

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 31, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem
Mr. Evans

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Chase, Assistant Solicitor
Mr. Fauver, Assistant Director, Division of Selective Credit Regulation
Mr. Shay, Assistant Counsel, Legal Division
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a report on developments in the Government securities market.

During the course of the foregoing report Mr. Vardaman joined the meeting, and at its conclusion Messrs. Youngdahl and Leach withdrew.

Before the meeting there were distributed to the members of the Board copies of a memorandum dated July 30, 1951 from Mr. Evans outlining amendments to Regulation W, Consumer Credit, which would be necessary to bring the provisions of the regulation into conformity with the terms of

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the Defense Production Act Amendments of 1951, upon approval by the President of the legislation. The memorandum stated that, in addition to these required amendments, certain minor changes would be desirable in order to maintain a balance within a given segment of credit controlled by the regulation, and that this would appear to be an appropriate time to provide exemptions for certain types of instalment credit where the use of such credit had been made necessary in order to comply with Governmental regulations relating to health and sanitation. To accomplish this, it was proposed, after having checked with the Federal Reserve Banks, all of which favored the amendment, to provide an exemption in Section 7 of the Regulation for such credit required to finance the installation of sewerage and other related necessary facilities, including plumbing and plumbing fixtures.

Mr. Leonard, Director, Division of Bank Operations, joined the meeting at this point.

Mr. Vardaman called attention to the absence of a quorum and stated that he did not believe the Board should act on amendments to Regulation W without a quorum even though the action were ratified later, that he felt the members of the Board should arrange their time so that a quorum of the Board would always be present, and that if action were taken today to approve the proposed amendments he would not participate in the action.

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Mr. Evans referred to the discussion at the meeting on July 17, 1951, during which he had pointed out that it could not then be determined what amendments would be required to bring Regulation W into conformity with legislation extending and amending the Defense Production Act of 1950, but that if limitations were placed on terms for only certain parts of the regulation it would be necessary to consider what other changes might be desirable in order to have a properly balanced regulation which would provide substantially equitable treatment for the various classes of registrants. At the time, Mr. Evans said, he also stated that he would bring the nature of such changes to the attention of the Board when the type of legislation to be passed by the Congress was determined, and the other members of the Board present had concurred in this as a desirable approach. He added that the proposed amendments had been prepared in accordance with this understanding and that he recommended that they be adopted to become effective as soon as the President signed the Defense Production Act Amendments of 1951, which he was expected to do later today.

Mr. Riefler stated that the nature of the proposed amendments to Regulation W had been discussed with Chairman Martin by telephone and that the Chairman wished to be recorded as voting to approve them. Mr. Carpenter stated that the matter had been brought to the attention of Mr. Norton yesterday and that he (Mr. Norton) also wished to be recorded as in favor of the amendments.

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It was the view of Messrs. Szymczak and Evans that it was important and necessary that the amendments to Regulation W become effective as soon as possible after the President signed the Defense Production Act Amendments of 1951 and that inasmuch as it was clear that a majority of the Board favored the amendments they should be made effective as soon as the President signed the new legislation. Mr. Vardaman stated that he did not have any objection to the amendments but that he did object to the procedure under which they would be put into effect when a quorum was not present.

Thereupon, upon motion by Mr. Evans, Amendment No. 4 to Regulation W, Consumer Credit, was approved, Mr. Vardaman "not voting". This action was taken with the understanding that it would become effective as soon as the President signed the Defense Production Act Amendments of 1951. The text of the Amendment was as follows:

"Regulation W is hereby amended in the following respects, effective July 31, 1951:

- (1) By inserting in section 1 following 'Defense Production Act of 1950,' the language 'as amended'.
- (2) By amending subsection (c) of section 3 to read as follows:
'Time of Down Payment. - The down payment shall be obtained at or before the time of delivery of the listed article; except that in the case of an article listed in Group D, neither this section 3(c), section 6(b), nor section 6(f) shall be deemed to require compliance in advance of completion of the agreed upon repairs, alterations, or improvements.'
- (3) By inserting in the first sentence of subsection (b) of section 3 the word 'and' before the figure '(2)', by changing the comma after the word 'month' at the end of clause (2) to a period, and by deleting the remainder of such sentence.

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"(4) By inserting in the first sentence of subsection (c) of section 4 the word 'and' before the figure '(2)', by changing the comma after the word 'month' at the end of clause (2) to a period, and by deleting the remainder of such sentence.

(5) By deleting the last sentence of paragraph (2) of subsection (a) of section 5.

(6) By deleting the last sentence of the first paragraph of subsection (b) of section 5.

(7) By amending item (3) in subsection (c) of section 6 to read as follows:

'(3) The amount of the purchaser's down payment (i) in cash and (ii) in property accepted as trade-in, together with a brief description identifying such property and stating the monetary value assigned thereto in good faith;'

(8) By amending the last two sentences of subsection (c) of section 6 to read as follows:

'The record need not include a description of the article if it is purchased by means of a coupon book or similar medium of instalment credit upon which there has been made a down payment at least as great as the down payment required by this regulation on the article sold by the Registrant. The record need not include the information called for by items (2) and (4) if the Registrant is one who, with respect to the article, customarily quotes to the public a time price only which includes the finance or other charges if any, provided he sets forth such time price in such record, and provided he obtains a down payment which is at least as large as would be required if the percentage specified for the article in the Supplement were applicable to the time price.'

(9) By amending subsection (j) of section 6 to read as follows:

'(j) Trade-in. Any property which the seller of a listed article buys or receives in exchange, or arranges to have bought or so received, from the purchaser at or about the time of the purchase of the listed article shall be regarded as a trade-in for the purposes of this regulation.'

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"(10) By adding at the end of section 7 a new subsection (m) reading as follows:

'(m) Credit for Sewerage Installations. - Any credit for the purpose of financing the installation of sewerage and necessary related facilities (including plumbing and plumbing fixtures), required in order to comply with a statute, ordinance, or regulation of the United States, a State or political subdivision thereof, pertaining to health and sanitation, where the Registrant accepts in good faith a written statement signed by the obligor certifying that such credit is for the above purpose.'

(11) By inserting at the end of subsection (a) of Section 8 the footnote reference '5a', and by adding the following footnote to subsection (a) of section 8:

'5a/ All reporting and record-keeping requirements of this regulation have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.'

(12) By changing '25 per cent' and '75 per cent' in Part 1, Group B of the Supplement to read, respectively, '15 per cent' and '85 per cent'.

(13) By changing the maximum maturity stated in Part 2 of the Supplement for articles listed in Group A, Group B, Group C and for Unclassified Instalment Loans, respectively, from '15 months' to '18 months', and for articles listed in Group D from '30 months' to '36 months'.

(14) By changing the figure '18' to '21' in Part 3 of the Supplement.

(15) By deleting from the last sentence in the first paragraph of Part 4 of the Supplement the language 'in the case of an automobile'.

(16) By amending the first paragraph of Part 5 of the Supplement to read as follows:

'Part 5. Calculation of Down Payments for Articles in Groups B, C, and D. - In the case of any article listed in Group B, Group C, or Group D, the required down payment and the maximum loan value shall be the specified percentage of the cash price of the article. Such required down payment may be obtained in the form of cash, trade-in, or both.'

Approval also was given to a press release in the following form, with the understanding that it would be sent by telegram, together with the text of the amendment, to the Presidents

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of all Federal Reserve Banks and the officers in charge of all Federal Reserve Bank branches and that the Reserve Banks would be requested, upon receipt of advice that the President had signed the Defense Production Act Amendment of 1951, to print Amendment No. 4 and distribute it to reach all registrants as promptly as possible. In taking this action it was also understood that the Reserve Banks would be requested to reprint Regulation W as amended to July 31, 1951, inclusive, and distribute copies to all registrants in their districts:

"The Board of Governors today amended the terms of Regulation W - Consumer Credit - in accordance with the Defense Production Act as revised and extended. The amendment, which is effective immediately, lengthens the maximum maturity applicable to instalment credit for automobiles, household appliances, radio and television sets, and furniture from 15 to 18 months, and for home repair and improvements from 30 to 36 months. Longer maximum maturities are also provided for consumer instalment loans for other purposes.

"In accordance with the new legislation, down payment requirements for household appliances and for radio and television sets have been reduced from 25 per cent to 15 per cent. The down payments required by the Regulation may be made in cash, trade-in, or a combination of trade-in and cash. The 10 per cent down payment required for home repair and improvements now need not be obtained prior to completion of the work.

"The following table summarizes the revised terms of the Regulation:

<u>Type of Instalment Credit</u>	<u>Required Down Payment</u>	<u>Maximum Maturity</u>
Automobiles	33-1/3%	18 months
Household appliances, radio, and television sets	15%	18 months
Furniture	15%	18 months
Residential repairs and improvements	10%	36 months
Unclassified instalment loans		18 months

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"In addition, the Board exempted from the provisions of Regulation W any instalment credit required for the installation of sewerage and other related facilities, including plumbing and plumbing fixtures, where the householder is required to make such installation by local State or Federal health and sanitary regulations."

Approval also was given to a statement for publication in the Federal Register reading in part as follows:

"The purposes of the amendment are to bring the regulation into conformity with the provisions of the 'Defense Production Act Amendments of 1951' and to make certain related and additional changes.

"The above amendment was adopted by the Board after consideration of all relevant matter. Special circumstances rendered impracticable consultation with industry representatives, including trade association representatives, in the formulation of the amendment, especially in view of the relaxing and technical nature thereof; and, therefore, as authorized by section 709 of the Defense Production Act of 1950, as amended, the amendment to the regulation has been issued without such consultation. Section 709 of the Defense Production Act of 1950, as amended, provides that the functions exercised under such Act shall be excluded from the operation of the Administrative Procedure Act (60 Stat. 237), except as to the requirements of section 3 thereof."

Mr. Evans said that yesterday afternoon, at the request of Mr. Foley, Administrator of the Housing and Home Finance Agency, and in Mr. Norton's absence, he and Messrs. Riefler, Vest, Noyes, and Benner attended a meeting in Mr. Foley's office to discuss the defense housing bill which had been passed by the Senate and currently was pending before the House Banking and Currency Committee. He went on to say that Mr. Foley thought

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that the House bill would contain limitations on down payments that could be required under real estate credit controls authorized by the Defense Production Act, and that these limitations would make necessary substantial relaxation of Regulation X, Real Estate Credit, and companion measures of the Federal Housing Administration and Veterans Administration. He said that Mr. Foley expressed the view that if the Board and the Housing and Home Finance Agency decided voluntarily to make certain reductions in required down payments promptly, such provisions might not be incorporated in the legislation.

Mr. Evans made the further statement that Mr. Foley then presented a proposed revised schedule of terms that might be adopted for Regulation X as well as Federal Housing Administration insured and Veterans Administration guaranteed mortgages, and asked that he (Mr. Evans) study and comment on the matter as soon as possible. Mr. Evans said that following the meeting with Mr. Foley, he and members of the staff reviewed the matter from the standpoint of whether any relaxation in real estate credit controls was called for at this time by economic developments and, if so, whether the schedule suggested by Mr. Foley would be suitable, but that the review had not progressed far enough to enable him to make a recommendation to the Board. He said that he also asked Mr. Riefler to discuss the matter with Chairman Martin on the telephone and that the Chairman said that the study by the staff should proceed, that Mr. Foley should be advised that

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the matter was being reviewed, and that until this review was completed he (Chairman Martin) would not be prepared to say whether any change should be made in the terms of Regulation X. Mr. Evans said that he had given Mr. Foley this information over the telephone before this meeting and that Mr. Foley said that he understood the position of the Board but hoped that the study by the staff would proceed as rapidly as possible, as, in his opinion, action must be taken within the next week if legislation making mandatory relaxation were to be avoided. Mr. Evans stated further that Mr. Noyes also discussed the matter by telephone with Mr. Norton, who agreed that the study by the staff should be made as rapidly as possible.

In answer to a question by Mr. Evans, Mr. Noyes said that it should be possible to complete the study and submit a recommendation at the meeting of the Board on Tuesday, August 7, and it was understood that this procedure would be followed.

In response to a question by Mr. Vardaman concerning the administrative hearing under Regulation W involving H. Bartels, Inc., Philadelphia, Pennsylvania, being conducted pursuant to Orders issued by the Board on May 28 and July 19, 1951, following action at the meeting on May 10, 1951, Mr. Evans stated that the Federal Reserve Bank of Philadelphia had employed outside counsel to present the case at the hearing but that due to an accidental injury to the lawyer concerned Mr. Townsend, Solicitor for the Board, presented the case on behalf of the Board. Mr. Evans said that the

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hearing, which was being held before a hearing examiner, Mr. Teegarden, obtained from the Securities and Exchange Commission pursuant to the provisions of the Administrative Procedures Act, was now being concluded with the presentation by counsel on behalf of the registrant, and that following completion of the hearing, the hearing examiner would present his recommended decision to the Board, which would decide on the basis of that recommendation whether or not the license of the registrant to extend consumer instalment credit should be suspended. Mr. Evans stated further that in accordance with the agreement at the meeting on July 17, 1951, the registrant had been given an option of a public hearing but preferred that the hearing be private.

Regarding the general enforcement program under Regulation W, Mr. Evans said that the work was being taken over increasingly by the Federal Reserve Banks, and in this connection he referred particularly to the matter involving the Personal Finance Company, of Yonkers, New York, in which counsel for the Federal Reserve Bank had prepared the file on which the office of the United States District Attorney proceeded to institute criminal action, after the case was referred to the Department of Justice pursuant to the action of the Board on June 19, 1951.

Mr. Evans pointed out that the objective of the entire enforcement program was to make sure that the law was administered fairly in all Federal Reserve districts, that the Federal Reserve Banks were being encouraged

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to take full responsibility for the program in their respective districts, and that the Solicitor and Assistant Solicitor for the Board had visited the Banks to assist them in initial cases with the expectation that the Banks would be able to take responsibility for the handling of future cases. This, he felt, provided the most efficient means of carrying out the responsibilities of the Board. He added that the number of violations recorded had been small in relation to the total number of registrants, with many of the violations having occurred inadvertently but that the small loan companies represented an exception. Many of these companies, he said, had been violating the regulation extensively, and since they had access to competent legal advice and had received cooperation from the Board and the Reserve Banks over the years in becoming familiar with the purposes and provisions of the regulation, he felt that continued violations were inexcusable and that the companies concerned must be prepared to face the penalties involved as a result of their actions.

Mr. Evans also said that while he felt the enforcement program for Regulation W was being handled very satisfactorily, he would be glad to receive any suggestions for improvement.

There were presented letters to the Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, 1626 K Street, N. W., Washington, D. C., as follows:

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Letter on Sampson Air Force Base (near Ithaca), New York area.

"In response to your letter of July 27, 1951, this is to advise you that the Board of Governors concurs in your designation of the Sampson Air Force Base (near Ithaca), New York, 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 450 housing units to be located within reasonable commuting distance of the defense establishments, and we understand that 300 are to be rental units ranging from \$55 to \$75 per month each, and 150 are to be sale units at \$8,000 and \$9,000 each. Under the terms of the exemption, the entire 450 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."

Letter on Norfolk-Portsmouth, Virginia area.

"In response to your letter of July 27, 1951, this is to advise you that the Board of Governors concurs in your designation of the Norfolk-Portsmouth, Virginia, area as an area for the application of special credit terms under section (p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for approximately 3,000 housing units to be located within reasonable commuting distance of the defense establishments, and we understand that 2,500 are to be rental units ranging from \$60 to \$70 per month each, and 500 are to be sale units at \$10,000 and \$11,000 each. Under the terms of the exemption, the entire 3,000 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."

Letter on Wright-Patterson Air Force Base (Dayton) Ohio area.

"In response to your letter of July 27, 1951, this

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"Is to advise you that the Board of Governors concurs in your designation of the Wright-Patterson Air Force Base (Dayton), Ohio, 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 1500 housing units to be located within reasonable commuting distance of the defense establishments, and we understand that 1,000 are to be rental units ranging from \$67.50 to \$85 per month each, and 500 are to be sale units at \$9,500 and \$10,500 each. Under the terms of the exemption, the entire 1500 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."

Letter on Othello, Washington area.

"In response to your letter of July 27, 1951, this is to advise you that the Board of Governors concurs in your designation of the Othello, Washington, 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 60 housing units to be located within reasonable commuting distance of the defense establishments, and we understand that 40 are to be rental units ranging from \$65 to \$75 per month each, and 20 are to be sale units at \$9,000 and \$10,250 each. Under the terms of the exemption, the entire 60 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.

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At this point all of the members of the staff with the exception of Messrs. Carpenter and Young withdrew from the meeting.

Reference was made by Mr. Vardaman to a memorandum dated July 11, 1951, from Mr. Young recommending the appointment on a non-permanent basis of Dorothy South Projector as an economist in the Division of Research and Statistics with salary at the rate of \$5,400 per annum. The memorandum stated that Mrs. Projector would be assigned to fill a new position which is needed because the money flows unit of the Division of Research and Statistics was insufficiently staffed to give adequate attention and study to its assigned research tasks. The recommendation had been approved by Mr. Powell as the Member of the Board having among his assignments the research programs of the System.

Mr. Vardaman urged that the proposed appointment be referred to Chairman Martin for consideration and that it be suggested that he consult with the Director of the Division of Personnel Administration and Mr. Young regarding it. Mr. Vardaman also said that he was opposed to any appointment to the Board's staff that was not essential and urgent and he questioned whether the appointment of Mrs. Projector would fall in that category.

Mr. Young stated that the matter had been discussed at some length with Mr. Powell. He also outlined the reasons for the recommended

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appointment and the matter was discussed. At the conclusion of the discussion it was understood that the recommendation would be taken up with Chairman Martin upon his return to the city.

At this point Mr. Young withdrew from the meeting, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Memorandum dated July 27, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending that the resignation of Howard W. Kushner, Telegraph Operator in that Division, be accepted to be effective, in accordance with his request, at the close of business August 17, 1951.

Approved unanimously.

Memorandum dated July 16, 1951, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic salary of John M. Culbertson, Economist in that Division, from \$4,725 to \$5,400 per annum, effective August 5, 1951.

Approved unanimously.

Memorandum dated July 26, 1951, from Mr. Sloan, Director, Division of Examinations, recommending increases in the basic annual salaries of the following employees in that Division, effective August 5, 1951:

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<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
W. B. Lassen	Assistant Federal Reserve Examiner	\$4,325	\$4,600
J. V. Fislser	Assistant Federal Reserve Examiner	4,325	4,450
K. P. Wendt	Assistant Federal Reserve Examiner	3,825	4,200

Approved unanimously.

Memorandum dated July 26, 1951, from Mr. Sloan, Director, Division of Examinations, recommending that Robert W. Cooke, Assistant Federal Reserve Examiner in that Division, be designated Federal Reserve Examiner, with an increase in his basic salary from \$5,875 to \$6,000 per annum, effective August 5, 1951.

Approved unanimously.

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

"In accordance with the request contained in your letter of July 24, 1951, the Board approves the appointment of Elbert O. Fults as an examiner for the Federal Reserve Bank of Chicago. Please advise us of the date upon which the appointment becomes effective.

"It is understood that Mr. Fults will make arrangements to dispose of his bank stock. Accordingly the Board's approval of his application is given with the understanding that he will dispose of the stock in The Genesee County Savings Bank, Flint, Michigan, within a reasonable time."

Approved unanimously.

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

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"This is to acknowledge with thanks your letter of July 6, 1951, in which you have brought the Board up to date regarding the status of the contract with and fees paid or payable to the architect for the Los Angeles Branch building addition and alteration project. It is noted that the contract, which calls for progress payments on the basis of an estimated cost of \$2,700,000 for the building until actual cost has been determined, has been modified to provide that if the project is not commenced by June 19, 1956, an additional payment of \$24,171 would be made in 1956, and the contract would be extended for another five-year period.

"The urgency for enlarged quarters at the Los Angeles Branch is not being overlooked, and we hope that it will be possible for your Bank to undertake construction of the addition before expiration of the terms of the agreement of modification."

Approved unanimously.

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

"This refers to your letter of June 25, 1951, requesting a determination by the Board as to whether the purchase by the Bank of Laguna Beach, Laguna Beach, California, of the note of an affiliated corporation, the Laguna Beach Securities Corporation, amounts to a loan or extension of credit to or an investment in the obligations of an affiliate within the meaning of section 23A of the Federal Reserve Act.

"Your letter states that the affiliate borrowed from a national bank, giving as security therefor a deed of trust on the building occupied by the Bank of Laguna Beach, and that, subsequently, the latter, with the approval of the Superintendent of Banks of California, purchased the note from the national bank.

"Ordinarily, the purchase of negotiable paper in the open market does not amount to a loan or extension of credit to the original borrower. However, the facts and circumstances of a particular case would alter this conclusion. As you

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"know, one of the purposes of section 23A was to limit loans or extensions of credit to affiliates of member banks and this purpose could be easily defeated by a purely technical interpretation of the statute. Thus, an affiliate could arrange for credit from a third party with a side agreement, written or oral, that the member bank would purchase the affiliate's note. Because of the ease with which the statute could be evaded, and the difficulty of distinguishing the cases, the Board believes it advisable to class all purchases by member banks of notes of their affiliates as loans or extensions of credit to affiliated organizations.

"With respect to the security for such loans and extensions of credit, the Board agrees with the opinion of your Counsel that the Board's 1933 ruling (F.R.L.S. #6720) to the effect that real estate mortgages ordinarily do not meet the 'market value' test prescribed by section 23A for 'stocks, bonds, debentures, or other such obligations', is equally applicable to a deed of trust."

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

Letter to Mr. J. L. Robertson, Deputy Comptroller of the Currency, Washington, D. C., reading as follows:

"Since receipt of your letter of April 25, 1951, and in accordance with your suggestion, the use of armored trucks by the Puerto Rican branch of the National City Bank of New York has been the subject of two conferences between representatives of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors. The second of these conferences was held July 25, 1951.

"The discussions have covered the technical and legal aspects of the matter, including the distinction between the operation of branches in an insular dependency and the mainland, the conditions peculiar to Puerto Rico and the extent and effect of the use of the authority granted to the National City Bank.

"The Board of Governors has recently been requested by the Insular Government to send a delegation to Puerto Rico

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"primarily for the purpose of exploring the possibility for improvement of the system of check clearing and exchanges both within the island and with the mainland. It will also make some inquiry into the credit needs and facilities of the island. Present plans are for the delegation to go to Puerto Rico in September. It was suggested at the recent conference that the delegation might develop at first hand further information with regard to the matter of the use of armored trucks.

"It is felt that the Board would want and should have as complete information as possible on which to base any consideration of rescinding the authority granted to the National City Bank and, therefore, it is suggested that further consideration of the matter be deferred until such information can be obtained."

Approved unanimously.

Letter to the Honorable Jess Larson, Administrator, General Services Administration, Washington, D. C., written pursuant to action taken at the meeting of June 28, 1951, reading as follows:

"This refers further to your letter of June 21, 1951, addressed to Governor Vardaman, in which you suggested consideration of a separate schedule of guarantee fees on V-loans made to finance the construction of industrial facilities.

"Before expressing our views with respect to this proposal, it appeared desirable to consult with the other guaranteeing agencies; and, as you were previously advised, the Board addressed identical letters to the guaranteeing agencies on June 29 requesting their comments regarding the proposal. We are now in receipt of letters from the Departments of Defense, Commerce, Agriculture, and Interior, and the Atomic Energy Commission, copies of which are enclosed, and it appears that these agencies are not inclined to favor this proposal. As you will observe, some of the agencies feel that V-loan guarantees should not be used for the financing of facilities expansion.

"After thorough consideration of this matter and in the light of the comments made by the other guaranteeing agencies, the Board is of the opinion that the adoption of the proposed schedule of fees would not be desirable.

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"As indicated in the Board's letter of June 29 to the guaranteeing agencies, we feel that the suggested schedule would not be entirely realistic and would provide a more favorable treatment for guarantees of facilities loans than for guarantees of working capital loans which would be difficult to justify. Application of the plan would also involve serious administrative problems. Moreover, as indicated in the letters received from the Departments of Defense and Agriculture, the proposal would appear to be inconsistent with the memorandum submitted to the President on June 8, 1951, by the Director of the Bureau of the Budget, the Chairman of the Council of Economic Advisers, and the Director of Defense Mobilization, in which it was recommended that the present interest ceiling and schedule of fees with respect to V-loans be retained.

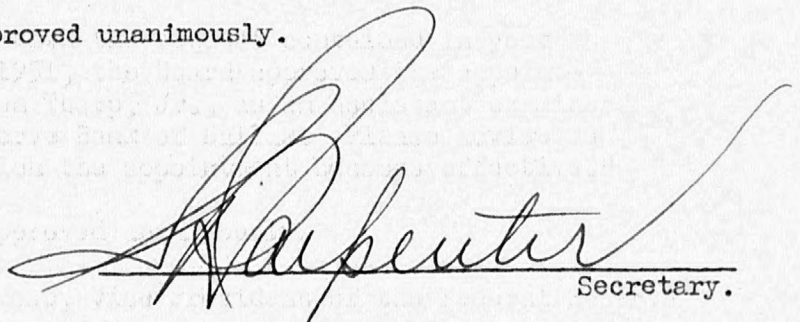
"We shall, of course, be glad to discuss the matter with you further in consultation with the other guaranteeing agencies if you should feel that further discussion is desirable."

Approved unanimously.

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

"Section 5(k) of Regulation X provides that the regulation does not apply to real estate construction credit extended prior to 32 days after certain new construction is completed. Credit extended after the 32-day period is exempt, however, in cases where the extension of credit is necessarily delayed by title difficulties, pending litigation with respect to the property, or comparable circumstances."

Approved unanimously.


Secretary.