Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, July 18, 1951. The Board met in the Board Room at 3 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Szcmyzak
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Hackley, Assistant General Counsel
Mr. Boothe, Assistant Director, Division of Selective Credit Regulation

Chairman Martin stated that this morning he and Mr. Riefler attended a special meeting called in the office of Mr. Wilson, Director of Defense Mobilization, for the purpose of discussing what could be done to provide assistance, including financial assistance, to farmers and to industrial and other business concerns which had suffered losses from the very serious flood conditions in Kansas and Missouri. He said that although nothing had been said formally at the meeting, he gathered there might be some objection to meeting the problem through the medium of loans by the Reconstruction Finance Corporation under its existing authority and that the suggestion might be made that provision be made for the Federal Reserve to operate a loan

program under an arrangement similar to the present V-loan program for guaranteed defense production loans. The Chairman also said that just before this meeting of the Board he and members of the staff had discussed with Mr. Vardaman, whose assignments include the V-loan program, the various courses that might be taken, that consideration had been given to the question whether a V-loan procedure should be adopted as the best means of meeting the emergency, and that Mr. Vardaman had made a suggestion which the Board might consider.

Mr. Vardaman stated that the existing V-loan program would not meet the need because it was confined by law to loans for defense purposes and that inasmuch as Mr. Foley, Administrator of the Housing and Home Finance Agency, had been designated by the President to have charge of Government relief in the flood area, a new corporation might be set up under his direction for the purpose of guaranteeing loans to concerns which had suffered flood damage, with the Federal Reserve Banks serving as fiscal agents in the handling of the loans as is done at the present time under the V-loan program. It was Mr. Vardaman's thought that, if private financing institutions were not willing to make the necessary loans under such a program, the loans might be made by the Federal Reserve Banks with the clear understanding that they would be reimbursed

by the Treasury for any losses incurred and that any net earnings from such loans after expenses would be turned over to the Treasury.

There was a discussion of who the guaranteeing agency might be under such a program and consideration was given in that connection to the desirability of placing the authority in the General Services Administration, the Department of Commerce, a new corporation as suggested by Mr. Vardaman, or Mr. Foley as Disaster Relief Administrator. Consideration was also given to the extent to which the emergency might be met through the existing authority of the Reconstruction Finance Corporation to make disaster loans, through the 13b authority of the Federal Reserve Banks, and under the existing V-loan program as it might be applied to concerns which had suffered flood losses and which have defense contracts with the Government. It was agreed that if the Reconstruction Finance Corporation authority were resorted to, the dollar limit on its disaster loan authority undoubtedly would have to be increased and that while the other existing authorities would be entirely inadequate to meet the problem they should be used to the extent practicable. The opinion was expressed that it would be preferable to avoid the creation of a new corporation or agency and that, if possible, the relief program should be handled through an existing agency, but that the Federal Reserve Banks should not be looked

to as the primary source of direct loans. It was also felt that the Federal Reserve Banks of St. Louis and Kansas City should render such assistance as they could in the way of making space available and lending personnel to assist in carrying out the program agreed upon.

At the conclusion of the discussion it was indicated to be the consensus of the members of the Board that perhaps the most expeditious way of handling the matter would be through an enlargement of the existing authority of the Reconstruction Finance Corporation to make disaster loans, that the Federal Reserve System would be willing to cooperate in working out any program that might be decided upon, and that the Federal Reserve Banks would be as helpful as possible under their limited authority under section 13b of the Federal Reserve Act and by making the facilities of the Reserve Banks available. It was understood that if the subject was raised again by Mr. Wilson, Chairman Martin would advise him of the substance of the discussion at this meeting and would offer the cooperation of the System in working out a practicable solution of the problem.

At this point all of the members of the staff with the exception of Mr. Carpenter 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 July 17, 1951, were approved unanimously.

Memorandum dated July 13, 1951 from Mr. Bethea, Director, Division of Administrative Services, recommending that the temporary appointment of Mrs. Valeria V. Faina, Charwoman in that Division, be extended on a temporary indefinite basis, effective July 22, 1951, with no change in her present basic salary at the rate of $2,120 per annum.

Approved unanimously.

Letter to the First National Bank of Hutchinson, Hutchinson, Kansas, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Kansas. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator, and registrar of stocks and bonds, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for transmittal through the Federal Reserve Bank of Kansas City.

Letter to Mr. James M. McInerney, Assistant Attorney General, Department of Justice, Washington, D. C., reading as follows:

"Reference is made to your letter of July 2, 1951, regarding the kiting of checks by George Henry Lane, Jr., between accounts maintained at the First Security Bank of Idaho, National Association, Boise, Idaho, and the Continental State Bank, Boise, Idaho.

"The report of examination of the Continental State Bank as of October 16, 1950, by the Federal Reserve Bank of San Francisco showed that an overdraft in the approximate amount of $49,100 was created in the account of Car Corral Inc., (operated by George Henry Lane, Jr.) on August 10, 1950, by the return of checks from the First Security Bank after a check kite was discovered between the two institutions. Similarly the return of checks by the subject bank caused an overdraft at the First Security Bank of approximately $43,800.

"Attached is a copy of a letter dated January 30, 1951, to Mr. John A. Carver, United States Attorney, from J. L. Driscoll, President of The First Security Bank of Idaho, which was transmitted to the Reserve Bank by the Supervising Examiner of the Federal Deposit Insurance Corporation. It is understood that a copy of the letter was also sent to the Chief National Bank Examiner of the District.

"It appears that no employees of the Continental State Bank were involved in the transactions, and these views were conveyed to the Supervising Examiner of the Federal Deposit Insurance Corporation by H. F. Slade, Vice President of the Federal Reserve Bank of San Francisco in a letter dated February 14, 1951, which contained the following:

> 'At the time of our examination of the Continental State Bank, Boise, Idaho, as of October 16, 1950, this matter came to the attention of our examiner, but inasmuch as there did not appear to be any evidence of collusion or connivance between any officers or employees of the bank and the persons involved in the kiting operation, we did not make any report to the United States Attorney.'

"On the basis of the facts as presented to the Board of Governors it would appear that the United States Attorney for the district of Idaho was justified in his conclusion that the matter did not involve a violation of any Federal criminal statute."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and the Vice Presidents in charge of the Detroit and Los Angeles branches, reading as follows:

"For your information and guidance there are enclosed copies of memoranda received from the Departments of the Army, Navy and Air Force authorizing the Federal Reserve Banks as Fiscal Agents to extend the effective time of Army, Navy and Air Force authorizations for V-loan guarantees for an additional period not exceeding 30 days beyond the close of the 30-day period mentioned in each such authorization."

Approved unanimously.

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

"This refers to your letter of June 22, 1951, concerning the application of Regulation W to certain automobile leasing transactions. The inquiry with respect to the application of the regulation in this regard was made by Mr. B. L. Burman, President, Williams Rent-A-Car Company of Detroit, whose letter of June 20 to the Detroit Branch of your Bank was enclosed with your letter. You also enclosed a copy of a reply dated June 21 to Mr. Burman by the Detroit Branch advising him that the transactions in question were subject to the regulation.

"On the basis of the information presented, the Board agrees with the conclusions stated by the Detroit Branch.

"As you know, the fact that an instalment lessee of a listed article, such as an automobile, may be a corporation or other large institution rather than an individual, of itself is not material under the regulation. Furthermore, the principal consideration is the design of the vehicle, rather than how it may be used by the lessee. While it is possible that section 7(d) might apply to exempt some transactions entered into to facilitate work under government contracts, Mr. Burman's letter does not reveal that the situation concerning Boeing Aircraft Corporation might be such a case.

"The second case mentioned by Mr. Burman, in effect, suggests that the regulation should be amended. In its present form, of course, instalment leases by different lessors cannot be added together for the purposes of the over-$5,000 (or $2,500) exemption.

"You may be interested to know that we also received a copy of Mr. Burman's letter of June 20 from Mr. C. P. Clark, President, National Car Rental System, Inc., of St. Louis, who thought that it might be of interest to us. A copy of the acknowledgment to Mr. Clark is enclosed herewith for your information."

Approved unanimously.

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

"This refers to your letter of June 22, 1951, and its enclosures concerning the application of section 7(j) of Regulation W to the situation resulting in the area of Greenville, Hunt County, Texas, from a wind and hailstorm which was followed by unusually heavy rainfall and later by severe insect infestation.

"By its letter S-1359 (W-154) of June 26, 1951, the Board stated certain general principles concerning the application and administration of section 7(j). As you know, W-154 was prompted in part by your letter of May 24, 1951. Among other things, W-154 indicated that the language 'flood or other similar disaster' in section 7(j) would cover in certain cases a fire, for example, or a severe unseasonal freeze or drought. On the other hand,

"it was pointed out that section 7(j) was not intended to cover 'ordinary agricultural vicissitudes'. However, a 'disaster' for these purposes need not necessarily constitute a single, sudden occurrence. Thus, the total impact of several simultaneous or successive occurrences might well --- but presumably in rare cases only --- constitute a 'disaster', even though each occurrence, if considered separately, would be only an 'ordinary agricultural vicissitude'.

"Although the Board desires to be helpful in interpreting the meaning of the regulation, it believes that whether a particular situation constitutes a 'disaster' under the principles indicated above may be determined more appropriately in most cases by the Federal Reserve Bank concerned. The Federal Reserve Banks are in a much better position to obtain all relevant facts. For instance, as pointed out in W-154, whether the disaster 'has created . . . an emergency affecting the credit needs of a substantial number of the inhabitants of a stricken area' is a matter for determination by the Reserve Bank. The Board is more concerned, when a Reserve Bank has found that a situation qualifies for the exemption afforded under section 7(j), that the conditions set forth in a disaster designation by the Bank be sufficiently restrictive to minimize the danger that the designation may be used as a means of evading or avoiding the regulation generally in the designated area.

"At this particular time, when the consumer durable goods market has noticeably softened, there are, of course, many requests from many segments of the trade and from various geographical sections of the country for relief from the requirements of the regulation in order that accumulated inventories may be moved. In this regard you will have noted that W-154 states that where the disaster did not cause loss or damage to listed articles, the mere fact that instalment purchases of home appliances, for example, might have to be deferred because of a temporary disruption of ability to pay should not, of itself, be considered enough. This point is mentioned particularly because of the reference in Mr. Coffey's letter of June 20, indicating that an important consequence of the Hunt County situation has been a drastic curtailment in the purchase of consumer goods.

"If in view of all the facts and circumstances your Bank should determine that the situation merits a disaster designation, you will probably want to consider incorporating in the designation appropriate conditions and limitations effectuating the pertinent principles set out in W-154."

Approved unanimously.

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

"This refers to your letter of June 21, 1951, and enclosures, regarding the status of dealer-salesmen of the Kirby Company of Spokane, Washington, and the Kirby Company of Sacramento, California, with respect to registration under Regulation W.

"The Board agrees with the opinion expressed in your letter of June 12 to the Kirby Company of Sacramento, that the individual salesmen are dealers and that they must register as Registrants under Regulation W. If such dealer-salesmen have not already registered individually, you might wish to consider working out an arrangement whereby the Kirby Company of Sacramento would effect a registration on behalf of all its dealers. In this connection, there are enclosed for your convenient reference in the event you do not already have copies, a copy of a letter on the subject from Mr. N. E. Hutchens, Counsel for the Martin-Parry Corporation, and a copy of a letter which Mr. Hodge, of the Federal Reserve Bank of Chicago, wrote to Mr. Hutchens in reply."

Approved unanimously.

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

"An inquiry has been received from a Federal Reserve Bank concerning the application of Regulation W to certain so-called 'lay-away' plans which may be described, briefly, as follows:

"An instalment vendor receives from the purchaser of a Group B article, for example, a nominal deposit and lays away the article tagged with an appropriate identification which is also indicated on the instalment obligation executed at that time by the purchaser. The obligation carries a prominent legend indicating that it involves a lay-away transaction and that the down payment required by Regulation W must be made prior to delivery of the article to the purchaser. The obligation is written for 18 monthly instalments and the amounts thereof are so computed that the first three instalments plus the initial nominal deposit are at least equal to the required down payment.

"The instalment vendor then discounts the executed obligation with a bank or finance company which at that time pays the vendor a substantial portion of the cost of the article to him. When the purchaser has paid the first three instalments (which he may anticipate) to the bank or finance company, the vendor is notified and thereupon makes delivery to the purchaser and receives from the bank or finance company the balance of the discount value of the contract. The remaining instalment payments are in amounts and scheduled as required by the regulation. The time for beginning such remaining instalment payments would be accelerated, in order to comply with section 6(b) of the regulation, where anticipation of the earlier instalments by the purchaser accelerated payment of the required down payment and delivery of the article.

"The Board is of the view that transactions of the kind described in the above example would be unobjectionable under the regulation. In such cases the extension of credit for purposes of the regulation shall be regarded as occurring as of the date of delivery of the article to the purchaser, except that where the transaction involves a Group D article, the extension of credit shall be regarded as occurring at the time of beginning the agreed upon repairs, alterations, or improvements.

"Arrangements of the foregoing nature, however, are a proper matter for close scrutiny and any such plan or arrangement must be examined individually and in the light of all the relevant facts and circumstances. It is especially important in actual operation of such plans or arrangements that the records maintained by the Registrants

"reveal sufficient details to make a determination of compliance with the regulation readily ascertainable. This is especially important in view particularly of sections 6(h), 6(i) and 8(e)(2)."

Approved unanimously.

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

"A question recently was raised by a Federal Reserve Bank concerning the application of Regulation W to successive renewals of the unpaid balance of a so-called medical loan where each such renewal was treated as the exempt portion of a mixed instalment credit. The situation presented may be further explained by the following example discussed by the Reserve Bank in this regard.

"On October 30, 1949, a Registrant made a $400 instalment loan for medical expenses with a 24 months' maturity. On October 30, 1950, the Registrant renewed the $200 unpaid balance of such loan, made the obligor a new, non-exempt instalment loan of $200, and gave the $400 consolidated credit a 24 months' maturity. Until April 1, 1951, the payments on the consolidated credit were $20 a month. On the latter date, the Registrant wished to renew the $300 unpaid balance and consolidate it on a 24 months' basis with a further $100 instalment loan for a non-exempt purpose.

"The question presented was whether, as of April 1, 1951, the remaining unpaid balance of the medical loan remained at $200, or whether it was only $100. As the Reserve Bank submitting the question observed, the medical loan balance could be kept alive indefinitely in such cases if the payments on the consolidated instalment indebtedness properly may be applied by the Registrant to the newer, non-exempt portion of the mixed credit. To prevent this unrealistic and undesirable result, the Reserve Bank concerned applied the principle that, following the first renewal and consolidation, the credit first extended should be treated as the first to be paid off. Consequently, at the time of the second renewal and consolidation, i.e., April 1, 1951, only $100 of the original medical loan remained exempt.

"The Board would appreciate your views as to whether the foregoing is a desirable and feasible principle to apply in connection with this troublesome aspect of the mixed-credit problem. Presumably, however, the application of such principle would not be limited merely to loans of the type covered in section 7(i), but would apply also to other credits exempt under section 7 and to instalment credits which otherwise are not subject to the regulation, as well.

"So far as section 7(i) itself is concerned, it is possible that other independent but more restrictive principles might be applied to prevent such successive renewals. Generally, an original instalment loan is exempt if the proceeds are to be used, for example, to pay medical expenses to be incurred or previously incurred. However, the language of section 7(i) possibly is susceptible of a construction which would exclude a loan to pay an original loan for either purpose. Under such a construction only one exempt renewal of a medical loan would be permitted as a loan 'to pay debts incurred for such expenses' in the sense that the original loan, say, to pay in advance for hospitalization or to pay doctors' bills previously incurred, was a debt covered by the above-quoted phrase of section 7(i). A second renewal would be a loan to pay a loan rather than 'to pay debts incurred for such expenses' and, therefore, would not be covered by the exemption.

"The alternatives suggested as a possibility in the above paragraph occurred to us since it is likely that a large majority of the more troublesome mixed-credit questions are limited to section 7(i) credits, most of the other exemptions in section 7 being somewhat more limited by their terms.

"We realize that some of these solutions might be considered severe and might well bring strong protest, particularly from small loan companies. However, the Board would appreciate your views on the possibilities set forth above or on any other suggestions that might occur to you as desirable and practicable alternatives."

Approved unanimously.

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

"This is in further reference to your letter of June 19, 1951, enclosing a letter of June 14, 1951 from Mr. L. Neil McCallum, Seneca, South Carolina, regarding suspected violations of Regulation W by at least one dealer in Oconee County, South Carolina. By our interim reply of June 22, we indicated that steps would be taken to ascertain the relevant facts and that you would be advised. A report concerning this matter has now been received from the Federal Reserve Bank of Richmond.

"In mid-May, the Charlotte Branch of the Federal Reserve Bank of Richmond undertook certain investigations following a report of the Furniture and Appliance Dealers Association of Oconee County, South Carolina, of alleged violations of Regulation W. In this connection, the Charlotte Branch representative consulted Mr. McCallum, You will recall that, in his letter to you, Mr. McCallum stated there was sufficient evidence to convict at least one Registrant of violation of the regulation. The investigation of this Registrant revealed only one inadvertent violation which occurred as a result of a misunderstanding of the application of the regulation. The alleged violation by this Registrant referred to by Mr. McCallum seems to have arisen in connection with another transaction negotiated by an outside salesman of the Registrant. This transaction appears to have been cancelled by the Registrant when its failure to comply with the regulation was discovered by him. In this regard the Registrant indicated that apparently nonconforming transactions by some of his outside salesmen similarly had been cancelled, and that the salesmen had been informed 'that no more such instances would be tolerated'.

"The Charlotte branch representative also investigated the only other Registrant so reported as a probable violator of the regulation. Only one violation of the regulation was found and this, too, appeared to be a result of an innocent misunderstanding of the provisions of the regulation.

"Both of these Registrants have been scheduled for prompt re-investigation in order to discover any possible recurrences of the same errors and to check for compliance with the regulation in all other respects.

"As indicated to you by Mr. McCallum, no report was made back to him or to his Association concerning the above matters. You will appreciate, I am sure, that reports of investigations are not matters which should be given unnecessary circulation, especially to competitors, that might well unjustly embarrass Registrants or their customers. All such reports are carefully evaluated by the local Reserve Banks concerned and, when a probable need for further action is indicated, the reports are forwarded to the Board pursuant to the Board's enforcement program.

"The Board and the Federal Reserve Banks are keenly aware of their responsibilities in connection with the enforcement of the regulation. Unless these responsibilities are effectively carried out, the objective of the Congress in authorizing the regulation would, of course, be frustrated. Furthermore, those Registrants who honestly endeavor to comply with the regulation would be at a serious competitive disadvantage because of the less scrupulous Registrants. At the same time, however, the Board feels that any successful enforcement program must be accompanied by reasonableness and fair treatment.

"Under date of June 21, 1951, Mr. McCallum wrote directly to us with respect to the foregoing at the suggestion of Congressman Dorn. Today we have acknowledged Mr. McCallum's letter and have told him that we have replied to your letter of June 19, 1951.

"A copy of Mr. McCallum's letter of June 14 was also forwarded to us by a letter of June 19 from Senator Maybank. Our reply of this date to Senator Maybank is the same as this letter to you."

Approved unanimously.

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

"We have received inquiries as to what constitutes a nonresidential 'structure' as used in Regulation X, and on March 26, 1951, requested the Federal Reserve Banks to inform us of what answers each had given to such questions and how they would define 'structure' if it were thought advisable to prescribe some definition of the purposes of the regulation.

"As we noted in our previous letter, there is no definition of 'structure' in the Defense Production Act of 1950, and the legislative history does not conclusively demonstrate what types of structures were meant to be included by Congress.

"We believe it is necessary and desirable, however, for the purpose of obtaining uniform application of the regulation that the term 'structure' be defined, but that the definition be broad and flexible in its scope, especially since the term is one which is not readily susceptible to a precise definition.

"After taking into consideration the general purposes and objectives of the regulation, and the provisions thereof, it is the Board's view that the term 'structure' as now used in Section 2(r) of Regulation X should be considered to mean a building having walls and roof, and not the wide variety of construction which a broader connotation of 'structure' encompasses.

"By this it is not meant that a building must necessarily have four walls and a roof in order to be considered a structure. For example, an open automobile parking building without a roof should be considered a structure, and a building containing only three walls and a roof, such as a shed, should also be so classified. However, the Board does not believe that the word 'structure' should be construed to cover such various forms of construction as sewer connections, tunnels, water pipelines, air strips, railroad sidetracks, wharves and piers (providing, of course, that they are not in fact warehouses), bridges, etc.

"Many such special construction projects as these are excluded from the definition of 'nonresidential structure' by the governmental, manufacturing, public utility, and other specific use exemptions in Section 2(r). Moreover, construction other than buildings is often designed for

"one specific use and loans so secured are frequently limited to terms more restrictive than those required by the regulation."

Approved unanimously.

Secretary.