

Minutes of actions taken by the Board of Governors of the
Federal Reserve System on Tuesday, February 12, 1952.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated February 8, 1952, from Mr. Leonard, Director,
Division of Bank Operations, recommending an increase in the basic
salary of Caroline M. Clark, Clerk-Stenographer in that Division,
from \$3,110 to \$3,255 per annum, effective February 17, 1952.

Approved unanimously.

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

"In accordance with the request contained in your
letter of February 5, 1952, the Board approves the ap-
pointment of John Leo Dolphin as an assistant examiner
for the Federal Reserve Bank of Philadelphia. If the
appointment is not made effective February 15, 1952, as
planned, please advise us."

Approved unanimously.

Letter to Mr. Clarke, Secretary, Federal Reserve Bank of New York,
reading as follows:

"The Board of Governors approves the reappointments
of Messrs. Arthur G. Nelson, Edward J. Noble and William
H. Pouch as members of the Industrial Advisory Committee
for the Second Federal Reserve District to serve for terms
of one year each beginning March 1, 1952, in accordance
with the action taken by the board of directors, as re-
ported in your letter of February 7, 1952.

"It is noted from your letter that, in view of the
small volume of applications for loans under Section 13b

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"of the Federal Reserve Act, the directors consider it inadvisable at this time to seek additional members of the Committee to fill the two existing vacancies."

Approved unanimously.

Letter to Mr. Patterson, Secretary, Board of Directors, Federal Reserve Bank of Atlanta, reading as follows:

"The Board of Governors approves the appointments of Messrs. John E. Sanford, I. C. Milner, George Winship, Luther H. Randall and Shannon M. Gamble as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each, beginning March 1, 1952, in accordance with the action taken by the Board of Directors of the Federal Reserve Bank of Atlanta, as reported in your telegram of February 8, 1952."

Approved unanimously.

Letter to Mr. Peyton, President, Federal Reserve Bank of Minneapolis, reading as follows:

"On November 13, 1951, a group consisting of two Federal Reserve Bank Presidents and two Vice Presidents in charge of Personnel met at the Board's offices to discuss ways and means of implementing an expanded program of executive development and training in the Federal Reserve System.

"As a result of the above meeting, several suggestions were made which, it was hoped, the Conference of Presidents would discuss and then make whatever recommendations it deemed advisable to the Board of Governors. Accordingly, you may wish to arrange for some time on the agenda of the forthcoming meeting so one of the Presidents, perhaps Mr. Williams, can discuss the suggestions which came out of the November meeting."

Approved unanimously.

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

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"The Board has received suggestions that conditions in the furniture industry (including floor coverings) are such as to call for some relaxation of Regulation W. It has been suggested that the exemption provided in the regulation be raised from \$50 to \$75 or \$100 and, alternatively, that Group C items be delisted.

"The Board would appreciate receiving your comments on the condition of the furniture market in your district and your reaction to the specific suggestions mentioned above by Tuesday, February 19."

Approved unanimously.

Letter to the Honorable Clyde Doyle, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of February 2, 1952, in which you requested the Board to consider and report on an enclosed statement you have received from John M. Stokes, President, Bellflower (California) Automobile Dealers' Association, Incorporated, regarding Regulation W--Consumer Credit.

"Mr. Stokes' statement presents arguments for a relaxation of the maximum maturity provided under the regulation as it applies to instalment credits for the purchase of automobiles on the West Coast. He expresses the view that the West Coast depends more heavily on automobile transportation than does the East Coast and that West Coast automobile maturities should be longer, particularly for new and late model cars, than the 18 months maximum under the regulation because of the higher prices in that area resulting from the higher freight costs. Mr. Stokes also argues, on various grounds, that such a relaxation of the regulation would not be inflationary.

"It is a major concern of the Board, as you will appreciate, to design the consumer credit regulation on the basis of principles that are administratively practicable and equitable for the various individual businesses that are subject to the regulation. The regulation would lose much of its fairness and effectiveness if its requirements were made so complex or unrealistic that those affected could not readily comply with them, or the Federal Reserve System could not suitably administer them. Also, the regulation would be subject to serious criticism as inequitable and discriminatory if it provided preferential

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"treatment on the basis of a regulatory principle that was of limited application to a relatively small group of a large class of Registrants. In the present case, a relaxation based on the extent to which a geographical area of the country depended on automobile transportation, or the extent to which the selling price was increased by freight costs, would raise very serious questions of administrative practicability and equity.

"It would be difficult indeed to arrive at a practicable and equitable means for varying required instalment terms on the basis of community or area need for automobile transportation. Even assuming such a need could be measured readily, there would be a significant number of persons in areas where automobiles are less widely used whose need for automobiles would be greater than that of many persons in, say, the Los Angeles area. In any event, communities more heavily dependent upon automobile transportation are the places where the demand for automobiles is greatest, and such a provision would accomplish little except to weaken appreciably the restrictive effects of the regulation. It should be remembered that longer maturities add to the final cost because they involve larger finance charges; they increase rather than reduce the cost of automobile transportation.

"The Board has carefully considered the question of providing longer maturities under Regulation W on the basis of the higher freight rates on automobiles in the western states. Representatives of the National Automobile Dealers Association and associated West Coast dealers in a meeting with the Board on February 9, 1951, presented data and arguments for an amendment to the regulation which would provide such longer maximum maturities on the basis of freight cost differentials. After careful study the Board decided against adoption of such an amendment on the grounds that it would not only constitute an undue relaxation of the regulation but that it also would grant an unwarranted preference to a portion of those subject to the regulation and would place an excessive administrative burden on the trade and on the Federal Reserve System.

"Transportation charges, handling costs, and other similar costs must be reflected, in one way or another, in the selling price of a commodity. As a consequence, the problem which your constituent mentions with regard to freight costs is, in reality, a pricing problem rather than a credit regulation problem. As you know, the primary objective of regulation is to curb the expansion of consumer credit, from the standpoint of helping to control inflation. Therefore, it has seemed to

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"us that we must continue to relate the requirements of the regulation directly to the selling price of a commodity regardless of the components which make up that price.

"There are other difficulties with this proposal to allow for automobile freight differentials under the regulation. For instance, freight charges as they relate to automobiles are determinable only in connection with new cars. Nonetheless the price differential attributable to such charges is, of course, reflected to some extent in the used car markets, and a provision that allowed longer maturities only for new cars, according to determinable freight costs, would discriminate against used cars. Also, it should be noted that higher used car values mean higher allowances for trade-ins so that the freight differential would be offset, at least in part, in a great many instances. On the basis of equitable treatment for all, similar differentials in maximum maturities should presumably be provided for appliances, but freight rates for these would be diverse and difficult to determine in many cases. A major difficulty would arise in the operations of institutions financing retail paper under such a rule, because of complicated payment schedules for different areas and uncertainty as to whether purchased paper was in compliance with the regulation.

"In support of his view that relaxation of automobile maturities on the West Coast would not be inflationary, Mr. Stokes restates a number of the arguments against the regulation that have been advanced from time to time by automobile dealers, finance companies, and others who feel that the regulation has unduly interfered with their businesses. Although the Board believes that such a relaxation of the regulation would be definitely inflationary at this time, in order not to delay our reply or unduly extend its length, we are not undertaking in this letter to answer these arguments specifically. They are directed mainly against the terms of the regulation in general and are not directly related to the question of providing preferential treatment for automobile credits on the West Coast, which, we assume, is Mr. Stokes' primary concern. We should be glad to take them up in a subsequent letter, however, if you so desire.

"We appreciate having this opportunity to outline our views on this question and shall be glad to provide any additional information that you may require on consumer credit regulation or other matters for which we have responsibility."

Approved unanimously.

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Letter to Mr. Erickson, President, Federal Reserve Bank of Boston,

reading as follows:

"This refers to your letter of December 7, 1951, and enclosures relating to apparent violations of Regulation W by Park Motor Co., Auburn, Maine.

"Your letter states that in view of the seriousness of the case, the matter was being forwarded directly to the Board without a disciplinary conference, for such action as the Board may deem advisable under the circumstances.

"The report indicates that in the period from December 1, 1950 to September 25, 1951, the registrant made twenty-four sales which were apparently in willful violation of the Regulation, and in twenty-two of these cases the registrant had accepted side notes as part or all of the down payment required by the Regulation.

"The case would appear to be one in which it would be desirable to complete the investigation in order that the Board may be in a position to decide what action it should take. Accordingly it will be appreciated if you will have the investigators make customer contacts and forward reports thereof to the Board. In making such contacts, it will, of course, be desirable to ask the customers the names of the persons with whom they dealt and any other circumstances which would help fix responsibility for the violations and supplement the evidence already contained in the report."

Approved unanimously.

Letter to Mr. Gidney, President, Federal Reserve Bank of Cleveland,

reading as follows:

"Receipt is acknowledged of your letter of February 8, 1952, regarding the case of Pacific Stores, Inc., Cleveland, Ohio, which you had referred to the Board with your letter of September 10, 1951.

"You state that, after the investigation which gave rise to your letter, a number of customers were interviewed and a further examination of the records of the registrant was made, which showed only three violations, which in the opinion of your Bank were not willful.

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"In the circumstances, in view of the principles set forth in W-179, you recommend that action against this registrant be held in abeyance pending further investigation.

"The Board concurs in this recommendation."

Approved unanimously.

Memorandum dated February 6, 1952, from Mr. Townsend, Solicitor, recommending that in accordance with the recommendation of the Federal Reserve Bank of New York the matter of Charles A. Monroe, doing business as Monroe Motor Sales, Lackawanna, New York, a registrant under Regulation W, Consumer Credit, be referred to the Department of Justice for the institution of such criminal proceedings as that Department might deem appropriate.

Approved unanimously.

Telegram to Mr. Olson, Vice President, Federal Reserve Bank of Chicago, reading as follows:

"In reference to your telephone conversation with Mr. Benner, on February 1, relative to a Canadian insurance company which is considering making real estate loans with respect to real property situated in the United States on terms more liberal than is permitted for a Registrant under Regulation X, in our opinion the regulation as issued would not prohibit such transactions. This assumes, of course, that the company would not extend such credit by means of a subsidiary company, loan correspondent, representative agent, lawyer, or other person located in the United States who is a Registrant."

Approved unanimously.

Letter to Mr. Guilford Glazer, Oak Ridge Properties, Inc., P. O. Box 1123, Oak Ridge, Tennessee, reading as follows:

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"We acknowledge your letter of December 13, 1951, to which was attached a photostatic copy of a letter, dated December 10, addressed to you by the Federal Reserve Bank of Atlanta regarding the community shopping center which you propose to erect in Oak Ridge, Tennessee. Among a number of matters discussed in your letter, you ask about the procedure to be followed to procure an exemption from Regulation X for the proposed project, and you state that it is your belief that Regulation X was not meant to have the effect of stopping a project so vital to the interest of national defense as this project.

"At various times during the past several months, we have discussed with you the provisions of Regulation X in respect to nonresidential construction, and we have brought to your attention the effect of the regulation on the proposed construction of a shopping center at Oak Ridge. We are sure that you are aware that for the purposes of Regulation X a shopping center is considered to be a nonresidential structure or structures, and therefore either construction or permanent financing in relation thereto would be subject to the nonresidential provisions of the regulation. Several provisions for the exemption of projects such as yours were initially available at the time the nonresidential amendment was issued, on February 15, 1951. For example, section 5(k) of the regulation provides that credit extended on nonresidential construction started prior to February 15 was exempt if the permanent financing of the property had been accomplished within 32 days after completion of construction. Also, section 6(b) provides that any credit is exempt if it is to be extended pursuant to a firm written agreement with a Registrant made before February 15, 1951, under the terms of which the Registrant is required without option or discretion on his part to extend credit upon demand by the borrower or upon compliance by the borrower with one or more conditions referred to in such agreement. Moreover, section 5(g) of the regulation provides that a builder who had made substantial commitments with a view to the building of new construction and who asserted that his inability to obtain financing on the basis originally contemplated by him and a Registrant would cause him a clear and substantial financial hardship, could apply to a Federal Reserve Bank for an exemption if such application was properly made prior to April 15, 1951.

"These various bases for exemptions from the regulation were provided for the purpose of establishing an uninterrupted

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"transition from a period of nonregulation to one of regulation without the creation of hardship or inequity to those persons affected. These exemptive provisions gave full recognition to the fact that most building projects are the culmination of many months of previous planning, preparation, and arrangement, and were adopted after extensive consultation with trade organizations representing the real estate finance and building industries. Through the employment of such exemptive provisions, the construction industry was protected against disruptive conditions that otherwise could have supervened and brought about an unfavorable outcome to the establishment of credit regulations.

"In your own case, it would appear that you had taken no action before February 15, 1951, sufficient to qualify you to apply for exemption under the above provisions; however, you are convinced that the shopping center at Oak Ridge is vital to the interest of the national defense and on these grounds you have sought exemption under section 5(m) of Regulation Y, which applies to essential nonresidential defense construction. In your letter, you have asked about the applicability of this section of the regulation to your construction project, as well as the definition of the word 'essential'.

"The purpose of this provision of the regulation is to assist departments and agencies of the United States Government which have a responsibility to further construction in connection with legislative or administrative programs essential to the national defense. For example, some Governmental agencies have a legislative responsibility to encourage the construction of certain types of privately-owned facilities because of their direct or indirect employment in defense activities. A characteristic example in this connection is the provision of certain types of storage facilities, especially for liquids of various kinds in localities where a critical shortage of such facilities is believed to obstruct defense activity. The determination as to the essentiality of nonresidential construction to the national defense is made by the head or assistant head of an appropriate agency or department of the United States Government, and if such a certification is made to a Federal Reserve Bank, that Bank will issue a certificate of exemption. The determination as to essentiality is wholly discretionary with the departmental or agency official concerned. It has not been possible for us to prepare precise standards or definitions as to what factors constitute essentiality to the national defense in respect to nonresidential

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"construction, since the legislative and administrative programs of Governmental agencies are so dissimilar and unrelated that any attempt to provide a precise statement as to essentiality might favorably assist some but grossly impede others in the discharge of their official responsibilities. Hence, we would say that the determination as to the essentiality to the national defense of the community shopping center depends essentially on the decision which is made by the Atomic Energy Commission, which, in company with other departments and agencies of the United States Government, is fully empowered to avail itself of the exemption provided by section 5(m) of Regulation X.

"In the second and third paragraphs of your letter, you state that it was your understanding that officials of the Federal Reserve Bank of Atlanta intended to enter into conversations with officials of the Atomic Energy Commission in an attempt to arrive at some sort of basis for permitting exemption of your project from Regulation X. You also state that you understood that the proposed project would be presented to the Board of Governors in an attempt to arrive at some basis for exemption from Regulation X. The Federal Reserve Bank of Atlanta has informed us that it made no statement to the effect that it would undertake to have the proposed construction declared exempt. However, they did advise you, as well as Mr. Sapirie, Manager of the Oak Ridge Operations of the Atomic Energy Commission, that they were submitting the matter to the Board for consideration. During your recent visit to Washington, you were informed by us that the correspondence alluded to above was being carefully reviewed and that, if the facts therein disclosed any basis for an exemption from Regulation X, the Reserve Bank would be informed of our conclusions. After thorough consideration of the matter, the Board concluded that the facts presented to it yielded no basis for an exemption of the proposed construction from Regulation X.

"We would like also to call to your attention the provisions of Amendment No. 8 to Regulation X, covering nonresidential leases, and its effect on extensions of credit for nonresidential construction on leased land, as set forth in footnote 18a to section 5(o). A copy of Amendment No. 8, which includes section 5(o) and footnote 18a, is enclosed, together with a copy of the statement to the press.

"We hope that we have fully answered your letter and will be glad to discuss the matter with you at any time you are in Washington."

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Approved unanimously, with a copy to Mr. Denmark, Vice President, Federal Reserve Bank of Atlanta.

Letter to Mr. Alva C. Pepper, Pepper Real Estate, 8616 Georgia Avenue, Silver Spring, Maryland, reading as follows:

"This refers to your letter of January 30, 1952, to Mr. Henry Benner, Assistant Director of the Division of Selective Credit Regulation, which requests information concerning Regulation X--Real Estate Credit.

"As you know, Regulation X was issued under the authority of the Defense Production Act of 1950. The need for this Act arose in June 1950, as a result of the defense preparations that followed the Korean outbreak. At that time the national economy was enjoying a high level of prosperity. The home building industry was halfway through its greatest year on record. There were 1,395,000 new housing units started in 1950, which brought about an unprecedented consumption of materials and expansion of mortgage debt. The problem of imposing a defense program on a high-level economy necessarily means that some productive power and materials must be diverted from civilian to defense uses, and that increased incomes bidding against a smaller supply of civilian goods would add further to existing inflationary pressures.

"One of the fundamental aims of the Defense Production Act of 1950 is to accomplish the required diversion of critical materials from civilian to defense uses and at the same time restrain inflationary forces. In view of the fact that home building and the expansion of mortgage debt were occurring at an unprecedented rate, it was essential that efforts be made to apply restraint in this area. The need for continued restraint in real estate credit expansion is evident in the record for 1951, when 1,090,000 new housing units were started and mortgage debt increased by an estimated 6.5 billion dollars. This need is further accentuated by the proposed expansion in the flow of materials to defense uses.

"You express particular interest as to whether a 'hardship clause' was provided in Regulation X. Although there is no provision in Regulation X for administrative determination of exemptions on an individual basis, Section 5(g) of Regulation X did provide in certain circumstances for exemptions due to financial hardship for persons who had made substantial commitments or undertakings prior to August 3, 1950. To take

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"advantage of that clause, it was required that the facts of the case be presented to the Federal Reserve Bank of the district in which the applicant conducted his business by March 15, 1951. Thus, builders who had not begun construction but who had made substantial financial outlays prior to August 3, 1950, were given the opportunity to request an exemption from the terms of the regulation. This exemption provision has expired. Another type of hardship exemption was also provided in Section 6(b) of the regulation for credit extended pursuant to firm commitments made prior to the effective date of the regulation, October 12, 1950. As previously indicated, however, there is no provision in the regulation for lifting its provisions where a builder is finding difficulty in selling houses such as the two you describe in your letter.

"The exemption provisions described, as well as the general provisions of Regulation X and the companion regulations of the Federal Housing Administration and the Veterans Administration, were the result of the most painstaking consideration, and were not adopted until they had been submitted for consideration by representatives of the construction and real estate finance industries. In the sections indicated above, every possible allowance was made to avoid the creation of inequitable situations by the establishment of real estate credit terms on an industry which is typically involved in substantial time lags between the planning and completion stages. The exemptions granted initially were considered to be sufficient in duration to allow members of the industry to incorporate Regulation X into their plans without creating undue hardship. Subsequent to the termination of these exemptions many builders have restricted their operations or have altered their original plans because of Regulation X. Obviously, the aim of the regulation is not to cause builders or others hardship, but we believe you will agree that unless its terms are equally restrictive to all, the regulation cannot have the desired effect of holding down credit expansion with consequent additions to inflationary pressures.

"We hope that this information will clarify for you the provisions of Regulation X, 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 the Federal Reserve Bank of Richmond or its Baltimore branch."

Approved unanimously, with a
copy to the Federal Reserve Bank of
Richmond.

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

"Two questions have been raised concerning registration under Regulation X. They may be stated as follows:

1. Must a person who has not filed a registration statement comply with the regulation in making his fourth real estate credit extension during the year? In making a credit extension which would make the amount extended by him during the year exceed \$50,000, for example, a single loan of \$51,000?

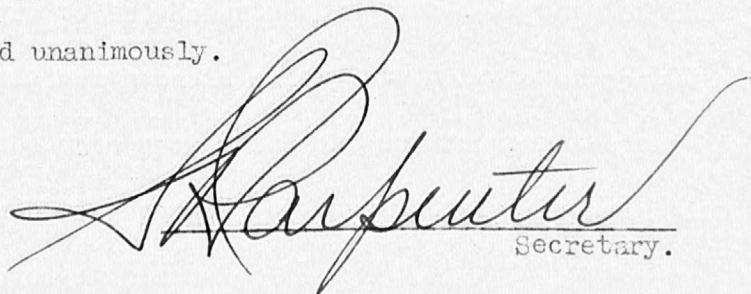
2. May a person who is engaged in the business of extending real estate credit, but who has not filed a registration statement within the allotted time, extend nonconforming credit on grounds that he is not a Registrant, and therefore not affected by the prohibitions in the regulation which state 'no Registrant shall * * *'?

"In answer to the first question, it is the Board's opinion that a person becomes 'engaged in the business' in making a real estate loan which is either his fourth extension of credit during the year or which makes the amount extended by him during the year exceed \$50,000. Therefore, he is 'deemed to be registered' in making that loan and is a 'Registrant' who must make the loan on terms which comply with the regulation although he has 30 days thereafter in which to file a registration statement.

"In answer to the second question, it is the Board's opinion that such a person is no longer 'deemed to be registered' if he has not filed a registration statement in the allotted time and therefore is not subject to the prohibitions of the regulation which state that 'no Registrant shall * * *'. (Underscoring supplied.) However, such a person is prohibited by section 3(a) from making any extension of real estate construction credit.

"These questions and answers are technical in nature, and we are enclosing for your information a copy of a memorandum of the reasoning supporting the Board's conclusions."

Approved unanimously.


Secretary.