

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 6, 1951. The Board met in the Board Room at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Noyes, Director, Division of
Selective Credit Regulation
Mr. Sloan, Director, Division of
Examinations
Mr. Garfield, Adviser on Economic Research,
Division of Research and Statistics

Mr. Vardaman requested that the minutes for this meeting state that the reason he was not present was that he had another appointment.

Mr. Evans referred to the discussion at the meeting on June 19, 1951 of desirable dates for the next meeting of the Conference of Chairmen of the Federal Reserve Banks, stating that Mr. Wilbur, Chairman of the Conference, had indicated that he would appreciate having the views of the Board as to the desirability of having a conference either this Fall or early in 1952. In the discussion that followed, it was stated that some of the Reserve Bank Chairmen had expressed a preference for a meeting in November of this year while others felt it might be desirable to have the meeting early in 1952.

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Mr. Evans suggested that Mr. Wilbur be advised that the Board felt it would be desirable to have a meeting of the Chairmen in Washington about the end of November of this year unless it was found upon further checking that it would be preferable to defer it until some time early in 1952.

This suggestion was approved unanimously.

Mr. Powell stated that at the meeting of the Voluntary Credit Restraint Committee yesterday it was agreed that Bulletin No. 4 issued by the Committee in June 1951 with respect to real estate credit should be revised to recognize that loans for the purchase of existing houses might be based on a minimum down payment of $1/3$ of the purchase price in the case of properties selling for more than \$16,500, rather than a minimum down payment equal to that required for new construction under Regulation X, Real Estate Credit, which was as much as 50 per cent on higher priced houses. He stated that it was apparent from information received that the currently recommended terms were not being observed in some localities and that it was hoped the proposed revision in the bulletin would result in general acceptance by financing institutions of the Committee's suggested credit limitations. Mr. Powell went on to say that the Voluntary Credit Restraint Committee wished to know whether such a change would conflict with the views of the Board, and that in the absence of the Administrator of the Housing and Home Finance Agency, he

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expected to talk today with Mr. Neal J. Hardy, Assistant Administrator, to determine what the position of the Agency would be with respect to the proposed change.

Mr. Norton stated that he felt it essential to obtain the views of the Housing and Home Finance Agency, that he was concerned that a modification in the Voluntary Credit Restraint bulletin along the lines proposed might increase pressure for relaxation of the terms of Regulation X, Real Estate Credit, on new residential properties selling for more than \$16,500, but that he felt it probably was necessary for the Committee to make a change in its bulletin in view of the fact that the presently recommended terms were being rather widely disregarded.

Following the discussion, it was agreed unanimously that if, in his discussion of the matter with Mr. Hardy of the Housing and Home Finance Agency, Mr. Powell should find that there was objection on the part of the Agency to the proposed revision in the bulletin, the matter would be considered further by the Board but that otherwise the Board would have no objection to the change.

At Mr. Evans' request, Mr. Townsend reviewed a report submitted by the Federal Reserve Bank of Boston of an investigation of the Master Tire and Supply Company, 291 Broadway, Lawrence, Massachusetts, a Registrant under Regulation W, Consumer Credit, which disclosed a large number of violations of the terms of the Regulation. Mr. Townsend stated that, on the basis of the information furnished, it appeared that the violations

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were the result of negligent disregard of Regulation W rather than of the willful nature that would provide a basis for criminal prosecution, and that therefore he did not recommend that the case be referred to the Department of Justice. He added that he understood the firm had discontinued the violative practices following a disciplinary conference with officers of the Federal Reserve Bank of Boston but that, in view of the large number of the violations, the long period during which they occurred, and the fact that it was widely known in the community that the registrant had failed to comply with the Regulation, and on the basis of a discussion with representatives of the Boston Bank, he would recommend that an administrative proceeding be instituted by the Board for the purpose of determining whether the license of the Registrant for making installment credit extensions should be suspended. Mr. Townsend added that this procedure was recommended by the Boston Bank on the grounds that the firm had been known in its community as a flagrant violator of Regulation W and that unless further action were taken there was a danger that other Registrants might disregard the regulation on the assumption that they would suffer no penalty if they discontinued the practices after a disciplinary conference.

Mr. Powell stated that on the basis of the information presented he felt that the recommended administrative hearing should not be authorized, that it appeared that the firm had corrected its violative practices following

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the disciplinary conference held with officers of the Boston Bank, and that further action by the Board under the circumstances might give the impression that the Board was interested in enforcement for enforcement sake rather than to bring about compliance with the terms of the regulation.

Mr. Evans stated that an effort had been made to keep administrative hearings to a minimum, that he was inclined to agree with much of what Mr. Powell said, but that in the case of a firm which had been a flagrant violator and which was known in its community as having pursued a course of violating the regulation, it seemed desirable to take action beyond a disciplinary conference. Since it did not appear that the facts in the case would support a criminal prosecution by the Department of Justice, he said, he would recommend that the Board approve an administrative hearing with a view to bringing out the facts concerning violations of the regulation by Master Tire and Supply Company and without attempting to determine in advance whether the license should be suspended.

In response to a question from Mr. Powell, Mr. Vest stated that while the Board must carry out its responsibility under the law and the intent of Congress in connection with enforcement of the selective credit Regulations, he felt that as a general rule if a disciplinary conference brought about compliance on the part of a Registrant no further action

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would be required, but that there might be cases of flagrant violators who, even though they discontinued violative practices after a disciplinary conference, would require some further action, and that an administrative proceeding might be justified in such cases. With respect to the case of the Master Tire and Supply Company, Mr. Vest said he was not sufficiently familiar with the facts to have an opinion as to whether an administrative hearing would be justified.

Following a discussion, upon motion by Mr. Evans, an administrative proceeding was authorized for the purpose of determining whether the license of Master Tire and Supply Company should be suspended pursuant to section 8(b) of Regulation W, Consumer Credit.

On this action, Mr. Powell voted "no".

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 September 5, 1951, were approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Thomas M. Simmons as an Assistant Manager

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"of the Salt Lake City Branch for the period September 16, 1951 through April 30, 1952, at the rate of \$6,300 per annum, which is the rate fixed by the Board of Directors as indicated in your letter of August 28, 1951."

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 is enclosed a copy of a memorandum dated August 30, 1951, from the Office of the Assistant Secretary of Defense signed by John S. Bachman, Chairman of the Contract Finance Committee.

"This is in reply to questions raised by one of the Federal Reserve Banks as to whether, in connection with increases in the amount or changes in the terms and conditions of V-loans guaranteed by the Military Departments, the changes should be effected by amendment of existing guarantees or by the issuance of new guarantee agreements."

Approved unanimously.

Memorandum dated September 5, 1951 from Mr. Townsend, Solicitor, stating that the Federal Reserve Bank of St. Louis had reported deliberate violations of Regulation W, Consumer Credit, by James E. Semmons, doing business as Semmons Furniture Company, Columbia, Missouri, which would warrant criminal prosecution; and recommending that in accordance with the recommendation of the Reserve Bank, the Board adopt an order for investigation as follows in order to obtain the necessary evidence to support a criminal case:

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"UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

At a meeting of the Board of Governors of the Federal Reserve

System held at its offices in the City of Washington

D. C., on the 6th day of September, A. D., 1951.

In the Matter of

JAMES E. SEMMONS,
 Doing Business as
 Semmons Furniture Company,
 Columbia, Missouri.

ORDER DIRECTING INVESTIGATION
 AND DESIGNATING OFFICERS TO
 TAKE TESTIMONY

I

Members of the staff of the Federal Reserve Bank of St. Louis have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

James E. Semmons, doing business as Semmons Furniture Company, 811 Walnut Street, Columbia, Missouri, has made instalment sales of furniture, refrigerators, washing machines, stoves and other household appliances subject to Regulation W, consumer credit:

1. Without obtaining the down payment required by Regulation W;
2. Without maintaining and preserving such books of account, records and other papers as are relevant to establishing whether or not credit extended by it is in conformity with the requirements of said Regulation.

II

The Board having considered the aforesaid report by members of the staff of the Federal Reserve Bank of St. Louis and for the purpose of (1) determining whether James E. Semmons has violated the provisions of Regulation W and (2) aiding in the enforcement of said Regulation, deems it necessary and appropriate that an investigation be made to determine whether James E. Semmons has engaged in the acts and practices set forth in paragraph I hereof, or any acts and practices of similar purport or object.

III

IT IS ORDERED, pursuant to Section 604 of the Defense Production Act of 1950, as amended, that an investigation be made to determine the matters set forth in paragraph II hereof.

IT IS FURTHER ORDERED, pursuant to the provisions of Section 604 of the Defense Production Act of 1950, as amended, that for the purpose

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"of such investigation J. Leonard Townsend, Sidney A. Clark and Gerald T. Dunne, and each of them, is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, or other records deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

By the Board.

(signed) S. R. Carpenter,
Secretary."

Approved unanimously.

Memorandum dated September 5, 1951, from Mr. Hooff, Assistant Counsel, recommending that there be published in the Law Department of the September issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Defense Materials Procurement and Supply
Executive Order No. 10281
Real Estate Credit
Amendment to Regulation X
Consumer Credit
Refund of Finance Charges at Time of Add-on Sale (W-159)
Reserves
Cash Collateral Accounts (S-1376)

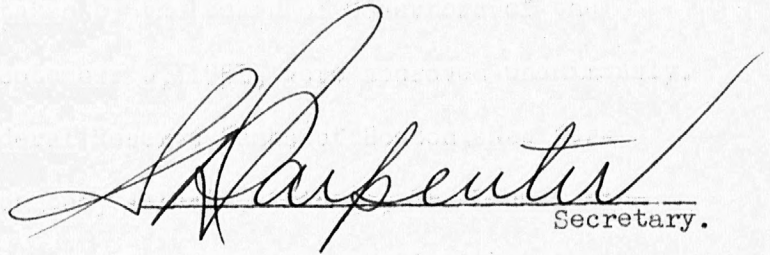
Approved unanimously.

Memorandum dated September 4, 1951, from Mr. Vest, General Counsel, stating that a Compilation of Federal and State Laws Relating to Branch Banking within the United States had been prepared in the Legal Division, with the assistance of Counsel of the Federal Reserve Banks, showing as of July 1, 1951, the status of the laws of the United States and of the various States affecting the establishment of branch banks within the

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United States; and recommending that 500 copies of the compilation be printed and made available for distribution to interested persons, and that the appropriate item in the 1951 budget of the Legal Division be increased in an amount sufficient to absorb the actual cost of printing, but in no event to exceed \$500.

Approved unanimously.


Secretary.