

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

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Vardaman
 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 31, 1952, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 1, 1952, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated December 29, 1951, from Mr. Kelleher, Assistant Director, Division of Administrative Services, recommending an increase in the basic salary of L. N. Bertol, Captain of the Guard in that Division, from \$4,490 to \$4,615 per annum, effective February 17, 1952.

Approved unanimously.

Letter to Mr. Hill, Vice President, Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of January 30, 1952, the Board approves the appointment of Stanley Omwake as an assistant examiner for the Federal Reserve Bank of Philadelphia. If Mr. Omwake's appointment is not effective on February 15, 1952, as contemplated, please advise us of the effective date.

"It is noted that arrangements will be made to eliminate Mr. Omwake's indebtedness to a member bank."

Approved unanimously.

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Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of January 24, 1952, enclosing a certified copy of a resolution adopted by the board of directors of the Muleshoe State Bank, Muleshoe, Texas, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

"Application for continuance of insurance has been made to the Federal Deposit Insurance Corporation and the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Muleshoe State Bank, Muleshoe, Texas, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of the Board's letter of February 19, 1937 (F.R.L.S. 3548) the bank may accomplish the termination of its membership at any time within four months of the date of this letter. If a longer period is required, the bank should request an extension of time. Please advise when cancellation is effected and refund is made.

"The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

"It is noted that the bank is withdrawing because its management does not feel that the community has need for the Federal Reserve Bank at this time."

Approved unanimously.

Letter to Mr. Scheffer, Manager, Real Estate and Consumer Credit Department, Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of January 18, 1952, and its enclosures, concerning a question under Regulation W presented by Mr. G. S. Nichols, Vice President of the First National Bank, Highland Falls, New York. The matter has also been presented by Congresswoman St. George of New York whose letter to Chairman Martin of January 14, like yours,

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"forwarded a copy of Mr. Nichols' letter to your Bank dated December 27, 1951, and a copy of your reply of January 10, 1952. Enclosed herewith are copies of Mrs. St. George's letter of January 14, Mr. Nichols' letter to her of January 11, and the Board's reply to Mrs. St. George of this date.

"From the above correspondence it appears that Mr. Nichols' bank wishes to make instalment loans to certain cadets at the United States Military Academy at West Point who are to be graduated in the spring and assigned to duty as Commissioned officers. Although the proceeds of such loans would be applied toward present purchases of new cars by the cadets and limited to amounts not exceeding the maximum loan value prescribed by the regulation, it is desired, briefly, that the applicable maximum maturity for any such loan and the time specified for scheduling the first instalment payment thereon be calculated from a date at or about the time of the obligor's graduation.

"In Mr. Nichols' letter to your Bank of December 27, 1951, it is claimed that a calculation on the basis above indicated would be permissible under the regulation because, following the purchase of an automobile by any one of the cadets and until the cadet's graduation, the automobile would be held in dead storage at West Point under supervision of the Commandant of Cadets or an officer designated by him. It appears further that if the automobile, for any reason, should be removed from storage at an earlier date for the use of the cadet, the Commandant would notify the lending bank and the maturity and instalment payment schedule for the loan would be accelerated accordingly. It also appears that there would not be outstanding in connection with the purchase of any such automobile any other credit of any kind.

"Certain details, particularly of the storage arrangement with the Commandant, however, are not altogether clear. In the last paragraph of his letter of December 27, Mr. Nichols indicated that storage at the Academy would not occur until after actual physical delivery of the automobile to the cadet by the dealer who sold the automobile. On the other hand, his subsequent letter to Congresswoman St. George indicated that the automobiles sold to the cadets would be 'delivered by the dealers direct to West Point' for immediate storage under the control of the Commandant, without reference to any intervening delivery to the cadets.

"As you know, in the case of an instalment credit to purchase a listed article, such as an automobile, the extension

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"of credit for the purposes of the regulation shall be regarded as occurring as of the date of delivery of the article to the purchaser or instalment obligor. As you know also, this rule permits transactions known generally as 'lay away plans'. Such plans were permitted also under the regulation previously in effect prior to its reinstatement in September 1950, pursuant to the authority granted in the Defense Production Act of that year. In any case, including arrangements such as those proposed by Mr. Nichols, a principal question always is whether there has been delivery of the listed article to the purchaser prior to the time used for calculating the maximum maturity and the inception of the instalment payment schedule.

"On the basis of Mr. Nichols' letter to Congresswoman St. George, referred to above, it is apparently contemplated now that the automobile dealers involved will make delivery direct to the Commandant at nearby West Point and that storage will occur without any intervening delivery to the cadets. Assuming this to be true and that the Commandant, in holding the automobiles in storage, will be the agent of the instalment obligee, the arrangements in question would not appear to be contrary to the regulation.

"A definite answer concerning the application of the regulation, of course, cannot be given where, as in this case, the precise facts are not clear. The foregoing view, therefore, should be regarded as applicable only if the proposed financing and storage are arranged and carried out to conform with our understanding of the facts as set forth herein."

Approved unanimously, together
with the following letter to the
Honorable Katharine St. George,
House of Representatives, Washington,
D. C.:

"This is in further reference to your letter to Chairman Martin of January 14, 1952, and its enclosures, concerning the question under Regulation W presented by Mr. G. S. Nichols, Vice President of the First National Bank, Highland Falls, New York. As indicated in our letter to you of January 24, 1952, Mr. Nichols' question was also received for consideration by the Board from the Federal Reserve Bank of New York.

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"Enclosed herewith is a copy of the Board's letter of this date to the New York Reserve Bank in reply to the question raised by Mr. Nichols. You will note from the Board's reply that the automobile financing arrangements of the kind in question would appear to be permissible under the regulation, although a definite answer cannot be given because of certain lack of clarity as to how the arrangements will be carried out as a practical matter.

"If we can be of further assistance to you in this matter or in connection with any other matter under the regulation which may come to your attention, please call upon us. The Board always welcomes the opportunity to be of all possible assistance in connection with the regulation and its administration.

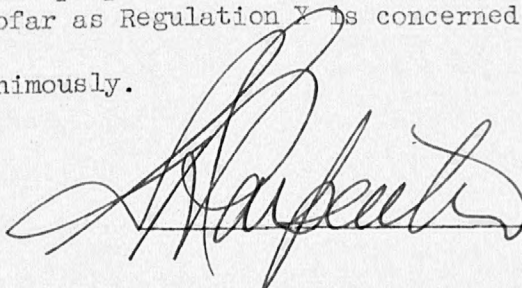
"The correspondence submitted with your letter is returned herewith as you requested."

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

"This refers to Mr. Earhart's telegram of January 31, 1952, and telephone discussions between you and members of the Board's staff concerning the application of Landrum & Mills Realty Company for an amendment to the certificate of exemption your Bank issued the company under authority of section 5(g) of Regulation X on March 31, 1951.

"We agree that there is no authority for approving the Company's application for an amendment to its certificate of exemption. However, after discussions on February 1, 1952 between the Company's counsel, Mr. Charles L. Strouss, and members of the Board's staff, we understand that the Company has been able to arrange the necessary secondary financing by a Registrant named in the certificate of exemption, namely, the First National Bank of Arizona, Phoenix. We understand that Mr. Strouss plans to request your approval of a proposed secondary financing plan and he has furnished us with a draft of a letter he plans to send you for that purpose. We are enclosing a copy of the draft furnished us by Mr. Strouss and, in view of all the circumstances, we believe that you properly may approve the proposed plan as outlined in the draft of his letter insofar as Regulation X is concerned."

Approved unanimously.


Secretary.