

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 11, 1951.

PRESENT: Mr. Martin, 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 May 10, 1951, were approved unanimously.

Telegrams to the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on May 8, by the Federal Reserve Bank of Richmond on May 9 and 10, and by the Federal Reserve Banks of Cleveland, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on May 10, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated May 9, 1951, from Mr. Vest, General Counsel, recommending an increase in the basic salary of Richard J. Lewis, a law clerk in the Legal Division, from \$3,950 to \$4,200 per annum, effective May 13, 1951.

Approved unanimously.

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Memorandum dated May 8, 1951, from Mr. Leonard, Director of the Division of Bank Operations, recommending that the temporary indefinite appointments of Miss Barbara Bauman, a clerk in that Division, and Mrs. Eleanor I. Klein, a statistical clerk in that Division, be extended on a permanent basis, effective May 13, 1951, with increases in their salaries from \$2,650 to \$2,730 per annum, effective May 13, 1951.

Approved unanimously.

Memorandum dated May 9, 1951, from Mr. Leonard, Director of the Division of Bank Operations, recommending the appointment of Mrs. Kathryn E. Ridgway as a statistical clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,730 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 for the signature of the Chairman to the Honorable William S. Paley, Chairman, President's Materials Policy Commission, Executive Office of the President, Washington, D. C., reading as follows:

"In answer to your letter of May 4, I am happy to report that the Board of Governors has approved your request for the services of Mr. Edward Ames of the Division of International Finance, to assist in the preparation of a Report dealing with the security aspects of the materials problem.

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"Mr. Ames' work-load here at the Board is extremely heavy. It is understood, therefore, that Mr. Ames will remain at the Board full time but will be available to consult with the Commission's staff and to participate in the planning and coordination of the Commission's work in the preparation of its Report. We understand that Mr. Ames' particular assignment will be in connection with that portion of the Report dealing with Soviet orbit resources."

Approved unanimously.

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

"Consideration is being given to minor technical amendment to Regulation T to relax restrictions on capital contribution loans made to a member firm of a securities exchange by its corporate affiliate. It will be appreciated if you will let us have your comments or suggestions by May 16 on the possible amendment, which is set out below.

"Section 4(f)(2) of Regulation T is hereby amended by striking out the words QUOTE provided (A) the lender as well as the borrower is a partner in such firm, or (B) UNQUOTE and substitute therefor the following QUOTE comma or may make and maintain subordinated loans to such a member firm for capital purposes, provided (A) the lender as well as the borrower is a partner in such firm, or (B) the borrower is a member of such exchange, the lender is a corporation all of the common stock of which is owned directly or indirectly by the firm or by general partners and employees of the firm, and, in addition to the fact that an appropriate committee of the exchange has approved the firm's affiliation with the corporation and is satisfied that the loan is not in contravention of any rule of the exchange, the loan has the approval of such committee, or (C) UNQUOTE"

Approved unanimously.

Letter to the Honorable Henry O. Talle, House of Representatives, Washington, D. C., reading as follows:

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"This refers to your letter of April 26, 1951, which transmitted for our consideration a letter from Mr. O. A. Swartz, Swartz Motor Company, Sioux City, Iowa. Mr. Swartz writes that his inventory of late model used cars is increasing. He expresses the view that the white-collar worker and laboring man cannot meet the required monthly payments, due to the increase in other living costs.

"One of the major problems involved in administering Regulation W is to make it restrictive enough so that it will be effective in accomplishing its overall purpose without being an excessive burden on the businesses and people who are subject to it. The Board's staff constantly studies the effect of the regulation with the aim of keeping it in line with current conditions. The Board has felt that relatively tight terms are required at present in order to help restrain the strong inflationary pressures that are tending to raise the prices of all goods and services.

"As Mr. Swartz points out, his customers have suffered from inflation already to the degree that their standard of living has fallen. The major purpose of the regulation is to curb the inflationary increase in purchasing power that results from the expansion of installment credit. A further purpose of the regulation is to facilitate the diversion of critical materials and labor to military production.

"Thank you for the opportunity of commenting on Mr. Swartz's letter. We are always glad to hear the views of people in the trade. The letter is returned herewith as requested."

Approved unanimously.

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

"This refers to your letter of April 18, 1951, and its enclosures, and also to your telegram of April 27, 1951, concerning the application of Regulation W to the sale or financing by the Kelley Kar Company of insurance and of such things as gasoline, oil, tires and repairs relating to automobiles sold by that Company and financed on an instalment basis.

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"So far as the sale or financing of gasoline, oil, tires, repairs, or other such matters are concerned, the Board agrees that the question involved was answered by its letters of March 22, 1949 and May 20, 1949, and more recently by its letter of April 9, 1951. As you know, these letters followed and applied the principles stated in S-1094 (W-50) of March 4, 1949, restated in item (10) of S-1190 (W-97) of March 9, 1950, and published at page 1616 of the 1950 Federal Reserve Bulletin and at section 222.118 (10) in 15 Federal Register 7827, November 17, 1950.

"With regard to the sale or financing of insurance, the Board agrees with the indication in your telegram that the question is not materially different from that covered by the October 19 and November 21, 1950 correspondence to which you referred. The Board's reply in that connection applied the principles stated in its telegram of February 18, 1949, and S-1093 (W-49) of March 2, 1949, which, as you know, were restated in item (9) of S-1190 (W-97) of November 9, 1950, and published at page 1615 of the 1950 Federal Reserve Bulletin and at section 222.118(9) in 15 Federal Register 7827, November 17, 1950.

"From the facts presented in your correspondence of April 18, 1950, it is clear that the proposed handling of automobile insurance by the Kelley Kar Company is essentially a part of the automobile transaction and so considered by the parties to be in connection therewith. Sections 3(a) and 6(c) require specifically that the 'amount of any insurance for which credit is extended' be included in the time balance arising from the sale of an automobile. Therefore, as stated in item (9) of S-1190 (W-97) 'the insurance cannot be treated as a separate exempted sale ***, but must be included' in the time balance. Thus, to establish a single payment or charge credit in the circumstances described in your letter and by Mr. Kelley would violate the regulation. There would be a further violation of the regulation if such a single payment credit and the instalment credit covering only the automobile were subsequently consolidated and the consolidated instalment obligation were to run for 15 months. This, of course, would provide a longer maturity than that permitted by the regulation."

Approved unanimously.

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Letter to the Honorable Mike Monroney, United States Senate,
Washington, D. C., reading as follows:

"This refers to your letter of April 28, 1951, which submitted for our consideration a thoughtful letter from Mr. Elmer O. Hinkle of Hinkle Appliance Company, Altus, Oklahoma. Mr. Hinkle suggests that in sales of new appliances used appliances be allowed to be credited as all or part of the required down payment, as is done in the instalment sale of automobiles.

"As you know the requirements of the regulation in this respect have not been changed since the regulation of consumer credit was first issued by the Board in 1941. For reasons that have seemed to be compelling, the approach to the regulation of automobile instalment credit has been and is different from the approach in the appliance and furniture area.

"The Board recognizes that the down payment requirement is less restrictive in the case of automobile instalment sales than it is for other articles. This is largely because the majority of automobile sales traditionally involves the trading-in of an old automobile (in many cases the value assigned to this trade-in represents as much as 50 per cent of the price of the automobile being purchased). To avoid disturbing this established trade practice the regulation has been designed to have its restrictive effect through the length of time the buyer can take to pay for his car. Because of the relatively large size of the average automobile instalment contract, variations in maturity have a substantial effect on the monthly payment which the purchaser must make, and consequently on the restrictive effect of the regulation.

"In the case of appliances and other listed articles, the regulation has depended on its down payment requirement for the greater part of its restrictive effect. This approach seems to be realistic because the monthly payment on the average instalment note for such articles is so small that differences in maturities have little effect on the ability of the purchaser to meet monthly payments. Further, trade-ins are very often a sales promotion device in the form of a token allowance or discount. Adoption of the automobile trade-in rule for all appliances would tend to nullify the down payment requirement in the appliance field.

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"The monthly payments required under the present 15 months maturity limitation tend to make the regulation as restrictive in the automobile area as it is for other listed articles even though the down payment requirement in itself is less restrictive.

"The regulation does not of course prohibit the acceptance of a trade-in on appliances. Dealers are free under the regulation to assign any trade-in value they wish as a deduction from the cash price of the article sold. The trade-in provision of the regulation merely requires that the down payment in the case of articles other than automobiles be computed as a percentage of the net price after deducting any trade-in value.

"The Board is continuing to study this aspect of the regulation and is glad to hear the views of people in the trade. We appreciate this opportunity of commenting on Mr. Hinkle's letter, which is returned herewith."

Approved unanimously.

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

"This refers to your letter of April 20, 1951, concerning the applicability of Regulation X to sales of 'new construction' by individuals who had purchased property on terms which met the requirements of Regulation X. You referred to cases in which individuals were selling property under deferred payment plans or conditional contracts of sale on terms which do not conform with the regulation.

"We concur in your opinion that such sales are extensions of real estate construction credit, but we believe there is nothing in the regulation affecting such sales if made in good faith, provided no credit in connection with the sale is extended by a Registrant.

"We noted with great interest your observation that this practice is becoming prevalent in the building and real estate fields as an apparent method of avoiding the down payment requirements of Regulation X. It was anticipated that this might be the case and several provisions to discourage such practices were made in the regulation. Section 4(a)(5) prohibits a Registrant from purchasing, discounting, or lending on any credit instrument evidencing the real estate construction credit extended by the seller

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"in such sales; section 4(a)(6) would affect such sales if the seller had made more than three or if sales were in an aggregate amount exceeding \$50,000; under section 6(a) there would be an evasion of the regulation by the Registrant extending credit to the seller if he knew or had reason to know that such a scheme was being used to circumvent the provisions of the regulation.

"In summary, there is nothing in the regulation to prohibit such sales made in good faith by non-Registrants where no credit is extended by a Registrant. However, we believe that in answering such inquiries you should refer to the provisions of the regulation noted above and if it appears that the seller is merely being a 'straw man' for the purpose of circumventing the regulation, we believe you properly could consider the transaction as being prohibited under section 6(a).

"We hope that you will keep the Board informed as to the future trend of the practice to which your letter refers so that consideration could be given, if necessary, to amendments to the regulation to lessen the likelihood of this and other similar avoidance schemes."

Approved unanimously, with the understanding that the Presidents of all Federal Reserve Banks and the Managing Officers of all Federal Reserve Bank Branches would be advised of this action by letter.

Letter to Mr. Denmark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"This is in reference to your letter of April 26 concerning the treatment of landscaping cost for the purposes of Regulation X. The statutory definition of new construction is any structure or any major addition or improvement to a structure begun before August 3, 1950. In view of this definition it is our opinion that landscaping cannot be regarded as a major improvement, inasmuch as it is not an improvement to the structure.

"However, we agree with your interpretation that the costs of landscaping should be included in the determination of 'value' of a new residence to the extent they are usually covered by the building contract."

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Approved unanimously.

Letter to the Honorable Alexander Wiley, United States Senate,
Washington, D. C., reading as follows:

"Thank you for referring to the Board of Governors Mr. I. L. Tipple's letter of April 26 concerning Regulation X. We are glad to have the opportunity to explain the role of Regulation X in combating inflation.

"As you know, at the present time we have full employment of our economic resources. This means that new defense requirements plus usual civilian demands cannot be met by immediately increasing production. If we try to satisfy usual civilian demands and add new defense demands, prices will rise. To have more defense production we must, during the immediate period ahead, have less civilian production.

"Congress recognized this fact when it authorized real estate credit restrictions in the Defense Production Act of 1950. The purpose of the restrictions is to reduce the pressure of demand for new construction and the rapid growth in mortgage debt. If liberal credit continued easily obtainable, the home buyer would bid against the military and others for available materials, and all would pay higher and higher prices. Furthermore, this expansion of credit would add to inflationary pressures generally throughout the economy. Regulation X is designed to limit the amount of credit which homebuyers can obtain and to require a portion of the cost of a home to be met from the buyer's own resources, the portion increasing as the cost of the house increases.

"It is the Board's view that restrictions are necessary in public housing as well as in private housing. We also feel that it is necessary to restrict all types of credit, whether unsecured or whether secured by mortgages or securities. One exception which Regulation X provides, as Mr. Tipple points out, is borrowing against life insurance. This exception was made in order to enable individuals to borrow on their policies rather than to cash them and lose the preferred actuarial position gained when the policies were first taken out, or perhaps to lose their insurance entirely in cases where their health was not such as to permit them to repurchase life insurance.

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"We hope this will help to explain the purpose of the regulation. If we can be of further assistance, please do not hesitate to call upon us."

Approved unanimously.

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

"A privately owned public warehouse used for the storage of grain and other foodstuffs is not a 'public utility' within the meaning of section 2(s) of Regulation X, and hence is not excluded from the definition of 'nonresidential structure' by section 2(r)(4)(i) of the regulation, even though the operations of the warehouse are supervised by a Federal or State agency. It is the Board's opinion that a warehouse is not similar to a transportation company, electric light or power company, or other similar companies specifically mentioned in section 2(s)."

Approved unanimously.

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

"Reurlet May 3, 1951, re inquiry by American National Life Insurance Company of Galveston, Texas. After considering enclosed correspondence file, we concur in your opinion that there was no written firm commitment within meaning of clause (1) of section 6(b) of Regulation X, and that case might possibly have qualified for section 5(g) exemption had application been filed prior to April 15, 1951."

Approved unanimously.

Memorandum dated May 11, 1951, from Mr. Hooff, Assistant Counsel, recommending that there be published in the law department of the May issue of the Federal Reserve Bulletin statements in the form attached

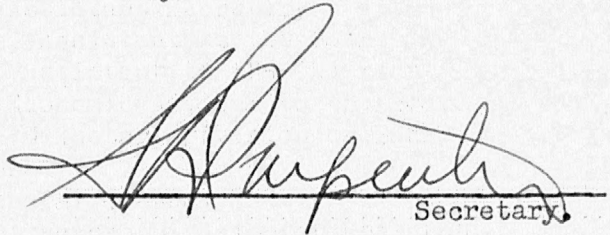
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with respect to the following subjects:

- Assignment of Claims Against Government
Amendment to Statute
- Real Estate Credit
Amendment to Regulation X
Newspaper Printing Plant (X-47)
- Consumer Credit
Air Conditioners (W-1144)
- Common Trust Funds
Transfer to Fund of United States Bonds (S-1326)

Approved unanimously.



Secretary.