

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 25, 1951.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman

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 23, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on May 24, 1951 were approved and the actions recorded therein were ratified unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia, 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 22, by the Federal Reserve Bank of St. Louis on May 23, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, Kansas City and Dallas on May 24, 1951 of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated May 18, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending that Miss Betty J. Flaughner, Stenographer in the Division of Examinations, be transferred

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to the Division of Selective Credit Regulation as a Stenographer, with no change in her present salary of \$2,650 per annum, effective May 27, 1951. The memorandum also stated that the Division of Examinations was agreeable to this transfer.

Approved unanimously.

Memorandum dated May 21, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Wanda H. Thompson as Operator, Tabulation Equipment, 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.

Memorandum dated May 22, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Margaret T. Notter as a Clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,810 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.

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Letter for the signature of the Chairman to Mr. Felipe Pazos, President, Banco Nacional de Cuba, Habana, Cuba, reading as follows:

"This is to acknowledge your letters of May 4 and May 7 regarding the proposed Third Meeting of Technicians of Central Banks of the American Continent, to be held in Habana about the end of 1951 or the beginning of 1952.

"I am glad to inform you that the Board of Governors accepts your invitation to be represented at this meeting. In addition to representatives from the Board of Governors and from the Federal Reserve Bank of New York, it is expected that a representative of one of the other Federal Reserve Banks will also participate in our delegation. We will notify you at a later date as to the exact composition of the Federal Reserve delegation.

"It is also noted that you would like to receive suggestions by June 15 with respect to the agenda of the Meeting. Members of our staff are studying this matter with a view to having our suggestions in your hands by June 15."

Approved unanimously.

Letter to Mr. Russell G. Smith, Executive Vice President, Bank of America, c/o Bank of America National Trust and Savings Association, 300 Montgomery Street, San Francisco, California, reading as follows:

"This will acknowledge your letter of May 16, 1951, with further reference to the Board's letter of March 16 to Chairman Gock transmitting copies of the report of examination of Bank of America, New York, New York, made as of November 13, 1950, by examiners for the Board of Governors of the Federal Reserve System.

"It has been noted that, since its receipt, the report of examination has been carefully reviewed by the officers of the corporation and also by your Board of Directors. It has been noted also that you are giving full consideration to the comments made in the report and have taken definite action to carry out the specific recommendations and suggestions as referred to in the Board's letter and as set forth on pages 47-49 of the report. The detailed comments with respect to the actions taken and contemplated are appreciated.

"During your visit with Governor Szymczak on April 3

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"in connection with another matter, you inquired if all examinations of Bank of America made by examiners for the Board of Governors would be as detailed as the first one. You will appreciate that it is difficult to give a categorical answer to a question of this kind, but, in general, it is believed that it would be appropriate to state that the scope of future examinations of Bank of America will, of course, depend on the facts and circumstances as developed during the course of the examination."

Approved unanimously.

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

"This refers to your letter of May 14 regarding the application of the appraisal guide provisions of Regulation W to automobiles equipped with air conditioning units.

"After consideration of the additional information submitted with your letter it is our opinion that the appraisal guide provisions would not apply in the case of used automobiles equipped with air conditioning systems such as that described which retails for \$695 installed. In this case, therefore, the maximum credit value would be two-thirds of the cash price.

"In general, it is the Board's view that the appraisal guide provisions of the regulation do not apply to a used automobile which has been so substantially altered by the addition of special equipment or by 'customizing' as to make it, in effect, an automobile having specifications materially different from those of any automobile listed in the appraisal guides. Of course, where there had been no major modification of the vehicle, as for example if the special equipment consisted of an evaporative cooler, the appraisal guide provision would apply."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable J. K. Javits, House of Representatives, Washington, D. C., reading as follows:

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"Thank you for your letter of May 14 and for the comments on your reaction to the presentation made to you by representatives of the television and electrical appliance industry regarding present conditions in those fields. The Board and its staff have also been having frequent meetings with representatives of these industries and we have studied carefully the facts which have been presented to us and the recommendations and suggestions which have been made. On the basis of its thorough review of the facts presented the Board has recently concluded that any relaxation in the terms of Regulation W at this time would not be in the interests of the national defense program.

"With regard to some of the specific points which have been made by representatives of the television and electrical appliance industries, you are undoubtedly familiar with the fact, for example, that the present trade-in rules under the regulation have been in effect ever since Regulation W was first issued by the Board in 1941. The regulation does not 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 valuation they wish as a deduction from the price of the article being sold. The regulation does provide, however, that there must be a cash down payment to be computed after allowance for the trade-in has been made. An amendment that allowed trade-ins to count as part or all of the down payment for articles other than automobiles would constitute a material relaxation of the regulation.

"In reaching its decision, the Board recognized that there has been some general softening of demand in the consumer durable goods markets compared with the heavy buying wave of last December and January. In the particular field of television, however, there is considerable doubt that the restrictions of Regulation W have been the dominant factor in the slackening of demand for such sets. As you know, there has been a phenomenal expansion of television sales and production in the relatively short span of a few years. This raises the question whether there may now be a temporary condition of near saturation of existing major markets. Also there have been some price reductions recently which have gained considerable

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"attention in the press and through trade advertisements. This publicity may have resulted in many potential customers deferring their purchases in anticipation of further price cuts. Then there are other factors such as the imminence of ultra-high frequency television and the public discussion of whether color may eventually be used. A relaxation of the requirements of Regulation W could not reasonably be expected to solve all the problems of the television field where there are so many interplaying factors.

"The consumer credit regulation must be restrictive if it is to accomplish its major purpose of helping to restrain general inflationary forces by curbing consumer instalment credit. While the Board does not wish to be excessively restrictive in the case of individual articles or industries, nevertheless, in carrying out its responsibility under the Defense Production Act it must consider general economic and credit conditions and the necessity for curbing the inflationary effect of instalment credit during this period.

"We appreciate your interest and want to assure you that we are continuously surveying the effects of the regulation. As I indicated in my testimony before the House Banking and Currency Committee on May 10, the Board is prepared either to tighten or relax credit terms whenever such action would be consistent with the objectives of the Defense Production Act."

Approved unanimously.

Letter to Mr. A. C. Burger, Andy Burger Motors, Inc., 3654 South Grand Boulevard, St. Louis, Missouri, reading as follows:

"This is to acknowledge your letter of May 15, 1951, and also the letters bearing the same date signed by you as President of the corporations listed below:

ABC Motors, Inc., St. Louis, Missouri
 Community Motors, Inc., St. Louis, Missouri
 Burger Motors, Inc., Rock Island, Illinois
 Capital City Motors, Inc., Springfield, Illinois
 Springfield Motors, Inc., Springfield, Illinois

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"All of the above mentioned letters relate to the effects of the provisions of Regulation W on the installment sales of automobiles and in each you express the opinion that the maximum maturity should be changed from 15 to 24 months on all new cars and on used cars in cases where the deferred balance amounts to \$800 or more.

"One of the major problems involved in administering a regulation such as this is to make it restrictive enough so that it will be effective in accomplishing its purposes, and at the same time to keep it from being an excessive burden on the individuals who are subject to it. The provisions of the regulation are constantly under study by the Board's staff with a view toward keeping them adapted to current economic and credit conditions.

"Although the Board recognizes that there has been a general softening in the markets for consumer durable goods following the heavy buying wave of last December and January, nevertheless, in the light of general economic and credit conditions, a relaxation of the regulation at this time does not appear to be in the interest of the national defense program.

"We appreciate your interest in writing us, and wish to assure you that the views you expressed will be carefully considered in our continuing study of the effects of the regulation in the markets for regulated articles."

Approved unanimously.

Letter to Mr. J. M. Sanders, Vice President, Hill & Tibbitts, Inc.,
1114 Vermont Avenue, N. W., Washington, D. C., reading as follows:

"This refers to your letter of May 10, 1951, regarding Regulation W. In your letter you state that the purchase of foreign built automobiles 'has the effect of reducing the demand for American built cars and is, therefore, definitely counter-inflationary.' In view of the foregoing you ask that the Board give consideration to an exemption of foreign made automobiles from the requirements of the regulation.

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"It is possible that the exemption of foreign built automobiles from the requirements of Regulation W might to some small degree lessen the demand for American built cars. However, we doubt that such a transfer of demand would have important anti-inflationary effects. Expansion of that part of the instalment credit to purchase foreign cars which represents the dealers' gross profit would in itself tend to be inflationary.

"Moreover to the extent that there was a diversion of demand from American to foreign cars as a result of such an exemption the regulation would be placing American cars at a competitive disadvantage. On balance, it seems to us that such discrimination between sellers would not be justified.

"We appreciate your interest in writing us, since we are always glad to have the benefit of the views of the trade in our continuing study of the regulation."

Approved unanimously.

Letter to the Honorable Hugh J. Addonizio, House of Representatives, Washington, D. C., reading as follows:

"In your letter of May 15 you quote from correspondence with a constituent citing an example of what he considers to be wasteful spending. Your constituent states that he is the Assistant Office Manager of a small loan company and 'has seen three revisions of Regulation W since it went into effect September 1950'. He states further that he has therefore found it necessary to destroy all his forms and use the 'new revised ones'.

"We are unable to understand how your constituent could have interpreted the amendments to Regulation W in a way which would have necessitated destruction of 'forms' and the use of 'new revised' forms. There have been three amendments to Regulation W. The first of these, effective October 16, 1950, reduced maximum maturities from 21 to 15 months and increased down payment requirements with respect to appliances (Group B articles) listed in the regulation. It is possible that your constituent as a result of this amendment may have found it desirable to provide a new list of articles and terms for his office employees as an operating matter but any such change he

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"made in office forms would have been done as a matter of his own convenience and not as a requirement under Regulation W.

"Amendments Nos. 2 and 3, effective February 26 and May 15, 1951, respectively, should not have required any change in office procedure or forms. These amendments, which were highly specialized in application, dealt with the leasing of listed articles and with designations of disaster areas by Federal Reserve Banks. They were both designed to simplify either the operation of Registrants under the regulation or the administration of the regulation by the Federal Reserve Banks.

"It is possible that your constituent has misunderstood these amendments. If this is the case, he might find it helpful to discuss his particular problem with the Federal Reserve Bank of New York which serves the Newark and Orange, New Jersey, area."

Approved unanimously.

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

"Section 5(b) of Regulation X exempts from the prohibitions of Regulation X certain construction loans having a maturity of not more than eighteen months. The Board, in its telegram addressed to the Presidents of all Federal Reserve Banks (S-1189, X-13) on November 8, 1950, stated that a note evidencing such a construction loan which has a maturity of less than eighteen months may be renewed pending completion of construction if the date of maturity of the renewal is not more than eighteen months after the date the credit originally was extended.

"It is the opinion of the Board, however, that such a note having a maturity of less than eighteen months may not be renewed after the construction has been completed, even if the date of maturity of the renewal is not more than eighteen months after the date the credit originally was extended."

Approved unanimously.

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Letter to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, Washington, D. C., reading as follows:

"The Board's letter to you on March 1, 1951 indicated its concurrence in the designation of the Savannah River, South Carolina area for the purpose of a relaxation of terms of Regulation X, Real Estate Credit, for construction of housing in that area, the program for which was given in your letter of February 27, 1951. It is understood that you now wish to authorize an additional 500 units of the 3600 total mentioned in your letter of February 27, which stated that not more than 500 units could be provided until such time as additional community facilities could be constructed. The Board understands that the greater part of the units so far approved for construction were in sections where the shortage of community facilities is not too severe so that it has been found possible to program the additional units.

"In view of the statement in your letter of February 27, 1951 that you had concluded that there was urgent need for approximately 3600 new housing units in the Savannah River area to serve defense workers of the Atomic Energy Commission installation in that area, and in view of the certification of the area by the appropriate Defense Mobilization authorities as an area for purposes of special assistance in the production of necessary housing, the Board of Governors authorizes application of terms different from those prescribed by Regulation X for a total of 3600 units, including the 500 referred to in your letter of February 27, the additional 500 which we understand you propose to specify at this time, and such additional units within the total of 3600 units as you may specify from time to time."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and the Managing Officers of all Federal Reserve Bank Branches, reading as follows:

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"For your information, there are enclosed three copies of the Act approved by the President on May 15, 1951 (Public Law No. 30, 82nd Cong.), amending the Assignment of Claims Act of 1940.

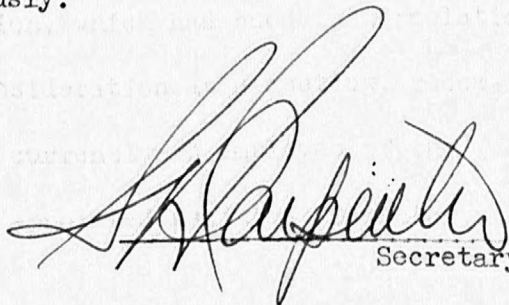
"The principal changes in existing law made by this amendment are the following:

1. It removes the requirement that copies of assignments be filed with the General Accounting Office.
2. It relieves assignee financing institutions of any liability to repay amounts received by them after July 1, 1950 under any assignment.
3. Authority for inclusion of the 'no set-off' clause is extended to the Department of Defense, the General Services Administration, Atomic Energy Commission, and such other departments or agencies as the President may designate.
4. Where the no set-off clause is included in a contract, the assignee financing institution is protected, not only against set-off on account of claims arising 'independently of the contract', but also against set-off of any claims of the Government against the assignor on account of renegotiation, fines, penalties, or taxes or Social Security contributions, whether or not such claims arise from or independently of the assigned contract.

"In view of the importance of this legislation to the defense financing program and in view of the fact that many financing institutions have heretofore refused to make loans to defense contractors on the security of assignments of their defense contracts, it is suggested that it might be desirable for your Bank to bring this legislation to the attention of all financing institutions in your district.

"At the time of his approval of this Act, the President issued a brief statement and, while it seems unnecessary to send copies of that statement to financing institutions, a copy of the statement is enclosed for your information."

Approved unanimously.


Secretary.