

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, October 6, 1950. The Board met in the Board Room at 10:50 a.m.

PRESENT: Mr. McCabe, Chairman  
 Mr. Eccles  
 Mr. Szymczak  
 Mr. Evans  
 Mr. Vardaman  
 Mr. Norton

Mr. Carpenter, Secretary  
 Mr. Sherman, Assistant Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Morrill, Special Adviser  
 Mr. Thurston, Assistant to the Board  
 Mr. Riefler, Assistant to the Chairman  
 Mr. Thomas, Economic Adviser to the Board  
 Mr. Vest, General Counsel  
 Mr. Nelson, Director, Division of Personnel Administration  
 Mr. Millard, Director, Division of Examinations  
 Mr. Young, Director, Division of Research and Statistics  
 Mr. Fisher, Administrator, Office of Real Estate Credit  
 Mr. Noyes, Assistant Administrator, Office of Real Estate Credit  
 Mr. Saulnier, Special Adviser to the Administrator, Office of Real Estate Credit  
 Mr. Fauver, Administrative Assistant to the Chairman

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 3, by the Federal Reserve Banks of Atlanta and St. Louis on October 4, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on October 5, 1950, and by the Federal Reserve Bank of Boston today, of

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the rates of discount and purchase in their existing schedules.

Approved unanimously.

Chairman McCabe stated that, in accordance with the discussion at the meeting yesterday afternoon, there had been further discussions with Mr. Foley, Administrator, Housing and Home Finance Agency, of the terms to be prescribed in Regulation X, Residential Real Estate Credit, and that the whole problem had been considered in the light of developments since the meeting of the Board yesterday, including a meeting which he (Chairman McCabe) attended yesterday afternoon at the request of Mr. Symington, Chairman of the National Security Resources Board, who has responsibility for coordination of functions delegated by the executive order issued by the President pursuant to the Defense Production Act of 1950. At that meeting, the Chairman said, at which Mr. Keyserling, Chairman of the Council of Economic Advisers, was also present and appeared to be acting as an adviser to Mr. Symington, the latter strongly urged that the mortgage credit regulation provide for a down payment of 50 per cent on properties costing \$20,000 or more, whereas under the proposed regulation discussed at the meeting of the Board yesterday the minimum required down payment would not be as high as 50 per cent except on properties costing \$30,000 or more. Chairman McCabe went on to say that this suggestion had been discussed with Mr. Foley and that it was suggested, with the informal concurrence of Mr. Foley, that a schedule of down payments be

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adopted which would reach 50 per cent at between \$24,000 and \$25,000.

The problem was discussed at length in the light of developments, the authority of the Board under the Defense Production Act of 1950 and the President's Executive Order, and the inflationary situation in housing, and it was the consensus that, for the reasons to be set forth in a statement to be prepared for the policy record, the above suggestion should be approved.

Thereupon, upon motion by Mr. Norton, unanimous approval was given to Regulation X, Residential Real Estate Credit, in the following form with the understanding that it would become effective October 12, 1950, if Mr. Foley, Administrator of the Housing and Home Finance Agency, advised that he concurred in the regulation and its terms and agreed on the proposed effective date:

"REGULATION X

"Effective October 12, 1950

"RESIDENTIAL REAL ESTATE CREDIT

"SECTION 1. SCOPE AND APPLICATION OF REGULATION

"This regulation is issued by the Board of Governors of the Federal Reserve System (hereinafter called the 'Board'), with the concurrency of the Housing and Home Finance Administrator, under authority of the 'Defense Production Act of 1950', approved September 8, 1950 (hereinafter called the 'Act'), and Executive Order No. 10161, dated September 9, 1950.

"This regulation applies to any person who is engaged in the business of extending real estate credit, including any person who acts as agent in arranging for such credit. For the purposes of this regulation, a person shall be deemed to be engaged in the business of extending real estate credit if, during the current calendar year or during the preceding calendar year, he extends or has extended real estate credit more than three different times and such extensions of credit,

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"during the current calendar year or during the preceding calendar year, aggregate more than \$25,000. For the purpose of determining whether a person is engaged in extending real estate credit, real estate credit shall be deemed to include not only 'real estate construction credit', as hereinafter defined, but also credit with respect to any real property whether or not there is any new construction thereon, and whether or not such credit is extended, insured, or guaranteed by the United States or any agency thereof, and whether or not such credit is exempt from this regulation.

## "SECTION 2. DEFINITIONS.

"For the purposes of this regulation, unless the context otherwise requires:

- (a) 'Person' has the meaning given it in section 702(a) of the Act.<sup>1</sup>
- (b) 'Registrant' means a person who is registered pursuant to section 3 of this regulation.
- (c) 'Credit' has the meaning given it in section 602(d)(2) of the Act.<sup>2</sup>

<sup>1</sup>Section 702(a) of the Act provides: 'The word "person" includes an individual, corporation, partnership, association, or any other organized group of persons, or legal successor or representative of the foregoing, and includes the United States or any agency thereof, or any other government, or any of its political subdivisions, or any agency of any of the foregoing: Provided, That no punishment provided by this Act shall apply to the United States, or to any such government, political subdivision, or government agency.'

<sup>2</sup>Section 602(d)(2) of the Act provides: "'Credit" means any loan, mortgage, deed of trust, advance, or discount; any conditional sale contract; any contract to sell or sale or contract of sale, of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment, leasing, or other use of property under which the bailee, lessee, or user has the option of becoming the owner thereof, obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof, or has the right to have all or part of the payments required by such contract applied to the purchase price of such property or similar property; any option, demand, lien, pledge, or similar claim against, or for the delivery of property or money; any purchase, discount, or other acquisition claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.'

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"(d) 'Extending credit', 'extension of credit' and 'extends credit' shall include extending or maintaining any credit, or renewing, revising, consolidating, refinancing, purchasing, selling, discounting, or lending or borrowing on, any obligation arising out of any credit, or arranging as agent for any of the foregoing, and also shall include a sale of, or other transfer of title to, real property if the vendee or transferee assumes, or takes such property subject to, indebtedness secured by a mortgage or other lien upon such property.

"(e) 'Real estate construction credit' means any credit, hereafter extended, which

- (1) is wholly or partly secured by, or
- (2) is for the purpose of purchasing or carrying, or
- (3) is for the purpose of financing, or
- (4) involves a right to acquire or use,

new construction on real property or real property on which there is new construction, if such new construction is a residence or a major addition or major improvement to a residence, whether such credit is extended before or after such new construction is begun; but the term 'real estate construction credit' shall not include any loan or loans made, insured, or guaranteed, in whole or in part, by any department, independent establishment or agency in the executive branch of the United States, or by any wholly owned Government corporation, or by any mixed-ownership Government corporation as defined in the Government Corporation Control Act, as amended (including any loan evidenced by obligations of any local public agency or public housing agency which national banks may purchase pursuant to the provision of section 602(a) of the Housing Act of 1949).

"(f) 'New construction' means any structure, or any major addition or major improvement to a structure, which is or has been begun after 12 o'clock meridian, August 3, 1950. Construction will be deemed to have been 'begun' when essential materials which are to be an integral part of the structure have been affixed to or incorporated on the site in a permanent form.

"(g) 'Major addition' or 'major improvement' means an enlargement, reconstruction, or other alteration to an existing structure, or any other addition or improvement which becomes or is to become physically attached to and a part of the structure, if the cost or estimated cost of such addition or improvement exceeds \$2,500.

"(h) 'Real property' includes leaseholds and other interests in such property.

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"(i) The 'maximum loan value' of any property shall be the amount which is computed in the manner prescribed in the Supplement to this regulation. In making such computations:

(1) For a major addition or major improvement to a residence, 'value' shall be the cost or estimated cost of such major addition or major improvement;

(2) For residential property, other than major additions or major improvements:

(A) In the case of an extension of credit in connection with a bona fide sale of residential property, 'value' shall be the bona fide sale price;

(B) In the case of any other extension of credit with respect to residential property:

(i) If the entire cost of the property to the borrower has been incurred by him not more than 12 months prior to the extension of credit or is to be incurred by him after such extension of credit, 'value' shall be the bona fide cost of the property to the borrower, including a bona fide estimate of the cost of completing new construction on such property when the extension of credit is for the purpose of financing such new construction;

(ii) If any part of the cost of the property to the borrower has been incurred prior to such 12-month period, or if any part of such property has been acquired by gift, exchange, or inheritance, 'value' shall be the appraised value as determined in good faith by the Registrant;

(3) For an extension of credit which is for the purpose of financing the construction of a residence on farm property, 'value' shall be the total of (A) the cost or estimated cost of such new construction, and (B) 5 per cent of such cost or estimated cost.<sup>3</sup>

<sup>3</sup>The 5 per cent is added when the extension of credit is for the purpose of financing the construction of a residence on farm property in order to take account of the value of the land upon which the residence is to be constructed."

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"(j) 'Bona fide sale price' means the amount paid or to be paid by the vendee in money or its equivalent. It includes, in addition to cash, (1) the value of any property accepted in part payment, (2) the unpaid principal amount of any indebtedness incurred or assumed by the vendee or to which the property remains subject, (3) the amount of any liens for taxes or special assessments which are in default or currently due and payable, (4) the amount of any mechanics' liens or other liens which the vendee is required to discharge, (5) the amount which the vendee agrees to pay for any alteration or other modification made or to be made to the property as an incident to the sale thereof, and (6) any amounts paid by the vendee for closing costs which are customary under local practices. It does not include any prepaid charges, or any accrued rents which will be paid to the vendee.

(k) 'Residence' means any structure at least one-half of the floor space of which is used, serving or designed for dwelling purposes, if such structure does not include more than two family units. Houses connected by common walls and commonly known as 'row houses' or 'semidetached houses' shall be considered separate structures.

(l) 'Residential property' means any real property, other than farm property, on which there is or is to be a residence or residences.

(m) 'Farm property' means any real property, located outside of urban areas, which is principally used for the production of crops, livestock or other agricultural commodities.

### "SECTION 3. GENERAL REQUIREMENTS AND REGISTRATION

"(a) General Requirements.--No person engaged in the business of extending real estate credit shall extend real estate construction credit unless (1) he is registered pursuant to this section, and (2) he has no knowledge of, and has no reason to know, any fact by reason of which such credit fails to comply with any applicable provision of this regulation.

"(b) Registration.--Every person engaged in the business of extending real estate credit shall be deemed to be registered pursuant to this regulation from the effective date hereof until such time as the Board, by public announcement, may require registration statements to be filed by all, or any specified classes of, such persons. Should the Board require such registration statements, a

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"person shall continue to be registered after the time such statements are required only if he shall have complied with the requirements of the Board's announcement. Every person who is registered in accordance with the provisions of this subsection is referred to in this regulation as a 'Registrant.'

"(c) Suspension of Registration.--Any Registrant may, after reasonable notice and opportunity for a hearing, be suspended by the Board, as to all or as to particular activities or particular offices and for specified or indefinite periods, because of any willful or negligent failure to comply with any provision of this regulation.

"A suspension for a specified period will terminate upon the expiration of such period. A suspension for an indefinite period may be terminated by the Board, in its discretion, if the Board is satisfied that its action would not lead to further violations of this regulation by the suspended Registrant and would not be otherwise incompatible with the public interest.

#### "SECTION 4. EXTENSION OF CREDIT

"(a) Amount; Maturity; Amortization.--Except as otherwise permitted by this regulation, no Registrant shall, either in connection with a sale or otherwise:

(1) Extend real estate construction credit with respect to residential property (other than major additions or major improvements) if the amount of credit outstanding with respect to the property (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such property;

(2) Extend real estate construction credit for the purpose of financing a major addition or major improvement to a residence if the amount of credit outstanding for the purpose of financing the major addition or major improvement (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such major addition or major improvement;

(3) Extend real estate construction credit for the purpose of financing the construction of a residence on farm property if the amount of credit out-



"standing for the purpose of financing the construction of the residence (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such residence;

(4) Extend real estate construction credit if such credit would have a maturity which exceeds the applicable maximum maturity provisions, or would be repaid in any manner which does not conform with the applicable amortization provisions set forth in the Supplement to this regulation;

(5) Purchase, discount or lend on any credit instrument evidencing real estate construction credit which is subject to and not exempt from this regulation, unless the terms of such credit conformed with the provisions of the Supplement to this regulation when such credit was originally extended or conform with the provisions of the Supplement at the time of such purchase, discount or loan; but for the purposes of this paragraph credit shall be considered to be subject to the regulation even though extended by a person other than a Registrant;

(6) If the Registrant is acting as principal--sell, or transfer title to, residential property on which there is new construction (which is a residence or a major addition or major improvement to a residence) and with respect to which the vendee or transferee assumes, or takes such property subject to, indebtedness secured by a mortgage or other lien upon such property, if the amount of outstanding credit (including any credit exempt from, or not subject to the prohibitions of, this regulation) which was extended after the effective date of the regulation with respect to the property exceeds, or as a result of such sale or transfer would exceed, the applicable maximum loan value of such property, or if any outstanding real estate construction credit (subject to and not exempt from this regulation) with respect to such property does not conform with the provisions of this regulation and the Supplement thereto.

"(b) Secondary Borrowing.--Except as otherwise permitted by this regulation, no Registrant shall extend real estate construction credit if he knows or has reason to know that there is, or that there is to be, any other credit ex-

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"tended with respect to the property (1) which, when added to the credit proposed to be extended by the Registrant, would cause the total amount of credit outstanding with respect to the property (including any credit exempt from, or not subject to the prohibitions of, this regulation) to exceed the applicable maximum loan value of such property, or (2) which, if it is real estate construction credit subject to and not exempt from this regulation, does not or would not comply with the applicable maximum maturity and amortization provisions set forth in the Supplement to this regulation.

"(c) Statement of the Borrower.--No Registrant shall extend any credit unless he is satisfied, and maintains records which reasonably demonstrate on their face, whether such credit is or is not real estate construction credit. If the Registrant accepts in good faith a signed Statement of the Borrower stating that the credit is not wholly or partly secured by, or for the purpose of purchasing or carrying, or for the purpose of financing, or one which involves the right to acquire or use, new construction on real property or real property on which there is new construction (or that such new construction, if any, is not a residence or a major addition or major improvement to a residence), such Statement shall be deemed to be compliance with the requirements of this paragraph.

"No Registrant shall extend real estate construction credit unless he has accepted in good faith a signed Statement of the Borrower (1) stating whether the credit is with respect to (A) residential property, (B) a residence on farm property, or (C) a major addition or a major improvement to a residence; and (2) stating, if the Registrant claims that such credit is exempt from this regulation, the reason for such exemption; and, if the credit is not exempt, (3) stating the amount of credit previously extended and outstanding, and the amount of any other credit to be extended, with respect to the residential property, the residence on farm property, or the major addition or major improvement to a residence, (4) stating, if the Registrant in computing 'value' relies upon cost or estimated cost may be used for this purpose, the cost or estimated cost of such cost or estimated cost to the bona fide amount of such cost or estimated cost to the borrower, and (5) stating, if the extension of credit is in connection with a sale, the sale price, that the sale

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"price was bona fide, and the value and a brief description of any property accepted in part payment. If the extension of credit is in connection with a sale, such Statement shall state that the vendor of the property has or will have no financial interest in such property or in the proceeds of any subsequent disposition thereof, except such interest as may be fully disclosed to the Registrant. The amount of any such financial interest of the vendor retained in the property or any proceeds of the disposition thereof shall be deemed to be real estate construction credit extended with respect to such property. The Statement of the Borrower may be made, if desired, on a form obtainable at any Federal Reserve Bank or Branch.

#### "SECTION 5. EXEMPTIONS AND EXCEPTIONS

"(a) Minimum amount.--The prohibitions of this regulation shall not apply to any extension of credit if the total amount thereof, including all outstanding credit which was granted after the effective date of this regulation with respect to the same property, is not in excess of \$2,500.

"(b) Short-Term Construction Credits.--The prohibitions of this regulation shall not apply to any credit which is for the purpose of financing the construction of a residence or residences or a major addition or major improvement, if the maturity of such credit is not more than 18 months; provided that this exemption shall not be construed to permit any renewal, revision, consolidation, or refinancing of such credit except on terms which conform with the provisions of this regulation and the Supplement thereto. If (1) the initial purpose of an extension of credit having a maturity exceeding 18 months is the financing of the construction of a residence or residences or a major addition or major improvement and (2) an agreement with respect to the credit requires that upon (A) the completion of such construction or (B) the expiration of a period of not more than 18 months after the extension of the credit, whichever shall first occur, such action must be taken by the parties as may be necessary to make the terms of the credit conform thereafter with the applicable maximum loan value and the applicable maturity and amortization provisions set forth in the Supplement to this regulation, then in such event the prohibitions of this regulation shall not apply to such credit until the occurrence of one of the events specified in (A) or (B) above; but if at any time after the date of the extension of such

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"credit, a Registrant sells or transfers title to the property with respect to which the credit is extended, such sale or transfer of title must conform to the provisions of this regulation and the Supplement thereto.

"(c) Disaster Credits.--The prohibitions of this regulation shall not apply to any extension of real estate construction credit with respect to real property in any area in which the Federal Reserve Bank of the district may declare that an emergency exists because of a flood, fire or other disaster affecting a substantial number of the inhabitants of the stricken area. This exemption with respect to any area so designated shall apply only to extensions of credit of such character and during such period as the Federal Reserve Bank may prescribe.

"(d) Medical Expenses, Etc.--The prohibitions of this regulation shall not apply to any extension of real estate construction credit as to which the Registrant accepts in good faith a signed Statement of the Borrower certifying that the proceeds thereof are to be used for bona fide medical, hospital, dental, or funeral expenses, or to pay debts incurred for such expenses, and that the proceeds of the extension are to be paid over in amounts specified in such Statement to persons whose names, addresses and occupations are stated therein.

"(e) Casualties.--The prohibitions of this regulation shall not apply to any extension of real estate construction credit as to which the Registrant accepts in good faith a signed Statement of the Borrower certifying that the proceeds thereof are to be used solely for the replacement, reconstruction or repair of a residence destroyed or substantially damaged by flood, fire or other similar casualty.

"(f) Contracts to Sell.--The prohibitions of this regulation shall not apply to any contract to sell real property (1) which does not provide for the payment of any part of the purchase price, or of any amount to be subsequently applied to such price, except a deposit of earnest money, before the transfer of title to such property, (2) which is to be performed by a transfer of title to such property within six months after the date on which the contract was entered into, and (3) which provides for the subsequent transfer of title to such property on terms which conform to the provisions of this regulation and the Supplement thereto in effect on the date the contract was entered into.

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"(g) Contemplated Construction.--Any builder or other person who had made substantial commitments or undertakings before August 3, 1950, with a view to the building of new construction and who asserts that his inability to obtain credit to finance such new construction on the basis contemplated by him and by the Registrant prior to August 3, 1950, would cause him substantial hardship, may apply to the Federal Reserve Bank of the district in which the new construction is contemplated for an exemption from this regulation for such new construction, showing all the facts and submitting all necessary supporting documents with respect to his commitments or undertakings and why compliance with the regulation would cause him substantial hardship. If such Federal Reserve Bank after consideration of the application and supporting documents determines that substantial commitments were made prior to August 3, 1950, and that substantial hardship would result from the application of this regulation in such case, it may issue to such builder or other person a certificate approving such application and thereupon any extension of credit to such builder or other person by any Registrant with respect to the new construction that may be specified in such certificate shall be exempt from the prohibitions of this regulation.

"(h) Labor and Material.--No person shall be required to register pursuant to section 3 of this regulation because of the fact that he performs labor or furnishes material for new construction on an open account, unless he shall be otherwise engaged in the business of extending real estate credit.

"(i) Credits Secured by Life Insurance Policies.--The prohibitions of this regulation shall not apply to any extension of real estate construction credit which is fully secured by the loan value or cash surrender value of a life insurance policy; and, notwithstanding any other provisions of this regulation, a Registrant in determining the amount of credit which he may extend under the provisions of section 4 of the regulation need not take into account any credit which is secured in the manner specified in this paragraph.

"(j) Farm Property.--The prohibitions of this regulation shall not apply to any extension of real estate construction credit with respect to farm property unless the extension of credit is for the purpose of financing the con-

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"struction of a residence on farm property or a major addition or major improvement to a residence on farm property.

#### "SECTION 6. MISCELLANEOUS PROVISIONS

"(a) Evasions.--No extension of real estate construction credit complies with the requirements of this regulation if at the time it is made there is any agreement, arrangement, or understanding, of which the Registrant knows or has reason to know, by which credit is or is to be extended in violation of this regulation, even though such extension of credit is or is to be made indirectly, or which would otherwise evade or circumvent, or conceal any evasion or circumvention of, any provision of this regulation or the Supplement thereto. No Registrant extending credit subject to this regulation shall divide such credit into two or more parts, or enter into any agreement or understanding with any other person as a result of which two or more credits are extended, when the purpose or effect of such action is to circumvent or avoid the amortization or maturity provisions of this regulation or the Supplement thereto.

"(b) Outstanding Contracts and Obligations.--The provisions of this regulation shall not apply to or affect any credit extended prior to the effective date of this regulation, or pursuant to any firm commitment to extend credit made prior to such date. For this purpose, a firm commitment means either (1) a written agreement under which the Registrant is required without option or discretion on his part to extend credit upon demand by the borrower or upon compliance by the borrower with one or more conditions referred to in such agreement; or (2) any other agreement to extend credit which has been entered into in good faith by the parties and in reliance upon which the prospective borrower has taken specific action prior to the effective date of the regulation, if the Registrant within 30 days after the effective date of this regulation shall have sent to the Federal Reserve Bank of the district in which he does business a letter or other statement reciting the facts with respect to such agreement and the specific action taken by the prospective borrower prior to the effective date of the regulation.

"(c) Real Property Outside the United States.--The prohibitions of this regulation shall not apply to any extension of real estate construction credit with respect

"to real property in Alaska, the Panama Canal Zone, or any territory or possession outside the continental United States.

"(d) Preservation of Records; Inspections; Administrative Reports.--For the purpose of determining whether or not there has been compliance with the provisions of this regulation, every person extending real estate credit shall preserve for a period of three years after each extension of credit such accounts, correspondence, memoranda, papers, books, and other records, or photostats thereof, as are relevant to establishing whether such person is engaged in the business of extending real estate credit; whether each credit extended is or is not real estate construction credit with respect to residential property, a farm residence, or a major addition or major improvement to a residence; and whether each extension of real estate construction credit conformed with the provisions of this regulation and the Supplement thereto. Every such person shall permit the Board or a Federal Reserve Bank, by its duly authorized representatives, to inspect such records and business operations as the Board or a Federal Reserve Bank may deem necessary or appropriate; and when ordered to do so, shall furnish, under oath or otherwise, such reports, information, or records relevant to extensions of credit as the Board or a Federal Reserve Bank may deem necessary or appropriate for the enforcement and administration of this regulation.<sup>4</sup>

"(e) Default and Foreclosure; Serviceman's Preinduction Debt.--Nothing in this regulation shall be construed to prevent any Registrant from taking such action as he shall deem necessary in good faith (1) with respect to any extension of credit to any member or former member of the armed forces of the United States which was made to him prior to his induction into such service and assignment to active duty, or (2) for the Registrant's own protection in connection with any credit which is in default and is the subject of a bona fide collection effort by the Registrant. The prohibitions of this regulation shall not apply to an extension of credit by a Registrant in connection with a sale of property acquired by him through foreclosure proceedings if such credit does not exceed the unpaid principal amount of the foreclosed credit and the costs of acquisition through foreclosure.

<sup>4</sup>The reporting and record-keeping requirements of this regulation have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942."

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"(f) Right of Registrant to Impose Stricter Requirements.--Any Registrant, if he desires, may refuse to extend credit, extend less credit than the amount permitted by this regulation, or require that repayment be made within a shorter period or in larger instalments than prescribed in the Supplement to this regulation.

"(g) Reliance upon Statement of the Borrower.--The facts set forth in any signed Statement of the Borrower which a Registrant accepts and relies upon in good faith shall be deemed to be correct for the purposes of the Registrant.

"(h) False Statements.--The making or submission by any person of any false, fictitious or fraudulent statement or representation pursuant to, or which is intended to conform to, or show compliance with, any requirement or provision of this regulation, shall be a violation of this regulation.

"(i) Statutory Penalties.--The Act provides that 'Any person who willfully violates any provision of section \* \* \* 602 (relating to real estate construction credit) or any regulation or order issued thereunder, upon conviction thereof, shall be fined not more than \$5,000 or imprisoned not more than one year, or both.'

"(j) Enforceability of Contracts.--Nothing in this regulation shall affect the enforceability of any contract.

"SUPPLEMENT TO REGULATION X

"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	90% of the value
More than \$5,000 but not more than \$9,000	\$4,500 plus 65% of excess of value over \$5,000
More than \$9,000 but not more than \$15,000	\$7,100 plus 60% of excess of value over \$9,000



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<u>"If the value (determined as provided in section 2(i) of the regulation) is</u>	<u>The maximum loan value is</u>
More than \$15,000 but not more than \$20,000	\$10,700 plus 20% of excess of value over \$15,000
Over \$20,000	\$11,700 plus 10% of excess of value over \$20,000 but not less than 50% of 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 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."

It was also agreed unanimously  
that a press release would be prepared

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and issued in a form satisfactory to Chairman McCabe and Mr. Norton.

Secretary's Note: Following the meeting, word was received from Mr. Foley in a letter dated today that he concurred in the regulation and its terms and that he also concurred in the suggestion that it become effective October 12, 1950.

The following statement for publication in the Federal Register was also approved by unanimous vote:

"Section 709 of the Defense Production Act of 1950 provides that the functions exercised under such Act shall be excluded from the operations of the Administrative Procedure Act (60 Stat. 237) except as to the requirements of section 3 thereof.

"In the formulation of this part and in accordance with the requirements of the aforesaid section 709, there has been consultation with industry representatives, including trade association representatives, and consideration has been given to their recommendations."

Messrs. Fisher, Noyes, and Saulnier withdrew from the meeting at this point and Mr. Hackley, Assistant Counsel, joined the meeting.

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

"This refers to your letter of September 2, 1950, with its enclosures, and Mr. Mangels' telegram and letter of September 18, 1950, regarding the question whether a program of 'life-insured savings accounts', known as 'Lisa', recently inaugurated by Bank of America N. T. & S. A. involves a violation of the Board's Regulation Q.

"It is our understanding that the essential features of this program, insofar as they have a bearing upon the question involved, are as follows:

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"A depositor opening a Lisa account agrees to make fifty equal monthly payments into the account so that the maturity value or 'savings goal' at the end of the fifty months' period will be a certain prescribed amount. Under a group life insurance policy between the bank and an insurance company, the depositor is afforded life insurance coverage in an amount equal to the difference between the maturity value of the account and the balance in the account at the time of his death.

"If the contract is completed, that is, if it runs for the full fifty months, the bank absorbs the insurance premiums paid by it; but, according to the table of accumulated insurance premiums enclosed with your letter, the amount of premiums which would be absorbed by the bank, plus the regular interest allowance of 1-1/2 per cent per annum, would amount to approximately 2 per cent and, consequently, assuming that the premiums absorbed would be regarded as a payment of 'interest', the interest paid to the depositor would not be in excess of the maximum rate prescribed by Regulation Q.

"On the other hand, during the early stages of the contract it appears that the total amount of premiums paid by the bank, plus interest on the account, would exceed 2-1/2 per cent. However, under the passbook rules, the insurance protection terminates if any withdrawal is made from the account, if the account is transferred to another person, or if the depositor fails to make the agreed monthly payments when due or within thirty days thereafter; and, in the event of the termination of the insurance in any such case, it is provided in the passbook that the bank shall have the right to charge to the account the full amount of all premiums incurred. Representatives of the bank have indicated that premiums will be charged to the account in such cases and the descriptive booklet issued by the bank also indicates that such premiums will be deducted from the amount payable to the depositor. Consequently, although the premiums paid by the bank, plus interest paid, might exceed 2-1/2 per cent at the time of the termination of such insurance, it is understood that the premiums would not be absorbed by the bank but would be charged to the depositor.

"We understand also that, in the event of the death of the depositor during the life of the contract, premiums paid by the bank would be charged to the depositor's account and would, in net effect, be paid by the insurance

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"company. The insurance policy provides that the amount of insurance will be equal to the 'excess of the maturity value of the Bank of America Life-Insured Savings Account(s), with respect to which the purchaser is insured, over the balance in such Account(s) after deducting insurance premiums incurred and any interest credited.'

"Mr. Mangels' telegram states that, upon the depositor's death, the bank would charge premiums to the depositor's account and file a claim with the insurance company which would then pay the difference between the accumulated balance (on which in practice no interest would have been credited) less the premium charge and the maturity value of the account. The bank would then credit interest to the account and would pay to the depositor's beneficiary or estate the amount in the account plus the amount of the insurance. Thus, the beneficiary or estate would receive the full amount of the maturity value of the account (without deduction for premiums) plus any interest earned; and the bank would be reimbursed by the insurance company for premiums paid on behalf of the depositor.

"On the basis of the Board's understanding of the facts as stated above, it is the Board's view that the bank's program of life-insured savings accounts does not involve any payment of excessive interest on such accounts in violation of Regulation Q. As you point out in your letter, the dangers incident to the payment of excessive interest rates in order to obtain savings deposits are not present and, accordingly, the practice would not seem to be inconsistent with the major purposes of the regulation.

"The Board is not, of course, attempting to pass upon any question as to whether the program involved is within the scope of the Bank's corporate powers or whether it involves any violation of provisions of the National Bank Act."

Approved unanimously.

Mr. Szymczak referred to the discussion at the meeting of the Board and the Presidents of the Federal Reserve Banks on September 27, 1950 with respect to the payment of the cost of hospitalization and surgical (Blue Cross) benefits for families of Reserve Bank Employees

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while such employees were in the military service. In this connection there was presented a draft of letter to the Presidents of all Federal Reserve Banks which would authorize the Federal Reserve Banks to pay the entire cost of such benefits for families of employees who entered the armed forces of the United States under the Selective Service Act of 1948 or the Service Extension Act of 1950. Mr. Szymczak stated that the Personnel Committee recommended approval of the letter and that it would also suggest that the Personnel Committee be authorized to study the question whether a similar benefit should be provided for Board employees in order to place them on a basis comparable to Federal Reserve Bank employees who go into the military service.

Thereupon, upon motion by Mr. Szymczak, unanimous approval was given to the letter to the Presidents of all Federal Reserve Banks as follows and the suggestion of the Personnel Committee was also approved:

"At the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks on September 27, 1950, there was a discussion on the desirability of paying at least part of the cost of hospitalization and surgical benefits for the family of a Reserve Bank employee while he is in military service. It was the consensus of the Presidents that it would be desirable to amend existing authorizations so as to include this additional benefit.

"In its letter of March 11, 1946, the Board approved a general program whereby the Banks could assume two-thirds of the cost of a hospitalization and surgical benefit program for their officers and employees and their families. Inasmuch as the Presidents feel that

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"these benefits should be continued for the families of Bank employees entering the armed forces of the United States, the Board authorizes the Bank to absorb the cost of continuing hospitalization and surgical benefits to the families of employees, except those having individual coverage only, who enter or who have entered the armed forces of the United States under the Selective Service Act of 1948 or the Service Extension Act of 1950 and who have such coverage at the time of entrance.

"In the opinion of the Board the Reserve Banks should follow a uniform policy with respect to the absorption of these costs. Since it appears that the administrative difficulties in collecting a fractional part of the premiums from the employee's family will more than offset the small amounts collected, absorption of the full cost of the benefit appears to be justified."

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon 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 October 5, 1950, were approved unanimously.

Memorandum dated October 3, 1950, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Alfred Paul Johnson as Secretary to Mr. Sherman, Assistant Secretary of the Board, on a temporary basis for a period of six months, with basic salary at the rate of \$3,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

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Memorandum dated October 5, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending that, effective immediately, Kenneth B. Williams, Chief of the National Income, Money Flows, and Labor Section be designated Acting Assistant Director of the Division of Research and Statistics during the period of Mr. Noyes' absence from the division.

Approved unanimously.

Letter to Mr. Brainard, Chairman and Federal Reserve Agent of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in Mr. Fletcher's letter of October 2, 1950, the Board of Governors approves, effective October 1, 1950, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
	<u>Head Office</u>	
James K. Armstrong	Alternate Assistant Federal Reserve Agent	\$4,720
Lester J. Henk	Alternate Assistant Federal Reserve Agent	5,200
Norman R. Matter	Assistant Federal Reserve Agent	4,720
	<u>Cincinnati Branch</u>	
W. Howard Marsh	Federal Reserve Agent's Representative	4,730
Harry H. Ostendorf	Federal Reserve Agent's Representative	5,020
	<u>Pittsburgh Branch</u>	
Wm. J. Cosgrove	Federal Reserve Agent's Representative	4,000
Gordon M. Trowbridge	Federal Reserve Agent's Representative"	4,140

Approved unanimously.

Letter to Mr. Caldwell, Federal Reserve Agent of the Federal

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Reserve Bank of Kansas City, reading as follows:

"In accordance with the request contained in your letter of October 2, 1950, the Board of Governors approves the appointment of Mr. Paul V. Wysong as Alternate Assistant Federal Reserve Agent, effective November 1, 1950, at his present salary of \$5,676 per annum, to succeed Dr. T. Bruce Robb.

"This approval is given with the understanding that Mr. Wysong will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"Mr. Wysong should execute the usual oath of office which should be forwarded to the Board of Governors."

Approved unanimously.

Telegram to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H and the special condition specifically stated hereafter, the Board approves the application of the "Pico Citizens Bank", Pico, California, for membership in the Federal Reserve System, effective if and when the bank is authorized to commence business by appropriate State authorities:

3. At the time of admission to membership, such bank shall have a paid-up



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and unimpaired capital stock of not less than \$100,000 and other capital funds of not less than \$50,000.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In reply to a recent inquiry concerning Regulation W, the Board has issued the following interpretation:

Tape or wire recorders not designed exclusively for commercial use are listed articles under item 8 of Group B of the Supplement."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

"Questions have been received regarding section 6(i) of Regulation W. The section states that 'a Registrant shall not extend any credit for financing the purchase of a listed article' if he knows or has reason to know of any other credit that would cause the total credit in connection with the purchase to exceed the amount of instalment credit permitted by the regulation.

"(1) The requirements of the section apply to a Registrant only in a case in which he is extending instalment credit. This is because section 2(a) of the present regulation limits the application of the entire regulation to cases in which the Registrant is extending instalment credit.

"(2) In any case in which the Registrant is extending instalment credit subject to the regulation for the purchase of a listed article, he must take into account under section 6(i) all credit, of which he knows or has reason to know, in connection with the purchase of the article. He must take into account not merely other credit that would be subject to the regulation,

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"but also 'other credit of any kind' in connection with the purchase of the article, including credit that is not itself subject to the regulation.

"(3) Single-payment credit is one example of credit that is not itself subject to the present provisions of the regulation but that must be taken into account under section 6(i) when the Registrant extends instalment credit subject to the regulation for the purchase of a listed article.

"(4) Similarly, credits exempted by section 7 of the regulation are also among the credits that must be taken into account under section 6(i). For example, section 7(k) exempts certain credits that are fully secured by withdrawable shares issued by or savings accounts held with the lender but such credits, like single-payment credits, must nevertheless be taken into account under section 6(i) by any Registrant extending any credit subject to the regulation for the purpose of purchasing a listed article."

Approved unanimously.

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

"Reurlet September 28. In view your recommendation, Board approves establishment and operation of branch at 3500 block East Speedway outside city limits of Tucson by 'Southern Arizona Bank and Trust Company', Tucson, Arizona, provided branch is established within six months and with understanding that your Counsel will review and satisfy himself as to legality of all steps taken to establish the branch. It is noted that appropriate State authorities have approved."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks, reading as follows:

"Supplementing our telegram of October 2 requesting information concerning the supply-demand

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"conditions and developments in consumers' goods markets please supply further information following same pattern each week until further notice, with telegrams to reach this office not later than Wednesday noon beginning October 11."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks and the Managing Officers of all Federal Reserve Bank Branches, reading as follows:

"Referring earlier wires re Regulation X, Residential Real Estate Credit. This wire to all Federal Reserve Banks is also being sent to Federal Reserve Bank branches merely for their information. Regulation to be released to press on Tuesday for publication in morning papers of Wednesday, October 11. Regulation will be effective Thursday, October 12. There will be press conference here Tuesday afternoon at which representatives of FHA and VA will be present. Has been suggested you consider arranging press conference at your bank to which local representatives of FHA and VA would be invited. Photo offset negatives and page proofs will be airmailed special delivery tomorrow afternoon to reach your head office on Sunday. Please have regulation printed as soon as negatives are received and mail copies to registrants to reach them not earlier than Wednesday morning but not later than Thursday morning. Press release will be wired to you as early as possible on Monday. Should be made clear at your press conference and in your press release that any registrant who does not have copy of regulation on Wednesday or Thursday can obtain copy at Federal Reserve Bank or branch. Have conferred with Presidents of some Federal Reserve Banks and in order that representatives of all Reserve Banks and branches may have benefit of discussions here, it has been decided to call meeting in Washington at one p.m. on Monday, October 9, of representatives of all Federal Reserve Banks and branches. Please advise by wire immediately who will attend meeting from your head office and branches and advise whether you desire us to make hotel reservations."

Approved unanimously.

  
Secretary.