

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 26, 1951. The Board met in the Board Room at 11:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Norton
Mr. Powell

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Allen, Director, Division of Personnel
Administration

Before this meeting there had been sent to each member of the Board a copy of a memorandum dated October 23, 1951, from the Personnel Committee noting that Congress had recently passed bill S.622, to increase the basic rates of compensation of certain officers and employees of the Federal Government, that the effect of this bill would be to increase all salary steps in each grade by an amount equal to 10 per cent of the grade minimum provided that no increase should be less than \$300 or in excess of \$800, and that the effective date of the increased rate of compensation of those affected would be July 8, 1951. The memorandum recommended that, in line with the theory that the Board should keep its salary structure at the same general level as those with whom it competes in the labor market (a theory approved by the Board for the Federal Reserve Banks), the Board approve certain recommendations set forth in the memorandum designed to apply the terms of the bill to the Board's salary structure, subject to the signing of the bill by the President. The memorandum recommended,

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however, that no adjustments be made for official members of the Board's staff because it was felt that their salaries should be related to those of the members of the Board, because non-classified positions in the Civil Service were not included in the bill passed by Congress, and because it was felt that, as at the Reserve Banks, official and non-official salaries should be administered under separate independent salary structures.

To the memorandum from the Personnel Committee was attached a memorandum dated September 28, 1951, from Mr. Solomon, Assistant General Counsel, discussing whether the Board, if it should determine as a matter of policy to increase the rates of compensation of employees of the Board in conformity with bill S.622, could lawfully make such increases retroactively, as provided in that bill with respect to other Government employees. Mr. Solomon's memorandum noted that while the provisions of bill S.622 were not legally applicable to the Board in view of the provision in Section 10 of the Federal Reserve Act, the Board as a matter of policy had, with minor exceptions, applied the provisions of previous Government pay acts to its employees. The memorandum then discussed the legality of the Board's following the retroactive provision in view of Section 11(1) of the Federal Reserve Act and expressed the opinion that this provision would not legally preclude the Board, if it should decide as a matter of policy to do so, from following the provisions of the bill in their entirety, including the retroactive provision. After noting the absence of legislative history to indicate the intent of Section 11(1), the memorandum

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stated that while it seemed reasonable to conclude that, taken in its context, the provision was intended to mean that the salary of each employee should be determined at the time of his original employment in order to avoid any future controversy between the Board and the employee, and while, consistent with this interpretation, it was understood that the Board had never given retroactive effect to the entrance salary or the promotion of any individual employee of the Board, on the other hand, it did not seem reasonable to suppose that the provision was intended to prevent the Board from giving all of its employees the benefit of an overall salary increase in conformity with the declared policy of Congress to allow such a general increase in order to compensate for increased costs of living. The memorandum concluded with the opinion that payment of additional compensation in a lump sum, although computed on the basis of salary rates for a preceding period of time (as is often done in determining the amount of "bonuses"), should not be considered "salary" within the usual meaning of that term or within the meaning of Section 11(1), but should be regarded as a bonus or gratuity. It pointed out in that connection that "compensation" is a broader term than "salary", and that while section 11(1) refers only to salaries, section 10 of the Federal Reserve Act gives the Board full authority to determine the compensation of its employees.

Mr. Norton stated that the Personnel Committee had reviewed the matter, that the President had signed bill S. 622 (Public Law 201) on

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October 25, 1951, and that subject to a qualification brought up by Mr. Vest that the retroactive payments to employees of the Board Members' offices should be limited to 10 per cent of present salaries where such present salaries were in excess of \$3,000, he would recommend that the recommendations in the October 23, 1951 memorandum be approved.

Thereupon, upon motion by Mr. Norton, the following recommendations were approved unanimously, with the understanding that the retroactive benefits provided would be applicable only to employees in the Board's service as of October 28, 1951:

- (1) An increase in the salary steps of each group of the Board's salary structure equal to 10 per cent of the group minimum, provided no increase shall be less than \$300 and none shall exceed \$800, effective July 8, 1951.
- (2) An adjustment in the basic compensation of each individual under the Board's classification plan to the comparable scheduled or longevity step in the new salary structure, the initial adjustment to be effective July 8, 1951, or as of date of employment, if later, and all subsequent adjustments, if any, to correspond to the new salary steps.
- (3) Adjustments in the basic annual salaries of certain employees of the Board Members' Offices to the amounts shown below, effective July 8, 1951, or as of date of employment, if later:

<u>Name and Title</u>	<u>From</u>	<u>To</u>
Benton, Madeleine E., Administrative Assistant	\$5,700.00	\$6,200.00
Chupka, Catherine T., Secretary to the Chairman	5,600.00	6,100.00
Cotten, Annie I., Secretary to Mr. Norton	5,300.00	5,800.00
Egbert, VaLois, Secretary to Mr. Eccles	5,600.00	5,800.00

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Name and Title	From	To
Hoffman, Dorothy B., Secretary to Mr. Vardaman	\$5,300.00	\$5,800.00
Wade, Earle J., Secretary to Mr. Szymczak	5,300.00	5,800.00
Westman, Elsie M., Secretary to Mr. Evans	5,300.00	5,800.00
Muehlhaus, Margaret N., Secretary to Mr. Thurston	4,450.00	4,850.00
Newcome, Elnyr D., Secretary to Mr. Thomas	4,325.00	4,725.00
Schmidt, Catherine L., Secretary to Mr. Rieffler	4,200.00	4,600.00
Branic, Otto H., Messenger (Chairman)	2,850.00	3,150.00
Hamilton, James F., Messenger (Mr. Evans)	2,850.00	3,150.00
Hart, Bishop, Messenger (Mr. Thurston)	2,850.00	3,150.00
Jamison, Michael L., Messenger (Mr. Powell)	2,850.00	3,150.00
Brown, Fletcher E., Messenger (Mr. Vardaman)	2,770.00	3,070.00

- (4) Adjustment of the basic annual salary of Miss Helen B. Wolcott, Secretary to Mr. Powell, from \$4,700 to \$5,170, effective July 8, 1951, and a further adjustment in Miss Wolcott's basic annual salary to \$5,200, effective October 28, 1951.
- (5) Adjustment of the basic salary of Mrs. Dorothy S. Hurst, Stenographer in the Office of Mr. Powell, from \$3,100 to \$3,410, effective July 8, 1951, and a further adjustment in Mrs. Hurst's basic annual salary to \$3,425, effective October 28, 1951.
- (6) Adjustment of the basic annual salary of Miss Doris I. Abell, Stenographer in the Office of Mr. Vardaman, from \$3,035 to \$3,335, effective July 23, 1951, a further adjustment in Miss Abell's basic annual salary to \$3,338.50, effective September 30, 1951, and a further adjustment in her basic annual salary to \$3,360, effective October 28, 1951.
- (7) Rescission of the Board's action of October 24, 1951 approving an increase in the basic annual salary of Fredrick L. Frost, Messenger in the Office of Mr. Szymczak from \$2,690 to \$2,770, effective October 28, 1951; adjustment of the basic annual salary of Mr. Frost from \$2,690 to \$2,990, effective July 8, 1951, and a further adjustment in his basic annual salary to \$3,070, effective October 28, 1951.

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- (8) Adjustments, effective July 8, 1951, in the salaries of the following named part-time or per diem employees to the rates shown:

Name and Title	Per day worked	
	From	To
Edna B. Hardesty, Substitute Nurse, Division of Personnel Administration	\$11.90	\$13.00
Louise Mayer, Substitute, Nurse, Division of Personnel Administration	11.90	13.00
Elsie Mae Hart, Substitute Maid, Division of Personnel Administration	8.40	9.50
A. A. Moore, Night Settlement Clerk, Division of Bank Operations	7.50	8.60

- (9) Adjustments effective July 8, 1951, in the basic annual salaries of the following named employees in the amounts indicated:

Name and Title	From	To
J. C. Noell, Federal Reserve Examiner, Division of Examinations	\$8,225.00	\$8,640.00
Charles Norris, Operator, Duplicating Devices, Division of Administrative Services	3,355.00	3,660.00

- (10) The making of no adjustments in the compensation of consultants and other special employees.
- (11) The adjustment in salary in any appointment cases presently pending.
- (12) Use by the Division of Administrative Services and the Division of Personnel Administration of Government rulings and interpretations with respect to the current pay bill as guides in deciding questions of administration.

Mr. Norton stated that as mentioned at previous meetings, the Personnel Committee was continuing to study the possibility of developing more effective personnel training programs in the Federal Reserve System and that at his suggestion Mr. Allen had discussed informally with Mr. Peyton, Chairman of the President's Conference, the desirability of having a preliminary discussion with a few representatives of the Reserve Banks concerning such a program. Mr. Norton went on to say that it was now

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contemplated that representatives of four of the Reserve Banks would meet with him and Mr. Allen on Tuesday, November 13, to discuss the matter, and that it was hoped that a more definite proposal for such a training program might be prepared in the light of that discussion.

Chairman Martin commented that this was a constructive approach to an important problem and that in the absence of objection it would be understood that the Personnel Committee would continue along the lines indicated by Mr. Norton.

At this point Mr. Allen withdrew, and Messrs. Thomas, Economic Adviser to the Board, Townsend, Solicitor, Young, Director, Division of Research and Statistics, Noyes, Director, Division of Selective Credit Regulation, and Sloan, Director, Division of Examinations, joined the meeting. Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, who was acting as consultant to the Board in connection with matters relating to the Division of Examinations, also joined the meeting.

Mr. Townsend referred to apparent violations of the terms of Regulation W, Consumer Credit, by Herb Black, doing business as Television Service Center, Cincinnati, Ohio, a registrant under the Regulation, stating that the Federal Reserve Bank of Cleveland had recommended that one of the sanctions provided under law be applied in this case, that he and Mr. Chase, Assistant Solicitor, were in agreement with the Reserve Bank as to the necessity of some punitive action since they were satisfied as to the culpability of the registrant, but that they deemed the evidence

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on which to base criminal proceedings somewhat weak as they were not entirely convinced as to the element of willfulness. Mr. Townsend stated that he had received a visit from an attorney for the registrant, to whom he explained the legal sanctions which might be applied in cases of violation of the Regulation and also mentioned that if the attorney wished to present formally on behalf of his client a proposal under which the registrant would consent to a temporary suspension of his license to do an instalment credit business, he (Mr. Townsend) would submit the matter to the Board on that basis. Mr. Townsend went on to say that the attorney wrote him under date of October 15 stating that such a suspension of license would be a severe hardship to the registrant's business, especially at this time of year, but that on being advised of the alternatives, the registrant stated that he would agree to an injunction as provided by law and a suspension of his license to do an instalment credit business for thirty days.

Mr. Townsend said that he felt that this would be a satisfactory way in which to dispose of the case and that the Federal Reserve Bank concurred. He added, however, that he was inclined to favor a 15-day suspension whereas the Reserve Bank had some feeling that less than 30 days might not be sufficient, and therefore he was presenting both points of view to the Board for consideration. In this connection, Mr. Townsend said that when Regulation W previously was in effect, suspensions of licenses were imposed in several cases, that in one such case the license

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of the registrant was suspended for two months, but that in other cases lesser suspensions, mostly for one week, were imposed, principally because these cases were closed without the necessity of a hearing, a fact which he felt merited consideration in determining the severity of the penalty.

There ensued a discussion of the matter, during which members of the Board present expressed themselves as favoring Mr. Townsend's recommendation for a 15-day suspension, citing the cooperative attitude of the registrant, his apparent willingness to refrain from further violations of the Regulation, and the fact that there might be an element of hardship to his sales force.

Thereupon, upon motion by Mr. Norton and by unanimous vote, the Board authorized the issuance of an order suspending for a period of 15 days the license of Herb Black, doing business as Television Service Center, Cincinnati, Ohio, to do an instalment credit business.

Mr. Szymczak referred to renewed charges placed in the Congressional Record under date of October 16, 1951, by Representative Tackett, of Arkansas, criticising the System's enforcement procedures under Regulation W and challenging the accuracy of the Board's consumer credit statistics, and noted that Mr. Tackett had stated that he would write the Chairman of the Board demanding an investigation. Mr. Szymczak also referred to the criticism of the Regulation expressed by Mr. Milton P. Bradley, President of the Consumer Bankers Association, at the Association's annual convention in Chicago this week. He said that if the consumer credit statistics were

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in error it would be better to admit the fact and say that steps were being taken to correct them, while if the charges were unfounded the figures should be defended.

Mr. Norton expressed the view that, in connection with the criticisms of Representative Tackett and others, the Board should make it clear that, in enforcing the Regulation, the Solicitor and his staff were acting under instructions issued by the Board.

Chairman Martin said that he had received a letter from Representative Tackett and that the staff was preparing a draft of reply which would be brought to the attention of the full Board.

There were presented telegrams to the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approved the establishment without change by the Federal Reserve Bank of St. Louis on October 22, by the Federal Reserve Bank of San Francisco on October 23, and by the Federal Reserve Banks of New York, Richmond, Chicago, Minneapolis, and Dallas on October 25, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

There was presented a telegram to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reurtel October 25. Board approves effective October 29, 1951, on purchases of Government securities under resale agreement minimum rate of 1/8 per cent below average issuing rate on most recent issue of three-month Treasury bills, as authorized by Federal Open Market Committee October 4, 1951. Otherwise, Board approves establishment without change by Federal Reserve Bank of Cleveland on October 25 of rates of discount and purchase in existing schedule."

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Approved unanimously, together with a telegram to Mr. Bryan, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reurtel October 24. Board approves effective October 29, 1951, on purchases of Government securities under resale agreement minimum rate of 1/8 per cent below average issuing rate on most recent issue of three-month Treasury bills, as authorized by Federal Open Market Committee October 4, 1951."

At this point all of the members of the staff except Messrs. Sherman and Wayne withdrew from the meeting.

Chairman Martin referred to Executive Order 10290 signed by the President on September 24, 1951, prescribing regulations establishing minimum standards for the classification, transmission, and handling by departments and agencies of the Executive Branch of the Federal Government of official information which requires safeguarding in the interests of the security of the United States. He stated that in the absence of objection, he proposed to reaffirm the designation of Mr. Thurston as security officer for the Board and to delegate to him the performance of any or all of the functions charged to the head of the agency under the executive order.

Thereupon unanimous approval was given to a letter to Mr. Thurston prepared for the Chairman's signature reading as follows:

"In connection with the regulations establishing minimum standards for the classification, transmission, and handling by departments and agencies of the Executive Branch of the Federal Government of official information which requires safeguarding in the interests of the security of the United States, which regulations

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"were prescribed under Executive Order 10290, signed by the President on September 24, 1951 and published in the Federal Register on September 27, 1951, I have today designated you to serve as security officer for the Board of Governors. This designation reaffirms and continues the designation which I am informed was made by the Board originally in 1942.

"Pursuant to the authority contained in paragraph 24 of the regulations prescribed by Executive Order 10290, I hereby delegate to you, serving in the capacity of security officer, the performance of any or all of the functions charged to me under the Executive Order."

Mr. Allen, Director of the Division of Personnel Administration, re-entered the meeting at this point.

Mr. Norton referred to a memorandum from Mr. Allen dated October 24, 1951 which stated that at a meeting of the Retirement Committee of the Retirement System in New York last week it was the consensus that interest paid members withdrawing from the Retirement System should be changed to $\frac{2}{3}$ of the interest accrued on the member's account, whereas the Rules now provide for payment of full interest through December 31, 1938, and $\frac{1}{2}$ interest thereafter. Mr. Allen's memorandum also stated that the Retirement Committee had asked that he discuss the matter with the Board before a formal inquiry was submitted. In commenting on the memorandum, Mr. Allen stated that the informal inquiry raised the question whether the Board might give favorable consideration to the proposal in the light of the action taken at the meeting on March 4, 1949, at which time it indicated it would disapprove a similar proposal.

Mr. Szymczak stated that he felt the question of payment of interest

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on funds withdrawn from the Retirement System was tied into the question of handling of Retirement System investments, which subject had been discussed on various previous occasions and concerning which Mr. Vardaman had expressed views differing from those of some members of the Board. In view of the fact that the questions relating to investment procedure were to be discussed at a subsequent meeting of the Board, Mr. Szymczak suggested that action on the informal inquiry with respect to a change in the rate of interest paid be deferred until Mr. Vardaman returned and there could be a further discussion of the organization and policy for handling investment of funds of the Retirement System.

This suggestion was approved unanimously.

At this point all of the members of the staff with the exception of Mr. Sherman 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 October 19, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 22, 23, 24, and 25, 1951, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated October 23, 1951, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment on a contractual, temporary consulting basis of Professor Reavis Cox, University of Pennsylvania, Professor Albert Haring, University of Indiana, and

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Professor Raymond J. Saulnier, Columbia University, for work on the consumer credit series revision, as approved by the Board in general terms on June 26, 1951, with the understanding that each would receive \$50 per day for each day worked for the Board plus a per diem in lieu of subsistence of \$15 per day for all time in a travel status in connection with this assignment and, in addition, actual necessary cost of transportation to and from Washington, and recommending the use of Duncan M. Holthausen on this project on the terms of his current consultant appointment which was approved January 3, 1951, for the year 1951. The memorandum stated that it was expected that the amount of time each consultant would devote to this project during 1951 would not exceed ten days, and that the expense would be charged against the appropriate item of the 1951 budget of the Division of Research and Statistics.

Approved unanimously.

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

"Relet October 17. In view of your recommendation Board approves establishment and operation of branch in Manteca, California, by Central Valley Bank of California, Richmond, California, provided proposed merger with Bank of Manteca is effected substantially in accordance with plan outlined in your letter and prior approval of State authorities is obtained. It is understood that Counsel for the Reserve Bank will satisfy himself as to legality of all steps taken to effect merger and establish branch."

Approved unanimously.

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

"Board establishes under authority of fourth paragraph of Section 16 of Federal Reserve Act rate of (1) per cent per annum interest for preceding three calendar months on \$ (2) daily average of outstanding Federal Reserve notes of your Bank in excess of gold certificates pledged with Agent as collateral security. Interest payment of \$ (3) should be credited to Treasurer's General Account as Miscellaneous Receipts, Symbol 1841-Interest Collected, Section 16, Federal Reserve Act, on October 30, 1951.

	(1)	(2)	(3)
Boston	1.57	\$1,166,836,146	\$4,617,474.33
New York	5.49	1,106,127,768	15,306,383.92
Philadelphia	1.56	1,067,785,482	4,198,591.02
Cleveland	1.64	1,490,614,490	6,161,751.08
Richmond	1.44	1,197,757,772	4,347,368.48
Atlanta	1.67	849,491,485	3,575,777.31
Chicago	1.84	2,142,327,648	9,935,704.77
St. Louis	1.61	882,272,054	3,580,332.51
Minneapolis	1.78	470,874,422	2,112,613.57
Kansas City	1.80	681,477,326	3,091,853.29
Dallas	2.39	529,625,172	3,190,520.08
San Francisco	2.61	1,041,662,021	6,852,709.16"

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks and the Secretary of the Retirement System of the Federal Reserve Banks, prepared in accordance with action taken at the meeting on July 17, 1951, reading as follows:

"There is enclosed a copy of the proposed contract for group life insurance for Federal Reserve System employees which has been worked out by the representatives of the Federal Reserve System and representatives of the Connecticut General Life Insurance Company, and which the company has indicated informally it is willing to sign.

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"There is also enclosed a copy of the application which would be executed by the Federal Reserve Bank of Chicago on behalf of all Federal Reserve Banks, the Board of Governors, and the Retirement System of the Federal Reserve Banks. The insurance company feels it desirable that the application for the insurance contract be executed in Illinois, and the contract be delivered in and governed by the laws of that State. After the contract is in effect the details of administration will be handled through the retirement office at the Federal Reserve Bank of New York.

"You will note that the policy would provide for a maximum amount of insurance of \$20,000 for any one individual, and that the disability provision provides waiver of premium to age 65.

"On October 15 the Board submitted to the Salary Stabilization Board and to the Wage Stabilization Board a request that it be advised as to whether the proposed noncontributory group insurance plan would be permissible under the Wage Stabilization Regulations, on the basis that the proposed coverage could be provided without any additional cost to the System because of the favorable actuarial experience of our retirement system. Representatives of the Wage Board indicated informally that it seemed probable that a favorable response could be given to this request, possibly in time to permit the contract to become effective by November 1.

"The contract is being sent to you with the thought that the Federal Reserve Banks will wish to take the necessary steps at this time to authorize the Chicago Bank to execute the application on their behalf. We shall keep you advised by telegram of any word received from the Wage Board and while we understand that it is not essential that the contract be executed by November 1 in order to make the coverage effective that day, it would seem desirable that the necessary authority be given to the Federal Reserve Bank of Chicago without waiting to receive word of the decision of the Wage Board. The coverage would not become effective, of course, until a favorable decision has been received from the Wage Board.

"Questions concerning existing group life insurance policies in force at certain of the Federal Reserve Banks, raised at the meeting of the Reserve Bank Presidents with the Board on October 4, 1951, will be discussed in a subsequent letter."

Approved unanimously.

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Letter to Mr. Lewis, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of October 8, 1951, concerning the applicability of Regulation W to an arrangement employed by a Registrant engaged in business of door to door selling of suction cleaners on an instalment basis. Under such arrangement, the Registrant pays or refunds all or part of the required down payment or one or more of the various instalment payments if the customer supplies the Registrant with the name and address of a prospective customer with whom the Registrant obtains an interview or to whom he is able to demonstrate his product.

"In this regard you referred particularly to S-1190 (W-97) paragraph (15), which is set forth at 646 of the Regulation W Service. However, you questioned whether the principle of that summary-interpretation should apply regardless of the time when such a payment may be made in behalf of the customer by the Registrant, as, for example, payment of the 12th or 13th instalments of an 18 months' contract. You also explained the view expressed by the Registrant and his counsel that these payments or refunds to a customer are regarded as compensation for services actually rendered by the customer to the Registrant, and should be considered separate and apart from the instalment transaction.

"Regardless of what other aspects it may have, the arrangement in question clearly is a sales promotion plan which makes more attractive the purchase of a suction cleaner from the Registrant. In this connection, other arrangements have come to our attention involving the offer of a so-called 'commission' to anyone who brings in to the Registrant's store a prospective customer. Although the payment in such cases was not technically offered to the buyer of the article, it was altogether likely that the customer so supplied would stand to benefit by receiving all or a part of the 'commission'. Promotional arrangements of this character, if not regarded as involving rebates or sales discounts and treated as such under the regulation, would operate to nullify or substantially diminish the effectiveness of the down payment requirement. It would not be controlling that the Registrant in question also may be willing to make payments for names furnished to him by cash customers or perhaps to any one, even though he may not be a customer.

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"Any Registrant, of course, is always free to make such payments to a customer upon the termination of the instalment contract as he may wish to make, including refund of the entire consideration paid for a listed article sold to an instalment customer. He is also free to deduct any amount he wishes from his list price in arriving at the cash price at the time of the sale. However, payment by the Registrant under the above arrangement of all or part of any instalment prior to the last instalment would fall within the principle announced in the summary-interpretation to which you referred and, in our judgment, should not be regarded as permissible.

"The views expressed herein, of course, are based upon the facts as outlined and presented in your letter. While it is conceivable that some qualification of the foregoing might result following consideration of possible additional facts and circumstances, we are unable from the information supplied to regard the payments or refunds in question to an instalment customer as being in compliance with the requirements of the regulation."

Approved unanimously.

Letter to Mr. Heath, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of October 16, 1951 concerning the sales plan of Miller Homes, a Detroit builder. We understand that under the sales plan the builder accepts the purchaser's equity in his old home as a trade-in to satisfy the down payment required under Regulation X, and an extension of mortgage credit equal to the maximum loan value in the transaction is made to the purchaser by a Registrant or by the builder.

"The builder asks whether, in cases where the purchaser's equity in the old home exceeds the required down payment on the new home, the builder may enter into an agreement with the purchaser to pay him, when the builder sells the old home, a sum which will be the net proceeds of the sale over and above the amount of the required down payment, less the selling expenses.

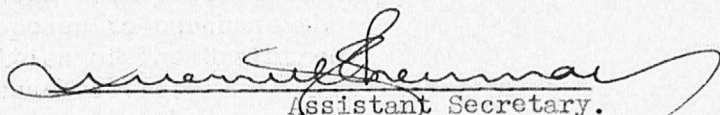
"We can see no objection to the sales plan if the difference between the required down payment and the purchaser's

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"equity in the trade-in is refunded to the purchaser at the time of the sale of the new residence, or at the time of the sale of the trade-in by the builder, provided the extension of mortgage credit complies with the applicable maturity and amortization provisions. However, if the agreement between the parties provides, for example, that the difference shall be considered a prepayment of the amortization payments, then we are not prepared to say, in the absence of further specific information, that such a sales plan complies with the regulation."

Approved unanimously.


Assistant Secretary.