

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, August 15, 1951.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 14, 1951, were approved unanimously.

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

"The suggestion has been made that Section 3(d) of Regulation Q should be amended so as to permit member banks to pay interest on savings deposits received during the first ten days (instead of the first five days as at present) of any calendar month calculated from the first day of such month. A variation of this suggestion would continue the present provision of Section 3(d) for a five-day monthly grace period, but would give member banks the alternative of a ten-day grace period at the beginning of the quarterly or semi-annual interest period.

"It is understood that it has been the practice in some areas for banks to allow a ten-day grace period. Such a practice does not conflict with the provisions of Regulation Q when the stated interest rate is less than the maximum permitted by the Regulation. However, when the stated rate is the maximum permitted by the Regulation, the allowance of a ten-day grace period would result in the payment of interest at a rate slightly higher than the maximum permitted by the Regulation (2-1/2 per cent compounded quarterly, plus allowance for a five-day grace period). Extension of the grace period as above suggested would permit a bank to continue its established practice of allowing a ten-day grace period, or to meet competition in that respect, and to pay interest at the stated rate of 2-1/2 per cent. It

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"is understood that a ten-day grace period is allowed under the regulations pertaining to Federal savings and loan associations, also that there are such provisions in some of the State laws or regulations.

"As a basis for the Board's consideration of the suggestion and also as a basis for discussion with the Federal Deposit Insurance Corporation if the Board should look with favor upon the suggestion, it will be appreciated if you will ascertain what general practices are followed in representative cities in your District with respect to the payment of interest on deposits received during the first few days of the calendar month or interest period. We shall be glad to have your comments on the proposed suggestion when you send in the results of your survey of existing practices."

Approved unanimously.

Letter to Mr. Mark T. Smythe, 666 Worcester Street, Wellesley, Massachusetts, reading as follows:

"This refers to your letter of August 10, 1951, concerning the application of Regulation W to the refinancing of an instalment obligation arising out of the sale of an automobile on January 1, 1951. The permissible maximum maturity for such obligations at that time and until July 31, 1951, was 15 months.

"Under section 5(a) of the regulation relating to general requirements in connection with renewals, revisions and additions, it would have been permissible for the holder of the instalment obligation to revise the obligation with a new maximum maturity of 15 months running from the date of the revision.

"A Statement of Changed Conditions - or as you referred to it, a 'statement of necessity' - is required only in cases of the kind covered under section 5(b) of the regulation pursuant to which such instalment obligation could have been revised with a new maximum maturity of 18 months.

"Pursuant to the Defense Production Act Amendments of 1951, the maximum maturity for automobiles was extended from 15 months to 18 months, effective July 31, 1951. At that

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"time, the maximum maturity for refinancing on the basis of a Statement of Changed Conditions was extended from 18 to 21 months. Therefore, at this time a contract originally entered into before that date with a 15 months' maturity could now be revised under section 5(a) for 18 months or, with a Statement of Changed Conditions as prescribed in section 5(b), for 21 months.

"The administration of the regulation has been decentralized among the 12 Federal Reserve Banks and their branches. This normally expedites the handling of inquiries under the regulation. It is suggested therefore, that you may wish to submit any further inquiries which you may have concerning the regulation to the Federal Reserve Bank of Boston.

"Your self-addressed, stamped envelope is returned herewith."

Approved unanimously.

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

"An inquiry has been received concerning the application of Regulation W to a sales promotional proposal of a Registrant doing business on a nation-wide basis to refund, by cash payment or check, a portion of the finance charges originally included in an outstanding instalment sale obligation held by him. Such refund would be made at or about the time of an instalment add-on sale to the same customer. It is understood that such refund may include some of the finance charges already paid, as well as the portion thereof not yet paid at the time of the add-on transaction and the resulting consolidation of indebtedness.

"There would, of course, be no objection under the regulation to a cancellation of the unearned portion of the finance charges on the outstanding obligation at the time of the consolidation of that obligation with the new credit. However, the Board is of the view that a transaction pursuant to the proposal in question would effect a reduction or refund of the down payment required on the instalment add-on purchase or a total extension of credit in connection therewith in an amount greater than that permissible under the regulation."

Approved unanimously.

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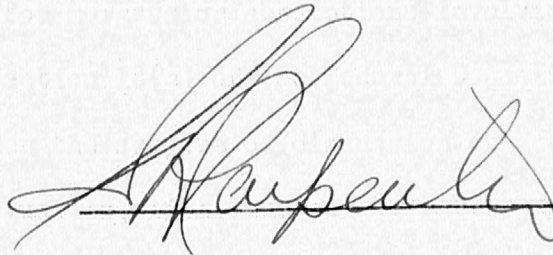
Letter to Mr. Donald E. Van Koughnet, 9708 Kensington Parkway,
Rock Creek Hills, Kensington, Maryland, reading as follows:

"This refers to your letter of August 8, 1951, concerning an interpretation of section 2(i) of Regulation X as it affects the construction of a proposed manse for the Warner Memorial Presbyterian Church of Kensington, Maryland. You stated that the Church plans to purchase a lot for \$2,500, that a builder has offered to build a manse on the lot for the actual cost to him, which will be approximately \$18,200, and that a Registrant is willing to lend the Church \$16,000, based upon an appraised value of \$32,000.

"We agree that under the circumstances stated in your letter the offer of the builder is in the nature of a gift to the Church of the difference between the cost of the proposed manse and its appraised value. Accordingly, the applicable provision of section 2(i) of the regulation is section 2(i)(2)(B)(ii), which provides ' * * * if any part of such property has been acquired by gift, * * * "value" shall be the appraised value as determined in good faith by the Registrant who extends the credit; '.

"A copy of this letter is enclosed for the information of the Registrant."

Approved unanimously.



Secretary.