. Heath in the telephone conversation, the Board of Governors approaches the problem of

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"restricting the expansion of consumer credit from the standpoint of volume outstanding rather than the number of consumer financing agencies or facilities.

"You understand, of course, that through its Regulation W the Board expects to restrict the amount of consumer credit. This restriction may have the effect of discouraging certain consumer credit agencies from expanding their facilities at this time but this is a matter for each financing agency to decide for itself."

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, reading as follows:

"Thank you for your letter of February 9, 1951, concerning the question of major additions and major improvements under Regulation X. We are glad to have the views of your Real Estate Advisory Committee in this matter because it is one which we also have been considering for some time.

"The experience of World War II suggests that as new construction is curtailed, activity and inflation in the market for existing structures will increase. To be completely effective, therefore, credit regulations should apply to existing as well as new structures. This, of course, would require an amendment to the Defense Production Act, but in the absence of such an amendment there is something to be said for covering as large a segment of the existing market as is possible pursuant to our statutory authority which, as you know, defines 'real estate construction credit' as including certain credit with respect to 'real property on which there is new construction'.

"On the other hand, we share your Committee's concern about the problems which such a definition raises. As the effective date of the regulation becomes more remote, it may well prove necessary to make an amendment or interpretation along the lines you suggested. Of course, it is possible that the statute may be amended so that it will be possible to include all existing structures within the scope of the regulation. The President recommended such an amendment in his recent report to the Congress.



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"Please convey to your Committee the Board's appreciation for this expression of their views."

Approved unanimously.

Telegram for the signature of Mr. Phelan, Acting Director of the Division of Selective Credit Regulation, to the Officers in charge of Regulation X at each Federal Reserve Bank, reading as follows:

"Several inquiries have been received requesting interpretations of the phrase 'actual date such credit is extended' in section 6(i) of Regulation X, as amended. It has been called to our attention that some lenders are interpreting this phrase to mean, among other things, (1) the date of the note or other credit instrument evidencing the credit extended, (2) the date of the first disbursement of funds to the borrower, (3) the closing date in the case of a sale, (4) the date from which interest is payable, and (5) the date the mortgage or other lien is recorded. We do not feel that it is administratively possible to prescribe a specific rule which would be fairly applicable to all of the great variety of financing arrangements affected by the regulation. Furthermore, it would be most difficult to prescribe a rule which could not be easily evaded by changing the financing arrangements. However, it is necessary to have some general rule which may be followed, and the Board would like if possible to issue a general interpretation. We wish to emphasize that this proposal is merely one which is under consideration here at this time. We would like very much to have your comments as to whether the proposed ruling is in your view a generally desirable one and also whether it would be in general conformity with the practices in the trade. We would appreciate receiving your comments by wire by the afternoon of Tuesday, February 27. The text of the proposed interpretation is as follows:

"Many types of credit extensions are subject to Regulation X, and it is administratively impossible to prescribe a specific rule which would be fairly



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"applicable to all types of financing arrangements affected by the regulation. However, the general rule to be followed in most extensions of credit affected by the regulation is that the 'actual date such credit is extended' is that date which is (1) the date on which the lender first disburses funds to, or makes funds available to the account of, the borrower, or (2) the date of the note or other credit instrument evidencing the credit extended, whichever shall last occur."

Approved unanimously.

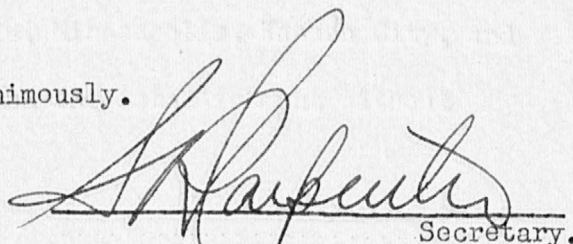
Letter to Honorable Charles E. Wilson, Director, Office of Defense Mobilization, Washington 25, D. C., reading as follows:

"As requested in your memorandum of February 6, addressed to Chairman McCabe, there is enclosed herewith a copy of the report covering the first half of February which has been submitted to the Joint Committee on Defense Production relative to the Board's activities under the Defense Production Act of 1950."

Approved unanimously.

Memorandum dated February 14, 1951, from Mr. Townsend, Solicitor, recommending that the Board approve the payment of \$7.14 for expenses incurred by the United States Marshal in serving the judgment in the Regulation W case in Beloit, Wisconsin and recommending that the Board authorize the Solicitor's Office to approve for payment future bills of this kind as well as court costs, witness fees, reporting costs, and such other ordinary expenses in reasonable amounts in connection with Regulation W investigations and court proceedings.

Approved unanimously.

  
Secretary.