Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 8, 1951. The Board met in the Special Library at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.
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. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Koch, Chief, Banking Section, Division of Research and Statistics

Mr. Heath, Assistant Cashier and Assistant Secretary of the Federal Reserve Bank of Chicago, who was assisting the Board in connection with consumer credit matters, also attended.

Reference was made to a letter addressed to Chairman McCabe under date of February 26, 1951 by Senator Capehart suggesting that the Board have consultations with trade representatives prior to any modification of the terms of Regulation W, Consumer Credit, and to a draft of reply prepared for Chairman McCabe’s signature.
Mr. Evans expressed the view that as a general rule there should be consultation with trade representatives prior to any change in the scope or terms of Regulation W, in order to assist the Board in considering the matter and to obviate complaints such as arose following the tightening of terms effective October 16, 1950, but that the Board should not commit itself to follow such a procedure in all cases because there would be occasions when such consultations would be impracticable or contrary to the interest of national defense. He went on to say that the draft of reply to Senator Capehart's letter had been prepared with this in mind and that he recommended approval of the letter as follows:

"Your letter of February 26 gives me a welcome opportunity to explain my present views with regard to the desirability of holding trade consultations prior to any amendment that would tighten the terms of Regulation W. Although the Board has as yet taken no action looking toward a more restrictive amendment, you are correct that we are reviewing the credit situation constantly and will be prepared to make the regulation more restrictive promptly if such action seems to be in the public interest.

"The Board is aware of many good reasons why it should consult with the trade prior to any important amendment to Regulation W. I feel, however, that there has been some misunderstanding of the Board's attitude and actions with respect to trade consultations. It seems to me that the record shows clearly that the Board had consulted exhaustively with the trade before the regulation was reestablished last September and before Amendment No. 1 in October. In my statement before the Joint Committee last December I reported on the extensive trade consultations which the Board held prior to September 13 when the regulation was reissued. At those consultations the subject of terms was discussed thoroughly and trade representatives were fully informed with regard to the possible terms of the regulation. Again in the first two weeks of October prior to
Amendment No. 1, which made the terms of the regulation more restrictive, the Board consulted with numerous trade organizations. The meetings at that time were held specifically to consider the possibility of extending the scope of the regulation to include charge accounts and single payment loans. Nevertheless, trade representatives at that time also took the opportunity to state their views with regard to the terms of the regulation. In view of this series of consultations, together with the many others held by the Federal Reserve Banks with trade groups, it seems to me that unqualified statements to the effect that the Board did not consult with the trade are based on a misunderstanding of the actual facts.

The Board on October 13 when it acted to issue Amendment No. 1 fully recognized that the trade representatives favored terms even easier than those prescribed in the original regulation. After giving careful consideration to the expressed views of the trade the Board concluded that the terms prescribed, effective October 16, were necessary in the public interest in order to help in protecting the national economy and the defense effort against the disastrous consequences of inflationary pressures.

The trade has apparently misunderstood the responsibility of the Board for holding hearings under the Defense Production Act of 1950. Section 709 of the Defense Production Act states in part that:

'Any rule, regulation, or order, or amendment thereto, issued under authority of this Act shall be accompanied by a statement that in the formulation thereof there has been consultation with industry representatives, including trade association representatives, and that consideration has been given to their recommendations or that special circumstances have rendered such consultation impracticable or contrary to the interest of the national defense, but no such rule, regulation, or order shall be invalid by reason of any subsequent finding by judicial or other authority that such a statement is inaccurate.'

Senator Sparkman stated on August 10, 1950, in explaining this provision regarding consultation (Congressional Record, p.12378):
"The bill would require consultation wherever practicable. Of course, there will be some occasions where it would not be appropriate to consult in advance. There may not be time, when speed is vital. Sometimes giving advance notice of a proposed restriction would defeat the purpose of the restriction, or consulting a few people in an industry would give them an unfair advantage over the rest of the industry."

"In considering the October amendment the Board was faced with the question whether trade consultations which would alert the public and the trade to an impending tightening of terms would be in the public interest. The immediate question was whether the public announcement of a proposed restrictive amendment would result in such a flood of advance ordering and buying and high pressure selling as to nullify the restrictive effects of the amendment. This question was particularly serious because the amendment could not be made retroactive.

"Aside from the fact that the Board already was fully cognizant of the views of the industry, it believed further consultations at that time would not be in the public interest. An announcement that the Board was considering a more restrictive amendment would have caused a damaging expansion of credit similar to that which preceded the original September 18 effective date. In the period prior to September 18 there had been a large expansion of credit and many commitments made for later extensions of credit on unregulated terms in anticipation of restrictive action by the Board.

"In the circumstances, the Board was convinced, and stated in publishing Amendment No. 1 in the Federal Register, that: 'Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation.'

"I should like to emphasize that the Board and the twelve Federal Reserve Banks together with their twenty-four branches are continually consulting, on assignment and otherwise, with representatives of individual businesses and trade associations with regard to the effect of Regulation W on their businesses and trades."
"Views of the trade as expressed in such discussions with the Banks are then made available to the Board. These consultations are generally informal but in our opinion they have been highly successful in keeping the Board constantly informed and in providing the trades affected by the regulation with an opportunity to make their views known to us.

"In view of the fact that special circumstances have in the past and may again in the future render consultations impracticable or contrary to the interest of national defense, I do not believe that the Board could properly commit itself to a policy of holding trade consultations in connection with all proposed tightening amendments to Regulation W. The Board feels strongly that such consultations should be held whenever they are practicable. It has been our experience that trade consultations are highly valuable and even essential on questions concerning the scope of the regulation and its technical provisions. I have no doubt that the Board will in the future as it has in the past consult closely with the trade both directly and through the Federal Reserve Banks on questions of possible changes in the regulation, but because of the nature of some possible amendments, particularly those involving changes in terms, there will be occasions when such consultations will be impracticable or contrary to the interest of national defense.

"I appreciate having your views on this matter. In view of the interest in the matter of trade consultations expressed by other members of the Joint Committee on Defense Production, who have also raised questions on this subject, we are taking the liberty of sending a copy of this letter to Senator Burnet R. Maybank, Chairman, Joint Committee on Defense Production."

Approved unanimously.

In answer to a question by Mr. Eccles, Mr. Evans said that neither he nor the staff recommended tightening the terms of Regulation W at this time, for the reason that the present terms were providing maximum results and that to tighten them now would necessitate a
greatly enlarged enforcement program without increasing materially the restrictive effects of the Regulation. He added that the staff was watching developments in the consumer credit field closely and that his recommendation would be changed whenever conditions warranted.

Responding to an inquiry by Mr. Vardaman whether the Regulation should be extended to include charge account credit, Mr. Evans said that while sales on a charge account basis had increased in recent months, there was no evidence of any substantial lengthening of the payment period, and that it was the recommendation of the staff with which he agreed that the scope of the regulation not be extended to cover this type of credit at this time.

Mr. Evans said that he felt it would be desirable to obtain information on regulation of consumer credit in Canada since it differed in several important respects from Regulation W, and that he expected shortly to arrange to have one or two members of the staff visit the Bank of Canada for the purpose of making a first hand study of the consumer credit controls in that country.

Mr. Eccles inquired whether thought was being given to the possibility of increasing bank reserve requirements at central reserve cities to the maximum percentages permitted by law, and following a brief discussion it was the consensus that no action to increase such requirements should be taken at this time.

At this point Messrs. Noyes and Heath withdrew from the meeting.
Before the meeting there were circulated three memoranda prepared by the staff pursuant to the discussion at the meeting on March 6, 1951 with respect to the loan expansion reserve plan. The first of these, dated March 8, contained further staff comments on the plan, the second, dated March 7, concerned the application of the plan to savings and time deposits, and the third, also dated March 7, reviewed some of the objectives of reserve requirement plans.

The memorandum containing further staff comments on the loan expansion reserve plan was read, following which Mr. Horbett summarized the memorandum dealing with a possible exemption in applying the plan to loans which might be said to have been made out of time and savings deposits. This memorandum stated that the staff, after consideration of the various factors involved, took the position that no such exemption should be made, that the matter of competition between commercial banks and other financial institutions was a separate and important problem, but that consideration of it in a reserve plan might seriously jeopardize such a plan.

During the ensuing discussion of the memoranda, Chairman McCabe joined the meeting and Mr. Vardaman withdrew to keep another appointment.

Chairman McCabe stated that at yesterday's meeting of the inter-agency committee appointed by the President on February 26, 1951 and headed by Mr. Wilson, Director of the Office of Defense Mobilization, a confidential memorandum was presented by Mr. Keyserling of the Council
of Economic Advisers suggesting the appointment of inter-agency task forces to develop administrative and substantive plans for mandatory and voluntary control of expansion of private credit, to draw up a plan for legislation to permit increase of bank reserve requirements, to prepare a report on steps thusfar taken and steps in contemplation relating to stabilization of the market for public securities, and to prepare a report and recommendations on miscellaneous aspects of stabilizing the market for public securities and controlling inflationary private credit. At Chairman McCabe's request, Mr. Carpenter read the memorandum. Chairman McCabe went on to say that Mr. Wilson planned to appoint task force subcommittees to make reports along the lines suggested in the memorandum and that a representative of the Board would serve on each of the task forces to be created, if the Board so desired, and the chairman of the task force to investigate additional powers which might be given the Board over reserve requirements would be a representative of the Board. He suggested that the Board defer action with respect to adopting any specific plan for supplemental reserve requirements legislation until the task force reports had been considered by Mr. Wilson's committee, and that he be authorized to suggest representatives from the Board or its staff to serve on the task force subcommittees.

These suggestions were approved unanimously.

At this point Mr. Riefler, Assistant to the Chairman, joined the meeting and Mr. Powell withdrew.
Mr. Evans referred to the discussion earlier in the meeting concerning the loan expansion reserve plan, suggesting that the staff be requested to give further study to the plan in the light of the discussion at this meeting, that a revised draft of legislation be prepared in a form suitable for introduction in Congress, and that the plan be referred back to the Board for further consideration after Mr. Wilson's committee had received a report from the task force to be appointed to report on legislation that might be needed in this connection.

This suggestion was approved unanimously.

Mr. Thomas then reported on developments in the market for Government securities.

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 March 7, 1951, were approved unanimously.

Memorandum dated March 1, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that Miss Elsie M. Bevan, a clerk-stenographer in the Division of Selective Credit Regulation, serving on a temporary indefinite appointment, be transferred to the Division of Research and Statistics as a clerk-stenographer, with no change in her present basic salary of $2,875 per annum, effective as of the date on which she enters upon the
Memorandum dated March 6, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Elizabeth Nell Tyson as a library assistant in that Division, on a temporary indefinite basis, with basic salary at the rate of $2,875 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 the completion of a satisfactory employment investigation.

Approved unanimously.

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

"Reference is made to your letter of February 21, 1951, regarding provision for additional expenses, as shown below, resulting from certain operations not covered in the 1951 budgets of your head office and branches.

<table>
<thead>
<tr>
<th>Classification by objects - Form F. R. 96(a)</th>
<th>Richmond</th>
<th>Baltimore</th>
<th>Charlotte</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries - Employees</td>
<td>$34,355</td>
<td>$9,060</td>
<td>$6,168</td>
</tr>
<tr>
<td>Traveling expenses</td>
<td>12,800</td>
<td>3,300</td>
<td>3,420</td>
</tr>
<tr>
<td>Printing, stationery, and supplies</td>
<td>10,000</td>
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<table>
<thead>
<tr>
<th>Classification of employees' salaries on Schedule X</th>
<th>Richmond</th>
<th>Baltimore</th>
<th>Charlotte</th>
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<tbody>
<tr>
<td>Consumer Credit</td>
<td>20,635</td>
<td>1,221</td>
<td>2,028</td>
</tr>
<tr>
<td>Real Estate Credit</td>
<td>23,000</td>
<td>9,670</td>
<td>4,596</td>
</tr>
<tr>
<td>V-Loan Program</td>
<td>10,500</td>
<td>2,400</td>
<td>624</td>
</tr>
</tbody>
</table>

"Appropriate notations with regard to these items are being made in the Board's records."
Telegram to Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"I. A. Mayfield, Vice President and Cashier, The First National Bank at Orlando, Orlando, Florida, in a letter dated March 5, 1951, states in part: QUOTE We will appreciate your immediately telegraphing an opinion, with letter of confirmation, as to whether or not loans secured by investment trust shares are subject to Regulation 'U'. We have in mind the extension of loans secured by such securities as National Securities, Group Securities, Diversified Funds Inc., etc. UNQUOTE

"It will be appreciated if you will advise the bank that the present provisions of Regulation U do not apply to loans to purchase investment trust shares if those shares themselves are not registered on a national securities exchange.

"The bank has not been advised that we are referring this matter to you."

Approved unanimously.

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

"Certain questions have arisen in connection with the Board's telegram (W-132) which designated for the purposes of Part IV of the Supplement to Regulation W certain January issues of appraisal guides specified in the price ceiling regulation.

"The third paragraph of that telegram specified that these designations were in addition to previous designations by the Board. Accordingly the guides now designated for purposes of Regulation W include both the current (March) issues and any January issues approved for price ceiling regulation, and a registrant may use either a current (March) issue or a January issue for the purposes of Regulation W, even though the average retail value in the March issue is higher than that in the January issue approved
"for price ceiling purposes. Of course, under Regulation W the Registrant may in no event use an appraisal guide value if such value is higher than the cash price. Furthermore, this is without prejudice to the responsibilities of Registrants to comply with the appropriate price ceiling. Certain of the appraisal guides designated under Regulation W were not initially approved for price ceiling purposes. Also, January issues of the approved guides may not be immediately available for all Registrants. For these reasons the Board felt it advisable to continue until further notice the designation of the current issues for purposes of Regulation W.

"As under previous designations, the appraisal guide value may not include any value specified in the guide for a radio or heater, although the terms of the price ceiling regulation permit such values."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks,

reading as follows:

"A moderate number of cases have been brought to the Board's attention where builders or sponsors have made substantial outlays for land, and in some cases for building materials and site improvements, in connection with construction of nonresidential properties without either a start or a written commitment from a lender prior to February 15, 1951. In almost every instance the facts indicate that the prospective borrower did not have an oral agreement which was in any sense legally binding, but had acted in reliance on preliminary negotiations which could not be construed as a commitment in any sense.

The appropriate way in which any hardship suffered by the prospective borrowers in these instances could be relieved would be by an amendment to Regulation X which would provide for the granting of hardship exemptions by the Federal Reserve Banks on the basis of a showing by the prospective borrower that he had, before February 15, undertaken substantial expenditures or commitments, that it would be impossible by any method for him to proceed in compliance with Regulation X, and that he
"would lose large amounts in relation to his financial condition as a result of his inability to proceed as contemplated. The announcement of such a hardship amendment would result in a large number of applications for exemption which could not be granted under the terms of any such amendment, as well as many others which would present close questions for decision. Both because of its reluctance to throw this substantial administrative burden on the Federal Reserve Banks and because of its desire to make the real estate credit controls as effective as possible in containing inflationary forces, the Board is extremely reluctant to adopt such a hardship amendment. However, before reaching a final determination in the matter, the Board is anxious to have the views of the Federal Reserve Banks with respect to the need for and advisability of such an amendment. An estimate of the number of cases in your district which have come to your attention which would probably fall within the purview of such a hardship amendment would also be of interest.

"For your information, the Board has consulted confidentially with a number of large institutional lenders and is advised by them that the regulation has generally been well received and that they feel it is fair and equitable in its present form.

"You will understand that if any action is to be taken to provide for hardship exemptions it should be done promptly, and the Board would, therefore, appreciate having your views no later than Monday, March 12."

Approved unanimously.

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

"Would you please have your research and Regulation X groups consider the following questions and advise us of their views by the close of business on Monday, March 12.

"1. What are the most important factors which are supporting current levels of housing starts? A few of the possible explanations are:
"Large backlog of pre-regulation commitments
Effect of postponed starts due to bad weather
Fear of future limitations on housing construction
Fear of future materials shortages
Ineffectiveness of credit curbs as a restraining influence
Scare buying
Buying as a hedge against inflation
Need for housing near expanding industrial areas
Shortages of rental units

2. How long do you expect this relatively high level of starts to continue? What are your reasons for this estimate?

3. What, if any, important changes have taken place in the mortgage credit and building situation since your survey of late January?"

Approved unanimously.

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

"In answer to inquiries received it is the opinion of the Board that radio and television broadcasting companies are not public utilities within the meaning of section 2(s) of Regulation X. Accordingly, structures exclusively used or designed for use by such companies are nonresidential structures within the meaning of section 2(r) of the regulation."

Approved unanimously.

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

"Reurtel March 5 regarding public warehouses and public elevators. Such structures are subject to the regulation. With respect to clinics as described in your telegram, such structures appear to be merely a group of private offices run for the benefit of physicians and are also subject to the regulation."

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

"This will acknowledge your telegram dated February 27 in which you ask for information about our attitude toward Section 5(k) of Regulation X. It would not be possible to comply with your suggestion that Section 5(k) be extended to August 1 in view of the fact that the real estate credit provisions of the Defense Production Act have not been extended thus far beyond June 30, 1951. Under these circumstances, the Board does not consider it desirable to extend the date contained in Section 5(k) beyond May 1, 1951.

"You are principally concerned with the inconvenience and hardship which has been caused builders of non-residential construction begun before February 15 and which may not be fully completed before May 1, and it was because of this fact that you would like to see the date in Section 5(k) extended for approximately six months from February 15. It would seem to us that even though construction may not be finished on May 1, the loan could be in some manner closed before that date so that the credit would be fully extended. In this connection, we think it might be satisfactory, if construction is not completed, that funds to be disbursed under a permanent mortgage may, if necessary, be placed in escrow under an arrangement whereby the disbursement of the funds will no longer be subject to the control of the lender.

"It is quite probable that the Board will later issue an interpretation of Section 5(k) covering this point."

Approved unanimously.

[Signature]

Secretary.