

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 2, 1951.

PRESENT: Mr. Norton, Chairman pro tem.

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated September 28, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Mrs. Catharine Aurelia Fornof as a Stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$3,115 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated September 26, 1951, from Mr. Hostrup, Assistant Director, Division of Examinations, recommending the appointment of Mrs. Athens J. Messick as a Stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,890 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

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Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"As requested in your letter of September 24, 1951, the Board of Governors approves the payment of salary to Donald J. Cameron as Assistant Vice President of the Federal Reserve Bank of New York at the rate of \$12,000 per annum, which is the rate fixed by the directors, for the period September 24, 1951, through March 31, 1952."

Approved unanimously.

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

"This refers to your letter of September 24, 1951, regarding a report submitted by the Housing and Home Finance Agency with respect to H. R. 5278, 'To ensure that direct loans under the Servicemen's Readjustment Act, as amended, will be made in areas of large population where private 4 per centum capital is not available, and to increase the authorized principal amount of a direct loan.'

"This bill deals to some extent with technical provisions of the Veterans' Administration loan guarantee program, and also would increase the authorized principal amount of direct loans from \$10,000 to \$15,000. Without attempting to comment in detail on the bill, especially the technical provisions relating to Veterans' Administration's operations, we may say that the reasoning contained in the report submitted by the Housing and Home Finance Agency appears to us to be sound and the Board agrees with the position it sets forth."

Approved unanimously.

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

"As indicated in S-1379 (W-160), August 20, 1951, questions arose concerning the applicability of S-1336 (W-146), May 24, 1951, following enactment of the Defense

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"Production Act Amendments of 1951 and Amendment No. 4 to Regulation W, effective July 31, 1951. Briefly, W-146 stated that it was not permissible under the regulation for a Registrant to rebate to the customer a part of a trade-in allowance, even if such allowance were in an amount greater than the applicable percentage down payment specified in the Supplement to the regulation.

"While W-160 indicated that W-146 should be regarded as no longer effective, W-160 also indicated that the final solution to the problem awaited disposition of the matter which was covered in S-1390 (W-165) and S-1391 (W-166) dated September 7, 1951.

"Upon further consideration, the Board reaffirmed the view that W-146 should be regarded as no longer effective. Therefore, W-146 is repealed and W-160 is superseded herewith."

Approved unanimously.

Letter to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"This is with further reference to your letter of February 15, 1951, regarding Regulation W. The question asked has been the subject of discussions and correspondence between Mr. Blair and Mr. Exoo of your bank and various members of the Board's staff from time to time.

"You inquire as to situations in which a Registrant-lender under Regulation W extends an excessive amount of credit on the basis of a Statement of the Borrower containing an inflated cash price of the article to be purchased with the proceeds of the loan. In the typical case, the seller may have given the customer suggestions as to how to prepare the Statement of the Borrower, and if the lender seeks to verify the price of the article by asking the seller, the seller confirms the inflated price stated by the customer.

"The most obvious suggestion was that the Reserve Bank should put the lender on notice by informing him as to what the seller was doing. This might prevent the lender from making further loans in view of Section 8(e) (1) of Regulation W. This suggestion had the disadvantages

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"(a) of not cutting off credit from any other lender except the one who had been notified, and (b) of not leading to the imposition of any penalties for past violations.

"As to the imposition of criminal penalties, the legal question involved is one of great difficulty. The decisions of the courts and the provisions of the Federal Criminal Code (18 U.S.C., sec. 2) give some basis for an argument that the seller might be convicted. However, after careful study of the matter and informal discussions with members of the staff of the Criminal Division of the Department of Justice engaged in handling such cases, it seems unlikely that a conviction of the seller could be obtained unless there were sufficient evidence to prove a conspiracy between him and the lender.

"In the circumstances it appears that cases of this kind should be dealt with by the Reserve Banks by notifying lenders, and by thorough investigations designed to uncover knowledge of the part of the lender or conspiracy with the seller."

Approved unanimously.

Letter to Mr. H. G. Morison, Assistant Attorney General, Department of Justice, Washington, D. C., reading as follows:

"Receipt is acknowledged of your letter to Chairman Martin dated September 13, 1951, setting forth certain practices on the part of industry advisory committees which fail to conform to the standards established by your Department in its letters of October 19, 1950, and March 15, 1951, and by the Defense Production Act of 1950, as amended.

"We have been advised informally by a representative of your office that your letter of September 13, 1951, was not intended to apply to the Voluntary Credit Restraint Program with which your Department is fully familiar.

"As stated in our letter to you of April 11, 1951, in reply to your letter of March 15, 1951, with reference to the conduct of business advisory committees, some of the Federal Reserve Banks are utilizing committees which

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"are advisory to the officers of the Reserve Banks in connection with carrying out their functions under the Board's Regulation X relating to real estate credit. As we stated in that letter, such committees do not appear to be industry committees within the purview of Deputy Attorney General Ford's letter of October 19, 1950. We are, nevertheless, transmitting to each Federal Reserve Bank a copy of your letter of September 13, 1951, with the request that it be brought to the attention of these committees and that they observe the standards established by your Department."

Approved unanimously.

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

"Representations have been made to the Board that Regulation X is causing serious financial hardship and inconvenience to persons obliged to move because of business reasons from one part of the country to another, when as a result of the removal it is necessary to sell one house and acquire another under terms subject to the regulation. For example, it is not always possible to sell the old house before the purchase of the new, and the transferee may have to depend on the financial equity in his present home to finance the purchase. Since secondary borrowing to finance the down payment is prohibited, the transferee might be delayed in establishing a home in the new location, and might have to postpone such plans for an indefinite period with resulting hardship. It has also been stated that in transactions where the proceeds from the sale of an old house are required to furnish down payment on a new house unavoidable settlement delays sometimes supervene and make short-term financing of a nonconforming nature necessary in order to complete the transaction and prevent financial loss. It has been suggested that where a home at the new location is to be acquired and a home at the old location sold, short-term secondary financing should be permitted to complete the transaction, and also that short-term financing should be permissible in the case of unavoidably delayed settlements. The Board believes the prohibition against secondary

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"borrowing to be essential to the successful administration and enforcement of Regulation X. If, however, it is desirable to afford relief for cases similar to those described above, the most careful safeguards should be adopted to limit such secondary credit. A tentative draft of an amendment to cover such situations is set forth for your consideration as follows:

"Amend the regulation by adding the following new subsection (n) to section 5:

(n) Unavoidable Sales Delay. - Any person purchasing or constructing property to be used in substitution for property presently held as an owner-occupant, and who has sold or is to sell the property presently held and apply the proceeds of the sale to the new purchase or construction, may apply to a Federal Reserve Bank for an exemption from this regulation if the making or completion of the sale of the presently held property is delayed for any unavoidable reason and the proceeds from the sale will be temporarily unavailable to apply to the new purchase or construction. If the Federal Reserve Bank is satisfied that the delay is unavoidable, it will issue a certificate of exemption to the applicant and thereupon any Registrant may, upon presentation of the certificate of exemption, extend credit with respect to the property described in the certificate, which shall be the property the applicant is purchasing or constructing, without regard to the secondary borrowing prohibition of this regulation. Provided, however, any credit extended which exceeds the maximum loan value of the property shall meet such requirements as may be specified in the certificate and shall not in any event have a maturity of more than three (?) months from the date the certificate was issued.

"Would appreciate receiving the benefit of your views on this subject and a recommendation as to the course of action to be followed not later than October 9. Please indicate in your reply the length of time to which such extensions of secondary borrowing, if permitted, should be limited."

Approved unanimously.

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Letter to Mr. Charles A. Quattlebaum, Educational Research Analyst, The Library of Congress, Washington, D. C., reading as follows:

"In response to the request in your letter of September 17, we are glad to send you herewith the items of information on educational activities of the Federal Reserve Board called for on the sheet enclosed with your letter."

Approved unanimously.

Telegram to Mr. C. F. Hood, U. S. Steel Company, Pittsburgh, Pennsylvania, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Pittsburgh Branch of the Federal Reserve Bank of Cleveland for three-year term beginning January 1, 1952, and will be pleased to have your acceptance by collect telegram. It is understood that you are not a director of a Bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland."

Approved unanimously.

Telegram to Mr. Clayton White, Stow, New York, reading as follows:

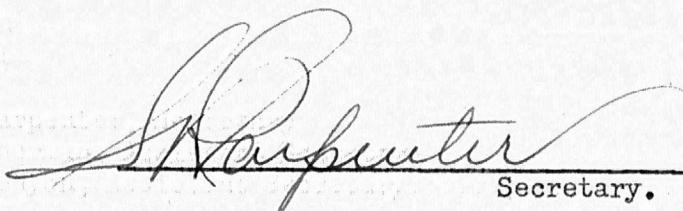
"Board of Governors of the Federal Reserve System has appointed you director of the Buffalo Branch of the Federal Reserve Bank of New York for three-year term beginning January 1, 1952 and will be pleased to have your acceptance by collect telegram."

"It is understood that you are not a director of a Bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of New York."

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Approved unanimously.


Secretary.