

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

PRESENT: Mr. Martin, Chairman
Mr. Vardaman
Mr. Norton
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 June 6, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 7, 1951, were approved and the actions recorded therein were ratified unanimously.

Telegrams dated June 8, 1951, 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 June 5, by the Federal Reserve Bank of St. Louis on June 6, and by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, Kansas City, and Dallas on June 7, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 5, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending that the resignation of Miss Betty Jean Plaughter, Stenographer in that Division, be accepted

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to be effective, in accordance with her request, at the close of business June 22, 1951.

Approved unanimously.

Memorandum dated June 7, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Miss Alvina Idamay Chism, as a Page in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,200 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 dated June 8, 1951 to the Honorable Maple T. Harl, Chairman, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

"Reference is made to your letter of May 15, 1951, requesting that appropriate members of the Board's staff and the proper persons at the Federal Reserve Banks in Boston, Richmond and San Francisco be advised of your intention to continue your program of auditing the Certified Statements submitted for assessment purposes by insured banks and that you were scheduling such audits in a number of the larger banks in the First, Fifth and Twelfth Federal Reserve Districts.

"Copies of your letter and this reply have been sent to the Presidents of the Federal Reserve Banks of Boston, Richmond and San Francisco together with information as to the provisions of your previous letters, to which you refer, with regard to the scope of the audits, the personnel engaged therein, etc.

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"It is assumed that audits in the States of New York, New Jersey and Delaware, which was the subject of your letter of March 22, 1949, have been wholly or substantially completed and, since no significant discrepancies have been reported to the Board that none have been found.

"In the Board's letter of May 6, 1949, it was noted that, in your opinion, completion of the audits in the States of New York, New Jersey, and Delaware would provide a sufficiently representative coverage to develop the information desired at the time the program was initiated. In the circumstances, it was assumed that, thereafter, it might be practicable to develop a procedure, to be followed as a part of the regular examination of banks, which would provide the information or verification considered necessary with respect to statements submitted for assessment purposes.

"It would appear that the need for audit of the certified statements submitted arises primarily with respect to those submitted prior to the recent simplification of the computation of the assessment base. In view of this simplification it is suggested that measures be taken to determine the extent of verification and information required with respect to the reports for assessment purposes submitted under the new procedure and a satisfactory means be devised, if possible, for verification of such reports currently and as a part of regular examination procedure."

Approved unanimously.

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

"This refers to the action taken by the Conference of Presidents at its meeting on May 16, 1951, approving the report of the Subcommittee of Counsel on Collections to the Committee on Collections and Accounting, dated May 3, 1951, together with the documents accompanying that report, relating to the handling of United States

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"postal money orders on and after July 1, 1951, but with the understanding that the proposed form of agreement between the Federal Reserve Banks and the United States would be referred to the Committee on Collections and Accounting for the purpose of obtaining agreement with representatives of the Post Office Department as to the rewording of certain provisions making the Reserve Banks responsible for errors with respect to which objections had been raised at the meeting of the Presidents.

"As you were advised by letter dated June 5, 1951, written by Mr. Walter S. Logan, Chairman of the Subcommittee of Counsel on Collections, on behalf and at the request of Mr. Hugh Leach, Chairman of the Committee on Collections and Accounting, agreement was reached at a meeting with representatives of the Post Office Department on June 1, 1951, as to the rewording of the provisions of the form of agreement in conformity with the action of the Conference of Presidents; and Mr. Logan's letter enclosed copies of the revised form of agreement, dated June 5, 1951, for execution in counterparts by the Federal Reserve Banks to become effective July 1, 1951. Upon receipt by this office of copies of the agreement executed by the Federal Reserve Banks, we shall deliver them to the Post Office Department for execution by the Postmaster General in behalf of the United States in accordance with the procedure outlined in Mr. Logan's letter.

"The Board concurs in the action taken by the Conference of Presidents with respect to this matter and in the amendments to the uniform provisions of the cash collection circulars and the amendments to the time schedules of the Federal Reserve Banks, as submitted with the report of the Subcommittee of Counsel on Collections, dated May 3, 1951, but with the elimination of the words 'or error' in the new uniform section relating to postal money orders as suggested in the last paragraph of Mr. Logan's letter. With this change, it is understood that the amendments to the uniform provisions of the cash collection circulars are as follows:

1. In the uniform section with the heading 'Items which will be accepted as cash items' of the check collection circulars (between the present subdivisions (2) and (3) of the first paragraph) insert a new uniform subdivision as follows:

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"(3) United States postal money orders' and change the numbering of present paragraph (3) to (4).

2. After the uniform paragraphs which appear under the heading 'Government Checks' of the check collection circulars, insert a new uniform heading and section reading as follows:

'United States postal money orders.
' _____. United States postal money orders will be handled in accordance with an agreement made by the Postmaster General, in behalf of the United States, and the Federal Reserve Banks as depositaries and fiscal agents of the United States pursuant to authorization of the Secretary of the Treasury; and with respect to matters not covered by such agreement, the provisions of Regulation J, this circular and our time schedules shall be deemed applicable to all postal money orders. Immediate credit will be given to member banks and nonmember clearing banks for postal money orders as provided in our time schedules and simultaneously with such credit we will debit the amount of such money orders against the general account of the Treasurer of the United States under such symbol numbers as may be assigned by the Treasurer of the United States. Said agreement further provides in effect that no claim for refund or otherwise with respect to any money order debited against the general account of the Treasurer of the United States and delivered to the representative of the Post Office Department as provided in said agreement (other than a claim based on the negligence of a Federal Reserve Bank) will be made against or through any Federal Reserve Bank; that if the Post Office Department makes any such claim with respect to any such money order, such money order will not be returned or sent to a Federal Reserve Bank, but the Post Office Department will deal directly with the bank or the party against which such claim is made; and that

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"the Federal Reserve Banks will assist the Post Office Department in making such claim, including making their records and any relevant evidence in their possession available to the Post Office Department.'

3. In order to indicate that the direct sending privilege does not apply to Government checks or postal money orders, amend the first uniform paragraph under the heading 'Direct sending of cash items to other Federal reserve banks' of the check collection circulars by inserting after 'Cash Items' where these words are first used the following:

'(exclusive of Government checks and postal money orders)'

"In accordance with Mr. Leach's suggestion, as stated in Mr. Logan's letter, it is understood that these amendments to the cash collection circulars will be mailed by the Federal Reserve Banks on, or as near as practicable to, June 20, 1951, so that all member banks will receive them at substantially the same time prior to July 1, 1951."

Approved unanimously.

Letter to the Chairmen of all Federal Reserve Banks, prepared pursuant to the action taken at the meeting of the Board on May 31, 1951, reading as follows:

"Attached is a copy of a resolution adopted by the Independent Bankers Association at its meeting in Mobile, Alabama, in April of this year. You will note that the resolution recommends an amendment to the Federal Reserve Act to provide that members of the Federal Advisory Council be elected in the same manner as Directors of the Federal Reserve Banks and that they not be permitted to serve as members of the Council for more than three consecutive years. The resolution contemplates not only rotation of Council membership but also that in carrying out a system of rotation the members of the Council shall be drawn from the small and medium sized banks as well as the large banks.

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"The resolution was brought informally to the attention of the Board of Governors, but no request has been made that any action be taken with respect to it. As you know, consideration has been given by the Chairman's Conference to the desirability of a system of rotation of the members of the Federal Advisory Council, and the Boards of Directors of some of the Banks have adopted such a policy. The Board of Governors would appreciate it if you would present the resolution at the next meeting of your Directors and advise the Board of Governors of their views with respect to the suggestion that the Association has made.

"A copy of this letter is being sent to the President of your Bank for his information."

Approved unanimously.

Letter to Mr. R. J. Saulnier, National Bureau of Economic Research, Inc., New York, New York, reading as follows:

"This refers to your letter of March 13, 1951, requesting certain data on industrial advances and commitments under Section 13b of the Federal Reserve Act. It is noted that the data will be used in the preparation of an over-all account of Governmental lending and financing activities.

"There are enclosed tables showing the information requested, which the Board is agreeable to supplying for the purpose mentioned. Inasmuch as some of the figures have not been published, it will be appreciated if they are regarded as confidential."

Approved unanimously.

Letter to Mr. Crosse, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is to acknowledge receipt of your letter of May 28, 1951, with its enclosures, regarding a question

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"raised by the Chairman of the Committee on Foreign Banking (of the New York City Banks) as to an apparent inconsistency in the Board's Regulation Q resulting from the fact that the definitions of the various types of time deposits use the words 'not less than 30 days' whereas the regulation in another section prohibits payment of interest on any amount which a member bank may be required to pay 'within 30 days.'

"We agree with you that the point raised is somewhat technical. However, we appreciate having the matter called to our attention, and it will, of course, be given consideration if and when occasion arises for revision of Regulation Q."

Approved unanimously.

Letter to Mr. Rouse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is in reference to your letter of May 16, 1951, with which you enclosed a copy of a letter dated May 4, 1951, from the Grace National Bank of New York, requesting an interpretation of section 3(p) of Regulation U.

"The requested interpretation embodies the issue of whether a borrower purchasing common stock of the American Gas and Electric Company under the authorization granted by the additional subscription privilege contained in the prospectus of that Company, dated March 31, 1951, is 'exercising a right' to acquire stock within the meaning of section 3(p).

"According to the provisions of the above mentioned prospectus, the American Gas and Electric Company offered its stockholders: (1) The right to subscribe for a certain limited number of additional shares of its common stock, at the rate of one share for each fifteen held; and (2) the privilege to subscribe (additional subscription privilege) for any number of shares of additional common stock not subscribed for through the exercise of the right to subscribe, provided that if such available shares are not sufficient to satisfy such subscriptions, the shares would be allotted pro rata, not to the number of shares requested,

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"but to the rights exercised. The prospectus further provided that the rights and the additional subscription privilege were to be evidenced by a single subscription warrant; and the additional subscriptions could be made only if the rights were exercised at the same time.

"As you mentioned in your letter, section 3(p) which provides for a more liberal loan value treatment than the current Supplement to the regulation, is an exception to a general rule and as such should be construed with restraint and caution. On the other hand, the qualifications surrounding the present additional subscription privilege closely relate it to the other features of the right to subscribe. Furthermore, it is understood informally that a rule which was issued by the Securities and Exchange Commission under section 11(d) of the Securities and Exchange Act of 1934 (Rule X-11d1-1(d); 17 C.F.R. 240.11d1-1(d)), and which is similar to section 3(p) of Regulation U, has been construed to include additional subscription privileges as well as rights. Although the Securities and Exchange rule under section 11(d) is limited to the exercising of subscription rights by the original holder of the rights while section 3(p) is applicable whether such rights are exercised by the original holder or by a purchaser of the rights, it is felt in this case that the problem is similar.

"Under these circumstances the Board concurs in your view that a borrower purchasing common stock of the American Gas and Electric Company through the exercising of the additional subscription privilege is 'exercising a right to acquire such stock' within the scope and meaning of section 3(p) of Regulation U and, accordingly, is entitled to the special loan benefits therein provided."

Approved unanimously.

Letter to Mr. H. R. Harnish, Executive Officer, Governor's Commission on Small Business, 827 South Figueroa Street, Los Angeles, California, reading as follows:

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"This refers to your letter of May 25, 1951, regarding the resolution adopted by the Commission on Small Business for California at its meeting on May 21 recommending 'that the Twelfth District Federal Reserve Bank officials be given authority to approve Regulation V loans in any amount, under a limit to be set by the Board of Governors.'

"As you probably know, during the somewhat similar V-loan program of World War II, because of the great volume of applications for guarantees, the Department of the Army and the Maritime Commission delegated to the twelve Federal Reserve Banks authority to approve V-loan guarantees not exceeding certain specified amounts provided there was no objection raised by the field representative of the guaranteeing agency. The Board's present Regulation V governing operations under the current V-loan program contains a provision under which the guaranteeing agencies of the Government might, if they should see fit, delegate to the Federal Reserve Banks authority to approve guarantees. However, in view of the relatively small volume of guarantees under the present program, as compared with the wartime program, the various guaranteeing agencies have not felt that such a delegation of authority to the Reserve Banks would be warranted.

"Moreover, it may be doubted whether such a delegation of authority would necessarily expedite the processing of guarantees to any substantial degree, since it would still be necessary to obtain, either from field representatives of the guaranteeing agencies or from the offices of the guaranteeing agencies in Washington, appropriate certificates by the procurement officers necessary to show that the contracts to be financed by guaranteed loans are related to the procurement of materials or performance of services under contracts for the national defense.

"We are glad to have the views of your Commission on this matter and we are furnishing a copy of your letter to the Department of Defense. That Department and the other guaranteeing agencies, as well as the Board of Governors, are, of course, interested in expediting to the greatest extent possible the processing of guarantees of defense production loans under the V-loan program and every effort is being made by the interested agencies to reduce the time lag in the handling of applications for such guarantees."

Approved unanimously.

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Telegram to Mr. Everson, Assistant Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reurtel June 6 and letter May 21 and enclosures regarding proposal of Registrant television dealer to sell \$100 certificate redeemable at some grocery store for groceries in combination with sale of a \$400 television set. Registrant proposed to handle transaction under mixed-credit provisions of section 6(d) of Regulation W, with \$100 grocery portion repayable either concurrently with the \$300 balance on the television or beginning the 16th month. Because of the absence of information how the arrangement may be offered to the public and carried out as a practical matter, Board cannot say that transaction pursuant to the proposal would fail to constitute evasive practice or rebate of required down payment on television set. On basis of limited information supplied by Registrant, it seems probable that principles stated in Board's letter S-1343 (W-150) of June 6, 1951 concerning 'free gifts', rebates or discounts would be applicable in this case and that transaction would be of type covered by sections 6(h) or 6(i) of the regulation."

Approved unanimously with the understanding that the Presidents of all Federal Reserve Banks would be advised of this action by letter.

Letter for the signature of the Chairman to the Honorable Ernest Greenwood, House of Representatives, Washington, D. C., reading as follows:

"Thank you for your letter of May 24 regarding the effect of Regulation W -- consumer credit -- on the electrical appliance business and particularly the problem of one of your constituents, Mr. David Plesser, under the regulation.

"The Board has been watching developments in the markets for regulated articles closely both through our own statistical sources and through consultations with industry representatives. We recognize that there

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"has been a considerable softening of demand in durable goods markets in recent months compared with the heavy buying wave in last December and January. It is also evident that production in many lines including appliances has been exceeding demand for some time and that substantial inventories have accumulated. Many dealers ordered substantial supplies in anticipation of production shortages which have been slow to develop. The restrictions of Regulation W, among other factors, probably have had some effect in restricting demand. It is doubtful, however, whether the peaks of scare buying that have occurred since the Korean invasion would have continued for long even without Regulation W.

"The Board has felt that relatively tight terms for instalment credit are required at present in order to restrain the strong inflationary pressures that are tending to raise prices of all goods and services. As you know, the major purpose of the regulation is to curb the increased purchasing power that results from the expansion of instalment credit, particularly in this emergency period. The Board's primary concern is to preserve the soundness and integrity of the dollar. We are reluctant to take any action which would add to the substantial loss in its purchasing power during the past year. We feel that the Congress agrees with this fundamental objective.

"While a relaxing of the terms has not appeared to be appropriate at this time, the flexible nature of the regulation will allow the Board to relax or tighten the terms when such action is necessary in the interest of the national defense.

"We appreciate this opportunity to outline our current views on Regulation W."

Approved unanimously.

Letter dated June 8, 1951, to Mr. Melnicoff, Head of the Department of Selective Credit Regulation of the Federal Reserve Bank of Philadelphia, reading as follows:

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"Thank you for your letter of May 16, 1951, with which you enclosed a copy of the Statement of Borrower Form (Number 907 UXW) printed by S. C. Toof and Company, of Memphis, Tennessee.

"As you point out, the form does not fully comply with the requirements of section 4(d) of Regulation W. Inasmuch as the publisher of the form is located in the territory served by the Federal Reserve Bank of St. Louis we are calling the attention of that Bank to the fact that Toof is offering the forms for sale to banks.

"As you may recall, the earlier versions of Regulation W during World War II required the use by Registrants of a prescribed form of Statement of the Borrower. As of April 3, 1944, the use of a prescribed form was discontinued largely because of the assertions by Registrants that it placed an unnecessary burden upon them. A return to this position, or for the Board to issue only a suggested form of Statement, would very probably be received in the same manner by Registrants. Furthermore, whether either approach would improve compliance with the regulation would seem to be open to considerable doubt. The matter of improving compliance in this regard is one which might well require something more severe. We appreciate having your suggestion, however, and we will keep this in mind for further consideration, perhaps at the Regional Conferences in September."

Approved unanimously.

Letter dated June 8, 1951, to Pearson Motor Sales, Columbus, Ohio, reading as follows:

"This is in reply to your telegram of May 31 asking whether any change in Regulation W as it affects automobile sales can be expected in the immediate future and also why the sale of jewelry is not controlled by the regulation.

"Chairman Martin in his recent testimony before the Senate and House Banking and Currency Committees indicated that no change in terms -- either to relax or to tighten them -- was contemplated by the Board at this time. The Board recognizes that there has been some reduction in

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"demand for consumer durable goods from the substantially large volume of December and January. The records established at that time reflected a considerable amount of 'scare buying' but it is not without significance that such sales volumes were achieved even though the terms under Regulation W then in effect were the same as those at the present time.

"Jewelry is not included in the present list of regulated articles primarily because the instalment credit arising from its sale is generally 'short term' credit as contrasted to the longer terms usually available for automobile and other major cost hard line durables. Further, there is no doubt that the present monthly payment and down payment requirements for items that are covered by the regulation have an indirect effect on jewelry credit in that people who buy listed articles on such terms have less of their current income available for the purchase of jewelry and other 'non-regulated' items. In other words the Board believes that Regulation W has widespread effect in holding down most types of consumer spending.

"The Board of Governors is primarily concerned -- not only in the matter of administering Regulation W but also in carrying out all monetary and credit powers which have been delegated to it -- in preserving the integrity of the dollar and preventing further declines in its purchasing power. Long before the outbreak of hostilities in Korea the Board clearly indicated its grave concern over the inflationary forces which were on the move throughout the economy. The underlying threat of inflation has not been eliminated. The pressures inherent in our expanding defense program are still being exerted. Let me assure you, however, that the Board is watching conditions in the consumer durable goods markets very closely in the light of the general economic and credit situation. It is prepared either to tighten or relax credit terms under Regulation W whenever such action would be consistent with the objectives of the Defense Production Act."

Approved unanimously.

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Letter dated June 8, 1951, to Mr. M. Robert Deo, Managing Director, National Automobile Dealers Association, 1026 - 17th Street, N. W., Washington, D. C., reading as follows:

"The Board of Governors has given careful consideration to your letter of May 24 requesting on behalf of the members of the National Automobile Dealers Association a relaxation of the maturity terms of Regulation W. The Board is appreciative of the continuing contacts with the officers of your Association and of their assistance in the Board's review of the market situation for new and used automobiles. After a thorough review of all the factors involved -- not only in the market for automobiles but in the general monetary and credit situation as well -- the Board has concluded that a relaxation of terms at this time would not be consistent with the objectives of the Defense Production Act.

"As you know, the Board's primary responsibility is concerned with preserving the integrity and soundness of the dollar. Every action it takes must be measured against the broad background of developments in the field of money and credit. It must meet a test indicating whether such action would add to the inflationary potential already existent in our swollen money supply.

"Today the national income is at an all-time record level. Unemployment is at its lowest point in our peacetime history. Defense expenditures, which now account for less than 10 per cent of total output, are scheduled to rise sharply and may well account for as much as twice that percentage within the next twelve months.

"In the light of these facts the Board has carefully considered the potential effect of a relaxation of its efforts to restrain the expansion of instalment credit, which would be the practical result of the suggestion advanced by your Association. I am sure your members will agree that credit dollars once they are added to the money stream are indistinguishable from any other dollars and add directly to total purchasing power. The expansion of consumer instalment credit -- that credit now controlled by Regulation W -- was equal to nearly one-half of the increase in consumer disposable

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"Income in the six months preceding the reissuance of the regulation. Additional instalment credit for the purchase of automobiles was responsible for more of the total increase in instalment credit than all other types of commodities and personal loans combined. To encourage an expansion of credit in this important field, therefore, would require substantial evidence that the threat of inflation and of a further decline in the value of the dollar was no longer imminent.

"The Board is acutely conscious that current activity in the automobile markets is substantially below the abnormal peak of last summer which was duplicated to a considerable degree in a second buying wave which hit consumer markets in mid-winter. The large volume of sales last December and January occurred despite the fact that the present terms of Regulation W were in effect at that time. The Board is also aware that inventories of both new and used cars are above average levels prevailing during the post-war period. The long waiting period imposed on new car purchasers in recent years indicates that inventories were substantially below the normal pre-war levels. Current inventories do not appear to be excessive by comparison with those prewar levels, particularly after taking into account the high level of sales during the postwar period.

"Considerable progress has been made in the past few months in stemming the tide of inflation. However, the substantial pressures on our economy resulting from the expanding defense program are still present.

"It is hoped that in the light of this background the reasons are clear for the Board's decision to deny your request for a relaxation of the regulation at this time. Again may I express the appreciation of the Board for your assistance and the hope that you will continue to keep it apprised of the effect of Regulation W on your business."

Approved unanimously.

Memorandum dated June 7, 1951, from Mr. Chase, Assistant Solicitor, stating that judgments were entered by consent on June 1, 1951, against Atlas T-V Stores, Inc., and Atlas Sew-Vac Stores, Inc., both of Houston,

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Texas, restraining them from further violations of Regulation W, Consumer Credit, and recommending that the files of these two cases be closed.

Approved unanimously.

Letter dated June 8, 1951, to the Honorable Thomas C. Hennings, Jr., United States Senate, Washington, D. C., reading as follows:

"Thank you for your referral slip dated May 25, asking for a report on Mr. W. H. Bunn's letter of May 14, 1951, concerning registration under Regulation X, Real Estate Credit.

"As you know, the regulation was authorized by Congress in the Defense Production Act of 1950 for the purpose of conserving materials and labor for the defense effort and combatting inflationary pressures. Sections 602(b) and (c) of the Act state, in part:

(b) . . . Any person who extends or maintains any such credit, or renews, revises, consolidates, refinances, purchases, sells, discounts, or lends or borrows on, any obligation arising out of any such credit, or arranges for any of the foregoing, shall make, keep, and preserve for such periods, such accounts, correspondence, memoranda, papers, books, and other records, and make such reports, under oath or otherwise, as the President may by regulation require as necessary or appropriate in order to effectuate the purposes of this section; and such accounts, correspondence, memoranda, papers, books, and other records shall be subject at any time to such reasonable periodic, special, or other examinations by examiners or other representatives of the President as the President may deem necessary or appropriate . . .

(c) To assist in carrying out the purposes of this section, the President by regulation may require transactions or persons or classes thereof subject to this section to be registered; and, after notice

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"and opportunity for hearing, the President by order may suspend any such registration for violation of this section or any regulation prescribed by the President pursuant to this section. . .

. . . In carrying out this section, the President may act through and may utilize the services of the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, and any other agencies, Federal or State, which are available and appropriate.

"This is the authority by which the Board is requiring registration of those in the business of extending real estate credit, and is making inspections of their records. Registration will be extremely helpful in carrying out our responsibility for enforcing the regulation and in supplying certain basic information essential in gauging the effects of the restrictions.

"In order to minimize the burden of registering, we are asking for statements only from those who extend or have extended real estate credit more than three different times during the current calendar year or during the preceding calendar year, or those who extend or have extended such real estate credit in an amount or amounts aggregating more than \$50,000 during the current calendar year or during the preceding calendar year. The statement requires only the name and address of the registrant and a few basic figures on mortgage loans. This simplified form was developed after extensive consultation with industry representatives, including those of major trade associations.

"As you know, the Federal Reserve System is self-supporting, and, in fact, turns over to the Treasury each year approximately 90 per cent of its net earnings. Our activities under Regulation X, designed to aid in curbing inflationary pressures by regulating credit, and in the enforcement of the regulation, do not, therefore, require the 'use of tax money'.

"We hope this will explain to Mr. Bunn's satisfaction the authority for and the objectives of the registration statement under Regulation X. An identical letter from Mr. Bunn was transmitted to us by Representative Armstrong,

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"and we have replied to him substantially as we have to you. As you requested, Mr. Bunn's letter is being returned to you. If we can be of further service, please do not hesitate to call upon us."

Approved unanimously.

Letter dated June 8, 1951, to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., reading as follows:

"In response to your letter of June 6, 1951, this is to advise you that the Board of Governors concurs in your designation of the Camp Pendleton area, California, including Oceanside, Vista, and Carlsbad, as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for 500 housing units, 400 to be rental units ranging from \$55 to \$75 per month each, and 100 to be sale units at \$8500 and \$9500 each, to be located within reasonable commuting distance of Camp Pendleton. Under the terms of the exemption, the entire 500 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be similar to that previously announced for other designated defense areas."

Approved unanimously.

Letter dated June 8, 1951, to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., reading as follows:

"In response to your letter of June 6, 1951, this is to advise you that the Board of Governors concurs in your designation of the Tullahoma, Tennessee, area as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for

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"purposes of defense construction. Your letter states that there is a need for approximately 220 housing units, 150 to be rental units ranging from \$60 to \$80 per month each, and 70 to be sale units at \$8,000 and \$9,000 each, to be located within reasonable commuting distance of the Tullahoma area. Under the terms of the exemption, the entire 220 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be similar to that previously announced for other designated defense areas."

Approved unanimously.

Letter dated June 8, 1951, to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., reading as follows:

"In response to your letter of June 6, 1951, this is to advise you that the Board of Governors concurs in your designation of the Miramar-Escondido Sub-area, California, as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for approximately 200 units to be located within reasonable commuting distance of the Miramar-Escondido area, 120 to be rental units ranging from \$55 to \$75 per month each, and 80 to be sale units at \$8500 and \$9500 each. Under the terms of the exemption, the entire 200 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be similar to that previously announced for other designated defense areas."

Approved unanimously.

Letter dated June 8, 1951, to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., reading as follows:

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"In response to your letter of June 6, 1951, this is to advise you that the Board of Governors concurs in your designation of the Valdosta, Georgia, area as an area for the application of special credit terms under section 6(p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for approximately 300 rental units, ranging from \$60 to \$75 per month each, to be located within reasonable commuting distance of Valdosta. Under the terms of the exemption, the entire 300 units will be controlled by your agency through the issuance of specific certificates.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be similar to that previously announced for other designated defense areas."

Approved unanimously.

Letter to Mr. Strothman, Vice President of the Federal Reserve

Bank of Minneapolis, reading as follows:

"This refers to your letter of May 29, 1951, concerning the financing of certain proposed nonresidential construction in Missoula, Montana. We understand that a one-story store building was destroyed by fire, and that a new two-story building will be constructed in its place. You asked about the applicability of section 5(e) of Regulation X.

"Section 5(e) provides for the exemption of certain extensions of real estate construction credit which are 'to be used solely for the replacement, reconstruction or repair of a * * * nonresidential structure destroyed * * * by flood, fire or other similar casualty.' The intent and purpose of the section is to allow persons to regain their former position when their property is destroyed or substantially damaged by casualties.

"It appears to us that the proposed building will not be 'solely for the replacement' of the destroyed building, but will be a substantially different building of increased value and size. With this in mind, it is our view that section 5(e) does not apply in this specific case."

Approved unanimously.

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Letter to Mr. Scheffer, Manager of the Real Estate and Consumer Credit Department of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of May 29, 1951, and enclosure, concerning certain leasing arrangements to be entered into by the United States Plywood Corporation and the Prudential Insurance Company of America.

"We have reviewed the enclosure carefully and concur in your conclusion that the proposed leasing agreements will be subject to Regulation X. We believe the lease will be within the definition of 'credit' in section 602(d)(2) of the Defense Production Act, as incorporated into section 2(c) of Regulation X, and that the lease would not be exempt under the proposed exemption for leases which, as you know from our telegrams of April 17 and April 30, 1951, is being considered by the Board. You may advise the interested parties of our views."

Approved unanimously.

Letter to Mr. William R. Meeks, Jr., Vice President and General Manager, Little Rock Builders, Inc., 212 Spring Street, Little Rock, Arkansas, reading as follows:

"We acknowledge your letter of May 22, 1951, concerning the effect of real estate credit restrictions on building in Little Rock, Arkansas.

"The purpose of the restrictions, as you know, is to conserve materials and labor for the defense effort, and to curb inflationary pressures. To achieve these objectives, the regulations prevent some persons from buying homes who otherwise would have been able to do so. This is an unfortunate but necessary result of any credit restrictions which are at all effective.

"The Board and other agencies concerned have taken considerable pains, however, to establish an equitable schedule of down-payment requirements as among the various income groups. As a result, down-payment requirements start at 10 per cent for houses valued at \$5,000 and less, and rise

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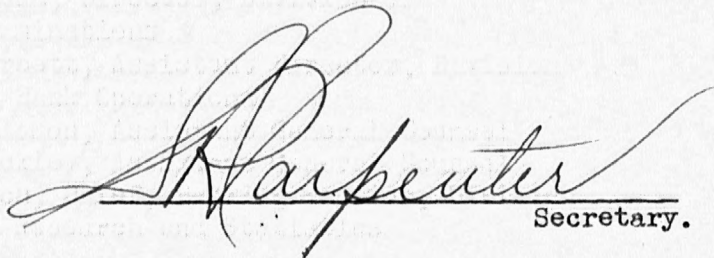
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"gradually to 50 per cent for houses valued at more than \$24,250. It is true, of course, that credit restrictions cannot affect those individuals with large incomes who are able to continue purchases as credit restrictions become tighter, even to the extent of buying with 100 per cent cash.

"In order to make the real estate credit restrictions effective, it is necessary to prohibit secondary borrowing which would bring the total amount of credit to a level in excess of the maximum loan value. (An exception to this is credit fully secured by the loan value of a life insurance policy, which exception is not for the purpose of easing the down-payment requirement, but is related to the special nature of life insurance policy loans.) If it appears desirable to ease the requirements at any place in the down-payment schedule, we would prefer to do so directly rather than to permit secondary borrowing which exceeds the maximum loan amount.

"We hope this will explain the Board's position on the questions which you raise."

Approved unanimously.


Secretary.