

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, February 2, 1950.

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

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 February 1, 1950, were approved unanimously.

Memorandum dated January 31, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending the appointment of Mrs. Ladye Sue C. Roelle as a statistical clerk in that Division on a temporary indefinite basis, with basic salary at the rate of \$2,650 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

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

"This refers to your letter of January 19, 1950, regarding the proposal that your bank enter into a new fiscal agency agreement, in the form enclosed with your letter, with the International Bank for Reconstruction and Development.

"Under the proposed agreement your bank would act as fiscal agent of the International Bank for the authentication and registration and transfer of, and for the payment of the

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"principal and interest on, its proposed issue of \$100,000,000 in principal amount of Serial Bonds of 1950, due 1953/62, to be dated February 15, 1950. In general, the agreement contemplates that you would perform the service with respect to the International Bank issue of Serial Bonds of 1950 that it performed and is performing for that Bank in respect of its Ten Year 2-1/4% Bonds due July 15, 1957, and its Twenty-Five Year 3% Bonds due July 15, 1972, as set forth in the Fiscal Agency Agreement between the International Bank and your Bank dated as of July 15, 1947. The proposed new agreement would revise and replace the agreement of July 15, 1947, and would relate not only to the previous issues of the International Bank's bonds but also to its Serial Bonds of 1950. It is in such form that by simple amendment it could be made applicable to future issues.

"The Board approves the execution by your bank of an agreement substantially in the form enclosed with your letter. It is understood, of course, that any subsequent amendment to the agreement, either to make it applicable to additional issues of securities or for any other purpose, will be made only with the approval of the Board, and we will appreciate your keeping the Board informed of any significant developments in connection with the agreement."

Approved unanimously.

Letter to Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Dallas, made as of November 3, 1949, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Gilbert.

"The Board has noted the information and comments contained in the report regarding the cases involving shortages or irregular handling of money and securities which were reported to Chief Field Examiner Murff by General Auditor Novey and were discussed with President Gilbert by Mr. Murff. Chairman McCabe has informed the Board of his discussion of this matter with you and the consideration that was given to it at the recent meeting of your Board of Directors. It is understood that when the matter has been

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"fully investigated, you will inform the Board of the steps taken to prevent similar occurrences in the future.

"The Board will also appreciate advice that the remainder of the report of examination has been considered by the Board of Directors, and will be glad to have any comments you may care to offer regarding other discussions with respect to the examination, or as to other action taken or to be taken as a result of the examination."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This is in response to your letter of January 26, 1950 requesting the Board's views on a description of proposed legislation relating to a private secondary market for residential mortgages.

"The statement attributes the current large volume of purchases by the Federal National Mortgage Association to the difference in interest rates between mortgages insured by the Federal Housing Administration and those guaranteed by the Veterans Administration. It suggests that these purchase operations might be reduced substantially by standardizing on 4 1/4 per cent for both programs. It also implies, however, that this is not likely to be done, and that some provision must therefore be made for supporting a market for 4 per cent mortgages to veterans.

"Legislation is proposed to minimize, within the framework of dual interest rates, the need for large Federal mortgage purchases. Four major changes in existing arrangements are proposed:

1. Authority to charter private National Mortgage Associations to deal in insured and guaranteed mortgages would be reinstated. This authority was deleted from the National Housing Act in April 1948 at the time when the functions and authority of the Federal National Mortgage Association were re-defined.
2. Activities of the Federal National Mortgage Association would be curtailed by imposing further restraints on its operations.

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- "3. Authority would be granted to the Federal Home Loan Banks to deal in insured and guaranteed mortgages with the public generally, but with preferential treatment for their members.
4. The guarantee of mortgages for veterans would be transferred from the Veterans Administration to the Federal Housing Administration without reduction of the special consideration now given to veterans.

"The Board is not prepared at this time to concur in the proposal to give the Federal Home Loan Banks the functions of National Mortgage Associations in addition to their functions as sources of credit for their members. The primary responsibility of the Home Loan Banks, as the System stands now, is to provide liquidity for their members. It would appear to be unwise to put the Banks in the position of holding a substantial volume of mortgages at a time when their members might require credit. In such a case, the Federal Government would probably have to purchase the mortgages, regardless of the monetary and fiscal policies it was pursuing at the time.

"While the objectives of the other three proposals are desirable, the proposals would not go very far toward solving the problem at which they are directed. The basic question appears to be whether, for the accommodation of builders and consumers, the Federal Government must continue to underwrite mortgage terms which are not acceptable to private lenders. If so, it must expect to finance the mortgages, either directly or indirectly. The proposed changes may make possible a closer estimate of the state of the private market than is now possible, but will not remove the need for the Government to hold the mortgages which private lenders regard as sub-standard.

"It would appear to the Board that the soundest approach to the problem would be to move toward more flexible mortgage terms under all Federal programs. This the proposed changes would do to only a small extent. For example, the statement concedes the need, even if the proposed changes are adopted, for the Federal Government's continuing to stand ready to purchase low-rate mortgages at par. We do not believe that this would be conducive to either a sound mortgage market or sound credit conditions generally.

"The Board would have no objection, in principle, to the

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"three proposed changes indicated above. It would suggest, however, that as a foundation for such changes, a review of mortgage-guarantee programs be made along the lines suggested in the recent Douglas Report."

Approved unanimously.

Letter prepared for Chairman McCabe's signature to Mr. Maurice C. Sparling, National Association of Supervisors of State Banks, 215 West 6th Street, Los Angeles, California:

"For some time I have been conscious of the desirability of closer contact with you and the members of your organization. Problems are continually arising in the field of bank supervision where I would value the opportunity of personal discussion so that, on the one hand, I would be informed of your attitude and the considerations which you feel are important and, on the other, you would become familiar with the problems with which we in the Federal Reserve System are bound to deal.

"A particularly important problem is now emerging which I would like to talk over with you. I refer to the suggestion, advanced by an expert staff committee of the Federal Reserve System, that bank reserves be computed exclusively on the basis of the nature of bank deposits and that distinctions based on the geographic location of banks be dropped. You are doubtless aware of the discussions of this plan in Congress before the Douglas subcommittee of the Joint Committee on the Economic Report. As I indicated in my testimony, the Board is sympathetic to the idea, but has taken no final position on the plan or on its details. We wish to have the benefit of all relevant views on the subject and have scheduled the proposal for discussion with the Federal Advisory Council later this month.

"I would appreciate it if I could have an opportunity to talk the problem over with you at some length before that meeting on February 21. Would it be possible for you to come to Washington for such a discussion sometime during the week of February 13? If you could find time, the Board would be happy to reimburse you for expenses incurred in connection with the trip.

"I hope that this suggestion strikes a responsive note in your thinking. I am frank to say that I have felt the

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"need for closer contact for some time. I hope that you have felt the same."

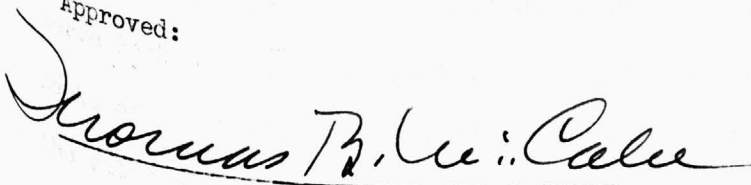
Approved unanimously.

Memorandum dated January 30, 1950, from Mr. Young, Director of the Division of Research and Statistics, requesting authorization for the expenditure of approximately \$4,000 in excess of the contract amount approved by the Board on May 19, 1949, for conducting the 1950 Survey of Consumer Finances, this sum to be used to expedite the availability of the data on intentions and anticipations of consumers and to come within the \$10,000 authorized for contingencies and special costs in connection with the Survey at the time of its approval.

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.