

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 21, 1952. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
 Mr. Vest, General Counsel
 Mr. Allen, Director, Division of
 Personnel Administration

Mr. Evans reported that in accordance with the action taken at the meeting of the Board on March 18, 1952, there had been further discussions with representatives of the Federal Housing Administration and that the Administration was entirely agreeable to the Board eliminating from Regulation W, Consumer Credit, the requirement of a 10 per cent down payment on residential repairs, alterations, and improvements.

Thereupon, upon motion by Mr. Evans, unanimous approval was given to Amendment No. 7 to Regulation W, Consumer Credit, as follows, effective March 24, 1952, with the understanding that the Federal Reserve Banks would be advised by telegram and requested to print the amendment and distribute it to interested registrants in their respective districts:

"1. By amending subsection (c) of section 3 to read as follows:

'(c) Time of Down Payment. - The down payment shall be obtained at or before the time of delivery of the listed article.'

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"2. By deleting the figure '5' following the words 'cash price' in the second sentence of subsection (d) of section 4 and the footnote to said subsection (d).

"3. By adding at the end of subsection (b) of section 6 the following new sentence:

'In the case of an instalment credit for financing the purchase of an article listed in Group D, this section 6(b) shall not be deemed to require compliance to be determined from a date in advance of completion of the agreed upon repairs, alterations, or improvements.'

"4. By changing the figure '5a' at the end of subsection (a) of section 8 to '5' and by making the corresponding change in the footnote.

"5. By inserting in the first sentence of Part 1 of the Supplement to the regulation after the phrase 'maximum loan values are prescribed', the language 'for articles listed in Group A, Group B, and Group C.'

"6. By amending the italicized caption 'Group D - 10 per cent minimum down payment, 90 per cent maximum loan value:' in Part 1 of the Supplement to the regulation to read as follows:

'Group D - No prescribed requirement as to minimum down payment or maximum loan value:'

"7. By deleting the second paragraph of Part 4 of the Supplement to the regulation."

Unanimous approval also was given to a press statement to be released in the afternoon papers of Monday, March 24, 1952, reading as follows:

"The Board of Governors announced today that effective immediately Regulation W -- Consumer Credit, no longer requires down payments in connection with home repair and modernization credits. The maximum permissible maturity for this type of instalment credit remains, however, at 36 months.

"This change is not expected to have a significant effect upon the outstanding amount of home repair and modernization credit."

The following statement for publication in the Federal Register in connection

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with the above amendment was approved unanimously:

"2. a. The above amendment to Regulation W is issued under the authority of section 5(b) of the Act of October 6, 1917, as amended, U.S.C., Title 50, App., sec. 5(b); Executive Order No. 8843, dated August 9, 1941; and the 'Defense Production Act of 1950', as amended, particularly section 601 thereof.

"The purpose of the amendment is to remove from any prescribed minimum down payment and maximum loan value any article listed in Group D of Part 1 of section 9 (the Supplement to the regulation) which covers 'Residential repairs, alterations, or improvements'.

"b. The amendment set forth herein was adopted by the Board after consideration of all relevant matter, including the recommendations received from time to time in consultations with industry and trade association representatives. Special circumstances rendered impracticable further consultation with industry representatives, including trade association representatives, in the formulation of the above amendment, especially in view of the relaxing and technical nature thereof; and, therefore, as authorized by section 709 of the Defense Production Act of 1950, the amendment has been issued without such further consultation. Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operation of the Administrative Procedure Act (60 Stat. 237), except as to the requirements of section 3 thereof."

Mr. Vardaman joined the meeting at this point.

Before this meeting there had been sent to the members of the Board copies of a memorandum prepared under date of March 12, 1952, by the Division of Personnel Administration in connection with the request made by the Presidents' Conference at its joint meeting with the Board on February 29 that the Board collaborate with representatives

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of the Conference in exploring the possibilities of providing additional allowances for retired members of the Retirement System of the Federal Reserve Banks. In amplifying the statements contained in the memorandum Mr. Allen questioned the need for providing additional benefits at this time but felt that the Board might collaborate with the Federal Reserve Banks in looking into the problem.

In the ensuing discussion the members of the Board questioned the desirability of any action on this matter at this time and it was agreed that a letter should be sent to the Presidents advising them that the Board had considered carefully the views of the Presidents with respect to the suggested study but that it was of the opinion that the study should not be undertaken at this time.

In this connection Mr. Vardaman inquired whether there were in existence at the present time any special arrangements for the employment of individuals similar to the arrangement made with Mr. Van Fossen, Assistant Director of the Division of Bank Operations, after his retirement. In response to the inquiry, reference was made to the existing arrangements for the services of consultants and to the fact that there were one or two instances of employees on extended sick leave.

Following a brief discussion of this matter, it was understood that Mr. Allen would submit to the Board promptly a report on the present arrangements with consultants to the Board and the circumstances surrounding their employment as well as any cases of

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extended sick leave or other special situations involving individual employees of the Board, and that a similar report would be made to the Board as of June 30, 1952, and the end of each quarter thereafter.

At this point Mr. Allen withdrew from the meeting and Messrs. Sherman, Assistant Secretary, and Leonard, Director, Division of Bank Operations, entered the room.

Before this meeting there had been sent to the members of the Board a memorandum prepared in the Division of Bank Operations under date of March 12, 1952 with respect to a proposed amendment to the Loss Sharing Agreement of the Federal Reserve Banks. At Chairman Martin's request, Mr. Leonard outlined the background of the proposed amendment stating that at the present time the Loss Sharing Agreement of the Federal Reserve Banks did not cover losses suffered as a result of war or war-like activities, that the proposed amendment had been drawn up after study of the matter by the Insurance Committee of the Conference of Presidents, that it had been accepted by the Conference of Presidents, and that it would cover that portion of any Reserve Bank's war loss which, when added to all previous war losses of that Bank, was in excess of \$100,000. Mr. Leonard also stated that the amended agreement would provide that any war loss which (when added to all previous war losses of all of the Federal Reserve Banks) exceeded 50 per cent of the combined section 7 surplus and contingent reserves of all Federal Reserve Banks

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would be distributed only after approval by two-thirds of the Reserve Banks and by the Board of Governors.

During a discussion of the proposed amendment, in response to questions by Mr. Szymczak, Mr. Leonard explained the general method used in allocating among the Federal Reserve Banks earnings on the System Open Market Account as well as procedures that had been followed in setting aside reserves for contingencies. During this discussion Chairman Martin suggested that Mr. Leonard present to the members of the Board at a meeting on Monday, March 31, 1952, a more detailed review of the method used in allocating earnings on the System Account.

Mr. Powell called attention to the provision in the agreement that any war risk loss which exceeded 50 per cent of combined section 7 surplus and contingent reserves should be distributed only with the approval of two-thirds of the Reserve Banks and the approval of the Board of Governors. He stated that while he would go along with this provision on the grounds that it appeared to leave some discretion to the directors of Federal Reserve Banks, he felt that, of all the types of risks covered by the agreement, war risk was the least susceptible to control by internal management and that it was not appropriate for the Reserve Banks as a group to have even a theoretical veto over the sharing of losses that might result under the war risk clause.

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Following the discussion, upon motion by Mr. Robertson, unanimous approval was given to the amendment to the Loss Sharing Agreement of the Federal Reserve Banks, with the understanding that Mr. Leach, Chairman of the Conference of Presidents, would be advised of this action in a letter as follows:

"Reference is made to the recommendation for amendment to the Loss Sharing Agreement to cover losses suffered by the Reserve Banks as a result of war or war-like activities set forth in a letter dated February 8, 1952, from the Chairman of the Insurance Committee to the Chairman of the Committee on Miscellaneous Operations, which was accepted by the Conference of Presidents held on February 27-28, 1952.

"The Board approves the enclosed amendatory agreement, which has been prepared by the Insurance Committee to reflect the action taken by the Presidents' Conference. Enclosed are copies of the amendment for submission to and execution by the Reserve Banks.

"The Board notes that if and when Congress provides for other means of war damage protection the question would again be reviewed for the purpose of considering possible further amendment of the Loss Sharing Agreement in the light of such legislation."

Mr. Powell referred to a memorandum from Mr. Leonard dated March 18, 1952, with respect to a proposal for a general study of the nation's check collection system which had been discussed briefly at the joint meeting of the Board with the Presidents of the Federal Reserve Banks on February 29, 1952. Mr. Powell stated that the recommendations of the Conference of Presidents that such a study be made had been reviewed exhaustively and that he would recommend that the Board approve the proposed study and authorize the necessary expenditures.

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There followed a discussion of the suggested study and of the composition of the committee which would undertake the task. In this connection, Mr. Leonard stated that the Presidents' Conference emphasized that the purpose of the Federal Reserve System in proposing such a study was limited to improvements of the check collection mechanism as a public service in the interests of the entire national business and financial community, and that it was not motivated by any desire to obtain increased check activity for the Reserve Banks at the expense of commercial banks or to interfere with established correspondent bank relationships. Mr. Leonard also emphasized that there could be little progress toward the desired improvement in the check collection system without the complete and sincere cooperation of commercial banks generally.

Mr. Evans commented that he felt the committee to make the study might well include a representative of the business and industrial community, and Mr. Leonard responded that the subcommittee of the Presidents' Conference had recommended that the committee consist of two members recruited from the staffs of the Reserve Banks, two members recruited from the commercial banking field, and one member with technical training and experience in comparable survey work from one of the leading industrial engineering firms, with the thought that after this special committee had been organized it might seem desirable to recruit an advisory committee of men selected from the business and industrial community.

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Mr. Mills suggested that in announcing the study it would be most helpful to transmit full information of its objectives to the banking community so as to allay any fears that it was intended to transfer more of the business of the commercial banks into Federal Reserve operations.

Mr. Powell suggested that upon approval by the Board of the study, word of such action might be communicated to Mr. Ray A. Ilg, Chairman, Committee on Correspondent Bank Relations, Association of Reserve City Bankers, with a view to informing him fully of the purposes of the study and asking his suggestions as to who might serve as a member of the committee representing the larger correspondent banks. He added that the proposed study had been mentioned informally to Mr. Ilg when he called upon Chairman Martin, Mr. Mills, and himself a few days ago.

There was general agreement that it would be desirable to inform representatives of the larger commercial banks fully of the study, but it was noted that, inasmuch as the study was a recommendation of the Conference of Presidents, it would be desirable first to communicate with Mr. Leach, Chairman of the Conference, concerning the procedure to be followed.

In response to a suggestion by Chairman Martin that Mr. Powell be designated as the member of the Board to keep in touch with the proposed study, the latter suggested that for reasons which he stated Mr.

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Mills be so designated, adding that he would be glad to assist in any way he could.

Thereupon, upon motion by Mr. Powell, unanimous approval was given to a letter to Mr. Leach, Chairman of the Conference of Presidents, as follows, it being understood that Mr. Powell would serve as an alternate to Mr. Mills in keeping in touch with the study:

"The Board is heartily in favor of a broad general study of the nation's check collection system along the lines discussed at the joint meeting of the Board and the Conference of Presidents on February 29, 1952, and is prepared to authorize appropriate expenditures for such a study as a System project.

"As emphasized in the report of the Subcommittee on Collections and in the discussions of the Presidents and the Board, the full cooperation of the commercial banks is essential for the success of such a study. The Board concurs in the proposal that the possibilities for such cooperation in a joint study be explored with representatives of the commercial banking system.

"The Board hopes that it will be made clear to the bankers with whom the proposal is discussed that the purpose of both the Board and the Federal Reserve Banks in proposing such a study is limited to improvement of the check collection mechanism as a public service in the interest of the entire national business and financial community and that the proposed study is not motivated by any desire to obtain increased check activity for the Reserve Banks at the expense of commercial banks or to interfere with established correspondent relationships.

"Because of its interest in the proposed study, please keep the Board advised as to plans for obtaining the cooperation of the commercial banks and as to other developments in the program. Governor Mills has been designated as the member to keep in touch with the project for the Board."

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, and San Francisco stating

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that the Board approves the establishment without change by the Federal Reserve Banks of Boston and St. Louis on March 17, by the Federal Reserve Bank of San Francisco on March 18, by the Federal Reserve Bank of Atlanta on March 19, and by the Federal Reserve Banks of New York, Philadelphia, and Chicago on March 20, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Messrs. Leonard and Vest withdrew, and the action stated with respect to each of 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 20, 1952, were approved unanimously.

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

"Board approves recent action taken by the Presidents' Conference concurring in the recommendation of the Committee on Miscellaneous Operations and the Subcommittee on Cash, Leased Wire and Sundry Operations that the Federal Reserve Leased Wire System not be available on Saturdays since there is not much business on Saturdays and other means of wire communication are available at some saving in expense. Board also approves suggestion of Subcommittee that main line leased wire service be discontinued beginning April 5, 1952 and each Saturday thereafter."

Approved unanimously.

Letter to Mr. Ueland, Vice President and Counsel, Federal Reserve Bank of Minneapolis, reading as follows:

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"This refers to your letter of February 27, 1952 with which you enclosed a copy of a letter received from The Midway National Bank of St. Paul, dated February 26, 1952, concerning the question whether a proposed certificate of deposit form which the bank desires to use would be in conformity with Regulation Q.

"As we understand the proposed certificate of deposit form, it provides for renewal periods of six months up to a maximum period of two years with an increasing interest rate depending upon when the certificate is paid. If the certificate is paid after six months, the interest rate is 1 1/2 per cent; after one year the rate is 2 per cent; after a year and a half, 2 1/4 per cent; and after two years, 2 1/2 per cent. In other words, if a \$1,000 certificate is paid after six months, the payment will be \$7.50; after one year, \$20; after a year and a half, \$33.75; and after 2 years, \$50.

"If, as suggested in your letter, such a certificate is construed as meaning that the increased amount of interest payable at the end of each semiannual period is allocated only to that period, the amount payable between the twelfth and eighteenth months would be \$13.75, and the amount payable between the eighteenth and twenty-fourth months would be \$16.25, thus resulting in payment for both periods of interest at a rate in excess of the maximum rate of 2 1/2 per cent per annum. On the other hand, as your letter recognizes, the certificate may be construed as providing for payment of interest at an increasing rate, depending upon when the deposit is withdrawn, but with allocation of such interest over the entire period since the date of issuance of the certificate; and, on this basis, interest payable on the deposit if withdrawn on any semiannual date would not exceed the rate permitted by Regulation Q.

"While the question is, of course, debatable, the Board believes that the certificate may properly be construed as last suggested. In principle, if not in form, the certificate here involved is similar to the form of certificate approved by the Board in the 1948 ruling (F.R.L.S. #6284) referred to in your letter, since under that form of certificate the increase of interest during the fifth year, if allocated only to that year, would have

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"been \$45 on a \$1,000 certificate. Accordingly, the Board would not be disposed to raise objection to the use by a member bank of a certificate in the form enclosed with your letter."

Approved unanimously.

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

"As you know, all 'S' letters relating to Regulation W are assigned 'W' numbers. Some of these letters carry notations limiting the use of the particular letter as explained in numbered paragraphs 2 and 3 of S-1155 (W-79), October 9, 1950.

"In accordance with numbered paragraph 3 of W-79, letters carrying the notation 'For use of Reserve Bank personnel only' have not been summarized for inclusion in the Regulation W Service. We believe that the omission of summaries of these letters from the Service has been the source of some confusion, largely because of an understandable tendency to regard the Service as containing summaries of all 'S' letter interpretations under the regulation.

"We are now undertaking to summarize the Regulation W interpretations issued since September 18, 1950, which are currently in effect and which carry the notation 'For use of Reserve Bank personnel only'. This summarized interpretative material will be contained in a new division of the Regulation W Service which will follow the style employed in the present division of the Service devoted to published interpretations and interpretations carrying the notation 'Substance of this letter for use of Reserve Bank personnel and cooperating agencies only'. However, this new division for the Service, appropriately labeled, will be distributed only to the Reserve Banks for insertion in those copies of the Service used by Reserve Bank personnel. This new material will not be distributed or made available to cooperating agencies.

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"The Regulation W Service is not always completely up-to-date because it is not possible to make immediate revision or addition each time a new interpretation is issued by the Board. This means, of course, that there usually are varying numbers of current materials which are not in a form suitable for insertion in the Service.

"In order further to improve the usefulness of the Regulation W Service to the Reserve Banks, all S-letter interpretations under the regulation issued subsequent to S-1437 (W-183), March 4, 1952, will be reproduced on pages properly punched and otherwise suitable for insertion in the Service under a new division entitled 'Current Materials'. Copies of each interpretation subsequent to W-183 will be distributed in this form to the Reserve Banks only as soon as possible after the issuance of the interpretation by the Board. If this arrangement should result in the need by your Bank for fewer copies of current interpretations in the present mimeographed form, we would appreciate being notified of the reduced number to fulfill your requirements."

Approved unanimously.

Letter to Mr. Wotawa, Vice President, Federal Reserve Bank of St. Louis, in regard to the matter of Howard Stubblefield and Robert Way, doing business as S & W Distributing Company, Springfield, Missouri, a registrant under Regulation W, Consumer Credit, reading as follows:

"Reference is made to your letter of February 8, 1952, regarding the above matter.

"The Board concurs in the recommendation of your bank that proceedings be instituted to obtain an injunction (by consent or otherwise) restraining the two partners from further violations of Regulation W."

Approved unanimously.


Secretary.