

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, March 26, 1951.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
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 March 23, 1951, were approved unanimously.

Memorandum dated March 20, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending an increase in the basic salary of J. J. Connell, technical assistant in that Division, from \$6,600 to \$7,600 per annum, effective April 1, 1951.

Approved unanimously.

Memorandum dated March 22, 1951, from Mr. Marget, Director of the Division of International Finance, recommending an increase in the basic salary of Miss Dorothy Grifasi, a clerk-stenographer in that Division, from \$2,875 to \$2,955 per annum, effective April 1, 1951.

Approved unanimously.

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

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"Reference is made to your letter of March 14, 1951, requesting the Board to approve the payment of salary to Robert B. Harvey as Vice President and Cashier of the Federal Reserve Bank of Boston.

"The Board approves the payment of salary to Mr. Harvey at the rate of \$11,000 per annum as Vice President and Cashier for the period March 1, 1951, through April 30, 1951."

Approved unanimously.

Telegram to Mr. Bryan, President-elect of the Federal Reserve Bank of Atlanta, reading as follows:

"The members of the Board appreciate very much your wire of March 23. They have asked me to assure you of their complete support in your new and important undertaking. They are confident that you will make a real contribution to the effective discharge by the System of its increasing responsibilities."

Approved unanimously.

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

"A question has been received concerning the application of Regulation W where, at the conclusion of an instalment rental of a listed article for a period of three months or less, the lessee either purchased, or leased for a further period, the same or a similar article.

"Assuming that the original lease or rental transaction was entered into in good faith and qualified for exemption under section 7(1), an instalment purchase or lease of the same or a similar article at the conclusion of the exempt rental transaction would not be contrary to the regulation. The subsequent instalment transaction, of course, would have to comply with the regulation as a separate and individual instalment transaction.

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"If, however, at the inception of or during the original rental period, there occurred any agreement, arrangement, or understanding for any such subsequent instalment purchase or lease, the exemption stated in section 7(1) would not apply, and subsequent transaction with respect to the same or a similar article would constitute a violation of the regulation.

"In all cases, the burden is upon the Registrant to establish that a particular rental qualified for exemption under section 7(1). The necessary good-faith compliance with that section would be especially doubtful if it appeared that the transactions claimed to be exempt were followed with any frequency by arrangements involving the purchase, lease, or other use of the same or similar article."

Approved unanimously.

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

"Reurtel March 16 concerning application of Regulation W to short term rentals followed by further rental or sale.

"Your first question answered by S-telegram of this date.

"In answer to your second question, regulation does not require as a condition to exemption under section 7(1) that Registrant inquire whether customer has previously rented a similar article elsewhere and returned it at the end of the rental period."

Approved unanimously.

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

"It is the Board's opinion that written minutes, which indicate that an executive committee of a Registrant under Regulation X had approved prior to February 15, 1951 a loan application for non-residential construction, are not of themselves sufficient to establish that there was a 'written agreement' within the meaning of clause (1) of section 6(b) of Regulation X."

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Approved unanimously.

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

"Reurtel March 12, 1951, asking for our views whether minutes of an executive committee constitute a written agreement within the meaning of clause (1) of section 6(b) of Regulation X. Under the facts stated, we do not believe that it would be a written agreement within the meaning of section 6(b). However, you may wish to re-examine some of the individual cases in order to determine whether they qualify for an exemption under the provisions of section 5(g)."

Approved unanimously.

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

"We have received inquiries from many quarters as to what constitutes a nonresidential 'structure' under Regulation X. The inquiries relate to such diverse structures as radio towers, bridges, wharves and piers, sheds, tanks, open parking structures, tunnels, etc.

"There is no definition of 'structure' in the Defense Production Act, and there is nothing in the legislative history to indicate what types of structures were meant to be included by Congress. There is, of course, an important question of policy involved as to whether there should be any regulation of credit with respect to structures which are not in effect 'buildings'; that is, something with walls and roof. We are writing to you, therefore, to avail ourselves of the benefit of your experience and ideas on this question for, quite probably, many such inquiries have been forwarded to you. We would be interested in knowing what answers you have given to such questions and how you would define 'structure' if it were thought advisable to prescribe some definition for the purposes of Regulation X.

"We will appreciate hearing from you."

Approved unanimously.

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Letter to Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of March 6, 1951, in which you requested that the Board review and comment on the applicability of section 6(b) of Regulation X, as amended February 15, 1951, to the written agreement between the Bank of America and the General Petroleum Corporation that is known as the bank's circular 'L'.

"In your letter you stated that there was considerable doubt in your mind that the agreement, which contemplates financing the construction of automobile service stations for lease to the corporation, could qualify as a firm commitment within the meaning of section 6(b) unless some specific action in reliance upon this agreement had been taken by the corporation prior to February 15, 1951.

"After reviewing the background material which you enclosed with your letter, we believe that the agreement between the bank and the oil company is too indefinite to constitute a firm commitment within the meaning of section 6(b). In our opinion it is nothing more than a loan plan under which the bank will extend credit to borrowers presented by the oil company in the future upon the terms mentioned in the circular. The circular itself, because of the very nature of the arrangement, leaves unknown until a subsequent time the borrowers, the maximum amount of the loans and the value and location of the properties involved. It merely furnishes a basis upon which the loans are to be negotiated and closed; and, while it is a commitment to the extent that it is performed, in that it attaches to and becomes a part of the particular transactions entered into as long as it remains effective and imposes certain obligations as to how the loans shall be made, it imposes no obligation upon the bank to become a lender or upon the corporation to become either a borrower or an agent for the borrower.

"We believe that if the corporation, in reliance upon the loan plan, has prior to February 15, 1951, selected a specific borrower, established the maximum loan value and selected the specific property involved in the contemplated construction, the agreement between the bank and the corporation has become a firm commitment with respect to such transaction; however, where these arrangements are

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"made after February 15, 1951, the loan plan would not qualify as a firm commitment entered into prior to February 15, 1951."

Approved unanimously.

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

"This refers to your letter of March 13, 1951, addressed to Chairman McCabe, requesting our comments concerning S. 614, a bill 'To amend the Bankhead-Jones Farm Tenant Act so as to improve credit services available to farmers seeking to change or diversify their farming operations or adjust and improve their farming practices'. Enclosed with your letter was a copy of the report of the Department of Agriculture with respect to the proposed bill.

"S. 614 would increase the maximum amounts and periods for repayment of production and subsistence loans under the Bankhead-Jones Farm Tenant Act. The maximum amount which could be loaned initially would be increased from \$3,500 to \$7,000, and the limit on the total outstanding indebtedness of a borrower would be increased from \$5,000 to \$10,000. The maximum period for repayment would be increased from five years to ten years, with an additional two years for each \$1,000 loaned in excess of \$5,000. In other words, the proposed legislation would permit an initial loan of \$7,000 payable over a period of fourteen years and total advances of \$10,000 payable over a period of twenty years.

"At the present time when inflationary pressures are very great it is of the utmost importance to scrutinize every expenditure of funds to determine any possible adverse effect in the economy. The changes proposed by this bill should be carefully appraised as to their probable influence on such important matters as the production of agricultural commodities, the prices of farm machinery and other farm supplies, the movement of farm manpower into essential defense jobs, and the desirability of the proposal as a part of the nation's long range agricultural policy.

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"In so far as the question of increasing maturities is concerned, the limits proposed in S. 614 seem especially questionable at the present time. Now, when farm incomes are high in relation to costs and when saving should be encouraged, it is essential that loans be retired as promptly as possible. Also, the limits suggested in S. 614 on repayments seem inconsistent with the nature and purposes of the loans and far out of line with terms which private lenders might be expected to accept for comparable loans.

"It is obvious that the bill would liberalize Government lending authority in the agricultural field. In the absence of more compelling reasons than those of which we are informed, such a step at this time would appear to us to be inconsistent with the vigorous efforts which the Government is currently making to control the strong inflationary pressures which exist in the credit field."

Approved unanimously.

Letter to the Chairmen of all Federal Reserve Banks with copies to Presidents and Auditors of all Federal Reserve Banks, reading as follows:

"The Standing Committee of Auditors of the Federal Reserve Banks, in consultation with the Board's Division of Examinations, has ascertained that May 23, 24, and 25, 1951, would be convenient dates for the regular biennial Conference of Auditors, and the holding of such a conference at that time has been cleared with the Chairmen's Conference. Accordingly, a Conference of Auditors will be held on those dates at the Board's offices in Washington.

"In accordance with established practice, the Standing Committee of Auditors plans to consider items for the agenda at a meeting to be held in the near future, and it is understood that Mr. O. W. Ohnstad, Chairman of the Committee, will obtain from the Reserve Bank Auditors their suggestions with respect to topics for the agenda. Copies of the agenda will be furnished you as far in advance of the conference as possible.

"It is suggested that each Reserve Bank be represented at the conference by the Auditor or General Auditor and his principal assistant.

