

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 4, 1952.

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 3, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of New York, Chicago, and St. Louis stating that the Board approves the establishment without change by those Banks on January 3, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memoranda recommending that the resignations of the following employees be accepted, effective the dates indicated:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
	<u>Memorandum from Mr. Dembitz, Assistant Director, Division of International Finance</u>	
12/28/51	Miss Foteny Economon, Clerk-stenographer	1/11/52
	<u>Memorandum from Mr. Allen, Director, Division of Personnel Administration</u>	
12/29/51	Mrs. Alice C. Hook, Clerk-typist	1/4/52

Approved unanimously.

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Memoranda recommending that the basic annual salaries of the following employees be increased, effective January 6, 1952:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	<u>Memorandum from Mr. Sloan, Director, Division of Examinations</u>		
12/27/51	Glenn M. Goodman, Federal Reserve Examiner	\$9,800	\$10,000
	W. D. Smith, Federal Reserve Examiner	9,600	9,800
	A. N. Thompson, Federal Reserve Examiner	9,600	9,800
	G. E. Good, Federal Reserve Examiner	8,360	8,560
	W. J. McClelland, Federal Reserve Examiner	8,360	8,560
	J. R. Radford, Jr., Federal Reserve Examiner	8,360	8,560
	<u>Memorandum from Mr. Carpenter, Secretary of the Board</u>		
1/2/52	Margaret J. Dougherty, Clerk	3,255	3,335

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in your letters of December 31, 1951, the Board approves the appointment of James S. Buster, Charles L. Carter, George R. McCament, Charles H. Reilly, Jr. and Ray A. Barrett, at present assistant examiners, as examiners for the Federal Reserve Bank of Chicago."

Approved unanimously.

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

"Reurtel third Board extends to April 7, 1952 time within which Bank of Lebanon, Lebanon, Oregon, may accomplish membership."

Approved unanimously.

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

"The Board has received suggestions from several sources that, in view of the recent firming of interest rates, consideration should be given at this time to increasing the maximum permissible interest rate on V-loans and the possible downward revision of guarantee fees. The Board has not considered this matter and therefore has reached no conclusions regarding it. However, it would appreciate receiving your comments on the following or any alternative proposal you may wish to suggest: Increase the maximum permissible interest rate from 5 per cent to  $5\frac{1}{2}$  per cent and revise the schedule of guarantee fees as follows:

Percentage guaranteed	Guarantee fee
75 or less	10
80	15
85	20
90	25
95	30
Over 95	40-50

Wire reply will be appreciated."

Approved unanimously.

Letter to the Honorable Franck R. Havenner, House of Representatives, Washington, D. C., reading as follows:

"This is in reply to your letter of December 11, 1951, which requested advice relative to a letter you received from



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"Mr. J. A. Herzog, a Pontiac dealer of San Francisco, California, concerning Regulation W--Consumer Credit.

"Regulation W is designed specifically to dampen the demand for consumer instalment credit so as to help prevent a further inflationary expansion of this type of credit. It is only one of a number of monetary and fiscal measures which have been adopted in this emergency period to prevent a further decline in the purchasing power of the dollar, which if continued would hurt especially the low income groups.

"Recent figures indicate that automobile sales generally have been maintained very near current levels of production. Also, you may have noted, presidents of two automobile manufacturers have been quoted in the newspapers recently as saying that demand for automobiles in the forthcoming year is expected to exceed the supply, which will be substantially reduced as a result of defense production. It is entirely possible, of course, that the experience of individual businesses will vary.

"The Board is very much interested that the provisions of the regulation may not be unduly restrictive in the case of individual businesses but it must also consider its principal function as the agency charged with responsibility for monetary conditions. As you know, the maturity requirements applicable to automobiles were lengthened on July 31, 1951, from 15 to 18 months. In view of the current economic situation and the general strength of the automobile market, including the possibility of shortages in the near future, the Board feels that a further relaxation of Regulation W at this time would not be in the national interest.

"At various times in the past we have been asked to consider amending Regulation W to permit longer maturities in those areas where automobile prices, due to freight charges, are higher than in some other areas. A study of this subject has been made and it has been found that the adoption of such a provision would create serious administrative and other problems, both for the trade and the administering agency.

"The Board is continually studying the effect of Regulation W in markets for regulated articles and we appreciate the opportunity of commenting on Mr. Herzog's letter. A similar letter from Mr. Herzog was referred to us by Representative Allen."

Approved unanimously, with  
a similar letter to the Honorable

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John J. Allen, Jr., House of Representatives, Washington, D. C. and copies of each to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco.

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

"Questions have been presented concerning the application of Part 4 of the Supplement to Regulation W, as amended, effective December 31, 1951, particularly as it relates to instalment loans subject to section 4(a) of the regulation.

"As so amended, Part 4 provides in effect that where the 'cash price' of a listed article is not less than the applicable maximum retail price prescribed by Federal price authorities, any instalment credit extended in connection with the purchase of the article shall not exceed the amount of such credit which would have been permitted if the article had been sold at the maximum retail price.

"While the above provision, like section 8(e)(1) of the regulation, applies to both instalment vendors and instalment lenders, the position of the latter, as a practical matter, may not be identical with that of the former who always has specific, first-hand knowledge of the price for which he sells a listed article, whether that price be, for example, the prescribed maximum retail price to which he is subject or a lesser price. Furthermore, section 4(d) specifically provides that if an instalment lender 'relies in good faith on the facts set out by the obligor in' the Statement of the Borrower (one such fact being the cash price of the article), 'it shall be deemed to be correct for the purposes of the Registrant'.

"The amendment to Part 4 of the Supplement was not intended to change the practice permissible to instalment lenders under section 4(d) or to require an independent verification of a Statement of the Borrower the truth of which the Registrant had no reason to doubt. However, neither that section nor section 8(e)(1) would protect an instalment lender, who, from any source, knew or had reasonable grounds for suspecting that the particular credit, if granted, would exceed the amount permitted by Part 4 because of either a fictitiously inflated price for

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"the article or a price therefor in excess of the applicable maximum retail price."

Approved unanimously.

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

"Several banks have asked whether the installation of various types of equipment in nonresidential structures is a major addition or improvement within the meaning of section 2(g) of Regulation X. Assuming the equipment in question is to be physically attached to the structure, we believe the best general rule to follow is that the installation should be considered a major addition or improvement if for a general purpose. Or, stated another way, the installation is a major addition or improvement if the equipment will continue to be usable in the structure with little or no change if the structure subsequently is used for a different purpose; for example, the installation of heating, ventilating, and air conditioning equipment ordinarily is for a general purpose since it usually is adaptable for use if the structure subsequently is used for a different purpose. On the other hand, the installation is for a special purpose and should not be considered a major addition or improvement if the equipment being installed is particularly adapted to use by the occupant and probably will be removed should the structure subsequently be used for a different purpose; for example, the installation of freezing and meat cooling equipment in a structure used as a grocery store ordinarily is for a special purpose since it is particularly adapted to that use and in all probability will be removed should the structure subsequently be used for a different purpose."

Approved unanimously.

Letter to Mr. Joseph P. McMurray, Staff Director, Banking and Currency Committee, United States Senate, Washington, D. C., reading as follows:



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"In response to your telephone call of January 3, 1952 to Mr. Solomon of the Board's staff, there is attached a memorandum on 'Borrowing By GI on Automobile to Meet Required Down Payment in Buying a House.'

"While the specific case you mention appears to be one in which the regulations of the Veterans Administration are controlling and you may therefore wish to refer the question to them for further reply, we hope that the attached memorandum will be of some assistance to you. If there is any other information which we can provide, we will, of course, be happy to oblige."

Approved unanimously.

Letter to Mr. William B. Hull, Pineview Homes, Inc., 791 White Grove, Dayton, Ohio, reading as follows:

"Your letter to the President, dated December 11, 1951, has been forwarded to us inasmuch as it concerns real estate credit restrictions under this Board's Regulation X--Real Estate Credit.

"Regulation X was issued under the authority of the Defense Production Act of 1950. The regulation is one of several measures designed to hold down inflationary rises in prices by restricting credit. It is intended to restrain demand and, as we are sure you will agree, it cannot accomplish its purpose if it does not cause some persons to delay purchases of houses or to buy less expensive properties. In order that the restraints applied to the demand for housing might be distributed as equitably as possible, the regulation was made less restrictive in the application of its terms on less expensive homes than on more expensive homes. In addition, veterans were allowed a larger maximum loan than those persons financing by conventional means.

"A material relaxation in the terms of Regulation X was authorized by the Board of Governors for one- to four-family residences, effective September 1, 1951, in accordance with the Defense Housing and Community Facilities and Services Act of 1951. A copy of the schedule of maximum loan values as they now apply to Regulation X is enclosed from which you will note that the maximum loan values prescribed will allow those financing under Federal Housing Administration or conventional financing arrangements to purchase a house valued

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"at \$10,000 with a \$1,500 down payment. Although a down payment of more than \$2,000 is required by Regulation X on houses valued above \$10,000, the additional down payment increases at a modest rate up to \$12,000, where a down payment of \$2,400 is sufficient. Credit terms applicable to loans guaranteed by the Veterans Administration were also relaxed September 1. Under current credit regulations of the Veterans Administration a \$2,000 down payment is sufficient to purchase a house valued at \$13,250.

"During the first eleven months of 1951, more houses were started than in the corresponding period of any previous year except 1950, and the credit extended to finance this building activity will nearly attain, if it does not exceed, the all-time records reached in 1950. This is a tremendous addition to existing inflationary pressures arising from the defense program which is scheduled to continue at an increasing rate, thus adding further to upward pressures on prices that directly affect us all. Therefore, the Board is of the opinion that any further relaxation in the credit terms specified in Regulation X would be inadvisable at this time.

"We hope that this information will clarify your present problems in the light of the efforts being made to control inflation during the nation's present defense program. If you desire any further information or assistance, please feel free to call upon or to write to the Cincinnati branch of the Federal Reserve Bank of Cleveland."

Approved unanimously.

Memorandum dated January 3, 1952, from Mr. Hooff, Assistant Counsel, recommending that there be published in the Law Department of the January issue of the Federal Reserve Bulletin statements in the form attached with respect to the following subjects:

Real Estate Credit  
Amendment to Regulation X

Consumer Credit  
Amendments to Regulation W

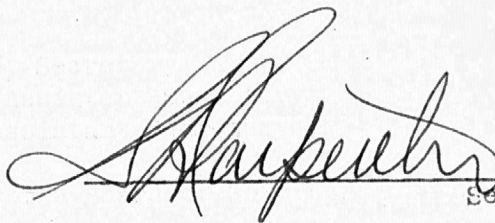


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Floor or Wall Furnaces  
Contest Prizes

Approved unanimously.



Secretary.