Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, October 18, 1950. The Board met in the Board Room at 10:45 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 to the Board
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Connell, Technical Assistant, Division of Bank Operations

Mr. Powell referred to the discussion at the meeting of the Board with the Federal Advisory Council on October 3, 1950, concerning the reasons underlying the Board’s decision to approve a two-day maximum deferment on cash items, saying that of the points which were raised during the discussion he felt some consideration might be given to the question whether it would be advantageous to adopt, during a period of bank credit expansion such as the present, a step which would add to member banks reserves through an increase in Reserve Bank float of more than $100 million. He went on to say that in a subsequent conversation which he and Chairman McCabe had with Messrs. Muir and Perkins, of the Reserve City Bankers Association, Mr. Perkins had indicated that the
recent meeting between the Federal Reserve Bank of New York and representatives of the City's clearing-house banks had been beneficial in removing the suspicion on the part of the banks that the Federal Reserve System was attempting to destroy the correspondent banking system and that, it would be desirable if similar meetings could be held in each of the other Federal Reserve Districts before the effective date of the two-day maximum deferment was announced in order that this subject might be included on the agenda for discussion. In his judgment, Mr. Powell said, a delay of a few weeks in the effective date of two-day deferment would do no harm and it would be well to comply with this request of the Reserve City Bankers Association, especially since announcements of this nature in the past without advance notification had evoked considerable criticism.

Chairman McCabe said that from the reports that he had heard of the New York meeting, it had been highly constructive, that similar meetings might go far toward dissipating misunderstandings concerning the objectives of the Federal Reserve System, and that he agreed with Mr. Powell that since there appeared to be no urgency in announcing the effective date, it would be desirable to hold such meetings in each Reserve District except New York over the course of the next month.

Mr. Szymczak said that he could perceive no objection to a postponement of the effective date for the purpose of holding such meetings, provided it was made clear to those attending that the Board's decision
on this matter had already been made and that the purpose of taking it up at the meetings was purely to outline the reasons for the change.

After a discussion in the light of a statement by Mr. Eccles of the consideration given by the System to the problem in the past, Mr. Powell's recommendation that the announcement of the effective date of adoption of the two-day maximum deferment schedule be postponed for a reasonable period in order to permit its discussion at the series of meetings above referred to was approved unanimously.

Mr. Powell then stated that the Presidents of the Reserve Banks had submitted to the Board for approval certain recommendations adopted at the recent Presidents Conference that the Banks extend their free services to member banks by absorbing to a greater extent the cost of leased wire telegrams in connection with (1) cash items and (2) wire transfers of funds for member banks. He also said that, while the amounts of absorbed costs would be small, these steps might cause further misunderstanding on the part of correspondent banks if they were adopted without prior discussion as was the case when the Federal Reserve Banks adopted the practice of absorbing postage on cash items sent by a member bank to another Federal Reserve Bank or branch. In these circumstances, Mr. Powell suggested that the Board postpone action on the Presidents' recommendations pending their discussion at the meetings in the various Federal Reserve Districts with correspondent bankers to which he had previously referred.
This suggestion was approved unanimously, with the understanding that in the letter to the Presidents advising them of the Board's action it would be suggested that the member of the Federal Advisory Council for the district be invited to attend the meeting with correspondence bankers.

At this point Messrs. Horbett and Connell withdrew, and Mr. Cherry, Assistant Counsel, and Mr. Lewis, of the St. Louis Reserve Bank, who was assisting the Board temporarily in connection with consumer credit matters, joined the meeting.

Mr. Powell referred to the suggestion of the Federal Advisory Council at the meeting with the Board on October 3 that the Board assume leadership in initiating voluntary agreements among commercial banks to restrict credit pursuant to the provisions of the Defense Production Act of 1950, and to the countersuggestion by the Board that such a program should be worked out under the leadership of the American Bankers Association. Following the meeting, Mr. Powell said, President Brown of the Federal Advisory Council communicated with Mr. Cravens, Chairman of the Credit Policy Committee of the American Bankers Association, who called a meeting in Chicago last week, and thereafter in company with Mr. Fleming, a member of the Committee, conferred with Chairman McCabe and himself regarding a proposed plan calling for (1) a nation-wide voluntary program, similar to the one adopted in 1948, for credit curtailment by all commercial banks, and (2) the establishment of voluntary committees in large cities to screen loans...
by bankers and other lenders, such as insurance companies, in excess of $1 million. Mr. Powell said that he understood Mr. Cravens' committee had held another meeting yesterday with representatives of clearing-house banks in New York, Chicago, Philadelphia, and Boston to consider such a program and to draft a preliminary form of voluntary agreement for transmission to the Attorney General and the Federal Trade Commission through the Board.

In addition, Mr. Powell said, Mr. Riefler had advanced the thought that the voluntary agreement principle might be extended to apply the terms of Regulation X, Real Estate Credit, to credit on one- and two-family residential housing which is not covered by the Regulation.

Mr. Powell went on to say that yesterday afternoon Messrs. Vest and Cherry conferred with Mr. Correa, Special Assistant to the Attorney General, regarding the program proposed by Mr. Cravens. At Mr. Powell's request, Mr. Vest summarized the discussion which he and Mr. Cherry had had with Mr. Correa, stating that the latter had told them that a letter to the Board was in process in which it would be stated that any committee of the trade which intended to meet with respect to proposals of this kind would have to take certain steps in order to avoid possible conflict with the anti-trust laws. These steps would include (1) a finding by the Government that voluntary agreements in the area involved were necessary in the public interest, (2) appointment of the members of the committees directly or indirectly by the Board although existing
committees could be recognized for this purpose, (3) prescribing of the agenda of all meetings by the Board, (4) designation by the Board of the chairman of the meetings, and (5) maintenance of adequate minutes of the meetings. Mr. Vest said that in view of Mr. Correa's statements, he felt that Mr. Cravens should be advised in order that he might guide himself accordingly.

During a discussion of this matter, Chairman McCabe requested Mr. Vest to furnish him a memorandum of his conversation with Mr. Correa yesterday, together with a brief extract of the legal points involved, in order that he (Chairman McCabe) might discuss the proposed program informally with Attorney General McGrath.

Mr. Vest said that he had mentioned to Mr. Correa also the possibility of extending the voluntary agreements into the field of real estate credit, as mentioned heretofore, and that Mr. Correa had indicated that he would study the matter and advise the Board in that respect. Mr. Vest added that he had not discussed with Mr. Correa what clearance by the Department of Justice, if any, would be necessary in order to hold the meetings suggested by Mr. Cravens' committee for the purpose of initiating the voluntary program for curtailment of credit and Chairman McCabe indicated that he would discuss this point with Mr. McGrath.

Mr. Vest went on to say that he had discussed the proposed Voluntary agreements with Mr. Kelley, General Counsel of the Federal
Trade Commission, who informed him that the Commission had taken no particular steps, but requested that the Commission be consulted to the extent called for by law.

At the conclusion of the discussion, it was understood that Mr. Vest would call Mr. Cravens and inform him of the conversation with Mr. Correa.

Mr. Carpenter called attention to the receipt of numerous telegrams and letters commenting on the recent action of the Board in amending its Regulation W, Consumer Credit, and presented a statement explaining the Board's action which the staff had prepared, after consultation with Mr. Evans, for use as an enclosure with replies made to such communications.

The statement was approved unanimously in the following form:

"The action of the Board of Governors in amending Regulation W (Consumer Credit), effective October 16, to make it more restrictive was a part of a general program designed to reduce inflationary pressures generated by excessive credit expansion and to contribute to credit conditions appropriate for a growing economy subject to heavy rearmament demands. Inflationary trends, if unchecked, would lead to disastrous consequences for this country. Inflationary trends cannot be curbed without some inconvenience and sacrifice. The Board believes that the present terms of Regulation W are no more stringent than the current inflationary dangers and the requirements of the defense effort justify. Since early September when Regulation W was re-instated under the authority of the Defense Production Act, outstanding credit has continued to expand. This expansion has taken place from peak levels and follows..."
extremely sharp increases during the summer. Since mid-June outstanding bank credit has increased by over $4 billion, a record rate of increase for this period of the year. Expansion of consumer instalment credit has been responsible for contributing heavily to this exceptional growth in the money supply. The reasons for the Board's action in tightening the Regulation were set forth by Chairman McCabe in the following statement:

'The Board's action was based upon consideration of reports from Federal Reserve Banks and other sources in the field in all parts of the country which reflect continued upward pressures on prices in the five weeks since the reissuance of the Regulation was announced on September 8, 1950. While the intensity of these pressures on the market varies somewhat from time to time the fact remains that the underlying inflationary forces are unabated and have been augmented by the continuing growth of bank credit as well as credit in specific areas, including instalment credit. More vigorous application of regulation of instalment credit, coincident with the imposition of the real estate credit controls, is therefore in order so that these and other credit measures may most effectively serve in the effort to hold the line until further fiscal measures, as nearly as possible on a pay-as-you-go basis, and such additional credit measures as may be necessary can be brought into play. This is in accordance with the President's Mid-Year Economic Report of July 26 in which he stated that first reliance should be placed upon fiscal and credit measures and that this would make less necessary resort to direct controls. Likewise, the action is pursuant to the statement of August 18 in which the Reserve System declared its purpose to use all the means at its command to restrain further expansion of bank credit.

'Prospective pressures on productive capacity, manpower supplies, and the price structure arising out of expanded defense and military aid programs will be increasingly heavy. This action was taken in the light of the System's statutory responsibilities,
"both under the Federal Reserve Act and under the Defense Production Act, to reduce inflationary forces particularly in various credit areas; to help maintain the purchasing power of the dollar; and to assist other agencies in assuring that the needs of the defense program are adequately met."

At this point, Mr. Sherman, Assistant Secretary, and Mr. Cherry, Assistant Counsel, withdrew from the meeting.

Referring to recent newspaper and periodical articles which quoted Board spokesmen as having made various statements, Chairman McCabe stated that it was particularly important at this time that the views and actions of the Board be reflected in the press as accurately as possible, that Mr. Thurston had been designated as the member of the Board's staff with whom all statements should be cleared, and that every precaution should be taken to insure in the future that when Board personnel are called upon to give information to the press they do so in Mr. Thurston's presence or after having checked with him as to the material to be given.

Chairman McCabe then mentioned the numerous requests being made of him, other members of the Board, and the Board's staff, to fill speaking engagements and said that, since it was impossible to comply with more than a small portion of these invitations, it might be well to consider a procedure which would provide for statements by representatives of the Board at the meetings, conventions, etc. where they could be most effective. Members of the Board present indicated the practices
which they had followed in accepting speaking engagements and the methods
which they had used in clearing the text of their addresses in advance
with the other members of the Board, following which Chairman McCabe
suggested that Mr. Thurston and Mr. Carpenter, be asked to submit to
the Board for consideration recommendations as to how this problem
could be handled.

This suggestion was approved
unanimously.

At this point all of the members of the staff with the exception
of Messrs. Carpenter 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 17, 1950, were approved unanimously.

Letter to Honorable Maple T. Harl, Chairman, Federal Deposit
Insurance Corporation, Washington 25, D. C., reading as follows:

"Reference is made to your letter dated October
5, 1950, concerning the application of the Washington
County Bank, Blair, Nebraska, for continuance of in-
insurance after withdrawal from membership.

"No corrective programs have been urged upon the
bank, or agreed to by it, in connection with which
the Board of Governors would consider it desirable
to incorporate conditions with respect to continuance
of insurance.

"The asset condition of the bank is considered
sound and its management satisfactory. Also, capital
has been increased regularly and substantially through
conservation of earnings. However, capital ratios
are low with respect to both total assets and risk assets."

Approved unanimously.
Telegram to Mr. Heflin, Counsel of the Federal Reserve Bank of Richmond, reading as follows:

"Your wire October 13 re ground rents. Under section 2(j) of Regulation X "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, * * *(2) the unpaid principal amount of any indebtedness incurred or assumed by the vendee or to which the property remains subject, * * *'. It is the view of the Board that under the ground rent system in Maryland the definition would include an amount equal to the capitalization of the rent reserved. Accordingly, the amount of the capitalization of the rent reserved is a part of the sale price and must be considered as credit outstanding with respect to the property.

"Under section 4(a)(1) * * * no Registrant shall, either in connection with a sale or otherwise: (1) extend real estate construction credit with respect to residential property * * * if the amount of credit outstanding with respect to the property * * * exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such property; * * *'. Since the amount equal to the capitalization of the rent reserved is credit outstanding with respect to the property, it must therefore be taken into consideration when a Registrant computes the amount of credit which he may extend in a ground rent transaction.

"For example, the owner of the fee 'sells' a leasehold interest for a term of 99 years, the lessee paying a 'sale price' of $10,000, and the owner reserving a ground rent of $120 per annum (6 per cent of $2,000). In this case, the 'bona fide sale price' would be $12,000 and the maximum loan value $8,900. Since the amount equal to the capitalization of the rent reserved is credit outstanding with respect to the property, section 4(a)(1) would prohibit other extensions of credit in a total amount exceeding $6,900.

"In view of the peculiar nature of ground rents, and the fact that the period of payment of such rents is indefinite, the maturity and amortization provisions in the Supplement will not be deemed to be applicable to ground rent leases entered into in good faith."
"This interpretation may be made available to the general public."

Approved unanimously.

Memorandum dated September 27, 1950, from Mr. Marget, Director of the Division of International Finance, recommending that Samuel I. Katz, an economist in the Division of International Finance, be authorized to proceed to London, England to make a first-hand study of the domestic financial situation and of balance-of-payments prospects of the United Kingdom, with the understanding that the assignment in England would extend for a period of about six weeks, plus travel time. The memorandum also recommended that, in conformity with the present provisions of the Government standardized travel regulations regarding England, Mr. Katz be granted per diem of $10 while in London and $8 while on trips outside the city during the period that he is serving on official business in that country.

Approved with the understanding that he would not depart for England until after Mr. Dembitz, Assistant Director of the Division of International Finance, had returned from his present trip to Europe, Mr. Evans not voting.

[Signature]
Secretary.