

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 19, 1948.

PRESENT: Mr. McCabe, Chairman  
 Mr. Eccles  
 Mr. Szymczak  
 Mr. Draper  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Clayton

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Morrill, Special Adviser  
 Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 16, 1948, were approved unanimously.

Memorandum dated April 16, 1948, from Mr. Carpenter recommending, at the request of Mr. McCabe, the appointment of Winfield W. Riefler as Assistant to the Chairman with basic salary at the rate of \$15,000 per annum, effective as of the date following May 1, 1948, upon which he enters upon the performance of his duties. The memorandum also stated that Mr. Riefler was a member of the Civil Service retirement system and would remain in that system.

Approved unanimously.

Letter to Mr. Volberg, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"In view of the recommendation contained in your letter of April 9, 1948, the Board of Governors further extends until November 15, 1948, the time within

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"which the American Trust Company, San Francisco, California, may establish the branch in Sunnyvale, California, as approved by the Board under date of June 16, 1947."

Approved unanimously.

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

"Reference is made to your letter of April 8, 1948, submitting the application of the Brownfield State Bank & Trust Co. Brownfield, Texas, for permission to exercise fiduciary powers.

"In view of your recommendation and the information submitted, the Board of Governors of the Federal Reserve System grants the applicant permission, under the provisions of its condition of membership numbered 2, to exercise the fiduciary powers now or hereafter authorized under its articles of association and the laws of the State of Texas. The Board's approval is given subject to acceptance by the bank of the following standard conditions (numbered 4, 5, and 6 in the Board's Regulation H, but numbered as follows for the purposes of the applicant) prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

3. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
4. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
5. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its

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"business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise the Brownfield State Bank & Trust Co. Brownfield, Texas, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board."

Approved unanimously.

Letter to the Honorable Edith Nourse Rogers, Chairman, Committee on Veterans' Affairs, House of Representatives, reading as follows:

"This refers to your letter of April 12, 1948 which enclosed a committee print of a proposed amendment to H. R. 4488 and requested comment and recommendations on the proposed amendment.

"The amendment would authorize the Administrator of Veterans' Affairs to charter and supervise 'veterans' homestead associations', which would be organized by veterans and would operate on a nonprofit basis to purchase and construct housing for veterans. The associations would be authorized to sell properties, to rent them out, and to operate and maintain them. Except for a sale of a cooperative interest in a multiunit structure, no sale of a dwelling unit by an association would be financed by an association.

"The Administrator of Veterans' Affairs would be authorized to make short-term loans and long-term loans (as long as 40 years) to the associations, and the Secretary of the Treasury would make available \$5,000,000,000 (\$1,000,000,000 a year for 5 years) for the purpose. No minimum is set on the rate to be charged associations on the Government funds advanced to them, and in practice the rate could be less than the cost of the long-term funds to the Treasury. Therefore, even if the associations were able to repay the principal amounts advanced -- a result which is by no means certain -- the interest paid

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"by the Treasury could substantially exceed that received from the associations.

"The twenty-five year limitation on the maturity of home loans guaranteed under the Servicemen's Readjustment Act of 1944 would be changed to thirty-two years in the case of loans to veterans to purchase homes from a 'homestead association'.

"The Secretary of the Treasury would make available \$3,750,000,000 (\$750,000,000 a year for 5 years) to be invested in savings banks, savings and loan associations and similar institutions to enable such institutions to make veterans' home loans that are guaranteed under the Servicemen's Readjustment Act of 1944. Preference would be given to institutions making such loans for 100 per cent of the cost of properties.

"The Administrator of Veterans' Affairs would be authorized to establish a secondary market for real estate loans which are in original amounts of \$10,000 or less and are guaranteed under the Servicemen's Readjustment Act of 1944. There would be certain limitations on the proportion of each seller's loans which may be purchased, but the provision would establish virtually an unlimited Government secondary market for such loans, and the Secretary of the Treasury would be expressly directed without any limitation 'to make available to the Administrator such sums as he may request from time to time' for the purpose during a five year period.

"Other provisions of the bill would make available \$500,000,000 of Government funds to the Federal Land Banks and Farmers Home Administration for loans to veterans under certain conditions and \$200,000,000 of Government funds to enable the Federal Works Administrator to make grants to States, public bodies, and 'homestead associations' to cover part of the cost of public facilities.

"Whatever merit a bill such as the proposed amendment might have in other circumstances, the Board believes that it should not be enacted in the present situation.

"The real bottlenecks in the housing situation today are the shortages of building labor and materials. There is no reason to expect that the proposed amendment providing for 'homestead associations' and for more housing credit would make any appreciable

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"contribution toward solving those bottlenecks. Instead, it would serve merely to drive up the prices of present inadequate supplies.

"One of the most inflationary factors at this time is excessively easy mortgage credit for housing. More than half of the current unprecedented mortgage lending is sponsored by the Federal Government under legislation enacted by the Congress and the proposed amendment would add to the already generous provisions for mortgage credit. Under this type of lending, sellers and builders of homes are enabled to make exorbitant profits and families of moderate and low incomes are encouraged to assume mortgage debt beyond their ability to pay when the present inflationary period is over. In this connection, your attention is invited to Honorable Marriner S. Eccles' statement on home financing before the Joint Committee on the Economic Report on November 25, 1947, of which a copy is attached.

"The Board on April 5, 1948 wrote to Senator Charles W. Tobey, chairman of the Senate Committee on Banking and Currency, regarding certain housing bills before that Committee. We would like to quote some of the comments in that letter because they are applicable in an even greater degree to the present proposed amendment:

'The prospect for inflation is even greater now than it was last November. There is still a shortage of many goods in relation to the level of income, and because of the imminent reduction in taxes, coupled with our commitments under the European Recovery Program and the recent program calling for a large increase in military expenditures, the Government must anticipate a deficit rather than a surplus. There is thus additional reason for the Government to take all steps possible to reduce inflationary pressures, particularly those generated by an excess of credit.

'For these reasons the Board is opposed to some of the provisions of the bills before your committee which would intensify inflationary pressures by making additional credit available and thus increasing the demand for building labor and materials. In addition, some of their provisions would reduce the capacity of the fiscal and credit agencies of the Government to cope with either further inflation or future deflation.

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"Creation of a Government-financed secondary market would be directly inflationary at this time, because, it would represent added Government spending and increased demand for new housing which is already excessive, considering the available supply of labor and materials. Furthermore, one of the objectives at the time the Government mortgage insurance and guaranty programs were instituted was to eliminate the need for direct mortgage lending by the Government, partly by removing some of the risks to lenders and increasing the negotiability of mortgages. If private lenders are unwilling to hold or buy guaranteed and insured mortgages, perhaps the solution is to improve the quality of the mortgages or increase the return to levels which make mortgages attractive compared with other investments. \* \* \*.

'We believe that both builders and buyers should have larger equities in their properties in an inflationary period like the present. \* \* \*.

'Basically, these \* \* \* proposals \* \* \* are the opposite of those appropriate in an inflationary situation such as we face today. Measures such as these should be reserved to cushion deflation should it later develop. Otherwise, the only measures available would be direct Government lending or subsidies, on a large enough scale to protect the real estate and housing market from a serious collapse such as developed in the early thirties.'"

Approved unanimously.

Telegram to Mr. Gidney, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Your letter April 13. Members of the Board who are available in Washington will be glad to meet with you and Mr. Brainard at 10:30 a.m. on Thursday, April 29, 1948. Officers of Ohio Bankers Association are to have luncheon here on that date and members of Board will be glad to have you and Mr. Brainard join them on that occasion. Suggest that copies of any preliminary sketches that

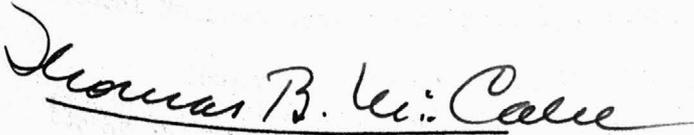
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"have been made of the proposed changes in the Pittsburgh Branch Building be forwarded in advance of your visit so that the Board may have an opportunity to study them."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.