

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, May 6, 1952. The Board met in the Board Room at 3:00 p.m.

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

Mr. Carpenter, Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation

Chairman Martin stated that this meeting had been called to give further consideration to what, if any, action the Board should take at this time with respect to Regulation W, Consumer Credit, and Regulation X, Real Estate Credit. In this connection, he referred to the discussion of consumer instalment credit at the meeting of the Conference of Chairmen of the Federal Reserve Banks with the Board of Governors this morning and the views expressed by some of the Chairmen that Regulation W should be suspended. Chairman Martin also said that he had not been able to discuss the matter with the Office of Defense Mobilization but would do so as soon as he could get in touch with Mr. Steelman, Acting Director.

5/6/52

-2-

In the ensuing discussion, Governor Evans stated that if the decision were left to him, he would take the conservative approach and not suspend Regulation W at this time because of the possibility that it might be necessary to reinstate it later this year, but would relax the terms by fixing the maximum maturity on automobiles at 24 months and reducing the down payment on Group B and C items to 10 per cent. Another reason for such action, he said, was that if the regulation were suspended entirely it would not be possible, as a practical matter, to proceed with the cases on which enforcement actions had been instituted or were contemplated. He said, however, that if it were the opinion of the other members of the Board that the regulation should be discontinued he would join in the action to suspend.

In order to get the matter before the Board, Governor Robertson moved that, in the absence of objection from the Office of Defense Mobilization, Regulation W be suspended, effective May 7, 1952.

Governor Mills felt that, because of the uncertainty created by the steel situation and the oil strike, it might be preferable to postpone action on Regulation W for a week in order to observe developments in the national situation.

Governor Evans suggested that if action were taken to suspend Regulation W, similar action be taken with respect to Regulation X.

5/6/52

-3-

This suggestion was discussed but it was the consensus of the members of the Board that the situation in the housing field was entirely different from conditions relating to instalment credit, that, therefore, action with respect to Regulation X should be postponed, and that the Board should meet with Mr. Foley, Housing and Home Finance Administrator, before any decision was reached as to action on Regulation X. It was understood, however, that Mr. Noyes would prepare a memorandum outlining the alternative actions that might be taken by the Board in the event it should decide to relax Regulation X, and Chairman Martin stated that he would get in touch with Mr. Foley and undertake to arrange for him to meet with the Board, if possible on Thursday of this week, for a discussion of the whole matter.

Governor Vardaman stated that he would be absent when further consideration was given to action on Regulation X and that he would wish to be recorded as favoring the action decided upon by a majority of the Board after consultation with Mr. Foley.

At the conclusion of the discussion, Governor Robertson's motion with respect to the suspension of Regulation W was put by the Chair and carried unanimously with the understanding that if objection should be interposed by the Office of Defense Mobilization to suspension of the regulation, the matter would be considered by the Board again but that otherwise the action would become effective, a statement covering the

5/6/52

-4-

action would be given to the press in a form satisfactory to Chairman Martin, and a wire would be sent to the Federal Reserve Banks transmitting a copy of the press release and asking them to inform all interested parties in their respective districts of the suspension of the regulation.

Secretary's Note: Following the meeting, Chairman Martin advised that the Office of Defense Mobilization favored suspension of the regulation and, in accordance with the above action, the following statement was given to the press on Wednesday, May 7, for immediate release:

"Effective immediately the Board of Governors has suspended Regulation W relating to consumer instalment credit.

"This action was taken after careful review of developments in the economy generally and in the markets directly affected by the regulation. The Board has recommended to the Congress that authority for the regulation of consumer credit be continued after June 30 so that it could be reinstated should subsequent developments necessitate such action."

Following release of the above press statement, a statement was sent to the Federal Register reading in part as follows:

"2. a. The suspension of Regulation W was 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.

"b. The suspension of Regulation W 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. Section 709 of the Defense Production Act of 1950 provides that the functions exercised under

5/6/52

"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."

Reference was then made to the informal discussions which members of the Board had had recently with respect to policy and procedure in connection with the investment of funds of the Retirement System of the Federal Reserve Banks and to a memorandum dated April 29, 1952 from Governors Powell and Mills on that subject.

Governor Vardaman stated that he had read the memorandum, that he would be away when it was considered by the Board, and that he would like to be recorded as voting "no" on the recommendations contained in the memorandum. The reasons for his position, he said, were (1) that he did not believe the Retirement System should employ a trust company to handle investments but should have the benefit of the services of an investment specialist, (2) that if the present investment policy were to be continued and the System was to be operated as a private trust, notice should be given to all members of the Retirement System that there was no guarantee of the benefits provided by the System, and (3) that if the benefits were to be guaranteed, investments should be confined exclusively to Government securities.

At this point all of the members of the staff with the exception of Mr. Carpenter 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 May 5, 1952, were approved unanimously.

5/6/52

-6-

Memorandum dated May 2, 1952, from Mr. Marget, Director, Division of International Finance, recommending that the resignation of Albert O. Hirschman, Chief, Western European and British Commonwealth Section in that Division, be accepted to be effective in accordance with his request at the close of business May 9, 1952.

Approved unanimously.

Memorandum dated April 28, 1952, from Mr. Marget, Director, Division of International Finance, recommending the appointment of Stephen Harvey Axilrod as Economist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$4,580 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in your letter of May 1, 1952, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of New York:

Theodore J. Busch	Sydney L. Henning
Harry A. Curth, Jr.	Raymond A. Metz
Franklin E. Daigler	Calvert Niederpruem"
John M. Hailand	

Approved unanimously.

5/6/52

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

"Reference is made to your letter of April 28, 1952, enclosing a certified copy of a resolution adopted by the board of directors of The Citizens and Southern Buckhead Bank, Atlanta, Georgia, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal. It is understood that the bank has applied to the Federal Deposit Insurance Corporation for continuance of insurance of its deposits.

"In view of your recommendation the Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to The Citizens and Southern Buckhead Bank, Atlanta, Georgia, you are authorized to cancel such stock and make appropriate refund thereon. Under the provisions of the Board's letter of February 19, 1937, (F.R.L.S. 3548) the bank may accomplish the termination of its membership at any time within four months of the date of this letter. If a longer period is required, the bank should request an extension of time. Please advise when cancellation is effected and refund is made.

"The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective.

"It is noted that the bank is withdrawing because it plans, eventually, to merge with The Citizens and Southern Bank of Atlanta, which is a nonmember insured bank, so that its activities and operations may be made uniform with other State bank affiliates of The Citizens and Southern National Bank."

Approved unanimously.

5/6/52

-8-

Letter to Steptoe & Johnson, Attorneys at Law, Shoreham Building, Washington, D. C., reading as follows:

"This refers to your letter of April 28, 1952, concerning the possible application of the present credit regulations of the Board to the Employees' Stock Purchase Plan proposed by your client, The Chesapeake and Ohio Railway Company. A draft of the Plan proposed for adoption by the Company was enclosed with your letter.

"Under the proposed Plan, which will be administered for the Company by a Committee designated by the Company's Board of Directors, it appears, briefly, that 300,000 shares of authorized but unissued common stock of the Company will be made available in units of 10 shares each for purchase at market price on an instalment basis by certain employees of the Company. Such employees may participate in the Plan through payroll deduction authorizations or, in certain cases, by an undertaking calling for monthly payments in cash. While the shares of stock purchased under the Plan would be registered in the name of the participating employee who would be entitled to vote the stock, generally his rights under the Plan would not be transferable and any cash dividends would be credited to the unpaid balance of the employee's stock purchase account against which the stock would be held as collateral. It also appears that no charge by way of interest or otherwise would be made against a participating employee, and that any such employee would have the right to withdraw from the Plan and receive back any partial payment toward the purchase of stock which, in such an event, would revert to the Company.

"In your letter you stated that the Company will carry the financing of the Plan itself. It is assumed, therefore, that the execution of the Plan would involve no bank financing, such as the purchase or discount by a bank of the obligations of the participating employees.

"On the basis of the facts presented it does not appear that the Plan would be subject to any credit regulations issued or administered by the Board, including Regulations T and U, relating to credit for purchasing or carrying

5/6/52

-9-

"securities, and Regulation W, relating to extensions of instalment credit.

"You will understand, of course, that the foregoing should not be regarded as any expression of views concerning the status of the Plan under statutes or regulations not administered by the Board, and it is noted that adoption of the Plan is conditioned upon the necessary approvals from appropriate Government agencies."

Approved unanimously.

Letter to The Honorable Chester B. McMullen, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of April 23, 1952, with the attached letter dated April 11, 1952, from W. V. Meredith of the Board of Education of the Florida Conference of the Methodist Church, Lakeland, Florida, respecting the application of Regulation X, Real Estate Credit, to credit extended with respect to the construction of an office building.

"Subsection 2(r)(3) of Regulation X specifically excludes churches and schools from the definition of nonresidential structure and, therefore, removes such buildings from coverage by the regulation. Based on the information presented in the subject letter, the planned office building for the Board of Education would be the headquarters for planning, organizing, and administering the Church's religious and educational programs and activities with only one room to be devoted to group meetings. An office building of this type for administration is neither a church nor a school, and, therefore, is a non-residential structure subject to Regulation X.

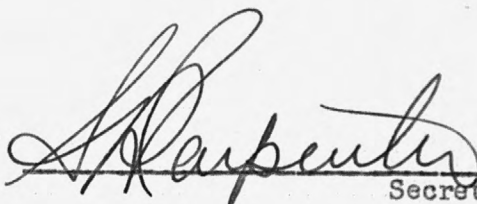
"Under the regulation, the maximum loan value of such a nonresidential property is 50% of the appraised value of the land and building as determined by the Registrant (lender subject to the regulation) who extends the credit. In addition, the credit must have a maturity of not more than 25 years and be amortized by regular periodic payments of principal and interest or principal.

5/6/52

-10-

"The statements made in this letter are predicated on data and facts given in the Board of Education's letter. If there are other facts or circumstances bearing on the classification of this building, we suggest that the Board of Education write to or call upon the Federal Reserve Bank of Atlanta or its Jacksonville branch which administers Regulation X in that section of the country."

Approved unanimously.


Secretary