

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 28, 1952. The Board met in executive session in the Special Library at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman  
Mr. Powell  
Mr. Mills  
Mr. Robertson

At the conclusion of the executive session the following members of the staff joined the meeting:

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Leonard, Director, Division of Bank  
Operations  
Mr. Vest, General Counsel  
Mr. Noyes, Director, Division of Selective  
Credit Regulation  
Mr. Chase, Assistant Solicitor  
Mr. Garfield, Adviser on Economic Research,  
Division of Research and Statistics  
Mr. Solomon, Assistant General Counsel  
Mr. Swan, Acting Assistant Director,  
Division of Selective Credit Regulation  
Mr. Cherry, Assistant Counsel  
Mr. Jones, Chief, Consumer Credit and Finances  
Section, Division of Research and Statistics

Before this meeting there had been sent to each member of the Board a copy of a memorandum dated February 26, 1952, from Mr. Evans, regarding a number of suggestions made in recent weeks for changes, generally of a relaxing nature, in the terms of Regulation W, Consumer Credit. The

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memorandum stated that these representations had been most persistent with respect to furniture and floor coverings, where it was argued that the current market was extremely soft, and with respect to residential repairs, alterations, and improvements, where it was argued that the present down payment requirements were unworkable and unfair to registrants attempting to comply with provisions of the regulation. The memorandum also stated that Mr. Evans concurred in the recommendation of the staff that the Board authorize consultations with the trade to determine the necessity for and desirability of some changes in the regulation of a relaxing nature, particularly whether the current down payment requirement on residential repairs, alterations, and improvements should be eliminated and whether the provision exempting from the down payment and loan value requirements of the regulation listed articles with a cash price of less than \$50 should be increased to a higher figure. The memorandum was accompanied by a staff report dated February 21, 1952, reviewing the consumer durable goods situation.

In commenting upon his memorandum, Mr. Evans emphasized that no action on the part of the Board to change the terms of the regulation was being recommended at this time but that in accordance with the usual procedure he wished to advise the Board of the situation and obtain the Board's views as to whether consultations should be held with the trade.

At the request of Mr. Evans, Mr. Noyes outlined the reasons why the matter had been brought up for discussion at this time, stating that, in

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addition to those mentioned in Mr. Evans' memorandum, there was continued pressure from automobile dealers generally for an extension of the maximum maturity provision relating to automobiles, and also from dealers on the west coast who felt that a differential should be established for that area to allow for higher freight costs.

Regarding the automobile situation, Mr. Noyes said that in the opinion of the staff there was no economic justification for any relaxation at this time since prices were continuing upward, inventories were not excessive, and responsible representatives of the trade indicated almost without exception that effective demand would exceed the number of cars which could be produced this year. As to home improvements, he said that the staff was in agreement with the industry that the present down payment requirements of the regulation in that field presented great administrative difficulties, that it would be preferable to eliminate them as a matter of equitable treatment of registrants, and that such action would have a negligible effect on the volume of credit. He went on to say, however, that the Federal Housing Administration would prefer to retain the present terms since they helped reduce risk in the insurance of home improvement loans, and that in the circumstances any removal of the restrictions would have to be discussed with that agency.

Mr. Noyes also said that the Federal Reserve Banks, with but one exception, were generally opposed to delisting furniture or relaxing the



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regulation with respect to furniture or other specific items, and that they felt that any increase in the present \$50 exemption would be likely to stimulate requests for other forms of relaxation. The Board's staff, he added, felt that while economic conditions did not clearly call for a change in the regulation at this time there would be some advantage in a relaxation which would indicate that the Board was administering the regulation in a flexible manner according to changes in prevailing economic and market conditions. For example, an increase in the exemption to \$100 and the removal of the 10 per cent down payment on home improvements would have no substantial effect creditwise, he said, but would probably be well received by dealers in furniture and such articles as vacuum cleaners, portable sewing machines, cedar chests, and to a lesser extent radios.

In response to a question by Mr. Evans, Mr. Noyes stated that in the normal course the Board would offer the trade some time to study and consult their regional offices before consultations were held and that if such consultations were authorized it would probably be about the end of March before a recommendation would be presented to the Board.

Concerning an inquiry by Mr. Vardaman, Mr. Noyes stated that small-loan companies and consumer banks had not pressed for a relaxation of the regulation but had announced publicly that they intended to oppose renewal of the Board's authority over consumer credit beyond the present expiration date, June 30, 1952.

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At this point Messrs. Martin, Riefler, and Thomas withdrew from the meeting.

There followed a further general discussion of the effect of relaxations such as those suggested by the staff during which it was stated, in response to a question by Mr. Mills, that such a move probably would cause some criticism, on the grounds of discrimination, from automobile dealers since the regulation presently was more restrictive in that field than in the lines that would be affected by an increase to \$100 in the exemption or elimination of the down payment requirement on home improvement credits. At the conclusion of the discussion it was understood that the matter would be considered further by the Board in executive session.

Mr. Swan commented on the recent regional conferences concerning the consumer credit and real estate credit regulations, stating that there was general agreement that the four conferences were worth while. He said that the most important topic concerned the program for obtaining compliance with and enforcement of the regulations and that the Board's letter to the Reserve Banks of January 18, 1951, restating the objectives and principles of the program, was well received, it having been the general feeling that the letter would result in an improved program, with no disagreement on general principles or the minimum procedures involved. He said the Reserve Banks generally favored the suggestion contained in the letter for the establishment of a committee of Reserve Bank personnel to consider matters

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relating to Regulation W. Mr. Swan also said that the Board's representatives had benefited by suggestions advanced by the Reserve Banks for technical changes in the regulation.

Mr. Noyes said that as the result of discussions at the conferences concerning customer contacts in cases of apparent violations of the regulation, the Federal Reserve Bank of Philadelphia was experimenting with an alternative procedure under which carefully worded letters were sent to customers asking that they call at the Reserve Bank at their convenience to discuss their transactions with the registrant being investigated. He said it was not yet fully apparent how well this would work but that in one case where 22 letters were written, 11 persons had come to the Bank and 3 others had called the Bank on the telephone.

During a discussion of this alternative procedure Mr. Vardaman expressed the opinion that in some respects it would seem more undesirable than the procedure of contacting customers at their residences. Mr. Noyes reiterated that the alternative procedure was experimental, adding that it had not been suggested by representatives of the Board, but was an outgrowth of general discussion at the regional conferences.

At this point, all of the members of the staff withdrew and the Board again went into executive session.

Following the executive session, Mr. Szymczak advised the Secretary that a decision had been reached to postpone



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action on the recommendation contained in Mr. Evans' memorandum pending developments over the next two or three weeks.

The action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 27, 1952, were approved unanimously.

Memorandum dated February 26, 1952, from Mr. Bethea, Director, Division of Administrative Services, stating that Elizabeth M. Young, Charwoman in that Division, had applied for retirement in accordance with provisions of the Civil Service Retirement System, effective as of the close of business February 29, 1952.

Noted.

Memorandum dated February 25, 1952, from Mr. Williams, Assistant Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective March 2, 1952:

Name	Title	Salary Increase	
		From	To
Marie B. Leven	Economist (Editorial)	\$7,440	\$7,640
Bernard N. Freedman	Economist	5,560	5,685
Elinor R. Harris	Economist	5,435	5,560
Patricia V. Johnson	Secretary to Mr. Williams	3,660	3,785
June E. Crawley	Clerk	3,335	3,415
Janet E. Long	Clerk	3,190	3,270

Approved unanimously.

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

"Reference is made to your letter of February 21, 1952, advising that at the meeting of the board of directors held on February 14, 1952, the appointment of Mr. Harding Cowan as Acting Assistant Secretary was terminated effective March 1, 1952.

"In accordance with this action, the Board of Governors approves the payment of salary to Mr. Harding Cowan as Assistant Counsel for the period March 1, 1952, through March 31, 1952, at his present rate of \$11,000 per annum."

Approved unanimously.

Letter to Mr. Clarke, First Vice President, Federal Reserve Bank  
of Atlanta, reading as follows:

"Reference is made to your letter of February 6, 1952, in which you advised the Board of the reasons why the expenses for certain items of expenditures at your Head Office and branches exceeded the 1951 budget estimates.

"Appropriate notations are being made in the Board's records concerning these overexpenditures."

Approved unanimously.

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

"This refers to your letter of January 3, and to subsequent correspondence and conversations, in which it was suggested that consideration be given to the acceptance of certified copies of the reports of condition of State member banks in California as published on the California State form in lieu of requiring separate publication of the reports on the Board's form F. R. 105e-1.

"It is noted that, as a result of your negotiations with the State Superintendent of Banks, a proposed revised State form has been submitted for consideration, which will



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"show (or the information will be readily obtainable therefrom) all of the items on the Board's form except second preferred stock, capital notes and debentures, and the optional item 33 for reporting reserves against loans and securities. However, at this time, no State member bank in California has any second preferred stock or capital notes and debentures.

"It is the Board's understanding that, at the top of the revised form, space will be provided for use by State member banks in which may be stamped or overprinted the phrase, 'Published in accordance with a call made by the State banking authorities and by the Federal Reserve Bank of this District'. Thus, there would be no differences of any substance between the State form and the Board's requirements.

"In the circumstances, and in view of your recommendation, the Board will interpose no objection to the acceptance, until further notice, of the publication of condition reports of California State member banks on the proposed California State form substantially the same as the one you submitted to the Board.

"Please express to the California Superintendent of Banks the Board's appreciation of his cooperation in this matter."

Approved unanimously.

Telegram to Mr. Barrett, Assistant Cashier, Federal Reserve Bank of San Francisco, reading as follows:

"Reurtel February 27 concerning Regulation T. You refer to fact that San Francisco Stock Exchange will conform to four-full-business-day settlement rule adopted by New York Exchange. You ask whether amendment to section 3 of Regulation T to permit similar four-day period for settlement in customers' general accounts is under consideration.

"The move toward four-day settlement by New York Stock Exchange and other exchanges has been closely followed and it has been recognized that it might present some question as to possible amendment of rule in Regulation T. In fact, New York Exchange has informally raised the question. However, there is no necessary connection between time when security is delivered to broker and time when he must obtain margin. The significant date for purposes of Regulation T is date on which transaction is executed. No matter when broker receives delivery of securities purchased, customer

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"should be advised and margin obtained, as soon as possible after execution of order. It would not be appropriate, however, to carry this to the point of imposing an unreasonable clerical burden on brokers. Accordingly, although it has not seemed advisable to amend the rule in Regulation T at this time, the situation is being closely watched to get a clearer picture of how conditions will work out in actual practice when exchanges have put four-day rule into operation. If it appears that present provisions of Regulation T impose undue administrative burden on brokers after four-day rule of exchange goes into operation, Board would appreciate being advised of any pertinent facts in that regard."

Approved unanimously.

Letter to Mr. Debus, Assistant Cashier, Federal Reserve Bank of Kansas City, relative to the matter of Western Slope Sales, Rifle, Colorado, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of February 5, 1952, and enclosures regarding the above matter.

"It is noted that the investigation disclosed a few violations, which were apparently willful, but that the parties chiefly responsible for the violations were a partner who is now in the armed services and a former salesman, who is not longer employed by the firm. It is further noted that you plan to reinvestigate the registrant again in sixty days.

"In the circumstances, the Board concurs in your recommendation that disciplinary action against this registrant be withheld pending the reinvestigation."

Approved unanimously.

Letter to Mr. Debus, Assistant Cashier, Federal Reserve Bank of Kansas City, relative to the matter of Western Slope Sales and Equipment Company, Rifle, Colorado, a registrant under Regulation W, Consumer Credit, reading as follows:

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"Reference is made to your letter of February 5, 1952, regarding the above matter. It is noted that a few violations were discovered which were probably willful, but that the partner who was responsible for them is in the armed services. In the circumstances, you plan a reinvestigation in approximately 60 days and recommend that no further disciplinary action be taken against the registrant pending such reinvestigation.

"The Board is in agreement with this recommendation."

Approved unanimously.

  
Secretary.