

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 29, 1948.

PRESENT: 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 June 28, 1948, were approved unanimously.

Memorandum dated June 22, 1948, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Curtis R. Harrison as a laborer in that Division, on a temporary basis for a period of two months, with basic salary at the rate of \$1,690 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination. The memorandum also stated that it was not contemplated that Mr. Harrison would become a member of the Federal Reserve retirement system during the period of his temporary employment.

Approved unanimously.

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

"In accordance with the request contained in your letter of June 24, 1948, the Board approves the appointment of James H. Nichols, at present an assistant

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"examiner, as an examiner for the Federal Reserve Bank of Cleveland. Please advise us of the date upon which the appointment becomes effective."

Approved unanimously.

Memorandum dated June 29, 1948, from Mr. Baumann, Assistant Counsel, reading as follows:

"It is understood that a telephonic request has been received from the Bureau of the Budget for any informal comments which the Board may wish to make concerning S. 2790 which is now awaiting action by the President.

"The primary purpose of S. 2790 is to aid in the financing of housing construction by providing a secondary market for mortgages. To this end the bill would authorize the Federal National Mortgage Association, a subsidiary of the Reconstruction Finance Corporation, to purchase mortgages insured by the Federal Housing Administration under sections 203 and 603 of the National Housing Act or guaranteed by the Veterans Administration under sections 501, 502 and 505(a) of the Servicemen's Readjustment Act of 1944.

"No mortgages insured by the Federal Housing Administration prior to April 30, 1948, may be purchased and apparently it is intended that the same limitation shall apply to mortgages guaranteed by the Veterans Administration, although this is not clearly stated in the bill. The amount of mortgages purchased from any one mortgagee is limited to 25% of the amount of all mortgages made by such mortgagee which are otherwise eligible for purchase. Also, a mortgage must not exceed \$10,000 and the mortgagee must certify that the housing meets Federal Housing Administration construction standards.

"The authorized capital stock and paid-in surplus of the Federal National Mortgage Association would be increased to \$20,000,000 and \$1,000,000, respectively, and the Association would be authorized to borrow up to forty times the amount of its capital and surplus. Thus, the Association would be authorized to borrow up to

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"\$840,000,000; but the amount of new money available would be reduced by the amount of the Association's present obligations which are understood to be between \$200,000,000 and \$250,000,000. The lending authority of the Reconstruction Finance Corporation would be increased \$500,000,000 to enable it to purchase obligations of the Association.

"The bill also would amend section 207 of the National Housing Act, relating to insurance of mortgages on rental housing, to authorize the Federal Housing Administration to insure 95% mortgages on properties of veterans' cooperative housing corporations.

"The Board has heretofore objected to the creation of a Government financed secondary market for mortgages already underwritten by the Government. Thus, in its letter of April 5, 1948, to the Senate Committee on Banking and Currency with respect to another bill, it stated:

'Creation of a Government-financed secondary market would be directly inflationary at this time, because, by making available \$500,000,000 for the purchase of mortgages, 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.'

"In the same letter, the Board objected to the insurance of long-term mortgages up to 95% of the value of rental housing on the ground that such mortgages are excessive in this inflationary period.

"It appears, therefore, that the Board has already objected to the principles involved in this bill because of their inflationary aspects, and it is assumed that the Board will wish to renew these objections in any discussion

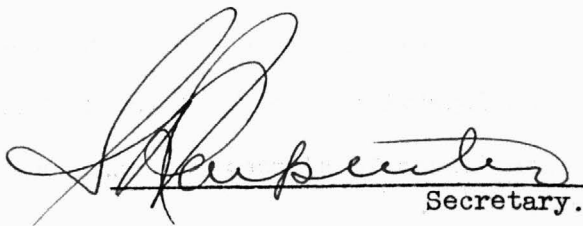
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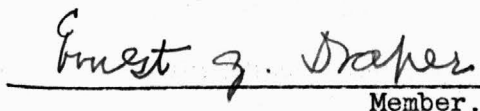
"of the matter with the Bureau of the Budget. In the circumstances, it is recommended that the Board's Secretary, to whom the telephone call was made by the Bureau of the Budget, be authorized to advise the Bureau by telephone that the Board considers the legislation inflationary and therefore undesirable."

Approved unanimously.

Secretary's Note: The Secretary called Mr. Neustadt of the Budget Bureau this afternoon and told him of the Board's position, stating that the Board's letter of April 5, 1948, had been released to the press and that Mr. Neustadt would be furnished with a copy if he desired. Mr. Neustadt requested a copy of the letter be sent to him informally.


Secretary.

Approved:


Member.