

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, August 10, 1951.

PRESENT: Mr. Evans, Chairman pro tem
Mr. Vardaman
Mr. Powell

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, 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 August 7, by the Federal Reserve Banks of Atlanta and St. Louis on August 8, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, Kansas City and Dallas on August 9, 1951, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated August 1, 1951, from Mr. Allen, Director, Division of Personnel Administration, recommending increases in the basic annual salaries of the following employees in that Division, effective August 19, 1951:

Name	Title	Salary Increase	
		From	To
Sylvia I. Clements	Secretary to Mr. Allen	\$3,600	\$3,825
Gena E. Gander	Secretary to Mr. Sprecher	\$2,955	\$3,100

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of

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Richmond, reading as follows:

"In accordance with the request contained in your letter of August 7, 1951, the Board approves the appointment of Jesse H. Ellsworth, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Richmond. It is noted that this appointment is to be made effective August 15, 1951."

Approved unanimously.

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

"Re our letter of May 24 relating to proposal for regional conferences on Regulations W and X. In the light of the recent amendment to Regulation W occasioned by the changes in legislative authority it now appears that there are several problems of basic policy regarding the administration of the Regulation which it might be more appropriate to discuss in a System conference attended by representatives from each of the banks. Comments on the relative desirability from the point of view of the Bank of having at this time a System conference instead of the regional conference would be appreciated. Such a conference could be scheduled for September 12, 13, and 14 in Washington, if that time is agreeable to the Banks. The advisability of and necessity for a series of interbank conferences subsequent to the System conference would be under discussion at that meeting. In setting up the agenda for such a meeting consideration will be given to the suggestions made last May. Any additional suggestions are welcome."

Approved unanimously.

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

"As you know, Regulation W as amended effective July 31, 1951, pursuant to the Defense Production Act Amendments of 1951, provides that the required down payment for any listed article may be obtained in the form of cash, trade-in, or

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"both. This rule, as previously applied only in the case of automobiles, was the subject of the published interpretation S-1227 (W-112) dated December 18, 1950.

"Inquiries from certain Federal Reserve Banks indicate the urgent need for Board action clarifying the situation under the regulation as so amended, and supplying standards for the guidance of the public and those immediately concerned with the administration of the regulation.

"In view of the principles that have been developed in this regard with respect to automobiles and the continuance in the regulation of down payment requirements for all listed articles and provisions with respect to rebates or sales discounts, the problem now presented obviously is a difficult one, particularly if the down payment requirements are to be of any practical effect.

"Attached hereto is a tentative draft of an interpretation which is designed to have some effect in preserving the effectiveness of the down payment requirements and which would be equally applicable to all listed articles, including automobiles. The draft has not been presented to the Board, but is being sent to the Reserve Banks as a basis for discussion within the System. Your views and comments with respect to the attached draft will be appreciated. It will be appreciated also if you include in your reply a summary of such experiences as you have had with respect to the changes made by Amendment No. 4 in the trade-in and down payment provisions of the regulation, including comments of the trade and such promotional advertising as have come to your attention. We recognize that it is probable that the experiences thus far among the Reserve Banks have varied and that the problem may not at this time appear to be equally urgent in all districts. It would seem reasonable to assume, however, that some of the extreme practices that have made their appearances in some areas will spread to others.

"In order that formal action in this regard may be taken at an early date, we will appreciate receipt of your reply to reach us not later than August 20.

"Pending receipt of replies from the Reserve Banks and in further preparation for formal action in this regard by the Board, the Board's staff is undertaking informal consultations with the trade. These consultations and the Reserve Bank replies may, of course, indicate the need for a different or modified approach to the problem."

Approved unanimously.

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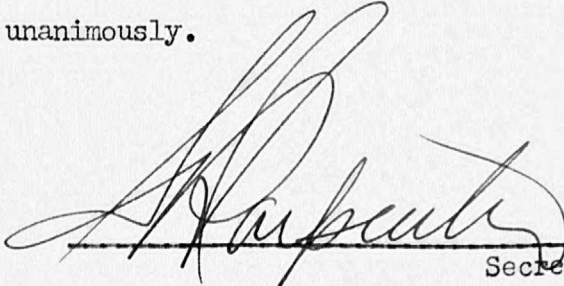
Letter to Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Enclosed are copies of letters from Mr. A. H. Bredenbeck dated July 17, 1951, and Mr. Fred W. Marlow dated July 10, 1951, with reference to the applicability of Regulation X to the lease and purchase option agreement which their firm has been using. The copy of the lease referred to in Mr. Bredenbeck's letter is also enclosed.

"The information which Mr. Bredenbeck says the Los Angeles Branch gave to the Marlow-Burns Development Co., to the effect that when financing is conventional the type of leasing agreement which the firm has been using is subject to Regulation X and that the amount of the lease option must be amortized within the maximum permitted maturity in the same manner as the additional outstanding credit, is in conformity with the proposed amendment and instructions covering leases that were transmitted to all Federal Reserve Banks in the Board's telegram dated April 17, 1951. After further consideration and study of the proposed leasing amendment, however, our present thinking is that the contemplated amendment will continue to require compliance with the maximum loan value provisions, but will exclude subject leases from the maturity and amortization requirements set forth in the Supplement to the regulation. A copy of a draft of the proposed amendment is enclosed. Similarly, under FHA regulations pertaining to a mortgage on a leasehold that is eligible for mortgage insurance, no amortization of the value of the land is necessary.

"The Board has no objection to the San Francisco Bank's using the enclosed draft of amendment covering certain leases as a basis for notifying Marlow-Burns that no amortization shall be required on the lease option portion of the value of the residential property in the transaction in question. Also, in this same connection, there is no objection to your Bank's utilizing the enclosed amendment text as a basis in replying to questions concerning real estate construction credit involving leases. It is requested that this proposed leasing provision of the regulation be considered confidential."

Approved unanimously.


Secretary.