

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, October 16, 1950.

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

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 13, 1950, were approved unanimously.

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

"In accordance with the request contained in Mr. Peyton's letter of October 10, 1950, the Board of Governors approves, effective October 16, 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>
M. G. Anderson	Alternate Assistant Federal Reserve Agent	\$4,250
W. S. Ferrian	Alternate Assistant Federal Reserve Agent	5,500
John Johnson	Alternate Assistant Federal Reserve Agent	5,100"

Approved unanimously.

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

"In accordance with the suggestion contained in your letter of October 9, 1950, the Board extends to January 2, 1951, the time within which the Merchants Trust & Savings Bank, Kenner, Louisiana, may accomplish membership."

Approved unanimously.

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Letter to Mr. Mangels, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of September 22, 1950, requesting the Board's opinion as to whether the Peoples Bank, Lakewood Village, California, may establish branches at South Street and Bellflower Boulevard and South Street and Lakewood Boulevard, Los Angeles County, without the Board's approval.

"The opinion of your Los Angeles branch is noted to the effect that the proposed locations are within the 'same unincorporated area' as the head office of the bank. It is assumed by this is meant the same unincorporated town or village of Los Angeles County and, with this understanding, it is the Board's opinion that the law permits the establishment of these branches without approval by the Board."

Approved unanimously.

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

"In response to a number of informal inquiries regarding policies for the employment of additional personnel required in connection with the administration of Regulation X, the Board of Governors would suggest the following: (1) Additional full-time officers or employees be handled in accordance with the established procedures; (2) Part-time consultants or advisers may be employed on a per diem basis. The Board is prepared to give prompt consideration to recommendations for the employment of part-time consultants outside of the established classification plan, if necessary, at rates not to exceed \$50.00 per day, plus actual transportation expenses and per diem in lieu of subsistence not to exceed \$15.00; (3) Members of advisory committees, if any, may be reimbursed on the same basis presently applicable to directors of the Banks. Please advise Board of any arrangements set up in your district for advisory committees."

Approved unanimously.

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

"The following questions have been received concerning Statements of the Borrowers in connection with Regulation X:

1. Question: A Registrant makes a loan to a mortgage company on a note secured by a pledge of collateral consisting of real estate mortgages, including some subject to Regulation X. May the Registrant rely upon a statement by the mortgage company that all of the pledged mortgages which are subject to Regulation X conform with the requirements of the regulation? Must the Registrant procure a copy of the Statement of the Borrower which the mortgagor signed, pursuant to section 4(c) of Regulation X, with respect to each pledged mortgage which is subject to Regulation X?

Answer: Section 4(a)(5) of Regulation X provides that no Registrant shall lend on any credit instrument evidencing real estate construction credit which is subject to and not exempt from the regulation, unless the terms of such credit conformed with the provisions of the Supplement to the regulation when such credit was originally extended, or conform at the time of such loan. In the case described, the Registrant may not rely upon the statement by the mortgage company to establish that the pledged mortgages which are subject to Regulation X conform with the requirements of the regulation. The Registrant, however, may rely upon a signed statement accepted in good faith in which the mortgage company states which of the pledged mortgages do, and which do not, evidence real estate construction credit subject to Regulation X; and in determining whether a mortgage which is subject to Regulation X conforms with the regulation, the Registrant may rely upon the facts stated in a copy of the Statement of the Borrower signed by the mortgagor and which the Registrant accepts in good faith.

2. Question: A Registrant makes an unsecured loan to a mortgage company, the proceeds of which are to be used by the mortgage company to make real estate loans, including some subject to Regulation X. Must the Registrant obtain any Statement of the Borrower?

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"Answer: As described, the loan by the Registrant to the mortgage company is not an extension of real estate construction credit or a loan on credit instruments evidencing real estate construction credit. The Registrant is required only to be satisfied, and maintain records which reasonably demonstrate on their face, that the loan to the mortgage company is not real estate construction credit. This requirement may be met by the execution by the mortgage company of a Statement of the Borrower of the kind described in the first paragraph of section 4(c) of Regulation X and the acceptance of the Statement by the Registrant in good faith."

Approved unanimously.

Telegram to Mr. Strothman, Assistant Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Re your wire October 11 concerning Statement of Borrower under Regulations W and X. Our letter of October 9 related to a Statement of Borrower which a Registrant is required to obtain under section 4(d) of Regulation W. Such letter was not intended to preclude the use of a rubber stamp notation if it is clear on the face of the document that the borrower intended that his signature relate to the notation.

"The statement in our wire of October 10 concerning a stamped notation on the face of the borrower's note in connection with Regulation X related to a situation in which a Registrant is not required to obtain a Statement of Borrower and such a Statement is merely one method of complying with the requirement that the Registrant be satisfied, and maintain records which reasonably demonstrate on their face, whether the credit is real estate construction credit. The use of a rubber stamp notation under Regulation X of course assumes the exercise of good faith by the Registrant, and that the borrower will, in fact, know that he is making the statement contained in such a notation."

Approved unanimously.

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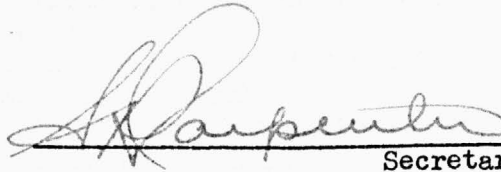
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Memorandum dated October 16, 1950, from Mr. Hooff, Assistant Counsel, recommending that in addition to the material previously submitted for publication in the Law Department of the October issue of the Federal Reserve Bulletin there be included statements in the form attached to the memorandum with respect to the following:

Consumer Credit
Amendment to Regulation W

Loan Guarantees for Defense Production
National Bank Loan Limitations

Approved unanimously.



Secretary.