

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, October 5, 1950. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman pro tem.  
Mr. Szymczak  
Mr. Evans  
Mr. Vardaman  
Mr. Norton

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Morrill, Special Adviser to the Board  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Millard, Director, Division of Examinations  
Mr. Young, Director, Division of Research and Statistics  
Mr. Baumann, Assistant General Counsel  
Mr. Fisher, Administrator, Office of Real Estate Credit  
Mr. Noyes, Assistant Administrator, Office of Real Estate Credit  
Mr. Saulnier, Special Adviser to the Administrator of the Office of Real Estate Credit  
Mr. Wood, Economist, Division of Research and Statistics  
Mr. Fauver, Administrative Assistant to the Chairman  
Mr. Tinsley, Law Clerk, Legal Division

Before this meeting there had been distributed a draft of Proposed Regulation X, Residential Real Estate Credit, and a possible schedule of terms that might be provided in the supplement to the proposed regulation.

Mr. Norton stated that after extensive discussions with representatives of the Federal Housing Administration and various trade

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groups, he felt that the terms proposed for the regulation would prove workable, and he recommended that the regulation in the form proposed be adopted by the Board and made effective when concurrence was obtained from Mr. Foley, Administrator of the Housing and Home Finance Agency. Mr. Norton went on to say that the Federal Housing Administration had taken the position that the maximum maturity provided for loans in the regulation should be 30 years, while the Board's representatives had felt it should not exceed 20 years. He also said that the Veterans Administration had resisted any change in present terms available to veterans. With respect to the provision that 5 per cent would be added to the cost of new construction when an extension of credit was for the purpose of financing the construction of a residence on farm property in order to take account of the value of the land, Mr. Norton stated that the Farmers Home Administration had agreed to that provision as workable and satisfactory to them.

At Mr. Norton's request, Mr. Vest discussed the provisions of the regulation section by section, explaining the reasons for the provisions and the purposes they were expected to serve.

During Mr. Vest's description of the regulation, Chairman McCabe and Mr. Riefler, Assistant to the Chairman, joined the meeting.

Mr. Vest distributed a draft of the supplement to Regulation X which read as follows:

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"Maximum Loan Value. - For the purposes of Regulation X, maximum loan values for all residential property, farm residences, and major additions and major improvements are prescribed as set forth in the following table. In the case of credit extended with respect to residential property or farm residences involving more than one structure, the maximum loan value may be applied separately with respect to each such structure or with respect to the entire property or all such residences, at the election of the Registrant.

"If the value (determined as provided in section 2(i) of the regulation) is

"The maximum loan value is

More than \$2,500 but not more than \$5,000  
More than \$5,000 but not more than \$9,000

90% of the value  
\$4,500 plus 65% of excess of value over \$5,000.

More than \$9,000 but not more than \$15,000  
More than \$15,000 but not more than \$20,000

\$7,100 plus 60% of excess of value over \$9,000  
\$10,700 plus 50% of excess of value over \$15,000

More than \$20,000 but not more than \$24,000

\$13,200 plus 30% of excess of value over \$20,000

More than \$24,000 but more than \$30,000

\$14,400 plus 10% of excess of value over \$24,000

More than \$30,000

50% of the value

"Maturity. - For the purposes of Regulation X the following maturity requirements are prescribed: No credit subject to the regulation shall have a maturity of more than 20 years from the date such credit is extended except that a credit extended with respect to property having a value (determined as provided in section 2(i) of the regulation) of \$7,000 or less may have a maturity of not more than 25 years if it is to be fully repaid at or before the date of maturity through amortization on the basis prescribed in clause (2) of the following paragraph relating to amortization.

"Amortization. - For the purposes of Regulation X, the following amortization requirements are prescribed: With respect to every credit subject to the regulation, amortization payments shall be required which either (1) will annually reduce the original principal amount of such credit by not less than 5 per cent until the outstanding balance of such credit has been reduced to an

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"amount equal to or less than 50 per cent of the value of the property with respect to which such credit was extended or (2) will fully liquidate the original principal amount of such credit not later than the date of the maturity of the credit through substantially equal monthly, quarterly, semiannual, or annual payments covering principal and interest or through substantially equal monthly, quarterly, semiannual, or annual payments of principal. The value referred to in the preceding sentence shall be determined as of the date the credit was extended in the manner provided in section 2(i) of the regulation. If the amount of the credit when extended is not more than 50 per cent of such value, such credit shall not be subject to the amortization provisions of this paragraph."

In a discussion of the supplement, Mr. Fisher stated that he felt that Mr. Foley, Administrator of the Housing and Home Finance Agency, would concur in the terms proposed.

There followed a discussion of the time at which the regulation might be made effective, during which Mr. Norton stated that he expected formal concurrence of Mr. Foley would be obtained promptly, and that the regulation might be made effective early next week.

With respect to the effect the regulation would have, Mr. Riefler stated that it was contemplated that housing starts during the year 1951 should be reduced to approximately 800,000 compared with the expected number of starts of 1,300,000 to be made during 1950, but that it was not possible to say how close the proposed terms would come to this objective. He went on to say that representatives of the Veterans Administration estimated that the proposed schedule of terms would reduce the volume of their business by forty per cent.

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During the discussion, Mr. Vest raised the question whether, when the regulation was made effective, it should bear a statement that the regulation had been submitted to the Bureau of the Budget, and that the record-keeping requirements of the regulation had been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942. Mr. Vest went on to say that thus far the Board had not placed such a legend on any of its regulations, that it had taken the position that the record-keeping requirements in the Board's regulations were for enforcement purposes and need not be submitted for approval by the Bureau of the Budget under the Federal Reports Act, but that if the question came to an issue it was doubtful whether the Board could sustain this position. In a discussion of this matter Mr. Vest stated that he understood that the Bureau of the Budget had indicated informally that it had no objection to the records and reports requirements in the proposed residential real estate credit registration.

It was agreed unanimously that Regulation X, Residential Real Estate Credit, when issued should bear an appropriate notation indicating that the reporting and record-keeping requirements had been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

Chairman McCabe then inquired whether the regulation had been submitted formally to Mr. Foley of the Housing and Home Finance Agency for his concurrence, and Mr. Norton responded that Mr. Foley had

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gone over a draft of the regulation, and the terms had been discussed with him and he had indicated his approval, but that no formal concurrence had yet been received.

Thereupon, upon motion by Mr. Norton, it was agreed unanimously that the necessary steps should be taken to obtain Mr. Foley's formal concurrence and to determine when the regulation would be announced and made effective.

Mr. Szymczak stated that the Personnel Committee had considered a suggestion from Mr. Fisher that Mr. William A. Clarke, a mortgage banker of Philadelphia, be appointed a consultant in connection with the real estate regulation, and that the Personnel Committee recommended Mr. Clarke's appointment effective immediately with the understanding that he would be compensated at the rate of \$50 per day for each day he is away from Philadelphia in connection with this assignment, and that he would be reimbursed for all necessary travel between Philadelphia and Washington and on official business in connection with his work in accordance with the provisions of the Board's official travel regulations applicable to directors and assistant directors except that the per diem in lieu of subsistence will be at the rate of \$15 during the periods he is absent from Philadelphia in connection with his work for the Board.

The recommendation of the Personnel Committee was approved unanimously.

Messrs. Fisher, Noyes, Baumann, Saulnier, and Tinsley withdrew

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from the meeting at this point, and Messrs. Lewis, Assistant Vice President, Federal Reserve Bank of St. Louis, who is assisting in connection with Regulation W Consumer Credit, and Solomon, Assistant General Counsel, entered the room.

Mr. Evans stated that the staff group had been giving consideration to the terms of Regulation W and that it was prepared to submit a recommendation to the Board for tightening of the regulation within the next few days. At Mr. Evans' request, Mr. Lewis reported on the results of surveys made to date, stating that it was too early to determine accurately the effectiveness of the regulation. Mr. Lewis also stated that in accordance with the discussion at the staff meeting this week arrangements were being made to consult with representatives of the trade early next week in order to obtain more definite information in connection with possible changes in the regulation.

Mr. Evans discussed possible terms which might be adopted by the Board and, following a brief discussion, it was understood that the matter would be considered at a meeting on October 12, 1950.

In this connection Messrs. Eccles and Vardaman stated that they would be away from Washington on October 12, but that they would like to be recorded as voting to approve the terms proposed by Mr. Evans at that time.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the action

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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 October 4, 1950, were approved unanimously.

Letter to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of August 14, 1950, submitting the request of the Commerce Union Bank, Nashville, Tennessee, for approval pursuant to Section 24A of the Federal Reserve Act, of investments in bank premises to an amount not to exceed \$1,375,000. Additional information in connection with the bank's request was included in Vice President Denmark's letter to Mr. Millard dated September 6, 1950.

"On the basis of information furnished, and in accordance with your recommendation, the Board interposes no objection to the additional investments to the extent requested, with the understanding that a decision regarding a permanent banking site for the applicant bank's Columbia branch will be reached as soon as possible and that the other properties located in Columbia, which were acquired by the bank as possible sites for the branch, will be disposed of without undue delay thereafter.

"The Board has noted that the applicant bank has abandoned its plan to establish a branch at Eighth and Monroe Streets, Nashville, Tennessee, on the property purchased in 1947 and carried in bank premises at \$10,010.04; and that the original plans to establish a branch at Thirty-first and West End Avenue, Nashville, Tennessee, on property leased in 1947 have also apparently been abandoned. It is suggested that the bank should dispose of these properties as soon as it is feasible to do so."

Approved unanimously.

Telegram to Mr. Johns, Vice President of the Federal Reserve



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Bank of Kansas City, reading as follows:

"Your telegram of September 29 was discussed with Mr. Woolley here Friday and the following confirms the understanding he expressed regarding the points you raised.

"The instalment sale of several listed articles which under the provisions of Section 6(g) do not constitute a single listed article could, if the cash price of each article is under \$100, be consummated without a down payment regardless of the aggregate amount of credit resulting from the sale and regardless of whether there is one instalment contract covering all of the articles or separate contracts for each. The provisions of Section 3(b) would apply to such an extension or extensions of credit. The principles set out in the 1948-1949 Regulation W Service 640 would still apply in determining whether several items are to be considered a single article for the purposes of Regulation W."

Approved unanimously.

  
Secretary.