Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 9, 1951.

PRESENT: Mr. Martin, Chairman
         Mr. Szymczak
         Mr. Norton

         Mr. Carpenter, Secretary
         Mr. Sherman, Assistant Secretary

Memorandum dated July 6, 1951, from Mr. Vest, General Counsel, recommending that the temporary appointment of Eugene C. Harrison, Clerk in the Legal Division, be extended on a permanent basis, effective immediately, with no change in his present basic salary at the rate of $2,650 per annum.

Approved unanimously.

Letter for the signature of the Chairman to Mr. Willard L. Thorp, Assistant Secretary, Department of State, Washington, D. C., reading as follows:

"I have your letter of July 2 (MN) in regard to the forthcoming meeting of technical experts from the Latin American Republics, which is being convened in Washington on July 16 in accordance with Resolution XVII of the Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States.

"The Board is happy to comply with your request to make available the services of Mr. Woodlief Thomas as alternate chief of the United States delegation, and Mr. David L. Grove as a member of the delegation."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Henry Cabot Lodge, Jr., United States Senate, Washington, D. C., reading as follows:
"This will acknowledge your letter of June 28 with which you enclosed a letter from Mr. Henry Warner, of Lincoln, Massachusetts, concerning an announcement emanating from the Federal Reserve Bank of Boston and addressed to financing institutions in the First Federal Reserve District setting forth the text of Bulletin No. 4 of the Voluntary Credit Restraint Committee on the subject of loans on real estate. Mr. Warner indicated that he felt that the issuance of the bulletin tended to contravene provisions of Section 602 of the Defense Production Act of 1950 which limit the authority of the Board of Governors of the Federal Reserve System to regulate real estate credit to new construction, that is, any new structure or any major addition or improvement to a structure which was not begun before noon on August 3, 1950.

"From his description of the bulletin as a 'directive from the Federal Reserve Bank of Boston', it appears that Mr. Warner may have been confused by the fact that the bulletin was issued under the Reserve Bank's letterhead whereas actually the announcement was merely a means of transmitting to financing institutions within the First Federal Reserve District the text of the bulletin as issued by the national Voluntary Credit Restraint Committee.

"This Committee has been appointed in accordance with the Voluntary Credit Restraint Program, which Program has as its legal basis Section 708 of the Defense Production Act of 1950 authorizing the President to consult with representatives of industry, business, financing, agriculture, labor, and other interests with a view to encouraging the making by such persons of voluntary agreements and programs to further the objectives of that Act. By Executive Order No. 10161 the President delegated to the Board of Governors of the Federal Reserve System his authority under Section 708 of the Act with respect to voluntary agreements and programs in the field of financing upon the required condition that the Board consult with the Attorney General and with the Chairman of the Federal Trade Commission and that it obtain the approval of the Attorney General before requesting action under
such voluntary agreements and programs. At the invitation of the Board, representatives of the American Bankers Association, the Life Insurance Association of America, and the Investment Bankers Association of America examined the possibilities of this method of credit restraint and prepared a Program for Voluntary Credit Restraint, which after approval by the Board and the Attorney General was instituted on March 9, 1951, with a request from the Chairman of the Board of Governors to all financing institutions in the United States to conduct their operations in accordance with the principles of the Program.

At that time the Board of Governors, acting as provided in the Program, appointed members of the national Voluntary Credit Restraint Committee consisting of representatives of commercial banks, investment banking houses, and life insurance companies. In accordance with the requirements of the Program, Mr. Oliver S. Powell, a member of the Board of Governors, was designated Chairman of the Committee. Since that time the membership of the Committee has been enlarged to include representatives of mutual savings banks and savings and loan associations, as shown in an enclosure to this letter.

The Program for Voluntary Credit Restraint provides that the national Committee shall issue bulletins or memoranda from time to time regarding general matters relating to the Program and related credit problems, including statements implementing or clarifying the Statement of Principles of the Program and describing the types of credit which in the Committee's opinion should or should not be regarded as proper under the terms of the Program. To date the Committee has issued four such bulletins, copies of which are enclosed. Bulletin No. 4, the one referred to by Mr. Warner, was issued as the result of discussions within the Committee which indicated a need for interpretation by the Committee of its views with respect to the propriety under the Program of real estate credit transactions which are not governed by the Board's Regulation X, Real Estate Credit. The Committee recognized also that the Program did not apply to FHA or VA loans or to other loans guaranteed or insured or authorized as to purpose by an agency of the United States Government.
"I trust that this explanation will suffice to clarify the fact that the bulletin in question was issued as part of a purely voluntary program on the part of lending institutions and represents in no sense an order or directive issued by the Board of Governors of the Federal Reserve System or a Federal Reserve Bank, although the Board and the Reserve Banks have been participating in the Program to the extent required by law and have encouraged the Program as a promising means of curbing inflationary forces without resort to mandatory controls.

"Mr. Warner's letter is returned herewith for your files."

Approved unanimously.

Letter to Mr. E. C. Wareheim, President, Commercial Credit Company, Baltimore, Maryland, reading as follows:

"The Federal Reserve Bank of New York has looked into the matter of veterans being able to purchase cars on an instalment plan on the basis of nothing down and 36 months to pay with the benefit of insurance under the Veterans Administration as questioned in your letter of July 5.

"The New York Bank reports that a substantial portion of the advertising of such credit is 'misleading' in that the long term credit is not available when the veteran actually applies. On the other hand, the extent to which credit insured under the Veterans Administration is increasing in the New York and New Jersey area is a matter of deep concern to the Board and is providing the subject of some discussion with officials of the Veterans Administration.

"Because the matter is still in the discussion stage with no definite course of action decided upon, we had not felt that we had reached a point where we were able to report any results to you. You may rest assured, however, that the Board is as concerned as you are that this matter does not get out of hand."

Approved unanimously.
Letter to the Honorable Willis Smith, United States Senate,Washington, D. C., reading as follows:

"The attached letter from Mr. Tom Glasgow, Glasgow Supply Company, Charlotte, North Carolina, received with your letter of June 21, calls attention to the fact that Regulation W--Consumer Credit permits a trade-in to be used as part of the required down payment in connection with the instalment sale of automobiles but does not afford the same privilege in connection with the instalment sale of radios, television sets, and other electrical appliances. Mr. Glasgow feels that this difference in treatment is discriminating unnecessarily against the appliance industry and requests a change in the regulation to make the trade-in rules correspond.

"In prescribing regulations for as large and as complicated a field as consumer instalment credit, the Board has tried to take into consideration established trade practices, buying habits, and credit traditions and to set the terms and other requirements for the restricted areas accordingly. In the case of automobiles, a large majority of sales (approximately 80 per cent) involve a trade-in of an older automobile. This trade-in has traditionally been accepted as a 'down payment' on the newer car, and in recent years such trade-ins have constituted over 40 per cent of the cash price of the newer car in the average sale. The down-payment requirement under Regulation W in connection with the instalment sale of automobiles is one-third of the cash price and even this relatively high requirement has little restrictive impact in the majority of automobile instalment transactions. The regulation, therefore, depends largely upon its maturity requirements for its restrictive effect in the field of automobile instalment credit.

"The extensive market which has developed in the used car field makes it possible for an individual to sell his car at a fairly well standardized price or to obtain an allowance in about the same amount when he turns this car in on another purchase. Values of used cars are so well standardized throughout the United States that at any given time a used car of specified year, make, and model can be valued for sale or insurance
"purposes within a few dollars of what it will bring in the market at that time.

"In the case of radios, television sets, and electrical appliances, virtually the opposite situation obtains. The majority of sales of such articles do not involve a trade-in. There is no established market for used articles of this type in which a given make and model of a specified age can be appraised safely and accurately for resale, insurance, or other purposes. Because this has been and is true, the regulation depends more heavily on the cash down-payment requirement for whatever restrictive effect may be desirable in this field. As you know, the down-payment thus required has consistently been a smaller percentage of the net sales price than in the case of automobiles.

"The Board recognizes that over the years the custom of using trade-ins in connection with the purchase of consumer durable goods other than automobiles has been and is growing, and eventually an established market for used appliances may develop. Until there are further developments in this direction, however, the Board believes that the present provisions of the regulation are in line with the general trade practices in the large majority of cases.

"We appreciate your interest in the consumer credit regulation and welcome the opportunity of commenting on Mr. Glasgow's letter, which we are returning as you requested."

Approved unanimously.

Letter 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 July 3, 1951, this is to advise you that the Board of Governors concurs in your designation of the Las Cruces, New Mexico, 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 200 housing units. We understand that 100 of these units are to be rental units ranging from $60 to $80 per month each, and 100 units are to be sold at prices of $8,000 and $9,000 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 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 July 3, 1951, this is to advise you that the Board of Governors concurs in your designation of the Mineral Wells, Texas, area -- including the community of Weatherford -- 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 100 housing units to be located within reasonable commuting distance of the defense establishments. We understand that these are to be rental units ranging in rental from $45.00 to $65.00 per month each. Under the terms of the exemption, the entire 100 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 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 July 3, 1951, this is to advise you that the Board of Governors concurs in your designation of the Alamogordo-Tularosa, New Mexico, 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 135 housing units. We understand that 120 of these units are to be located in Alamogordo, of which 70 will be rented at rentals of $70 and $80 per month each, and 50 will be sold at prices not to exceed $8,000 and $9,000 each. In Tularosa, 15 sale units are to be approved at prices not to exceed $8,000 each. Under the terms of the exemption, the entire 135 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.

[Signature]

Secretary.