

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 17, 1950. The Board met in the Board Room at 10:35 a.m.

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

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. Solomon, Assistant General Counsel
Mr. Shay, Assistant Counsel
Mr. Jones, Chief, Consumer Credit and Finances Section, Division of Research and Statistics
Mr. Pawley, Economist, Division of Research and Statistics
Mr. Allen, Personnel Assistant, Division of Personnel Administration

Mr. Lewis, Assistant Vice President of the Federal Reserve Bank of St. Louis, who was assisting in connection with the consumer credit regulation, was also present.

Mr. Norton stated that Mr. Evans had mentioned to him that he understood in connection with the restrictions on real estate credit under Regulation X, which became effective October 12, 1950, that offices of the Veterans Administration remained open all day on Saturday, October 14, to receive applications to be processed under terms available before the regulation became effective. He raised

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the question whether such action represented proper coordination of the program for restraining housing credit. Mr. Norton also stated that the action of Mr. Foley, Administrator of the Housing and Home Finance Agency, in liberalizing the regulations applicable to loans guaranteed by the Veterans Administration announced in the press late Friday afternoon, October 13, without consultation with the Board, raised the question of proper coordination of the program. This latter action, he said, lifted the 25 year maturity provision that had been applicable to Veterans Administration loans under the regulation as announced effective October 12, to provide that any veteran who indicated that he could not meet the payments imposed by a 20 or 25 year maturity would be permitted to have a maturity of as much as 30 years.

Mr. Vest stated that Mr. Noyes, Assistant Administrator of the Office of Real Estate Credit, and Mr. Baumann, Assistant General Counsel, were attending a meeting this morning arranged by the Housing and Home Finance Agency with the Veterans Administration, and that among other subjects he understood the two points mentioned by Mr. Norton were to be discussed.

There followed a discussion of the matter during which it was agreed that further consideration would be given to it in the light of information developed at the meeting attended by Messrs. Noyes and Baumann.

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In accordance with the understanding at the meeting on October 13, 1950, there was a discussion of the question whether charge accounts and single payment loans should be brought within the scope of Regulation W (Consumer Credit).

Mr. Lewis stated that Mr. Evans, who was unable to be present at this meeting because the hearings in connection with the Clayton Act proceeding against Transamerica Corporation, were in progress, questioned very seriously the advisability of expanding the scope of the Regulation in this manner, at this time.

Mr. Lewis and other members of the staff expressed the view that in all the circumstances and in view of the extremely strong reaction to Amendment No. 1 of the Regulation announced last week, it would be unwise to take such action now. It was Mr. Lewis' view that the action would not only result in further impairment of public support of the Regulation, but that there were also technical problems that would have to be given further consideration before the change was made.

During the ensuing discussion, the view was expressed that, from a purely economic standpoint, there was little justification for inclusion of such credit under the Regulation, although there might be some basis for regulating the use of charge accounts in order to meet the possible criticism that the regulation of installment credit was discriminatory against persons in lower income

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groups who were not likely to have charge account credit facilities.

It was also stated that, except for its psychological effect, the inclusion of charge account credit would have no restraining influence during the forthcoming Christmas shopping season inasmuch as the earliest possible effective date would be November 1, 1950 which would not result in freezing nonconforming charge accounts until January 10, 1951.

Following the discussion, it was agreed that no action would be taken at this time and that the matter would be given further consideration at a meeting on Tuesday, October 24, 1950.

Messrs. Lewis, Shay, Pawley, and Jones withdrew from the meeting at this point.

Mr. Carpenter stated that Mr. Evans felt that it would be desirable at this meeting to discuss the question of an increase in member bank reserve requirements, as discussed at the meeting of the Federal Open Market Committee on October 11, 1950, and at earlier meetings of the Board.

It was the view of all members of the Board who were present that the question was one of timing, particularly in relation to developments in the money market in connection with actions authorized by the Federal Open Market Committee, and it was agreed that the matter would be taken up for further consideration at a meeting on Friday, October 20, 1950.

Mr. Cherry, Assistant Counsel, joined the meeting at this

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point.

Mr. Szymczak referred to a report of the retirement committee of the Board of trustees of the Retirement System of the Federal Reserve Banks dated September 18, 1950, outlining a program for integrating the benefits of the Retirement System of the Federal Reserve Banks with those provided in the amended Social Security Act which will be applicable to employees of the Federal Reserve Banks on January 1, 1951. He also referred to a memorandum from the Division of Personnel Administration dated September 25, 1950, with respect to the proposed integration and to a supplemental memorandum prepared by the Division under date of October 6, 1950, presenting additional information with respect to questions arising in connection with the proposed integration. A copy of the memorandum dated October 6, 1950 had been sent to each member of the Board before this meeting.

The first question, Mr. Szymczak stated, had to do with a recommendation by the Retirement Committee that members who attain age 65 during or subsequent to the month in which the new Social Security law becomes effective for Federal Reserve Bank employees (January 1, 1951) and prior to July 1, 1952, be given the privilege (in the discretion of the employing Bank) of remaining in active service until July 1, 1952 in order that they may qualify for Social Security benefits. In a discussion, it was the consensus that this

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recommendation should be given favorable consideration except that it should apply to employees only, and that the question whether an officer in the bank (except the President and First Vice President who serve statutory terms) should continue to serve beyond age 65 should be considered on the basis of the circumstances in each individual case, and that therefore the existing procedures with respect to retention of officers beyond age 65 should continue to be followed.

Another question which Mr. Szymczak presented was a recommendation of the Retirement Committee that the Board review its authorizations (S-741 and S-905) to the Federal Reserve Banks to provide supplementary retirement benefits in cases of involuntary separations from service before age 65 with a view to permitting adjustments in cases where retirement earlier than age 65 is in the mutual interests of the member and the employing Bank and the member elects a special service retirement. Mr. Szymczak stated that he would recommend that the Board not change the authorizations in S-741 and S-905 since it was felt that the Reserve Banks could take up with the Board as special cases any which were not adequately taken care of under those letters.

Mr. Szymczak then referred to the recommendation of the Retirement Committee with respect to a change in the active service death benefit under the Retirement System, which now provides for a

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benefit equal to salary earned during the 12 months preceding death. The change proposed would provide that this benefit be increased by 5 per cent for each year of service after 16 years, with a maximum benefit equal to two years salary. This, Mr. Szymczak said, would be accompanied by an increase in the maximum limit, which is now \$25 thousand, so that it would be possible for the beneficiaries of a member to receive a payment of as much as \$50 thousand in the event of death in active service.

There followed a general discussion of the proposed plan for integration of the Social Security System with the retirement system of the Federal Reserve Banks and of the proposed changes discussed by Mr. Szymczak. During this discussion it was the consensus that the general plan proposed by the retirement committee for integration of the Social Security System with the Federal Reserve retirement system outlined in the report of the retirement committee dated September 15, 1950 was satisfactory and that the Chairman of the Board of Trustees of the Retirement System should be informed that the Board would give favorable consideration to the necessary amendments to the Rules and Regulations for effecting such integration. It was also the consensus that Mr. Gilbert should be informed that the Board would authorize the Federal Reserve Banks to continue employees (but not officers) in active service until July 1, 1952, in order to permit them to qualify for benefits under the Social Security

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Act even though they attained age 65 prior to that date. With respect to the recommendation that Federal Reserve Banks be permitted to make supplemental contributions in the case of involuntary separation before attainment of age 65, it was felt that no change in the existing blanket authorization should be made. The proposed change in the active service death benefit was discussed at some length but no conclusion was reached and it was understood that further consideration would be given to the matter at the meeting of the Board on Tuesday, October 24, 1950.

Mr. Evans and Mr. Townsend, Solicitor of the Board, joined the meeting at this time, and all of the members of the staff excepting Messrs. Carpenter, Morrill, and Townsend withdrew.

Mr. Townsend stated that he had been working with the Office of the Solicitor General of the United States in the preparation of the brief to be filed by the Solicitor General in connection with the petitions for writ of certiorari filed by Transamerica Corporation and Bank of America N. T. and S. A. to review the action of the Court of Appeals for the Ninth Circuit with respect to the 22 banks which it had converted into branches contrary to the restraining order issued by that Court last June. After reviewing the traditional relationship of the Solicitor General to the Supreme Court in cases involving the Government interest before the Supreme Court, Mr. Townsend made a statement substantially as follows:

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"In the very large majority of cases where the Solicitor General recommends that certiorari be not granted the Supreme Court denies the petition, and the reverse is generally true when the Solicitor General recommends that the petition be granted. In these circumstances the position taken in the brief to be filed by the Solicitor General in this case is of very great importance. In the preliminary discussions which I had with the representatives of the Solicitor General's office, they agreed that the petition should not be granted and a draft of brief in support of that position was undertaken. Subsequently, although lawyers for the other side discussed the matter with the Solicitor General and urged that he consent to certiorari, he did not acquiesce. I learned later that the Treasury Department had written a letter to the Solicitor General asking him to allow the Department to file a separate brief amicus curiae in which the Treasury would contend that the Board did not have jurisdiction under the Clayton Act to supervene its judgment over that of the Comptroller of the Currency in his decision to authorize the establishment of the branches in question. I urged the Solicitor General to refuse to grant that request and he followed that course. A later request from the Treasury that the Solicitor consent to certiorari on the single question of the jurisdiction of the Comptroller of the Currency and the Board was also denied by the Solicitor General.

"Subsequently a suggestion was made directly to the Solicitor that it would be appreciated if some way could be found by which the Treasury could argue the question before the Supreme Court. The Solicitor General agrees with the definite position taken by the members of his staff who are working on the case that the decision of the Circuit Court of Appeals was correct and that certiorari should not be granted, but the pressure to permit the Treasury to intervene has made his position a very difficult one.

"While this question is pending I have a copy of a statement submitted by the Treasury for inclusion verbatim in the Solicitor General's brief. Even this proposal places the Solicitor General in a difficult position. It contains not only a legal position that the Solicitor General has rejected but also substantial misstatements of fact (some of which Mr. Townsend read).

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"I called these statements to the attention of Mr. Stern of the Solicitor General's office with whom I have been working and I understand that the Treasury has been called to the Department of Justice to discuss the matter. I also told Mr. Stern that, if the draft of brief should be changed in such a way as to include material which was factually false or clearly unwarranted, it would be my duty to recommend to the Board that it consider what action it should take to prevent that from happening particularly in view of the unanimous opinion of the representatives of the Solicitor General's office that the question was not a valid one.

"I don't know what the outcome will be. I am bringing the matter to the attention of the Board at this time so that it will know what the developments are and that it may be necessary for it to take some action in connection with it."

Following Mr. Townsend's statement there was some discussion of possible steps that might be taken by the Board and Mr. Townsend suggested that nothing be done until further information was available as to what might be proposed for inclusion in the brief at which time he would report to the Board again.

At this point all of the members of the staff with the exception of Mr. Carpenter 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 16, 1950, were approved unanimously.

Memorandum dated October 9, 1950, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending that Miss Mary Jo Harrington, a clerk in that Division, be separated from

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service, effective October 9, 1950.

Approved unanimously.

Memorandum dated October 16, 1950, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending the appointment of Arthur S. Myers as Operating Engineer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$3,225 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination and subject to a satisfactory investigation of references.

Approved unanimously.

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

"In accordance with the request contained in your letter of October 11, 1950, the Board approves the designation of the following individuals as special assistant examiners for the Federal Reserve Bank of Boston:

Horace Schermerhorn, Jr.
George C. Underwood, II
Arnold Blackmur"

Approved unanimously.

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

"Reference is made to your letter of October 6, 1950, addressed to Governor Szymczak advising that the Board of Directors has authorized an extension of the leave of absence of Mr. George W. Mitchell, Senior Economist, to March 1, 1951, in order that he

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"might continue as Director of Finance for the State of Illinois.

"The Board will interpose no objection to the extension of Mr. Mitchell's leave of absence with the understanding that during his leave of absence he will not be engaged in any political activity which would be incompatible with his official status at the Reserve Bank."

Approved unanimously.

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

"Reference is made to your letter of July 11, 1950, advising that the Board of Directors at its meeting on June 27, 1950, voted to appoint Mr. E. R. Millard as a Vice President at a salary of \$15,000 per annum, to be effective whenever agreeable and suitable arrangements could be consummated at the Board.

"It is understood that arrangements have now been made whereby Mr. Millard may take up his new duties about December 1, 1950. Accordingly, the Board approves the payment of salary to Mr. E. R. Millard as a Vice President of the Federal Reserve Bank of San Francisco at the rate of \$15,000 per annum for the period beginning with the date on which he reports for duty and ending April 30, 1951."

Approved unanimously.

Letter to The First National Bank of Anniston, Anniston, Alabama, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for additional fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in

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"which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Alabama, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Atlanta.

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

"Reference is made to your letter of October 9, 1950, submitting the request of 'The Cleveland Trust Company', Cleveland, Ohio, for approval of the establishment of an additional branch in Euclid, Ohio.

"It is noted that the establishment of the proposed branch has been approved by the appropriate State authorities and in view of your recommendation, the Board of Governors approves the establishment and operation of an additional branch in Euclid, Ohio, by The Cleveland Trust Company, Cleveland, Ohio, provided such branch is established within six months of the date of this letter and with the understanding that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

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

"This refers to your letter dated September 15, 1950, containing a recommendation that the Board take the action necessary to grant the request of the

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"Lafayette National Bank of Brooklyn in New York', New York, New York, for permission to maintain the reserves required to be maintained by 'country' banks, instead of the reserves it is now required to carry as a reserve city bank.

"Pursuant to the provisions of Section 19 of the Federal Reserve Act, the Board has taken the following action, effective with the first semi-monthly reserve computation period beginning after the date of this letter:

(1) The Board's rulings of February 8, 1950 pertaining to reserve requirements of member banks located in the boroughs of Brooklyn and the Bronx has been amended so that a member bank having its head office in either of these boroughs, and having no branch in the Borough of Manhattan, will be eligible for permission to maintain the reserves required to be maintained by banks located outside of central reserve and reserve cities.

(2) In view of its location and the character of business transacted by it, as described in your letter, the Lafayette National Bank of Brooklyn in New York has been given permission to maintain the reserves to be maintained by banks located outside of central reserve and reserve cities.

"Please advise the Bank of the Board's action, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to Mr. Peyton, Chairman of the Conference of Presidents, Federal Reserve Bank of Minneapolis, reading as follows:

"At the meeting of the Board of Governors and the Presidents on June 15, 1950, it was agreed that the Secretary of the Board and Mr. Stead, Chairman of the Subcommittee on Relations of the Federal Reserve System with Schools and Colleges, would work out a suggested program for the distribution of System publications to teachers of money and banking for trial in two Federal Reserve Districts with the understanding that the proposed program would be submitted to the Presidents and the Board for approval.

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"As stated in the fourth progress report of Mr. Stead's subcommittee, it was suggested that the following program be tried out in the New York and St. Louis Federal Reserve Districts with the thought that should the trial program prove successful it could be put into effect in all Federal Reserve districts:

- (1) Teachers of Money and banking are to receive copies of
 - (a) the Monthly Review of the Federal Reserve district bank,
 - (b) the current issue of the Federal Reserve Bulletin,
 - (c) the current issue of the monthly Chart Book, and
 - (d) the Historical Chart Book.
- (2) The Federal Reserve banks distributing this material will accompany the mailing with a letter describing the availability of this and other System material to college and university libraries upon application. The teacher also is to be informed that he can receive regularly at no charge the Monthly Review, the Bulletin, and future revisions of the Historical Chart Book. A teacher who would have special need for regular issues of the monthly Chart Book is to make known such need.
- (3) Each Federal Reserve bank is to cover the cost of the initial mailing, but subsequent requests for regular receipt of the Bulletin and revisions of the Historical Chart Book are to be covered by adding to the free distribution list for such publications.

"Mr. Stead informs me that at a recent meeting of the Subcommittee, which was attended by representatives of the New York Bank, it was agreed that the New York Bank make its contacts with teachers of money and banking through bank relations visitors who will use a kit of publications. In this way the trial program will be conducted as part of a program already under way at that Bank. I understand that this change was approved informally by the Conference of Presidents.

"The Board has been advised that the Presidents' Conference approved the trial program at its recent meeting in Boston and the purpose of this letter is to advise that it also meets with the approval of the Board."

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Approved unanimously.

Letter to Honorable Frederick J. Lawton, Director of the Bureau of the Budget, Washington 25, D. C., reading as follows:

"This refers to your memorandum to the Heads of Executive Departments and Establishments dated October 4, 1950, requesting a list of statutes with which the Board is concerned that would be affected by the termination of the existence of a state of war or emergency.

"The only such statute which is of direct interest to the Board of Governors is section 5(b) of the Trading with the Enemy Act of 1917, as amended (40 Stat. 415; 40 Stat. 966; 48 Stat. 1; 54 Stat. 179; and 55 Stat. 839. U.S.C., Title 12, sec. 95a). This section is operative only 'during the time of war or during any other period of national emergency declared by the President' and is the basis for the authority of the Treasury Department in the field of control of foreign funds and for the operations of the Office of Alien Property. This section also contains authority relating to transfers of credit or payments between banking institutions.

"This section was the basis for the President's Executive Order No. 8843 of August 9, 1941, under which the Board of Governors was given authority to regulate consumer credit. This authority is incorporated by reference in section 601 of the Defense Production Act of 1950, Public Law 774, 81st Congress, approved September 8, 1950, which is now the basis for the Board's Regulation W. A suspension or termination of section 5(b) of the Trading with the Enemy Act of 1917 may raise serious questions of law in connection with the enforcement of Regulation W relating to consumer credit. Moreover, since Executive Order No. 8843 refers to the national emergency declared by the President on May 27, 1941, it is also desirable that action should not be taken to terminate that emergency for the purposes of section 5(b) of the Trading with the Enemy Act. We might also point out that the Joint Resolution to authorize the temporary continuation of regulation of consumer credit, approved August 8, 1947 (61 Stat. 921; U.S.C., Title 12, sec. 248 (Note)), provides

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"that the Board of Governors shall not exercise consumer credit controls pursuant to Executive Order No. 8843 and no such consumer credit controls shall be exercised after such date (November 1, 1947) except during the time of war beginning after the date of the enactment of this joint resolution or any national emergency declared by the President after the date of enactment of this joint resolution."

Approved unanimously.

Telegram for the signature of the Chairman to the Chairmen of all Federal Reserve Banks, reading as follows:

"The Board has received from the President of the United States a letter requesting that the Board submit (a) a statement of subjects which it would propose for inclusion in the State of the Union Message and the Economic Report to be presented to Congress in January 1951, and (b) a report on legislative proposals of interest to the Federal Reserve System.

"In accordance with procedures followed in previous years in connection with similar requests from the President, I would appreciate receiving any comments or suggestions that you may wish to make as to what the Board might say in response to the President's request. It is believed that areas of legislative proposals might include the following:

- (1) Regulation of bank holding companies.
- (2) Capital requirements for admission of State banks to membership and for out-of-town branches of State member banks.
- (3) Consideration of changes in the law with respect to reserves of member banks, including the question of extending authority to cover nonmember banks.

In addition, consideration may also be given to renewal of proposal for modifying limitation on cost of Federal Reserve branch buildings depending upon whether economic conditions are such as to make proposal timely.

"You will note that the requested material is to be submitted by December 1. In order that there may be time for consideration of your comments before the

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"reports requested of the Board are due, it will be very helpful if your comments could reach the Board by mail or by wire not later than November 6, 1950.

"A copy of this wire is being sent to the President of your Bank.

"The text of the President's letter is as follows:

You are requested to submit to me by December 1, 1950, the subjects which you propose for inclusion in the State of the Union Message and the Economic Report of the President to be presented to the Congress in January 1951, together with a brief explanation of each subject, its relationship to your current activities and plans, and the relative emphasis which you would recommend. You should include any views which you may care to present at that time concerning special Presidential messages during the forthcoming session of the Eighty-second Congress. The original and nine copies of your reply should be forwarded directly to me at the White House.

You are also requested to submit by December 1, 1950, a report on your final legislative program for the first session of the Eighty-second Congress. This report should re-state and bring up to date the preliminary legislative program submitted to the Director of the Bureau of the Budget in accordance with the Call for Estimates for Fiscal Year 1952. Your report should include all legislation which you desire to have considered at the forthcoming session. Proposals should be grouped according to their relative importance and urgency from your standpoint. In addition to the information requested in the Call for Estimates, your report should include your views on the timing of Congressional consideration for each item. If a proposal contained in your final program did not appear in the preliminary program, your report should state the circumstances which have led to the addition. The original and nine copies of this final report of your legislative plans for the next session should be forwarded to me through the Director of the Bureau of the Budget. It will not, of course, replace the individual submissions required by Budget Circular No. A-19, although you may, if you desire, present legislative

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"drafts for clearance in connection with your program submission.

The information requested is desired for consideration in connection with the new Congress convening on January 3, 1951. Information concerning any proposals to be made to the present Congress, upon conclusion of the current recess, will be handled separately through usual channels.

"The White House staff, the Council of Economic Advisers, or the Bureau of the Budget may make additional requests for material or arrange for discussions with your representatives to whatever extent may be required."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks,

reading as follows:

"The principle applicable under section 8(h) of Regulation W with respect to contracts entered into before September 18, 1950, applies to contracts entered into September 18 through October 15 on the terms then effective under the regulation."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks,

reading as follows:

"The prohibitions of section 4(a)(5) of Regulation X with respect to a Registrant purchasing, discounting, or lending on credit instruments evidencing real estate construction credit apply only to credit instruments evidencing credit which is subject to and not exempt from Regulation X. Under section 6(b) of the regulation, credit extended pursuant to firm commitments made prior to the effective date of the regulation is exempt. Accordingly, there is no prohibition with respect to purchasing, discounting, or lending on credit instruments evidencing such credit."

Approved unanimously.

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

"Question has been raised as to what constitutes compliance with provisions of first sentence of section 4(c) of Regulation X. This 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. If the Registrant is satisfied that the credit is not real estate construction credit, the provisions of this sentence may be met by the retention by the bank of any of the following: (1) A statement of the borrower, on the form now available at the Federal Reserve Banks or contained in a loan application or any letter or other writing, which is signed by the borrower and states the facts indicated in the second sentence of section 4(c); (2) any correspondence, memoranda, loan applications or other documents of any kind, whether or not originating in connection with the credit in question, which on the basis of a reasonable interpretation show that the credit is not real estate construction credit; or (3) a written endorsement or rubber stamp legend, placed upon the credit instrument or upon other papers in connection with the credit and signed by the Registrant or a responsible officer of the Registrant, stating that he is satisfied that the credit in question is not real estate construction credit."

Approved unanimously.

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

"Section 6(b) of Regulation X provides that the provisions of the regulation shall not apply to or affect any credit extended pursuant to any firm commitment to extend credit made prior to the effective date of the regulation. Inquiries have been received concerning the application of this section to agreements entered into by a Registrant and a builder prior to the effective date of the

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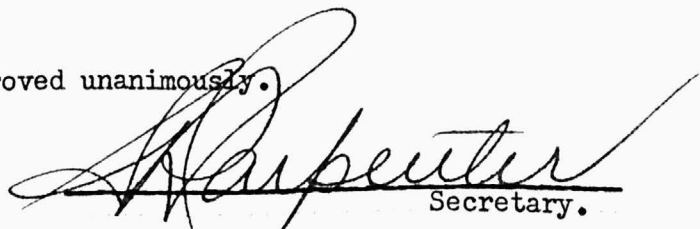
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"regulation under which the Registrant agreed to lend a stated amount on stated terms to any purchaser of particular residences built or to be built by the builder if the purchaser has a credit standing satisfactory to the Registrant and if the residence has been constructed according to prescribed plans and specifications.

"Section 6(b) defines a firm commitment as '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.'

"If an agreement of the kind described above is in writing, it constitutes a firm commitment within the meaning of clause (1) of the definition of that term and the fact that the borrower (purchaser) must have a credit standing satisfactory to the Registrant is merely one of the conditions with which the borrower must comply. If such an agreement is not in writing, it constitutes a firm commitment within the meaning of clause (2) of the definition if the builder has taken specific action in reliance upon the agreement prior to the effective date of the regulation and the Registrant furnishes the required information to the appropriate Federal Reserve Bank within 30 days after the effective date of the regulation. For this purpose, the term 'prospective borrower' in clause (2) of the definition is deemed to include the builder to whom the commitment was made."

Approved unanimously.


Secretary.