

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 10, 1950.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on October 9, 1950, were approved unanimously.

Memorandum dated October 6, 1950, from Mr. Marget, Director of the Division of International Finance, recommending that the resignation of Miss Barbara Hinrichs, a research assistant in that Division, be accepted to be effective, in accordance with her request, October 8, 1950.

Approved unanimously.

Memorandum dated October 6, 1950, from Mr. Vest, General Counsel, recommending the appointment of James Bruce Kellison as a law clerk in the Legal Division, with basic salary at the rate of \$3,950 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.

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

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"This refers to your letter of October 3, 1950 enclosing a copy of a letter received by you from the Marine National Exchange Bank of Milwaukee, Wisconsin, regarding the question whether a Regulation V guarantee would cover a case where a bank which has taken an assignment of claims as security for a loan is later required by the Government, as the result of price revision, to refund amounts paid to the bank as assignee, even though the guarantee may have been terminated because of payment of the loan by the borrower. It is assumed that the ruling of the Comptroller General referred to in the Bank's letter is the opinion of May 17, 1949 which was enclosed with the Board's letter of June 16, 1949.

"There has been no authoritative opinion expressed with respect to the question raised. During the V-loan program of World War II the Armed Services agreed to permit banks, upon the cancellation of a guarantee agreement, to add a rider to the form of 'Statement of Termination' to the effect that, notwithstanding cancellation of the guarantee agreement, the agreement and all rights of the financing institution should continue in full force and effect 'with reference to the amount of any payments or application of funds, if any, heretofore made on said loan which may hereafter be recovered from the financing institution'. (See F.R.L.S. #9660) By analogy, it might be supposed that if a financing institution after payment of the loan by the borrower, should be required by the Government to refund amounts received by the bank as assignee, such amounts would be regarded as a 'loss on the loan' which would be shared ratably by the financing institution and the guaranteeing agency of the Government according to the guaranteed percentage. However, as previously indicated, there has not been any interpretation of the form of guarantee agreement of September 27, 1950 to this effect.

"This question and other questions relating to the rights of assignee banks under the Assignment of Claims Act, in the light of opinions of the Comptroller General, are being studied; and it is likely that we may discuss the whole problem with the guaranteeing agencies involved in the new V-loan program. We shall of course keep you advised of any developments in connection with this matter."

Approved unanimously.

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Telegram to the Presidents of all Federal Reserve Banks and Managing Officers of all Federal Reserve Bank Branches, prepared in accordance with the discussion at the meeting on October 6, 1950, reading as follows:

"Referring my wire October 6 re Regulation X, Residential Real Estate Credit. Text of press release to be given to press at press conference to be held at 2:00 p.m. today, Eastern Standard Time, is as follows. Statement is for release in morning papers of Wednesday, October 11:

'Restrictions on residential real estate construction credit, under authority of the Defense Production Act of 1950 and the President's Executive Order No. 10161 of September 9, 1950, were announced today on non-government-aided private credit, government-aided loans, and direct government veteran and farm loans on one and two-family houses.

'Credit restrictions on housing loans not insured, guaranteed, or extended by Government agencies are covered under Regulation X issued by the Board of Governors of the Federal Reserve System, with the concurrence of the Administrator of the Housing and Home Finance Agency. Companion restrictions on government-aided housing finance, on a basis conforming to those applied to other types of private credit, were announced by the Housing and Home Finance Administrator.

'The new regulations will call for down payments ranging from 10 per cent in the \$5,000 and under price range to 50 per cent at \$25,000 and over, with preference for veterans amounting in most cases to 10 percentage points. The regulations are geared to the marketing of housing production of not more than 800,000 to 850,000 new housing units next year.

'The regulations on both types become effective Thursday, October 12, 1950. They are designed to help reduce the currently high inflationary pressures by restricting the flow of funds into the mortgage market and through the reduction of new home construction activity next year, to assure that materials and labor required for the defense program will be available when needed.

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"The regulations apply to virtually all future loans on new construction of one and two-family houses. The restrictions agreed upon, according to Thomas B. McCabe, Chairman of the Board, and Raymond M. Foley, HHFA Administrator, are based on an estimate that, to curb serious inflation in the housing market and to meet presently estimated defense requirements, housing production in 1951 should be reduced about one-third below the current record level of homebuilding, or not more than 800,000 units. They are intended, however, to continue, as far as possible through control of credit, the relative preferences for veterans and the price distribution of housing sought by Congress in its legislative enactments. The situation will be kept under close review to determine whether defense or inflationary developments require later modifications.

'The regulations specify maximum amounts which can be borrowed, maximum maturities, and minimum amortization requirements for extensions of credit on residential construction, including the financing of major additions and improvements where the loan amount is more than \$2,500. They do not apply to non-government-aided loans on construction begun before noon on August 3, 1950, nor to loan commitments made prior to the effective date. Credits secured by new construction as well as credits extended to finance the purchase of homes are subject to the regulations.

'For those purchasing homes in the lower price brackets, the percentage down payments required are lower than for higher priced structures, and for veterans using GI loans the down payment requirements are lower at each price level than on other loans. Also, a longer period for repayment is permitted for those buying homes costing \$7,000 or less.

'In determining the amount that can be loaned, the lender must take into account all credit previously extended in connection with the property and still outstanding, as well as the amount of additional credit being extended. This provision brings supplementary borrowing, as well as first mortgage loans, within the scope of the regulation. In other words, minimum down payments must be made from the borrower's own funds in connection with extensions of credit on new residential construction

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"and not from the proceeds of supplemental mortgages or personal loans in excess of the permissible loan value.

'Down payments and maximum permissible loans for non-government loans and FHA-insured financing are identical and are calculated on the transaction price which is defined by the regulation as the amount paid or to be paid by the purchaser, exclusive of prepaid items of expense, such as taxes or insurance. Under the regulation, maximum permissible loan amounts, maximum maturities and minimum amortization provisions are specified.

<u>Properties having a value of:</u>	<u>May have outstanding credit of:</u>
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
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

'To carry out the requirement that the relative credit preferences for veterans be maintained, down payment requirements on loans guaranteed or made by the Veterans Administration are 10 per cent lower than on FHA and non-government-aided loans in the price range between \$6,000 and \$12,000, with the preference narrowing to 5 per cent in both the higher and lower price levels. The down payments on VA-guaranteed loans, also based on transaction price, are computed as follows:

<u>Value (Transaction Price)</u>	<u>Minimum Down Payment</u>
\$5,000 or less	5% of value
More than \$5,000 but not more than \$6,000	\$250

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<u>"Value (Transaction Price)</u>	<u>Minimum Down Payment</u>
More than \$6,000 but not more than \$9,000	\$250 plus 25% of excess of value over \$6,000
More than \$9,000 but not more than \$12,000	\$1,000 plus 30% of excess of value over \$9,000
More than \$12,000 but not more than \$15,000	\$1,900 plus 55% of excess of value over \$12,000
More than \$15,000 but not more than \$20,000	\$3,550 plus 75% of excess of value over \$15,000
More than \$20,000 but not more than \$24,250	\$7,300 plus 85% of excess of value over \$20,000
Over \$24,250	45% of value

'All real estate construction loans are limited to a maximum term of 20 years, except those made on properties valued at \$7,000 or less under a contract which calls for complete amortization of the loan in 25 years by equal monthly, quarterly, semi-annual or annual payments to principal or to principal and interest. However, a loan may be amortized on a basis that provides for annual reduction of principal at a minimum rate of 5 per cent per year of the original amount of the balance, and such loans are exempt from further amortization when the outstanding balance has been reduced to not more than 50 per cent of the value of the property as of the time the credit was extended.

'Although the regulation provides that a person must be registered to engage in the business of extending real estate construction credit, all persons engaged in the business will automatically be deemed to be registered for present purposes and no action on their part to secure registration is now required. However, the regulation provides that the Board may later, by public announcement, require registration statements to be filed by persons affected.

'During the formulation of Regulation X, and the regulations on government-aided housing credit, consultations and meetings were held with representatives of various groups affected. This includes manufacturers

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"of and dealers in building supplies and materials, labor and veterans' and other consumer organizations, banks and trust companies, savings banks, savings and loan associations, and building associations, mortgage bankers, insurance companies, builders, real estate dealers, and others interested in construction and mortgage finance.

'The new regulations apply only to residential real estate credit on one and two-family houses. However, consideration is being given to the early issuance of regulations applying to construction credit relating to rental-type projects, non-residential properties, and other real estate credit.

'Inquiries in regard to Regulation X should be directed to one of the 12 Federal Reserve Banks and their 24 branches, through which the regulation will be administered.

'Instructions to field offices for processing government-aided housing loans under the new regulations will be issued shortly by the Federal Housing Administration, the Veterans Administration, and the Department of Agriculture in their respective fields.'

Approved unanimously.

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

"Section 4(c) of Regulation X provides that 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. One method of showing compliance with this provision where no real estate construction credit is involved is a statement made by the borrower to the effect that the credit in question 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



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"construction, if any, is not a residence or a major addition or major improvement to a residence). Such a statement, if accepted in good faith by the Registrant, will be acceptable if stamped on the face of the borrower's note and the note is thereafter signed by him or, if made by the borrower in a letter, application form, or in any other written form whatever. Merely as a suggested form of statement which can be used if desired for this purpose, we have prepared the statement quoted below which it is suggested you reproduce and have available for registrants. Mimeograph copies of the statement are also going forward to you by airmail. We are also working on a Statement of the Borrower with respect to loans which involve real estate construction credit and will forward such a statement to you as soon as possible.

"STATEMENT OF BORROWER WITH RESPECT TO CREDIT WHICH IS NOT 'REAL ESTATE CONSTRUCTION CREDIT'

"(This form may be used where the Registrant does not have other records which reasonably demonstrate on their face that the credit is not 'real estate construction credit' under Regulation X of Board of Governors of the Federal Reserve System. Credit extended, insured or guaranteed by the United States or any agency thereof is not 'real estate construction credit' under Regulation X.)

\$ \_\_\_\_\_ "With respect to the credit in the amount of \_\_\_\_\_  
for which I am applying to \_\_\_\_\_

(Name of Registrant)

I certify under the penalties of Regulation X of the Board of Governors of the Federal Reserve System that the credit is not and will not be either 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 a new construction (or that such new construction, if any, is not a residence or a major addition or major improvement to a residence).

(Date)

(Borrower's Signature)

(Borrower's Address)

\*As used here, 'new construction' means any structure, or major addition or major improvement to a structure, which is or has been begun after August 3, 1950."



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Approved unanimously.

Letter for the signature of the Chairman, to Honorable Harry S. Truman, President of the United States, The White House, Washington, D. C., reading as follows:

"The Board will be glad to proceed in accordance with the request contained in your memorandum of September 28, 1950, that in performing the functions delegated to or vested in the Board by Executive Order 10161, the Board consult with the Attorney General and the Chairman of the Federal Trade Commission for the purpose of determining and, to the extent consistent with the principal objectives of the Defense Production Act and without impairing the defense effort, of eliminating any factors which may tend to suppress competition unduly, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power.

"To that end we are forwarding to the Attorney General and the Chairman of the Federal Trade Commission copies of Regulation V, Loan Guarantees for Defense Production, and Regulation X, Residential Real Estate Credit, which have been issued by the Board pursuant to the Defense Production Act and the Executive Order. We have been giving consideration to possible actions in connection with the voluntary agreements with respect to financing authorized by the Defense Production Act and the Executive Order and we will consult with the Attorney General and the Chairman of the Federal Trade Commission as required by Section 701 of the Order with respect to any such agreements.

"In accordance with the last paragraph of your memorandum, I or the members of the Board who will give special consideration to the matters delegated to the Board by the Executive Order will be available for consultation with the Attorney General and the Chairman of the Federal Trade Commission whenever desired."

Approved unanimously, with the understanding that copies would be sent

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to Attorney General McGrath and Mr.  
James M. Mead, Chairman of the Federal  
Trade Commission.

Letter to Mr. Victor H. Nyborg, President, Association of  
Better Business Bureaus, Inc., 723 Chrysler Building, New York  
17, New York, reading as follows:

"Thank you very much for your letter of September  
21, with which you forwarded a copy of your organiza-  
tion's press release covering the issuance of advertis-  
ing standards for consumer credit.

"Your constructive action relating to the Board's  
consumer credit Regulation W is appreciated indeed and  
we have forwarded copies of your letter and enclosures  
to the Federal Reserve Banks for their information."

Approved unanimously.

Memorandum dated October 6, 1950, from Mr. Thurston,  
recommending the payment of \$600 to cover the costs of the trip of  
Mr. Cellier, of Encyclopaedia Britannica Films Inc., to Washington  
and the preliminary animation drawings and showing of the film on  
the Federal Reserve System in the then incompleated stage to members  
of the Board's research staff, etc., with the understanding that the  
1950 budget of the Division of Administrative Services would be in-  
creased to cover this additional cost.

Approved unanimously.

  
Secretary.