Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 6, 1952. The Board met in executive session in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
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. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Chase, Assistant Solicitor
Mr. Solomon, Assistant General Counsel
Mr. Swan, Acting Assistant Director, Division of Selective Credit Regulation

Chairman Martin informed the Secretary that during the executive session the other members of the Board had concurred in the statement which was being prepared for submission by the Chairman when he appeared before the Patman Subcommittee of the Joint Committee on the Economic Report on Tuesday, March 11, 1952.

Mr. Evans referred to the discussion at the meeting of the Board on February 28, 1952 concerning a possible relaxation in certain of the provisions of Regulation W, Consumer Credit, at which time it postponed

a decision as to whether consultations should be held with the trade with respect to such relaxation. He said that after further consideration by the staff the question of elimination of the 10 per cent down payment requirement on home improvements prescribed in Group D of the supplement to the regulation was again being brought to the attention of the Board since this requirement was difficult if not impossible to enforce, was inequitable to those registrants attempting to comply with it, and appeared to have little effectiveness in restricting the extension of credit. For these reasons, Mr. Evans suggested that the staff be authorized to discuss the matter with the Federal Housing Administration and, if that agency concurred, that the regulation be amended to eliminate the down payment requirement.

Mr. Noyes recalled that the Federal Housing Administration amended its rules effective August 1, 1950 to require that any credit, to be eligible for insurance under Title I (home improvement loans) of the Federal Housing Act, must have a 10 per cent down payment. When authority for the reinstitution of Regulation W was provided soon thereafter, the Housing Administration urged that the regulation should apply a comparable down payment requirement to all home improvement loans, including those not insured. He said there was general recognition at the time of the great difficulty of obtaining anything like complete observance of such a requirement when applied to all home improvement credits (as distinguished from the Federal Housing Administration requirement that there be a down payment only if the credit grantor wished Federal Housing Administration insurance), and that in

adopting the existing provision the Board was aware that it might not prove to be either sufficiently equitable or effective as a credit restraint measure to warrant its indefinite retention in Regulation W. In an effort to make the requirement administratively feasible, Mr. Noyes pointed out, the Board provided that the down payment must be obtained before beginning work, but the Defense Production Act Amendments of 1951 forbade the requirement of a down payment before completion of the work and the amendment of the regulation on this account virtually destroyed any chance of successfully enforcing the requirement.

Mr. Noyes went on to say that experience had brought out in practice the problems that had been anticipated in connection with the requirement, that the cost and effort throughout the Federal Reserve System of attempting to administer and enforce the provision was far out of proportion to any possible restrictive effect it might have in restraining instalment credit expansion, and that he felt that if the matter was discussed with the Federal Housing Administration in the light of this experience, that agency might not object to the proposed change.

In response to a question as to why the matter need be taken up with the Federal Housing Administration, it was pointed out that while there was no requirement that such a step be taken, as a matter of coordination of effort and maintenance of interagency relations it seemed

desirable not to proceed with the suggested change without first discussing it with the Housing Administration.

During a discussion, Mr. Mills said that a large amount of home improvement paper, both insured and uninsured, was held by commercial banks and that they might welcome a retention of the down payment requirement as a brake on loose credit, to which Mr. Noyes replied that, while the attitude of commercial bankers was believed to be substantially the same as that of the Federal Housing Administration, it might be desirable to discuss the matter with Mr. Welch, Chairman of the Consumer Credit Division of the American Bankers Association, as well as with the Federal Housing Administration.

This suggestion was discussed briefly and, upon motion by Mr. Mills, approved unanimously with the understanding that following the discussions referred to the matter would be brought back to the Board for further consideration.

At the request of Mr. Evans, Mr. Solomon described certain suggested technical amendments to Regulation W which were discussed at the recent regional conferences on the regulation of consumer and real estate credit and which appeared to warrant further consideration from the viewpoint of their desirability for administrative reasons. These suggested amendments included (1) a change in Section 8(a)

of the regulation to require a registrant to make, as well as to preserve, records, (2) a specific requirement that a record of delivery dates be maintained, (3) a specific requirement that descriptions of trade-ins be maintained, and possibly (4) a requirement that registration numbers of registrants be placed on all paper discounted or sold. Mr. Solomon said it was the recommendation of the staff that the first three of these suggested amendments be submitted to the Federal Reserve Banks for their formal comments, with the thought that if the Reserve Banks agreed, the amendments might be incorporated at some time when other amendments to Regulation W were approved by the Board.

There ensued a discussion whether consultation with the trade would be necessary before such technical amendments were adopted, during which it was suggested that this might be accomplished by inserting a notice in the Federal Register inviting the views of the trade and by writing letters to various trade organizations requesting their opinions.

Following a discussion, upon motion by Mr. Evans, it was agreed unanimously that the proposed technical amendments should be submitted to the Federal Reserve Banks for comment and that, as suggested, a notice should be inserted in the Federal Register inviting trade comments.

Mr. Powell said that the Federal Reserve Bank of New York in letters dated February 5 and 19, 1952, had referred to the Board the question whether, upon purchase by the directors of a bank in that district of debentures currently held by the Reconstruction Finance Corporation, the debentures would still be considered as part of the bank's capital in determining loan limitations or other limitations based upon capital requirements under various sections of the Federal Reserve Act. Mr. Powell said that he had not heard any discussion of the Board's views with respect to preferred stock and debentures of banks sold by the Reconstruction Finance Corporation to bank directors and others, and wished to call this matter to the attention of the Board for that reason. He went on to say that he understood another Federal bank supervisory agency had taken a rather positive stand against the issuance of preferred stock by banks, which raised a question as to what position the Board might wish to take on this subject.

Mr. Vest noted that the law recognized capital notes and debentures owned by the Reconstruction Finance Corporation as part of a bank's capital base and said that in the circumstances the Legal Division was disposed to believe that it would be reasonable to take the position that, if otherwise owned, such notes and debentures would still be considered part of the bank's capital in determining loan

limitations and other limitations based upon capital requirements.

In further discussion Mr. Mills said that he presumed whatever ruling the Board might make would apply only to State member banks, that their loan limitations presumably were fixed by the laws of their respective States, that this raised a question whether the Board's opinion would involve any conflict with State laws, and that in the circumstances he would suggest that a reply be deferred pending discussion with the Executive Committee of the National Association of Supervisors of State Banks at the time of the Committee's visit to the Board on March 25, 1952.

This suggestion was approved unanimously.

Mr. Powell said that Mr. R. J. Saulnier, of the National Bureau of Economic Research, had advised Mr. Young of a proposed study by the Bureau of bank capital problems and had inquired whether the Board would assist in this study by providing information and, perhaps, by helping with research incident to the study, indicating that he would like to be informed of the Board's attitude before taking the matter up with the Trustees of the Banking Research Fund at their meeting beginning March 28. Mr. Powell pointed out that no cash contribution was requested by the Bureau and recommended that, in view of the direct interest of the Board in a study of bank capital, the

requested assistance be provided.

Following a discussion of the nature and organization of the National Bureau of Economic Research, its non-profit character, and the sourcesof its funds, Mr. Young said it was anticipated that the Association of Reserve City Bankers would make a contribution to help defray the costs of the proposed study of bank capital.

Chairman Martin stated that he recognized the merit of the study in question and would favor assistance by the Board, except by way of cash contribution, but that it should be kept in mind that there were a great number of responsible research organizations in the country and the Board would have to be careful in providing assistance that it did no more for certain of these organizations than others.

Mr. Mills stated that he felt the study of bank capital should prove very worthwhile, that the National Bureau of Economic Research was a thoroughly responsible organization, and that he would be in favor of cooperating along the lines indicated.

Mr. Robertson expressed the view that the proposed study of bank capital was of such importance that if it were not to be undertaken by the National Bureau of Economic Research, the Board might well consider making a study of the problem.

Thereupon, unanimous approval was given to a letter to Mr. R. J. Saulnier, National Bureau of Economic Research, Inc., W. 25lth Street and Independence Avenue, New York, New York, reading as follows:

"Ralph Young has brought to the attention of the Board of Governors the plans for a study of bank capital problems by the National Bureau of Economic Research which will be presented to the Trustees of the Banking Research Fund at their meeting beginning March 28.

"Since the subject of the study is one in which the Federal Reserve System has a direct interest and since it appears that the study will be of particular value at this time, the Board requested me to advise you that it would be willing to cooperate with you, in the event the study is approved by the Trustees, by furnishing such information as it may have at its disposal and by arranging for members of its staff to assist in various phases of the research work incident to the project should you find that this would be helpful."

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the action stated with respect to 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 March 5, 1952, were approved unanimously.

Telegram to Mr. Vergari, Vice President and Counsel, Federal Reserve Bank of Philadelphia, reading as follows:

"Reurtel February 28 inquiring if a major improvement to a residence made between August 3, 1950, and January 12, 1951, makes that residence 'real property on which there is new construction' under Regulation X.

"Any individual major addition or major improvement to a residence under Regulation X made after August 3, 1950, which meets the cost tests causes the residential property thereafter to become real property on which there is new construction.

"The language which you refer to in footnote six to Section 2(g) relates to separate additions and improvements the costs of which are accumulated over a period of months. In connection with a residence, the costs of such an improvement or addition must meet the cost test within a period of twelve consecutive months commencing on or after January 12, 1951, in order for it to become a major addition or improvement. It was considered administratively infeasible to require Registrants to determine this type of cost prior to January 12, 1951, for residences and multi-unit residences and prior to February 15, 1951, for nonresidential structures. The twelve months period specified in footnote six is intended to give ample margin for repairs and maintenance."

Approved unanimously.

Secretary.