

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, March 27, 1952.

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

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 March 26, 1952, were approved unanimously.

Telegram to Mr. Aksel Neilsen, President, Title Guaranty Company, Denver, Colorado, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Denver Branch of the Federal Reserve Bank of Kansas City for unexpired portion of term ending December 31, 1953, and will be pleased to have your acceptance by collect telegram.

"It is understood that you are not a director of a bank and do not hold public or political office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Kansas City."

Approved unanimously.

Letter to Mr. Jesse B. Messitte, Division Counsel, Services, Export-Import Division, Office of Price Stabilization, Washington, D. C., reading as follows:

"This refers to your letter of March 6, 1952, in reply to the Board's letter of August 27, 1951, regarding the procedure to be followed under regulations of your

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"Office when a bank desires to be added to the Federal Reserve par list and to substitute service charges for exchange charges previously made by such bank. Your letter indicates that you contemplate issuing supplementary regulations with respect to this matter and, while not entirely clear, it is understood that you also have in mind the establishment of procedures for the determination of bank service charges generally.

"As you know, exchange charges are charges made by some banks in a few sections of the country against the holders of checks drawn on such banks when presented for payment through the mails, and banks which make such charges are known as nonpar banks. On the other hand, service charges are charges generally made by banks against their own depositors for services rendered by the banks in the handling of their depositors' accounts. Accordingly, it is apparent that service charges cover a service of a kind different from that for which exchange charges are imposed and it is suggested, therefore, that when a bank substitutes service charges in lieu of exchange charges, it may be regarded as rendering a new service within the meaning of section 6 of your Office's Regulation CPR 34.

"As indicated in the Board's previous letter, banks which make exchange charges are not eligible for the Federal Reserve par list or for membership in the Federal Reserve System, and the Board is, therefore, interested in the adoption of any procedures by your Office which would facilitate the substitution of a system of service charges in lieu of exchange charges by banks wishing to be added to the par list. However, the Board believes that the determination of fair and equitable price ceilings in connection with the establishment of bank service charges is a matter which might best be worked out in consultation primarily with representatives of bank groups, such as the American Bankers Association. At the same time, the Board and the Federal Reserve Banks will be glad to cooperate in any way possible, either by participating with your Office and banker representatives in discussions of the subject or in reviewing and commenting on regulations drafted as a result of discussions between your Office and banker representatives.

"We have recently been advised of another case in which a bank desiring to institute service charges is anxious to learn the procedure which should be followed. Other cases of this kind will undoubtedly arise. The Board hopes, therefore, that

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"a determination of this matter may be reached at an early date."

Approved unanimously, together
with the following letters:

Letter to Mr. Cook, Vice President and Cashier, Federal Reserve Bank of Dallas

"This refers to your letter of March 6, 1952 concerning the request of the Citizens State Bank, Somerville, Texas for assistance in securing a revision of its service charge schedule. For your information, the Office of Price Stabilization advised the Board on March 6, 1952 that it intends to issue supplementary regulations specifically providing for ceiling price adjustments incident to conversions from exchange charges to service charges and has requested suggestions and cooperation with respect to the drafting of such regulations. We are enclosing a copy of the Board's reply to this request.

"In view of these changed circumstances, we do not believe it advisable to submit questions for interpretation to the Office of Price Stabilization at this time, inasmuch as we expect the supplementary regulations to answer such questions. You will be advised of any subsequent action."

Letter to Mr. F. W. Bunday, Cashier, Farmers & Merchants Bank, Wessington Springs, South Dakota

"With further reference to your letter of August 13, 1951 and our reply of August 27, 1951, we are enclosing for your information copies of correspondence between the Office of Price Stabilization and the Board of Governors concerning proposed regulations for the establishment of procedures to determine the price ceilings for bank services."

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

follows:

"The Board's letter of January 18, 1952, S-1430 (W-179) outlines certain principles as the basis for the Regulation W compliance and enforcement programs. Under paragraph 6,

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"reference is made to the possible creation of a revolving committee of Reserve Bank personnel to work out standards of general application.

"This suggestion was discussed at each of the four Inter-Bank Conferences recently concluded and the reaction of most of the Reserve Banks was generally favorable to having such a committee established, at least on an experimental basis. Although the committee was mentioned in the Board's letter chiefly in connection with the particular problem of first offenders, it seemed to be the feeling of most of the Reserve Banks that such a committee operating as a continuing organization could contribute toward more effective administration of the Regulation generally.

"Accordingly, the question was discussed with the Presidents of the Federal Reserve Banks when they met with the Board on February 29, and it was indicated that each Reserve Bank would appoint one representative to serve on such a committee. From this group, we would select a small ad hoc steering committee to consider the further question of committee organization, various areas that might receive the attention of the committee, and the like. Although a majority of the problems having to do with enforcement of and compliance with the selective credit regulation may be expected to arise in connection with Regulation W, it is believed that one committee should be sufficient to consider matters that may develop under either that Regulation or Regulation X.

"It will be appreciated if you will let us know who will represent your bank so that the ad hoc committee may be established as soon as possible. This group may wish to consult with Reserve Banks not represented thereon, but it is contemplated that initially it will submit its suggestions to the Board for consideration. In any event, you will be kept informed and we shall appreciate any suggestions you may care to make concerning the organization and possible usefulness of the proposed committee."

Approved unanimously.

Letter to the Honorable Milton R. Young, United States Senate,
Washington, D. C., reading as follows:

"This refers to your letter of March 11, 1952, addressed to Chairman Martin in which you ask the Board to give consideration

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"to extending the maximum maturity provided under Regulation W--Consumer Credit--to 24 months for automobiles. You point out that a number of automobile dealers in North Dakota, in requesting this relaxation, claim that the present regulation penalizes those in the lower-income brackets because of their inability to stretch their payments over a longer period.

"Although Regulation W naturally must have some restrictive effect on instalment credit if it is to be successful in helping to curb inflation, the Board's studies indicate that the regulation has not unduly limited instalment sales of automobiles or other articles. While we do not mean to question in any respect, the sincerity of the automobile dealer or finance companies that claim that Regulation W discriminates against the lower-income groups, it must be remembered that they naturally are interested in expanding their credit business, particularly at a time like the present when increased prices add to the difficulty of expanding sales.

"Very few complaints are received from the consumers who are said to be discriminated against. The Board's surveys have shown that most consumers who know about the regulation approve of it. It is, of course, the lower-income and fixed-income consumer who tends to have his savings in insurance, savings accounts, savings bonds, all of which are assets fixed in dollar amount, who is hurt most by the inflationary effects of the unrestrained expansion of instalment credit.

"Surveys in pre-World War II as well as postwar periods show that people with lower incomes typically buy used cars rather than new cars. Good postwar used cars are now available for instalment payments of less than \$50 a month under the present terms of Regulation W. Even in the case of more expensive cars, the monthly instalment payments can always be reduced if the consumer will accumulate savings for a few months in order to make a larger down payment. It is clear, of course, 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's studies indicate that the decline in automobile demand in the past year has reflected primarily a reduction in cash sales and that the regulation has curbed outstanding instalment credit by accelerating repayments rather than by unduly restricting credit sales. The total number of automobile instalment sales, including both new and used cars, was larger in 1951 than in 1950; for new cars

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"alone, cash sales declined more in 1951 than did instalment sales. While new automobile sales decreased about 20 per cent in 1951, compared with 1950, the proportion of sales made on a credit basis increased from 46 per cent in 1950 to 48 per cent in 1951; in the five months, August through December 1951, the proportion has averaged nearly 60 per cent, which is higher than the ratio in most prewar years.

"Regulation W, as you know, is but one of the measures directed toward protecting the purchasing power of the dollar which, as previously noted, helps particularly the low and fixed-income groups. Although there recently has been a comparative balance between inflationary and deflationary forces in the economy as a whole, the prospect for a heavy Federal deficit later this year, and the possibility of renewed waves of inflationary buying, in the Board's opinion, require the maintenance of effective credit restraints in the public interest at this time.

"We appreciate having this opportunity to comment on the claim that the regulation penalizes the people with smaller incomes. You may be sure that the terms of Regulation W will be considered carefully in the Board's continuing study of the effects of consumer credit regulation."

Approved unanimously, with a
copy to the Honorable William Langer,
United States Senate, Washington,
D. C.

Letter to the Honorable Guy M. Gillette, United States Senate,
Washington, D. C., reading as follows:

"This refers to your letter of March 11, 1952, addressed to the Chairman, in which you request the Board to re-examine its limitations on automobile consumer instalment credit under Regulation W, in view of the current market situation.

"The Board is watching developments in the markets for automobile and other consumer durable goods closely and recognizes that there has been a considerable decline in demand in these markets compared with the high peaks reached a year ago. At the same time there has been some easing of materials supplies, especially steel, aluminum and lead,

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"although the continuing shortage of copper still seems likely to be a limiting factor on automobile output for some time to come. Some major appliances are now selling at prices which compare favorably with pre-Korean levels but automobiles have continued to increase in price. If we consider the price of a typical low price sedan in 1940 as 100, the price in 1950 was 196 and the price today is 225.

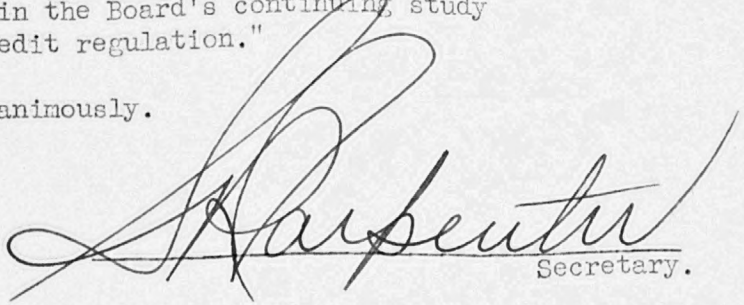
"Meanwhile, it appears that automobile sales generally have been more or less in balance with production, since dealers' inventories of new automobiles, as a whole, have remained at comparatively low levels in recent months. Some seasonal increase in automobile demand normally occurs in the spring. With production still curtailed by material shortages and heavy defense expenditures expected to maintain purchasing power at high levels, there would seem to be relatively little prospect of any considerable deflation developing in the automobile field over the immediate future.

"The Board's studies indicate that the decline in automobile demand in the past year has reflected primarily a reduction in cash sales and that the regulation has curbed outstanding instalment credit by accelerating repayments rather than by unduly restricting credit sales. The total number of automobile instalment sales, including both new and used cars, was larger in 1951 than in 1950; for new cars alone, cash sales declined more in 1951 than did instalment sales. While new automobile sales decreased about 20 per cent in 1951, compared with 1950, the proportion of sales made on a credit basis increased from 46 per cent in 1950 to 48 per cent in 1951; in the five months, August through December 1951, the proportion has averaged nearly 60 per cent, which is higher than the ratio in most prewar years.

"Regulation W, as you know, is but one of the measures directed toward protecting the purchasing power of the dollar. Although there recently has been a comparative balance between inflationary and deflationary forces in the economy as a whole, there is the prospect for a heavy Federal deficit later this year, and renewed waves of inflationary buying are possible.

"We appreciate having this opportunity to comment on the points you raise and assure you that the terms of Regulation W will be considered carefully in the Board's continuing study of the effects of consumer credit regulation."

Approved unanimously.


Secretary.