

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 1, 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. Vardaman
Mr. Powell
Mr. Mills
Mr. Robertson

Following the executive session the Chairman advised the Secretary that during the executive session the following actions were taken:

Consideration was given to alternative drafts of a letter to the Bureau of the Budget reporting on a draft bill to provide national flood insurance. One draft would take the position that some form of insurance against flood damage was sound in principle since it was unlikely that private capital would flow into this particular field in sufficient amount to provide the protection needed. The other draft would express no opinion as to the merits of the proposed plan. Otherwise the two drafts were substantially the same.

Unanimous approval was given to the second alternative draft, reading as follows:

"This is in response to your letter of March 18, 1952 to the Chairman of the Board requesting a report on a draft bill 'To provide for National Flood Insurance, and for other purposes.'

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"It is declared to be the purpose of the draft bill to provide direct governmental insurance against certain flood risks or to make such insurance available through private insurance companies by means of governmental reinsurance. The losses to be insured against include those resulting from damage to or loss of real or personal property, including that owned by State and local governments, and losses resulting from business interruption. A limit of \$250,000 is fixed on the amount of insurance or reinsurance which may be issued in favor of any person, State or local government and the aggregate insurance or reinsurance against losses resulting from business interruption may not exceed \$100 per week.

"This National Flood Insurance plan is to be administered by the Reconstruction Finance Corporation which is authorized to prescribe premium rates and determine the areas within which such rates shall be applicable. The rates, however, are to be fixed so as to cover adequately all administrative and operating expenses as well as reserves for losses.

"While the Board expresses no opinion as to the merits of the plan proposed in the draft bill, it is suggested that, in the event such a plan is given favorable consideration, the reinsurance feature should be given considerably more emphasis. Perhaps it would be desirable to include in the draft a clear statement to the effect that it is the policy of Congress that reinsurance through private companies should be utilized to the full extent possible and that direct government insurance should be provided only when necessary to supplement the reinsurance program.

"You have requested comments particularly on section 4(b) of the draft which requires that agencies of the Federal Government engaged in providing financial assistance, whether in the form of direct loans or otherwise, for the construction, modernization, repair, or purchase of property eligible for insurance under the draft bill shall require as a condition for any future financial assistance that the property be insured against flood damage. While the Board considers that this requirement may be desirable as a general principle, there may be situations where it would not be feasible. It is therefore suggested that the section be amended so as to require, in the circumstances mentioned, that the property be insured against flood damage 'insofar as practicable'. Whether or not this suggestion is adopted, however, it would appear that the interest of the government might be protected

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"more fully if the bill specifically provided that the obligation of the borrower under the loan agreement would not be affected by a failure, for whatever reason, on the part of the government lending agency to require that the property be insured against flood damage."

Following consideration of what should be the policy with respect to attendance by members of the Board's staff at the annual convention of the American Bankers Association, there was unanimous agreement that members of the staff should not attend the convention unless they are invited to speak or to attend for some special purpose in connection with the program of the convention.

Consideration was given to further information given by President Johns, of the Federal Reserve Bank of St. Louis, in telephone conversations with Mr. Powell since the meeting of the Board on March 18, 1952 regarding developments in connection with the Southwest Bank of St. Louis, St. Louis, Missouri, a member bank. The substance of the telephone conversations is contained in memoranda addressed to Chairman Martin by Mr. Powell under date of March 21 and 26, 1952.

It was understood that Mr. Johns would like to come to Washington for a first-hand discussion of the matter with the Board and it was agreed unanimously that he should be invited to meet with the Board at 10:30 a.m. on Tuesday, April 8, 1952, if it was found to be convenient for him to come to Washington at that time.

Mr. Powell informed the Secretary following the executive session

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that in addition to the matters referred to above unanimous approval was given to a letter to the Attorney General of the United States reading as follows, as well as a similar letter to the Chairman of the Federal Trade Commission:

"This refers to the Program for Voluntary Credit Restraint formulated under the provisions of section 708 of the Defense Production Act of 1950 and the Request of the Board to financing institutions to act in accordance with the Program, which you approved in letters dated March 9, 1951, and April 18, 1951.

"There is enclosed herewith a copy of a letter sent by the President on March 24, 1952, to the Director of Defense Mobilization, requesting him to undertake the necessary steps to remove from the restrictions of the credit restraint program the financial actions of State and local governments, together with a letter in this connection dated March 28, 1952, from the Director of Defense Mobilization to the Chairman of the Board of Governors of the Federal Reserve System. The national Voluntary Credit Restraint Committee considered these letters at a meeting on March 28, 1952, and suggested to the Board of Governors for consideration an amendment to the Program reading as follows:

'At the end of the sentence in the Statement of Principles which commences with the words "This Program would not seek to restrict * * *", add an asterisk with a footnote reading as follows: "In accordance with the request of the President transmitted to the Defense Mobilization Director on March 24, 1952, the Program will not seek to restrict, and will not apply to, the financing of or loans to States or local governments including counties, municipalities, districts or other political subdivisions."

"The Board has approved the amendment to the Program above set forth and is prepared, as provided in section 708 of the Defense Production Act of 1950, to find that the Program as thus amended is in the public interest as contributing to the national defense. For your convenient reference a copy of the Program, showing the change which would be made

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"by this amendment, is enclosed herewith.

"As required by the provisions of section 708(c) of the Defense Production Act, the Board is now consulting with you, through the medium of this letter, with regard to the provisions of the Program as thus amended, the proposed finding by the Board that the Program as thus amended is in the public interest as contributing to the national defense, and the proposed Request to be made by the Board to financing institutions to act and to refrain from acting pursuant to the Program as thus amended. The Board is consulting in like manner with the Chairman of the Federal Trade Commission.

"The purpose of the Voluntary Credit Restraint Program as now existing and as amended is to assist in restraining inflationary pressures. The purpose of the Program was more fully discussed in our letters of February 5 and February 16, 1951, addressed to you on this subject.

"There is enclosed herewith a proposed Request to all financing institutions in the United States that they act and refrain from acting pursuant to and in accordance with the Program as amended. This Request, which is a modification of the Request approved on March 9, 1951, and again on April 18, 1951, is intended to be within the coverage of section 708 of the Defense Production Act. It will be appreciated if you will advise whether you approve the enclosed Request.

"If you approve the new Request which is enclosed, the Board will make such Request not less than ten days after the date of this letter and a copy will be published in the Federal Register. A copy of the new Request when made, together with a copy of the new finding of the Board, will be furnished to you and to the Chairman of the Federal Trade Commission."

The following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 31, 1952, were approved unanimously.

Memorandum dated March 13, 1952, from Mr. Sloan, Director, Division of Examinations, recommending that Dorothy L. Saunders, Stenographer in the Division of Administrative Services, be

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transferred to the Division of Examinations as Secretary to Mr. Nelson, with an increase in her present basic salary from \$3,495 to \$3,660 per annum, effective as of the date she assumes her new duties. The memorandum also stated that the Division of Administrative Services was agreeable to this transfer.

Approved unanimously.

Letter to Mr. Neely, Federal Reserve Agent, Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of March 27, 1952, the Board of Governors approves the payment of salary to Mr. O. W. Hammond, Alternate Assistant Federal Reserve Agent, at the rate of \$4,450 per annum, effective April 1, 1952."

Approved unanimously.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the request contained in your letter of March 28, 1952, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of St. Louis:

Raymond F. Fendler	James H. Donahue, Jr.
Leroy W. Siddall	Leo G. Floyd
Alfred C. Kearschner	Hubert W. Lowry
Eugene B. Crowe	Garland H. Parsell
Chas. P. Corrigan	Howard S. Sebree"

Approved unanimously.

Telegram to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

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"Reurtel March 31. Board approves designation of John D. Deets as special assistant examiner for Federal Reserve Bank of Kansas City."

Approved unanimously.

Letter to Mr. Pondrom, Vice President, Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of March 18, 1952, submitting the proposal of the State Bank and Trust Company, San Marcos, Texas, to retire its RFC debentures totalling \$39,300 and in lieu thereof to increase its common capital by \$25,000 through payment of a stock dividend. The plan also provides for an increase in the bank's certified surplus from \$15,700 to \$75,000 by transferring \$59,300 from its undivided profits and reserves.

"The proposal would result in a net decrease in the bank's capital below the amount required for the organization of a national bank in San Marcos and the Board has previously ruled that such action would constitute a violation of the technical requirements of the Federal Reserve Act, for which the bank's membership might be forfeited (F.R.L.S. #3453).

"It is noted that under the Texas statutes, certified surplus may not be reduced without the prior written consent of the Banking Commissioner except to absorb losses in excess of undivided profits and uncertified surplus. Therefore, you feel that certified surplus might well be considered a portion of the basic capital of the bank and this view is concurred in by the Commissioner of Banking. The Board is of the opinion that regardless of these restrictions upon the use of certified surplus it does not qualify as capital within the meaning of section 9 of the Federal Reserve Act.

"However, it is also noted that you feel that favorable consideration should be given to the bank's proposal in view of its satisfactory condition, excellent management, good earnings and retention thereof. In the circumstances and in view of the fact that the bank's capital and certified surplus would be increased in the aggregate to an amount which is substantially larger than the increase in capital necessary to meet the statutory requirements, the Board will interpose no objection to the proposed retirement of capital

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"debentures under the plan as submitted, except that, in accordance with your recommendation, no part of the bank's valuation reserves against specific assets shall be reinstated in its capital structure.

"The Board's action in this case is, of course, not intended to establish a precedent. Similar cases arising in the future should be presented to the Board for action on the basis of the facts and circumstances of each case."

Approved unanimously.

Telegram to Mr. Earhart, President, Federal Reserve Bank of San Francisco, reading as follows:

"Reurlet March 27 re Umatilla burglary. As indicated to O'Kane in telephone conversation, we are not in a position to handle matter through Department of Justice, but there is no objection to your counsel taking matter up with the United States Attorney in Portland if you so desire."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Blair Moody, United States Senate, Washington, D. C., reading as follows:

"This is in reply to your letter of March 23 in which you urge the Board to amend Regulation W to permit a down payment of 25 per cent and instalment payments extending over 24 months for automobiles.

"The Board has been following developments in the automobile market very closely in recent weeks in an effort to determine whether some relaxation in terms is indicated at this time. We have conferred, in this connection, with representatives of both automobile manufacturers and dealers and have studied very closely the information available on sales and inventories as well as survey data on consumer preferences and attitudes.

"With respect to the down payment we have received no indication from manufacturers or dealers that a down payment of less than 33-1/3 per cent should be specified in the regulation. Credit granting institutions generally have required a one-third down payment even in periods when consumer

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"instalment credit was not regulated and, while individual transactions have taken place at lesser down payments, the trade opinion expressed to us has been that to specify a lower down payment would promote unsound credit practices.

"There is no question but that persistent increases in the price of automobiles, as well as other prices, have worked a severe hardship on low income groups and especially on those segments of the population which are dependent on relatively fixed incomes. New car prices have more than doubled since 1940 and have increased by about 15 per cent since the fall of 1950. Even in recent months, when other prices have shown some tendency to stabilize or even to decline, automobile prices have continued upward. To attempt to meet or remedy such a situation by permitting, or even encouraging, longer maturities on instalment credit loans would be contributing to, rather than restraining, further upward pressures on automobile prices. Therefore, increased prices do not appear to be a valid basis for extending maturities. Furthermore, it must be recognized that extended maturities increase rather than decrease the ultimate cost of transportation to the consumer.

"On the other hand we recognize that there are valid arguments for not specifying terms which are so restrictive as to prevent the available supply of new automobiles from moving freely through the market into the hands of consumers and for this reason we watch carefully the data available to us on dealers' inventories of both new and used cars. If the information has not already come to your attention you may be surprised to know that the Automotive News report on dealer inventories on new cars for March 1 showed these inventories to be the lowest at any time since the end of World War II. Other reports confirm that there is no accumulation of new cars in dealers' stocks at the present time.

"While we agree with you that privately-owned automobiles are a vital part of the transportation system of our country, there is no evidence that Regulation W has reduced the availability of automobiles generally. Along the same line, we have never been able to develop any convincing evidence that Regulation W affects the age distribution of automobiles by income group. Whether Regulation W is tight or loose, or in effect at all, available data indicate that new automobiles are generally purchased by middle and higher income families while lower income families generally buy used cars. In the

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"final analysis it is the price system which rations automobiles on the basis of ability to pay and not on the basis of need. Quite apart from whether that is a good thing or a bad thing, Regulation W terms cannot alter the situation substantially.

"There are some indications that the market for automobiles may be somewhat weaker in 1952 than in previous post-war years as the season progresses. The trade is generally agreed that it is very difficult to judge the strength of the automobile market until information is available on at least a part of the spring buying season. If there are indications that the terms presently specified by Regulation W are unduly or unnecessarily restrictive as the season develops, we are prepared to extend maturities beyond the present limits, but, quite frankly, we do not feel that an objective appraisal of the situation at the present time justifies such action.

"We appreciate very much your thoughtful analysis and recommendation. Our view of the matter differs from your perhaps only importantly in the matter of timing. Governor R. M. Evans, the Board Member who has immediate responsibility for Regulation W, and the staff who follow developments in the market for automobiles and other durable goods on a day-to-day basis will be glad to make themselves available to consult with you at any time if you desire."

Approved unanimously.



Secretary.