

Minutes of actions taken by the Board of Governors of the
Federal Reserve System on Friday, August 17, 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 16, 1951, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Philadelphia,
Chicago, St. Louis and San Francisco stating that the Board approves the
establishment without change by the Federal Reserve Bank of San Francisco
on August 14, by the Federal Reserve Bank of St. Louis on August 15, and
by the Federal Reserve Banks of New York, Philadelphia and Chicago on
August 16, 1951, of the rates of discount and purchase in their existing
schedules.

Approved unanimously.

Memorandum dated August 13, 1951, from Mr. Carpenter, Secretary
of the Board, referring to the Board's action on December 18, 1950,
approving the placing of an appropriate metal plaque in the Special
Library in recognition of the outstanding work done by Mr. Chester
Morrill as Secretary of the Board in connection with the planning and
construction of the Federal Reserve Building, and recommending that the
wording of the plaque be as follows:

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In recognition of the service of Chester Morrill who as Secretary of the Board made an invaluable contribution to the arrangement and utility of this building.

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Approved unanimously.

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

"Federal Reserve Bank and branch officials frequently have occasion to come to Washington on private business or for personal reasons. We are always happy to have such officials visit the Board and be our guests in the dining room. It has occurred to us that it might be convenient for these officials to have identification cards for use not only in connection with visits at the Board but also at Federal Reserve Bank and branch buildings. With this thought in mind, we are enclosing for your consideration a specimen copy of a card which might be used for this purpose.

"It is contemplated that such a card would be sent to Chairmen, Presidents and other officers of Federal Reserve Banks and branches whose names are listed in the Federal Reserve Bulletin, to the Members and Secretary of the Federal Advisory Council, and to Directors of Federal Reserve Banks and branches. The card would take the place of the Board building pass which has been issued in the past to the Presidents and Chairmen of Federal Reserve Banks and to the Members and Secretary of the Federal Advisory Council.

"We shall be glad to have your views regarding the desirability of issuing the proposed identification cards."

. Approved unanimously.

Memorandum dated August 15, 1951, from Mr. Marget, Director, Division of International Finance, recommending the collection of monthly data on currency movements from all Federal Reserve Districts (excluding

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Minneapolis) with banks at ports or on the Canadian or Mexican borders in accordance with a procedure outlined in the memorandum.

Approved, Mr. Vardaman
not voting.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This is in response to your communication of August 14, 1951, for an expression of our views on the Enrolled Bill S. 684 'To amend the Bankhead-Jones Farm Tenant Act so as to provide a more effective distribution of mortgage loans insured under title I, to give holders of such mortgage loans preference in the refinancing of loans on a noninsured basis, to adjust the loan limitations governing title II loans so as to provide more effective assistance to production and subsistence loan borrowers, and for other purposes.'

"The bill increases the limitation on the amount of an initial operating loan from \$3,500 to \$7,000 and increases from \$5,000 to \$10,000 the total debt limit for such loans. It also increases the maximum maturity from 5 to 7 years and provides discretionary authority to defer the initial payment to a date not exceeding 2 full crop years.

"As you know, in its letter to you of March 26, 1951, the Board raised the question whether a liberalization of the Government lending authority in the agricultural field, similar to that contained in the pending bill, would be consistent with the efforts which the Government is currently making to control inflationary pressures in the credit field.

"The bill as originally introduced contained a provision which would have increased from \$100 million to \$200 million the total amount which could be used annually for insurance of farm mortgages. The Board in its report by letter dated June 6, 1951 questioned the proposed increase on the ground that such action would not conform to the Government's program of inflation control. We note, however, that the bill as finally enacted by the Congress provides for no increase in the total amount."

Approved unanimously.

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Letter to Mr. Edward K. Wheeler, Wheeler & Wheeler, Southern Building, Fifteenth & H Streets, N. W., Washington, D. C., reading as follows:

"This refers to your letter of July 24, 1951 and its enclosures, concerning the possible application of Regulation T to the activities of the Chesapeake and Ohio Railway Company in connection with the Employee's Stock Purchase Plan which that Company proposes to put into effect.

"In this connection we have noted particularly the letter dated July 13, 1951 to you from the Securities Exchange Commission, a copy of which you enclosed, indicating that the Company would not be regarded as a 'broker' or 'dealer' within the meaning of the Securities Exchange Act of 1934.

"In the circumstances, the proposed activities of the Company as described by you would not be considered by the Board to be subject to Regulation T, issued pursuant to the aforementioned Act."

Approved unanimously.

Letter to the Honorable J. Percy Priest, House of Representatives, Washington, D. C., reading as follows:

"We appreciate your bringing to our attention in your letter of August 1, 1951, the complaint made to you by Mr. Len Herndon of Nashville, Tennessee, relating to Regulation W - Consumer Credit.

"Mr. Herndon reported having heard that the 'federal government was not only investigating whenever a person fell down on a monthly payment, but that it was necessary for the consumer to fill out a long statement stating why he had not made his payment.'

"Investigations conducted in connection with the regulation are for the purpose of determining whether a lender, seller, or other creditor subject to the regulation has been conducting his business in compliance therewith. The fact that a customer has failed to meet one or more of the

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"instalment payments required to be scheduled by the creditor for liquidation of the credit within the applicable maximum maturity specified by the regulation, is not a violation of the regulation and, therefore, not of itself a proper subject for investigation.

"In this regard it may be noted that the regulation provides an exception under which the creditor may grant to a customer a longer maximum maturity than would otherwise be permissible where, for reasons beyond the control of the customer, the customer would suffer undue hardship in meeting his previously scheduled payments. This provision, of course, is designed to accommodate those debtors who, because of unforeseen circumstances, find that their previous financial commitments will be unduly burdensome. In order to prevent this preferential provision being applied improperly, the creditor is required to receive from the debtor a statement of the circumstances justifying resort to the exception. Furthermore, another provision of the regulation allows the creditor to revise an obligation which is in default on any terms he desires where such action is necessary for his own protection.

"An abuse of these exceptions by a creditor would, of course, constitute a violation of the regulation; and, in the development of the evidence of any such violation, customer contacts might be the only practicable procedure in the particular case. This could be true also where it appeared, for example, that no bona fide schedule of instalment payments was ever arranged by the creditor, as required by the regulation, at the outset of the instalment obligation.

"The Board is extremely interested that the administration and enforcement of the regulation be carried out fairly and equitably with respect to everyone affected. To that end, we endeavor to do all that we can to avoid any occurrences that are either unnecessary or improper. While Mr. Herndon did not relate any particular cases upon which his report may be based, we will be glad if you will advise us of any which in your opinion may be questionable. We assure you that any such case will be investigated promptly and that you will be fully informed accordingly.

"As you know, Regulation W was reinstated in September 1950 pursuant to the Defense Production Act and was extended, with modification, by the Defense Production Act Amendments of 1951. Briefly, the regulation is designed to restrict

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"the inflationary expansion of consumer instalment credit by limiting the amount and maturity of such credit that may be granted by both sellers and lenders engaged in the instalment credit business. Compliance with the regulation requires that instalment credit contracts accepted by those so engaged conform with certain minimum standards.

"In order that the purpose of the Congress in authorizing the regulation of consumer credit might be effectuated, the statute authorizes investigations and provides certain remedies in the event of violations by those from whom compliance is required. In the vast majority of cases, there is no cause for the investigations so authorized to extend beyond the places of business of the lenders and sellers subject to the regulation, and the investigations are confined accordingly.

"However, on infrequent occasions and under carefully controlled procedures, the investigators are directed to contact customers where there is evidence indicating that a seller or lender may have violated the regulation and where there is reasonable ground for believing that he has either concealed or failed to disclose pertinent facts. In such a case, customer contacts may be the only practicable course, as previously indicated.

"Beginning with the regulation as initially instituted in 1941, its administration has been decentralized among the 12 Federal Reserve Banks and their branches. The day-to-day administrative matters, including investigations, have been conducted by the 12 Federal Reserve Banks and their branches and investigators attached to these local institutions. Investigations, including such customer contacts as have been necessary, have always been the subject of close supervision, for the Board and the Reserve Banks are keenly aware of the importance of all investigatory activity, both from the standpoint of effective administration of the regulation and from the standpoint of the interests of those affected by the regulation.

"If one lender in a given community, for example, is to succeed in violating the regulation because of ineffective investigative procedures in developing proof of his deception, the effect is a discrimination against his honest competitors. On the other hand, a false report of violation, even though honestly made on reasonable grounds, may have severely damaging consequences to a law abiding lender unless such falsity can

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"be quickly and effectively revealed. Without appropriate customer contacts, the inequities arising from either of these situations - both of which have occurred - might well go uncorrected indefinitely, a consequence that truthfully could be attributed to inadequate administration and enforcement.

"However, as previously indicated, the scope of the few customer contacts that are made is kept to an absolute minimum, and every effort is made to conduct such contacts with courtesy and due deference to the rights, personal affairs and convenience of the customer.

"Enforcement of a regulation or law is not a happy task to perform. But, if the policy of the Congress with respect to consumer credit is to be administered effectively and equitably in accordance with the statutory authority, the administering agency must be afforded reasonable measures, consistent with the rights of all concerned, to maintain respect for the regulation and to discover those who would violate its terms or subject it to abuse.

"We are grateful for the opportunity to comment on this subject, and we hope that you will not hesitate to let us know if we can be of any further assistance in the matter, either with respect to specific instances which may come to your notice or otherwise."

Approved unanimously.

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

"This refers to your letter of July 15, 1951, to Mr. DiSalle, Director of Price Stabilization, enclosing a letter dated July 10, 1951, from Mr. Dewey of Chapman and Dewey Lumber Company, Memphis, Tennessee, accompanied by a statement relating to the alleged effect of Regulations W and X on the market for hardwood flooring and southern hardwoods. This correspondence was forwarded to the Board for reply.

"As you know, Regulations W and X were issued pursuant to authority of the Defense Production Act of 1950 and are supplementary instruments in the fight against inflation. Regulation W is designed to check the expansion of consumer instalment credit which had been rapidly increasing in the

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"months immediately preceding the reinstatement of the regulation, and which had contributed to the expansion of critical inflationary pressures. Similarly, Regulation X is designed to conserve labor and materials for diversion to national defense production and to aid in resisting inflation in the field of real estate, where the volume of credit has grown rapidly in the postwar years to an all-time record peak.

"We should like to see the home-building industry operate on as high a level as possible consistent with national defense and economic stabilization efforts. Last October, when the Board of Governors' Regulation X and similar restrictions of the Federal Housing Administration and the Veterans Administration were issued, a volume of about 850,000 housing starts for 1951 was believed to be consistent with the objectives of the enabling legislation. As of the end of June, 575,000 dwelling units had been started in the United States during 1951, which, except for last year, is at a rate in excess of any recent year. While there has been some abatement in orders for lumber and hardwood flooring from the boom year of 1950 which witnessed the all-time high in production of hardwood flooring, production of these commodities has held up well thus far in 1951 and compares favorably with 1950's high level. Concurrent with this, prices of lumber and hardwood flooring have remained steady, which would seem to indicate that there has been no significant reduction in nation-wide demand for these products.

"The Board continually studies the effect of Regulation X and is prepared to make prompt modification in its requirements should the evidence indicate that present terms have become too restrictive in the light of national economic conditions and the requirements of the defense effort.

"With respect to the Regulation X down-payment requirements mentioned in the statement accompanying Mr. Dewey's letter, the minimum down payment on a \$12,000 house is \$3,100, and on houses valued at more than \$24,250 the minimum down payment is fifty per cent of the value per family unit.

"In accordance with the provisions of the Defense Production Act as recently amended and revised, the Board has relaxed the terms of Regulation W so as to require only a 15 per cent down payment when purchasing appliances and

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"a maximum maturity of 18 months; the down payment on furniture remains at 15 per cent but trade-ins may now be accepted as all or part of the required down payment. The Board feels that still easier terms for furniture under Regulation W at this time would not be in the interest of the defense program.

"We trust this is the information you desired in connection with Mr. Dewey's correspondence. If there is any additional information you need please let us know."

Approved unanimously.

Telegram to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to our recent telephone conversation regarding a possible amendment to Regulation X to provide an exemption for the construction of houses to replace those damaged by flood, there is set forth below the text of a possible amendment to the Regulation for this purpose. You will note that this would leave the matter of exemptions from Regulation X almost wholly in the hands of the Federal Reserve Bank, subject to some limitation as to number of houses, which is to be determined after consultation with representatives of HHFA. The proposal would not contemplate that in conventional financing any specific limitations be prescribed with respect to sale prices or amount of rents, as this seems to us to be somewhat outside the scope of Regulation X. Presumably HHFA would adopt somewhat similar provisions with respect to Government guaranteed loans, but we would expect that they would probably wish to put in requirements as to sale prices or amounts of rents, as this is in accord with their usual practice and since they now have definite legal authority for conditions of this kind. We will appreciate your advice as soon as practicable as to whether you think the proposed amendment would be adequate. Do you feel that the exemption from the regulation should apply broadly to residences and multi-unit residences or should it be limited merely to residences? The proposed amendment follows:

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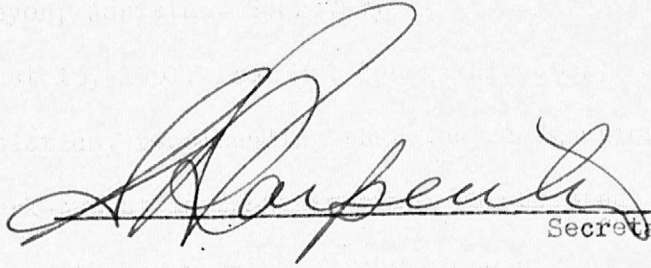
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"Amend subsection (e) of section 5 by adding thereto the following new paragraph:

"A builder who plans to construct residences to be sold or leased to persons who occupied residences that were destroyed or substantially damaged by floods in the States of Kansas, Missouri, or Oklahoma may apply to the Federal Reserve Bank of the district in which such construction is to take place for an exemption from this regulation for such construction. If such Federal Reserve Bank, after consideration of the application, determines that the residences are needed for sale or lease to persons who occupied such destroyed or damaged residences, it may issue a certificate of exemption approving the application. Any extension of credit to such builder or to the first purchaser from such builder with respect to the residences specified in the certificate of exemption shall be exempt from the prohibitions of subsections (a) and (b) of section 4 of this regulation. No certificate of exemption shall be issued, however, unless the Federal Reserve Bank is satisfied on the basis of appropriate documents submitted by the builder that the builder will make all reasonable efforts to sell or lease such residences on reasonable terms to persons who occupied residences destroyed or substantially damaged by floods and will not sell or lease any such residence to any other person, or enter into any agreement or understanding to do so, until at least four months after such residence has been completed. The number of residences for which exemption may be granted under this paragraph in any community in the flood area shall be subject to a limitation to be determined by the Federal Reserve Bank of the district after consultation with the Housing and Home Finance Agency; and in making such determination the Federal Reserve Bank shall give consideration to the number of residences destroyed or damaged in such community and to the number of residences for the construction of which in such community exemption from other credit regulations has been granted by any Government agency. Applications under this paragraph, in order to be considered, must be sent to the appropriate Federal Reserve Bank not later than December 31, 1951."

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Approved unanimously, together with a telegram to Mr. Johns, President of the Federal Reserve Bank of St. Louis, requesting his views regarding the proposed amendment.


Secretary.