Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, May 14, 1951. The Board met in the Special Library at 2:35 p.m.

PRESENT: Mr. Martin, Chairman
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. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Sloan, Assistant Director, Division of Examinations

Before this meeting there had been distributed to the members of the Board a memorandum of topics to be discussed at the meeting of the Board with the Federal Advisory Council tomorrow at 10:30 a.m. The memorandum was discussed, and it was agreed that the views of the Board would be stated substantially as recorded in the minutes of the joint meeting.

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 May 11, 1951, were approved unanimously.

Memorandum dated May 14, 1951, from Mr. Sloan, Assistant Director, Division of Examinations, recommending that the Board authorize an advance of funds to Frank C. Guth, Jr., Federal Reserve Examiner in that Division, in the amount of $1,000.00 for use to assist in meeting the expenses of official travel in connection with his forthcoming approved trip to Europe.

Approved unanimously.

Memorandum dated May 8, 1951, from Mr. Szymczak, recommending that Mr. Marget, Director of the Division of International Finance, be designated to represent the Board at the annual meeting of the Bank for International Settlements in Basle, Switzerland, from June 9 to June 11, 1951.

Approved unanimously.

Letter to Mr. Glenn M. Goodman, Board of Governors of the Federal Reserve System, Washington, D. C., reading as follows:

> "The Board hereby authorizes you in your capacity as Federal Reserve Examiner to proceed to London, Paris, Brussels, and such other points as may be necessary to participate in examinations of the European branches of certain 'Edge' banks, Agreement corporations, and State

"member banks, as specified in a memorandum from Mr. Sloan, Assistant Director, Division of Examinations, to the Board of Governors, dated April 19, 1951.

"While engaged in this assignment, you will be allowed actual necessary transportation expenses in accordance with the Board's travel regulations and per diem in lieu of subsistence as follows: at the rate of $9 while within the United States, and at the rate of $14 while outside the United States, except while on board ship, when actual necessary traveling expenses will be allowed. You will also be reimbursed for accident insurance in the amount of $20,000 and baggage insurance in the amount of $500.

"It is requested that you retain the original of this letter and that the file copy, after being initialed by you, be returned to the Board's files."

Approved unanimously, together with an identical letter to Mr. Frank C. Guth, Jr., Board of Governors of the Federal Reserve System, Washington, D. C.

Letter to Mr. Johns, President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to Mr. Kline's letter of May 1, 1951, and enclosure, regarding a possible violation of the provisions of Title 18 U.S.C., Sec. 709, by the 'Federal Reserve Life Insurance Company', St. Louis, Missouri, through the use of the words 'Federal' or 'Reserve' by such company in its corporate title.

"It is noted that your Bank has decided to bring the matter to the attention of the Superintendent of Insurance of Missouri with the request that he take such action as will assure prompt discontinuance of the use by the insurance company of the terms 'Federal' and 'Reserve' in its corporate title and that if the Superintendent fails to obtain results satisfactory to your Bank other means of obtaining compliance with the statute will be considered.

"We are in agreement with the manner in which you are handling this matter and in the event satisfactory results are not obtained, it is suggested that you refer the matter to the United States Attorney with appropriate advice to the Board in order that we may in turn advise the Attorney General."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, prepared in accordance with the understanding at the meeting on April 24, 1951, reading as follows:

"Since the amendment of section 12B(v)(4)of the Federal Reserve Act, effected August 17, 1950, and now embodied in the Federal Deposit Insurance Act as section 18(c), the Board of Governors has been called upon to give its consent on several occasions for proposed mergers and absorptions as a result of which the continuing bank would not have capital and surplus, respectively, equal to the aggregate capital and aggregate surplus of the merging or consolidating banks.

"In several instances publicity has been given to the proposed transaction prior to the submission of a request for the Board's consent pursuant to the statutory requirement. Also, the Board has noted that a single institution may submit such proposals serially from time to time until the cumulative effect attains significant proportions that must be taken into account with respect to individual proposals.

"It is realized that, for a number of reasons, it is highly desirable to give full publicity to proposed mergers, consolidations and absorptions as soon as possible after the contracting parties have reached agreement. Where prior written consent of the Board of Governors is required by statute, however, such approval should not be taken for granted and it is possible that the Board or the contracting parties, or both might be embarrassed by anticipatory publicity. Therefore, it is suggested that the salient features of the plan for absorption be transmitted to the Board for consideration prior to publication of the proposal, if such be possible. Upon receipt of information regarding the contracting parties, the capital, surplus, and total capital funds of each, the capital, surplus, and total capital of the continuing institution, the reasons for the proposed transaction and the opinion and recommendation of the Reserve Bank in the matter, the Board will endeavor to give it prompt consideration and reach a conclusion on the basis of facts as submitted. If when full information is submitted later with a formal application, it appears that there has been a significant change in the plan or that some important phase of the

transaction was not originally brought to the Board's attention, it will be necessary for the Board to give consideration to such additional factors.

"Where the applicant institution has acquired assets and assumed liabilities of one or more banks since the effective date of the amendment without increasing the total of its capital and surplus, respectively, as contemplated under the law, it is requested that full information be given in connection with the current proposal with respect to all similar transactions by the applicant after the effective date of the amendment, including the amount of deposits assumed and capital disbursed.

"It is not contemplated that the suggested procedure be brought to the attention of all member banks. However, any Federal Reserve Bank may, in its discretion, bring the substance of this letter to the attention of any banks within its district where it feels that the need for such procedure may arise."

Approved unanimously.

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

"In connection with the drafting of the weekly report (form F. R. 416a) of changes in commercial and industrial loans, which was approved by the Board and distributed to the Federal Reserve Banks on May 1 (letter S-1318), the suggestion was made that it would be very useful to obtain some indication of the amount of loan commitments outstanding. It was pointed out that many of the new loan disbursements being reported are the result of loan commitments made long before the inauguration of the Voluntary Credit Restraint Program, and that lending decisions are fully as important as actual loan disbursements. Moreover, it is quite probable that actual borrowings in recent months under commitments and lines of credit established many months ago have been much larger than either the banks or the borrowers anticipated at the time the negotiations were conducted.

"Collection of statistics on commitments might be quite difficult in some cases, due to the varying practices of banks in making commitments and establishing

"lines of credit, differences in degree of firmness, etc. For the same reasons aggregate statistics of commitments for a group of banks would have to be used with caution, even though a time series for individual banks in the group provided a fairly good indication of prospective loan portfolios.

"In the above circumstances, it was decided not to include an item on commitments in the new weekly report, but to obtain some such data from a few of the leading banks that have the information readily available. To this end it will be appreciated if you will contact, say, from two to five of the leading banks in your District and, if they maintain such records for their own purposes, obtain from them and furnish the Board with statistics of (1) the total amount now outstanding of firm commitments and lines of credit for commercial and industrial loans, (2) the amount of loans now outstanding under such commitments and lines of credit, (3) corresponding figures for about a year ago, if available, (4) a brief statement of the nature and degree of firmness of the reporting banks' commitments and lines of credit, and (5) comments on the extent to which those commitments and lines of credit represent credit that will actually be used and the extent to which they are considered, by the firm involved, merely as reserves of credit to be used if unforeseen conditions arise.

"This information may throw some light on changes since last year in the volume of potential commercial and industrial bank credit, and a comparison between commitments and actual disbursements will afford some idea of whether it would be worth while to supplement the weekly reports on loans actually made with statistics on either total or unused commitments. Since there are serious questions regarding the interpretation and use of data on commitments, we will appreciate any comments you may have on the desirability of obtaining such information and on its significance."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"It has come to the Board's attention that the Bank of Montreal, Montreal, Canada, is operating a branch office in Chicago, Illinois. As you know, the receipt of deposits in the United States by a foreign bank or branch thereof is, in effect, prohibited by section 21 of the Banking Act of 1933, unless the corporation is permitted by State law to engage in such business and is subject to examination and regulation, or the corporation submits to examination by the State banking authority and makes and publishes reports of its condition.

"Since the Board's records do not disclose whether the Bank of Montreal is complying with the terms of the statute, it will be appreciated if you will investigate this matter and report to the Board the information that you may develop."

Approved unanimously.

Letter to the Board of Directors, Bankers Trust Company, New York, New York, reading as follows:

"Pursuant to the request contained in your letter of April 20, 1951, submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System hereby gives written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the absorption of The Commercial National Bank and Trust Company of New York by the Bankers Trust Company without increasing the capital and surplus of the Bankers Trust Company, provided the absorption is carried out substantially in accoradnce with the agreement between the parties dated April 19, 1951.

"It is understood that approval of the proposed transaction will be obtained from the appropriate State authorities."

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

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

"This refers to the Board's letter dated March 20, 1951, requesting your views with regard to whether the Board should amend Regulation R so as to specifically exclude open-end investment companies or make more readily available to supervisory authorities the substance of the Board's letter S-556 dated September 22, 1942, which refers specifically to open-end investment companies. Replies have now been received from all of the Federal Reserve Banks and 11 of such Banks do not recommend that the Regulation be amended, but feel that the existing ruling should be more readily available to supervisory authorities.

"In the circumstances, the enclosed ruling, which was contained in the Board's letter of September 22, 1942, (S-556) will be published in the Federal Register, the Federal Reserve Bulletin and in the Federal Reserve Loose-Leaf Service."

Approved unanimously.

Letter to the Honorable T. Vincent Quinn, House of Representatives, Washington, D. C., reading as follows:

"Your letter of February 26, 1951, enclosed a letter you received from Councilman Hugh Quinn of the City of New York regarding Regulation W. In our reply to you, dated March 7, 1951, we indicated we would ask the Federal Reserve Bank of New York to investigate the relation of Regulation W to the sewer connection problem presented in Councilman Quinn's letter. Enclosed for your information is a copy of the report we have recently received from the Federal Reserve Bank of New York.

"Regulation W, of course, along with the other monetary and fiscal measures adopted by the Government, is directed at preventing the widespread hardship which would be certain to result from further inflation. In the present national emergency, the regulation would fail in its attempt to accomplish the purpose intended by Congress if the regulation did not provide relatively strict credit terms. We are certain you will appreciate that in the formulation and administration of a regulation covering such a broad field as Regulation W,

"it is not feasible to provide exemption in the regulation for all of the various individual cases wherein the particular circumstances may make it difficult to comply with the terms prescribed by the regulation. In the situation referred to by Councilman Quinn, it does not appear that the need for a special exemption has been demonstrated, particularly since such action would, in our opinion, tend to weaken the effectiveness of the regulation.

"We are glad to have had the opportunity to comment on this matter and we appreciate your interest in referring it to us.

Approved unanimously.

Letter to the Honorable Victor Wickersham, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of April 30, 1951, with which you enclosed a letter from Mr. Elmer O. Hinkle, Sr., Hinkle Appliance Company, Altus, Oklahoma. Mr. Hinkle is concerned about the effect of Regulation W on appliance and housefurnishings sales and is particularly interested that trade-ins on instalment sales of these articles be allowed to count against the down-payment requirement as is permitted by the regulation for automobiles.

"As you may know, the present 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 the Board to be compelling, the approach to the regulation of automobile instalment credit has been and is different from the approach in the appliance and housefurnishings area.

"The regulation does not, of course, prohibit the acceptance of a trade-in on television sets or appliances. Dealers are free under the regulation to allow trade-ins and to give them any value they wish as a deduction from the cash price of the article sold. The trade-in provision 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 recognizes that the down payment requirement may be somewhat 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.

"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.

"You will understand that while the Board is concerned that the regulation not be unduly restrictive in specific cases, it must also consider that the effectiveness of the regulation in this time of serious inflationary dangers requires that it provide a definite curb on instalment credit.

"The Board is continuing to study the problems of dealers subject to the regulation, including those that might arise from the present downpayment provisions of the regulation, and we appreciate the opportunity of

"commenting on Mr. Hinkle's letter, which, in accordance with your request, is returned herewith."

Approved unanimously.

Letter to Mr. Rockwell, Assistant Cashier of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of April 26, 1951, regarding the acceptance of articles other than an automobile as part or all of the down payment on the instalment purchase of an automobile.

"The Board agrees with your view that the term 'trade-in' as applied to automobiles in Part 4 of the Supplement to Regulation W does not limit the trade-in to another car."

Approved unanimously.

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

"This is in response to your communication to Chairman Martin on April 23, 1951, in which you requested the Board's views with respect to H. R. 3733, a bill 'To disallow the amortization deduction in the renegotiation of contracts.'

"Under this bill, in determining profits arising under contracts and subcontracts subject to renegotiation, the amortization deduction provided by section 124A of the Internal Revenue Code could not be included as an allowable cost. It is assumed that the provisions of the bill would not, however, prevent the allowance of normal depreciation exactly the same as in the case of contractors who are not operating under certificates of necessity.

"The Board is of the view that the accelerated amortization authorized by section 124A is a very liberal provision and provides substantial benefits to defense contractors. To permit this amortization deduction to continue to be included as an allowable

"item of cost in renegotiation would appear to be not only more generous to the contractor than is justified, but also unnecessary as an incentive to secure the production of essential defense items.

"Of importance also is the fact that recoveries by the Government through renegotiation would be increased as a result of the bill and it is obvious that any increase would, to that extent reduce inflationary pressures.

"In view of the above, the Board would recommend favorable consideration of H. R. 3733."

Approved unanimously.

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

"Inquiries have been received by the Board regarding the status under Regulation X of agents for lenders: Are they Registrants and should they file registration statements in accordance with the Board's public announcement of May 11, 1951, and if so, how do they comply with the Statement of the Borrower and record-keeping requirements of the regulation? The inquiries have related particularly to brokers and to contact men in smaller communities who receive a 'finder's fee' from a lender for their services in connection with real estate credit extended by the lender.

"In the circumstances stated, an agent is a Registrant and should file a registration statement if he has received more than three such fees during either 1950 or thus far in 1951, or if he has received fees in real estate credit transactions aggregating more than $50,000 in either year. The same rules should be followed as in S-1259 (X-29) of February 7, 1951, which related to real estate brokers. There it was stated that, if a broker received a fee from a lender for his services in arranging financing, the broker ordinarily is considered an agent for the lender and the transaction is to be considered an extension of credit by the agent for the purpose of determining whether the agent is engaged in the business of extending real estate credit.

"An agent for a lender, if he is a Registrant, should accept a Statement of the Borrower in each transaction where real estate construction credit is extended unless his principal also is a Registrant and accepts the borrower's statement. It is not necessary for the borrower to furnish two statements, but either the principal or the agent should accept a statement in each transaction subject to the regulation.

"The record-keeping requirements for the agent in transactions where the principal is a Registrant who maintains the necessary records for the transaction are analogous to those applicable to a Registrant who has sold or transferred an obligation evidencing credit, or has released collateral held as security for the credit. Accordingly, it would be expected that the agent would keep a record of the identity of his principal and the borrower and the date of the transaction.

"In transactions where the agent is a Registrant and his principal is not, and the credit extended is real estate construction credit, the agent should accept a Statement of the Borrower and keep such records as are reasonably necessary to demonstrate whether the credit was extended on terms which complied with the regulation.

"This letter is intended merely to state general principles to be applied in answering specific inquiries. We feel that there will be better acceptance and enforcement of the regulation if persons in the real estate field are conscious of and required to comply with the regulation in transactions to which they are a party. For that reason, we believe that persons who are engaged in the business of accepting fees from lenders in connection with their services in arranging credit which is subject to the regulation should be registered, and should otherwise comply with the regulation to the extent indicated above."

Approved unanimously.

Secretary.