

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 24, 1950. The Board met in the Board Room at 10:45 a.m.

PRESENT: Mr. McCabe, Chairman
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. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Nelson, Director, Division of Personnel Administration
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Assistant Administrator, Office of Real Estate Credit
Mr. Allen, Personnel Assistant, Division of Personnel Administration
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a review of developments in the Government securities market during the past week. Following a general discussion of this subject, Messrs. Youngdahl and Leach withdrew from the meeting.

At the meeting of the Board on October 17, 1950, there was a discussion of the integration of 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 Federal Reserve

10/24/50

-2-

Bank employees on January 1, 1951, and it was understood that, with the modifications referred to in the minutes for that meeting, the recommendations of the Retirement Committee contained in its report to the Board of Trustees of the Retirement System dated September 8, 1950, would be given favorable consideration by the Board if formally approved by the Trustees. A decision on recommendations by the Retirement Committee for a change in the active service death benefit to provide that it be increased by 5 per cent for each year of service after the sixteenth year of service, with a maximum benefit equal to two years' salary, and that the maximum amount receivable because of death in active service be increased from \$25 to \$50 thousand, was deferred pending further consideration by the Board.

Mr. Szymczak stated that, according to the actuary's estimate, liberalization of the active service death benefit in the manner proposed would require a lump-sum payment by the Reserve Banks of approximately \$2,500,000 on account of accrued liability, that it also would increase slightly the bank's current rate of contribution for the death benefit, but that a reduction in contribution for the service benefit would result in a net decrease from 10.23 per cent to 9.47 per cent of payroll in the total rate of contribution to the Retirement System (exclusive of the Social Security tax which would be 1.35 per cent of payroll at the outset). Mr. Szymczak also said that a change in the active service death benefit was not a necessary

10/24/50

-3-

part of the program for integration of the Retirement System with Social Security and that it might be considered separately.

Mr. Powell outlined the background of studies and discussions which had resulted in the recommendation of the Retirement Committee for a change in the active service death benefit, saying that the matter had come up in 1948 as a part of a study by the Conference of Chairmen of the Federal Reserve Banks. That study, he said, was directed primarily at making service with the Federal Reserve Banks more attractive, especially to officers whose salaries frequently were lower than those paid to officers in commercial banks having comparable responsibilities, and the recommendation of the Chairmen's Conference was that changes in the Retirement System including a change in the active service death benefit be made since it did not seem practicable to increase the general scale of salaries of Federal Reserve Bank officers. Mr. Powell also said that the question of a change in the active service death benefit had been raised from time to time by members of the Retirement System, some of whom felt strongly that the reserve resulting from contributions of a Federal Reserve Bank on behalf of a member should be vested in the member. It was also generally recognized, he said, that an inequity existed in the benefits payable in the case of a member who died shortly before retirement and one with comparable service who died shortly after retirement, and the change recommended by the Retirement Committee after extensive study of the matter would meet in part both

10/24/50

-4-

of these points. Although the matter had been under consideration for some time, Mr. Powell said, the Retirement Committee felt that it would be preferable to defer action pending determination of the question whether the Federal Reserve Banks would be brought under Social Security. That question having now been settled, it seemed appropriate that the proposed change in active service death benefit be made simultaneously, especially since application of the Social Security System to employees of the Federal Reserve Banks would provide extremely liberal benefits for families of younger persons who died in active service or for persons having relatively short periods of employment in the Federal Reserve System, whereas relatively little benefit would be provided by Social Security for long-service employees who died in active service unless they had minor children. Accordingly, he felt that the proposed change in the active service death benefit would not only correct the recognized inequity in the present System but would be a desirable change from the standpoint of "old timers" in the Federal Reserve Banks, many of whom provide the backbone staff for carrying on Reserve Bank operations.

Chairman McCabe expressed the view that a Retirement System should not attempt to provide death benefits, stating that responsibilities of employers could be met through providing adequate group life insurance for which the employers paid the premium. He went on to suggest that, inasmuch as the Retirement System now provided a death benefit for members dying in active service equal to

10/24/50

-5-

one year's salary in lieu of group life insurance, and since there were group insurance policies at eight of the twelve Federal Reserve Banks under which employees were permitted to carry at their own cost limited amounts of life insurance, action on the recommendation of the Retirement Committee for a change in the active service death benefit be deferred until a thorough study could be made with respect to the policy to be followed in the future for providing through the Retirement System, group insurance arrangements, or otherwise for payments to be made to beneficiaries upon the death of a member of the staff of the Board or the Federal Reserve Banks.

Following a discussion, unanimous approval was given to (1) Chairman McCabe's foregoing suggestion and (2) a letter to Mr. Gilbert, Chairman, Board of Trustees of the Retirement System of the Federal Reserve Banks, c/o Federal Reserve Bank of Dallas, Dallas, Texas, as follows:

"The Board of Governors has reviewed the report of the Retirement Committee to the Board of Trustees of the Retirement System dated September 8, 1950, outlining a plan for integrating the benefits of the Retirement System of the Federal Reserve Banks with the benefits provided by the amended Social Security Act which will be effective January 1, 1951.

"The Board will give favorable consideration to the plan of integration outlined in the report with the following exceptions:

(1) The Retirement Committee recommends that members who attain age 65 between January 1, 1951, and July 1, 1952, be given the privilege (in the discretion of the employing Banks) of remaining in active service until July 1, 1952, in order that they may qualify for Social Security benefits. The Board feels that this blanket arrangement should apply only to employees, that

10/24/50

-6-

"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.

(2) In its report the Retirement Committee recommends that the Board of Governors be requested to review its authorizations to the Banks to provide supplementary retirement benefits in cases of involuntary separations from service before age 65 (S-741 and S-905), with a view to making appropriate adjustments in the authority in the light of the situation which will be created by integration. Since the reduction in the pension from one per cent to one-half of one per cent for each year of service applies only to service after December 31, 1950, it appears that an employee retiring in the next few years will receive a retirement allowance which will not be materially different from what it would be under the present Rules and Regulations. Therefore, it is felt that the current authorizations will permit the payment of adequate allowances in practically all cases of retirement before age 65. If, however, any Bank feels that a hardship will result from an involuntary separation, it may, as at present, present the facts to the Board of Governors for specific action.

(3) The Retirement Committee recommends the active service death benefit be increased by five per cent for each year of service beyond sixteen years with a maximum equal to two years' salary. It also recommends that the maximum permissible amount payable as an active service death benefit be increased from \$25,000 to \$50,000. The Board desires to defer the consideration of an adjustment in the active service death benefit until a thorough study can be made with respect to the policy to be followed in the future for provision through the retirement system, group insurance arrangements, or otherwise for payments to be made to beneficiaries upon the death of a member of the staff of the Board or the Federal Reserve Banks. Because of the short time remaining, it is not expected that the study will be completed before the next meeting of the Board of Trustees.

"At the joint meeting of the Board of Governors and the Presidents on September 27, 1950, there was gen-

10/24/50

-7-

"eral agreement that if the suggested plan of integration of the Retirement System with Social Security was put into effect, a booklet or some other means of communication explaining the plan to members of the staff would be highly desirable. It is understood that you will make the necessary arrangements for the preparation of such information.

"Copies of this letter are being mailed to the Presidents of the Federal Reserve Banks."

During the foregoing discussion, Mr. Fauver, Administrative Assistant to the Chairman, joined the meeting, and at its conclusion, Mr. Fisher, Administrator of the Office of Real Estate Credit, Mr. Saulnier, Special Assistant to the Administrator, Mr. Clarke, Consultant to the Administrator, and Mr. Benner, Special Assistant to the Administrator, entered the room, and Mr. Allen withdrew.

Mr. Norton referred to the discussion at the meeting on October 17, 1950 of a large volume of applications for housing credit said to have been received by the Federal Housing Administration and Veterans Administration offices immediately prior to the effective date of Regulation X, Real Estate Credit, October 12, 1950. He then called upon Mr. Noyes, who reported on a meeting which he and Mr. Baumann, Assistant General Counsel, attended on October 17 of representatives of the Housing and Home Finance Agency and the Veterans Administration at which there was a discussion of this question.

After presenting statistics which showed a marked rise in the volume of Federal Housing Administration and Veterans Administration applications immediately before October 12, Mr. Noyes stated

10/24/50

-8-

that he understood these last minute applications were to be processed under strict interpretation of applicable regulations. With respect to the report that offices of the Veterans Administration remained open until late Saturday, October 14 to receive applications, Mr. Noyes stated that he had been informed that in order to receive consideration under pre-October 12 regulations, the applications must have been received before the latter date. In addition, if approved, commitments would be under the procedure in effect from July 19, 1950 to October 12, 1950, which provided for an increase of 5 percentage points in down payments on both Federal Housing Administration and Veterans Administration loans and, in addition, that all increases in costs subsequent to July 1, 1950, be covered by the down payment, with the result that down payment provisions would not necessarily be much more favorable than on applications approved under post-October 12 regulations. Nevertheless, Mr. Noyes said, the volume of housing starts that might be expected to result during the next few months from the applications filed under Government aided programs shortly before Regulation X became effective was potentially around 420,000 dwelling units.

In the ensuing discussion it was the consensus that it was too early to estimate with any degree of accuracy the probable reduction in housing starts that might be brought about by Regulation X.

Mr. Norton stated that as a means of further restricting the

10/24/50

-9-

use of materials and labor in construction, the National Production Authority contemplated issuing an order within the next few days which would prohibit certain types of non-residential construction. At his request, Mr. Noyes read a list of the types of construction which it was expected would be included in the order and in a subsequent comment, Mr. Saulnier stated that out of total private construction of about \$16 billion during 1949, the amount of construction in the entire field that would be covered by the order approximated only \$300 million, indicating that the effectiveness of the order would be relatively minor in reducing total construction activity.

Mr. Fisher stated that the staff had been continuing its study of the application of Regulation X to multi-family housing and that an appropriate amendment was being prepared for consideration by the Board. He also said that there was considerable question whether it would be practicable to apply credit restrictions to industrial construction and that probably the most practicable means of restriction would be by limiting the purposes for which such construction could be undertaken. It was his understanding that, while the National Production Authority was studying the problem of further limitations on commercial construction, that office would favor the Board of Governors doing what it could through credit restrictions in that field as a means of lessening the problem faced by the Authority. Mr. Fisher thought there was a greater possibility of

10/24/50

-10-

accomplishing something through credit restrictions in the commercial field than in industrial construction.

At Mr. Fisher's request, Mr. Saulnier reported on visits to lenders in Hartford, Boston, and New York last week, and stated that the reaction was that the Board had done a good job in drafting Regulation X. He and Mr. Clarke also discussed the current situation in multiple-family, cooperative, and public housing, particularly as affected by Federal legislation in these fields.

Mr. Szymczak and Mr. Fisher withdrew at this point.

Mr. Young referred to a memorandum which he, Mr. Noyes and Mr. Williams, Acting Assistant Director of the Division of Research and Statistics prepared under date of October 24, 1950, recommending that as a means of developing information on the effects of credit restrictions under Regulations W, Consumer Credit, and X, Real Estate Credit, the Board authorize negotiations with the Survey Research Center of the University of Michigan for the conduct of supplementary surveys to ascertain the liquid asset position and other pertinent financial data with respect to purchases of new homes and major consumer durable goods. Mr. Young stated that planning costs for such a survey would not exceed \$5,000 and the cost of six monthly surveys, beginning in December 1950 and ending in May 1951, would approximate \$75,000. Mr. Young went on to say that other organizations including the Mortgage Bankers Association of America and the National Association of Home Builders of the United States might be interested

10/24/50

-11-

in participating in the surveys.

The proposal for the survey was discussed, and it was understood that further consideration would be given to it at a later meeting of the Board.

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 23, 1950, were approved unanimously.

Memorandum dated October 20, 1950, from Mr. Boothe, Assistant Director of the Division of Administrative Services, recommending the appointment of Burlon F. Yates as a telegraph operator in that Division, subject to a satisfactory investigation of his references, on a temporary indefinite basis, with basic salary at the rate of \$3,100 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.

Memorandum dated October 20, 1950, from Mr. Myrick, Assistant Director of the Division of Bank Operations, recommending the appointment of Miss Barbara Bauman as a clerk in that Division, subject to a satisfactory investigation of her references, on a tem-

10/24/50

-12-

porary indefinite basis, with basic salary at the rate of \$2,650 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"This letter is in confirmation of the several conversations with respect to the service of Mr. Edward A. Wayne, Vice President of your Bank, as Acting Director of the Board's Division of Examinations. In that connection there is attached a copy of a letter which is going forward today to the Presidents of all of the Federal Reserve Banks with respect to Mr. Wayne's temporary appointment.

"It is understood that Mr. Wayne will remain on the payroll of the Federal Reserve Bank of Richmond and that the Board will reimburse your Bank for his salary and travel and other official expenses including hotel accommodations in Washington. Since Mr. Wayne will retain his present home and will have occasion frequently to travel between Washington and Richmond, such travel will be regarded as reimbursable official travel. Reimbursement for Mr. Wayne's salary and official expenses as outlined above will be on such basis as is approved by the Board's Personnel Committee."

Approved unanimously.

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

"Reurlet October 18, 1950. Board approves designation of Edward Clegg and Dupert M. Sewell as special assistant examiners for the Federal Reserve Bank of Atlanta."

Approved unanimously.

10/24/50

-13-

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Because of the unusual circumstances mentioned in your letter of October 16, 1950, the Board of Governors approves the payment of salary to the following officers at the rates indicated, for the period October 1, 1950, through May 31, 1951. These rates, according to your letter of October 16, 1950, are the rates which were fixed by your Directors.

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
F. C. Magee	Assistant Cashier, San Antonio Branch	\$5,800
T. C. Arnold	Assistant Cashier, El Paso Branch"	5,500

Approved unanimously.

Telegram to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reurlet October 18, 1950. It is assumed that Morris E. Lile's Commission as an assistant examiner has been cancelled, therefore, the Board approves his designation as special assistant examiner."

Approved unanimously.

Telegram to Mr. Symms, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Re your wire October 20. Although Defense Production Act authorizes guarantees to both public and private financing institutions Executive Order 10161 authorizes Federal Reserve Banks to act as fiscal agents in making guarantees only with respect to private financing institutions. Consequently, Regulation V does not apply to guarantees to public financing institutions such as Reconstruction Finance Corporation and Federal Reserve Banks therefore will not handle applications for guarantees received from

10/24/50

-14-

"RFC. We have not been advised that any procedure has been established for handling such guarantees."

Approved unanimously.

Letter prepared for Chairman McCabe's signature in accordance with the discussion at the meeting on October 18, 1950, to Mr. Erickson, President of the Federal Reserve Bank of Boston, reading as follows:

"On October 11, Governor Powell and I had lunch with Mr. Earl R. Muir, President of the Louisville Trust Company and President of the Reserve City Bankers Association, and Mr. Gilbert H. Perkins, Vice President of the Chemical Bank and Trust Company of New York and Chairman of the Federal Reserve Relations Committee of the Reserve City Bankers Association. At that meeting they told us about a very worth while meeting, held in New York, attended by officials of the Federal Reserve Bank of New York and senior officials of the New York commercial banks which do a substantial amount of correspondent bank business. They told us that they had suggested to Mr. Sproul the desirability of similar meetings in all of the other eleven Federal Reserve Districts. I understand that Mr. Sproul relayed their request to the Presidents' Conference in Boston on September 21 and 22.

"If you are planning to hold such a meeting in your District, may I suggest three topics for discussion? (1) An explanation of two-day maximum deferment of cash items. (2) The question of absorbing additional telegraphic expense as outlined in the letter, dated October 4, 1950, from Mr. Van Nice to Mr. Carpenter. (3) Voluntary agreements among lenders to further the purposes of the Defense Production Act of 1950.

"With reference to two-day maximum deferment of cash items, the Board has written a letter to Mr. John N. Peyton, Chairman of the Conference of Presidents, a copy of which is attached. Also attached, with the idea of being helpful to you in any discussions which you are planning with the representatives

10/24/50

-15-

"of the correspondent banks, are the memorandum, a chart and maps presented to the Federal Advisory Council at their last meeting.

"On the question of absorbing additional telegraphic expense in connection with wire transfers for member banks and telegrams sent over leased wires in connection with the collection of cash items, it has occurred to the Board that, before the Board takes formal action, these matters might be discussed at any meetings with correspondent banks which you may hold in the near future. We note that such discussion was recommended by the Subcommittee on Bank and Public Relations and Free Services of the Conference of Reserve Bank Presidents. It would seem appropriate to invite your District representative on the Federal Advisory Council to attend the meeting at which these points are discussed. A copy of the Board's letter to President Peyton, Chairman of the Conference of Presidents, relative to these recommendations is attached.

"The voluntary agreement procedure is one which was written into the Defense Production Act of 1950 at the request of the Board on recommendation from the Federal Advisory Council. It constitutes section 708 of the Act and Part VII of the President's Executive Order of September 9, 1950, delegating certain functions of the Act. A brief statement by the Legal Division of the Board of Governors is attached which restates section 708 of the Act and Part VII of the Executive Order in somewhat more concrete language.

"Voluntary agreements among lenders to refrain from making loans might be used for a variety of purposes in the restraint of inflation and to further the other objectives of the Defense Production Act of 1950. In the opinion of the Board of Governors, there is one type of credit in which voluntary restraints among lenders might be particularly timely in some localities. This is in the field of uninsured loans on existing dwellings which are not covered by the authorizations which gave rise to Regulation X. It is believed that with the curtailment of residential construction under Regulation X the demand for existing dwellings will grow, resulting in higher prices for those structures. There might be considerable differences in lending limits and down payment provisions between lenders.

"With a view to exploring the need for such vol-

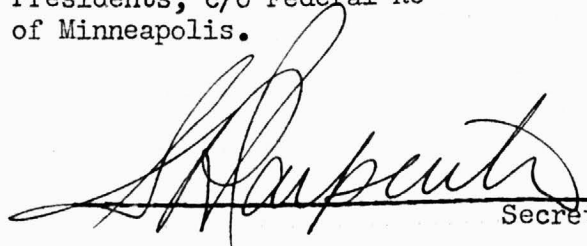
10/24/50

-16-

"untary agreements among lenders on existing dwellings, the Board of Governors is conducting a series of conferences with representatives of: (1) Federal Home Loan Bank Board; (2) The Life Insurance Association of America; (3) the Mortgage Bankers Association; (4) the American Bankers Association; (5) the Reserve City Bankers Association; (6) the Comptroller of the Currency; (7) the Federal Deposit Insurance Corporation; (8) Supervisors of State banks; and others. In line with these conferences, it would be most helpful if the Presidents of the Federal Reserve Banks would discuss the voluntary agreement procedure and particularly such procedure with reference to uninsured loans on existing dwellings with the representatives of correspondent banks in their Districts at any meetings which they may hold.

"The Board of Governors would be greatly interested in the views on the questions developed at such meetings, as well as any other comments and reactions to this type of meeting."

Approved unanimously, together with identical letters to the Presidents of the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, Dallas, and San Francisco, with the understanding that copies would be sent to Messrs. Sproul, President of the Federal Reserve Bank of New York, and Peyton, Chairman of the Conference of Presidents, c/o Federal Reserve Bank of Minneapolis.


Secretary.