

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 17, 1950.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
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 November 16, 1950, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 14, by the Federal Reserve Bank of Atlanta on November 15, by the Federal Reserve Banks of New York, Philadelphia, and Chicago on November 16, by the Federal Reserve Banks of St. Louis and Kansas City on November 17, 1950, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memoranda from Mr. Marget, Director of the Division of International Finance, recommending increases in the basic annual salaries of the following employees in that Division, effective November 26, 1950:

11/17/50

-2-

<u>Date of Memo and Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
11/10/50 Florence I. Jaffy	Economist	\$4,725	\$5,400
11/13/50 Robert Solomon	Economist	4,725	5,400

Approved unanimously.

Memoranda dated October 30, 1950, from Mr. Marget, Director of the Division of International Finance, recommending increases in the basic annual salaries of the following employees in that Division, effective November 26, 1950:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Frank M. Tamagna	Acting Chief, Financial Operations and Policy Section	\$8,800	\$9,000
Arthur B. Hersey	Chief, Special Studies Section	8,800	9,200

Approved unanimously.

In accordance with the informal discussion at the meeting of the Board on November 14, 1950, consideration was given to the recommendations contained in a memorandum submitted by Mr. Carpenter under date of November 15, 1950, and reading as follows:

"As the members of the Board know, there have been informal discussions of the organization of the staff with respect to the administration of Regulations W and X and the suggestion has been made that the Board undertake to obtain the services on a temporary basis of Mr. Arthur Phelan, Vice President of the Federal Reserve Bank of New York, to serve as Director of a new division of the staff to be called the Division of Selective Credit Regulation. Mr. Sproul advised Chairman McCabe yesterday through Mr. Rounds that the Bank would be willing to make the services of Mr. Phelan available for this purpose and that he is prepared to report for duty on Monday, November 20, 1950.

11/17/50

-3-

"In accordance with the informal discussion at the meeting of the Board on Tuesday, it is recommended that the Board approve the following arrangement:

1. Effective as soon as Mr. Phelan recommends that the change be made, there will be created in the staff a new division to be called the Division of Selective Credit Regulation which will take over (1) the activities and personnel in the Division of Bank Operations engaged on work in connection with Regulation W, and (2) the activities and personnel in the Division of Real Estate Credit which Division will thereupon be discontinued.
2. The Federal Reserve Bank of New York will make the services of Mr. Phelan available to the Board to enable him to serve for a temporary period beginning November 20, 1950, as a member of the Board's staff and as soon as the new Division of Selective Credit Regulation is created he will be appointed the Director of that Division. It will be understood that the period of his service will be for at least three months with the understanding that in January if his services are still needed the Board will request that the arrangement under which his services are made available be extended for a further period of three or four months.
3. Effective as of the date upon which the new Division of Selective Credit Regulation is created, Mr. Charles T. Fisher, Jr., who has urged that he be relieved as promptly as possible of his duties as Administrator of the Office of Real Estate Credit, will continue as a Special Consultant to the Board on financial and credit matters with the same compensation and allowances for official travel as were approved by the Board for him as Administrator of the Office of Real Estate Credit.
4. Mr. Phelan will remain on the pay roll of the Federal Reserve Bank of New York and the Board will reimburse the Bank for his salary and travel and other official expenses incurred by him, including hotel accommodations in Washington.

11/17/50

-4-

"Since he will retain his present home and will have occasion to travel frequently between Washington and his home, such travel will be regarded as reimbursable official travel. Reimbursement of salary and official expenses as outlined in this paragraph will be on such basis as is approved by the Board's Personnel Committee."

Approved unanimously, with the understanding that the appropriate accounts in the 1950 Budget of the Office of Real Estate Credit would be increased by amounts sufficient to cover the costs of reimbursing the Federal Reserve Bank of New York for Mr. Phelan's services and travel expenses prior to establishment of a Division of Selective Credit Regulation.

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

"Receipt is acknowledged of your letter of November 14 advising that your Bank has consented to an extension of the arrangements with the Department of State pursuant to which Mr. Fred H. Klopstock has been made available on a part-time basis to serve the Bureau of German Affairs as a consultant on the proposed German banking reorganization, and that a leave of absence without pay has been granted to Mr. Eugene R. Schlesinger in order that his services may be available on a part-time basis as a consultant to the Washington office of the Economic Commission for Latin America of the United Nations, this arrangement to terminate on or before March 31, 1951.

"These arrangements, which have been discussed informally by your Bank with members of the Board's staff, have been brought to the attention of the Board and are noted without objection."

Approved unanimously.

11/17/50

-5-

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of November 8, 1950, requesting the Board of Governors to approve an increase in the salary structure of the Federal Reserve Bank of Kansas City.

"The Board of Governors approves the following minimum and maximum salaries for the respective grades of the Federal Reserve Bank of Kansas City, including the Branches, effective immediately:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1440	\$1980
2	1620	2220
3	1800	2460
4	2040	2760
5	2280	3120
6	2580	3480
7	2880	3900
8	3180	4320
9	3600	4860
10	4020	5460
11	4500	6060
12	5040	6780
13	5640	7560
14	6300	8460
15	7020	9480
16	7860	10620

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than January 31, 1951."

Approved, Mr. Vardaman
voting "no".

Letter to Honorable Charles W. Tobey, United States Senate,
Washington, D. C., reading as follows:

11/17/50

-6-

"Thank you very much for referring to us Mr. Bishop's letter concerning the new restrictions on housing credit. We welcome all constructive comment and criticism, whether favorable or adverse.

"As you know the new regulations were authorized by Congress in the Defense Production Act of 1950. In writing Title VI of this Act Congress recognized the substantial inflation already existing in the housing field and took vigorous steps to prevent further inflationary pressures and to assure the availability of materials and labor required for the defense program.

"It is unfortunate that it is necessary to employ such regulations to restrain inflation; we believe it desirable, whenever possible to rely upon voluntary action to do the job. But past experience has shown that credit - even though sound, and usually through no fault of lenders - does contribute to inflation when the supply of goods is limited. The expansion of credit, under current circumstances, adds to demand at a time when part of the supply of goods must be diverted to defense purposes. The real estate credit controls reflect the general philosophy of the Federal Reserve System that it is better to attack inflation at the source than to combat its symptoms. We feel that indirect controls such as these are preferable, in the present situation, to direct controls over prices, wages, and the like, which interfere in the daily lives of millions of people and are much more destructive of individual initiative.

"It is the expectation of the Board and the Federal Housing authorities that the regulation will reduce the volume of housing construction from the record levels of 1950. It has been suggested that it would be desirable if the production of new housing units next year could be cut to about 800,000. Should the regulation have that effect, such a level of construction would still compare favorably with the high levels of construction activity in other years since the war.

"Please do not hesitate to call upon us if we can be of further service."

Approved unanimously.

11/17/50

-7-

Letter to Honorable Wayne L. Hays, House of Representatives,
Washington, D. C., reading as follows:

"This refers to your letter of November 10, 1950, in which you quote a telegram from Mr. William Kress Cronin, President, Cronin China Company, Minerva, Ohio, concerning Regulation W.

"Apparently the 'Group E category ten dollar cut off' referred to by Mr. Cronin arose from an unconfirmed news report. Although such a possible change had been the subject of confidential consideration by this Board's staff and the Federal Reserve Banks, it has not been, and is not presently, under consideration by the Board of Governors.

"The Board's staff, often in consultation with the Federal Reserve Banks, is constantly considering ideas and suggestions in connection with the general work of the System including problems in connection with Regulation W. This method of operation insures thorough consideration of the various technical and other aspects of these problems and often results in many tentative ideas being discarded without any need for outside consultation or formal Board consideration. This, of course, is done on a confidential basis to avoid the very thing that the communication from Mr. Cronin illustrates. It is not the Board's wish to cause needless unrest among trade groups because of staff studies of possibilities which may never be considered by the Board.

"If we can be of any further assistance, please do not hesitate to write."

Approved unanimously, with the understanding that similar replies would be made in other cases where applicable.

Letter to Honorable Edward J. Robeson, Jr., House of Representatives, Washington, D. C., reading as follows:

"This is in reply to your letter of October 27 enclosing a further letter from Mr. R. Silk, Jr., President of Patrick and Silk, Newport News, Virginia, discussing the terms of this Board's Regulation W, governing consumer credit.

11/17/50

-8-

"We note that among other things Mr. Silk contends that insufficient notice was given before the recent amendment to the Regulation was effective. We have heard this same protest in various forms, most of them claiming that by its action in adopting the amendment this Board violated the provisions of Section 709 of the Defense Production Act relating to conferences with trade representatives.

"We shall appreciate it if you will assure Mr. Silk that all aspects of the regulation were thoroughly explored with representatives of various industries before the original regulation was issued effective September 18, 1950. The Board fully recognized at that time that the trade representatives favored terms even easier than those prescribed in the original regulation. As a result of those consultations the Board also was well aware that many sellers and lenders would not be in sympathy with the recent amendment. After giving careful consideration to those facts, the Board concluded that the terms issued effective September 18 and as amended effective October 16 should be prescribed in the public interest in order to help in protecting the national economy and the defense effort against the disastrous consequences of further inflationary pressures.

"The Board was also faced with the fact that in the period prior to the September 18 effective date of the original Regulation there had been a large expansion of credit as a result of forward buying and high-pressure selling based on the anticipated terms of the new Regulation. In addition to the fact that the Board was fully cognizant of the views of the industry representatives, the publicity attendant upon further consultations with such representatives would have raised serious danger of further expansion of credit similar to that which had preceded the September 18 effective date.

"In the circumstances, the Board was convinced, and stated in publishing the amendment in the Federal Register that: 'Special circumstances have rendered impracticable and contrary to the interest of the national defense consultation with industry representatives, including trade association representatives, in the formulation of the above amendment; and, therefore, as authorized by the aforesaid section 709, the amendment has been issued without such consultation.'

11/17/50

-9-

"Mr. Silk also expresses the belief that this Board 'had no detailed analysis of the effects of Regulation W' when the amendment was adopted. The responsibilities delegated to us by the Congress are in the broad fields of money and credit. Therefore, we try to look at all of the special credit powers granted to the Board against a background of the general credit situation. Regulation W in the field of consumer credit, Regulation X in real estate credit, Regulations T and U with regard to security loans and margin requirements are all types of specialized credit instruments designed to supplement general credit controls such as discount rates and open market operations. When dealing with inflationary pressures, these in turn must be coordinated with fiscal policies to achieve maximum effectiveness.

"Looking at the general credit situation, there are alarming symptoms of the extent to which inflationary forces are already at work. It is truly startling, for instance, to realize that the total loans of all commercial banks are estimated to have increased more than \$5 billion since the beginning of hostilities in Korea. This may be compared to an expansion less than \$1 billion in the comparable period of 1949, and to \$3 billion in the same months in 1947, which, as you will remember, was a highly inflationary period.

"The growth in consumer credit outstanding and real estate mortgage credit during this period has been a major cause of this increase in credit. Nearly \$2 billion of new consumer instalment credit was extended during the third quarter of this year -- a record volume -- and the net growth in outstandings during that period was roughly 20 per cent larger than in the comparable 1949 months. The increase during the first nine months of this year was larger than the annual increase during any other postwar year. The story for real estate credit is equally striking and of much greater significance in its volume and effect in expanding bank credit -- or, in other words, in adding to the already excessive money supply.

"These few figures on the credit situation help to point up our concern over the growth in credit. As you know, there are two sources of demand or buying power -- money and credit. The man who borrows \$100 is just as potent a customer as the man who gets it in his pay check. So long as the demand is relatively in balance with the supply of goods

11/17/50

-10-

"all is well from an economic standpoint. However, the defense program now under way hits an economy already moving at full steam, which is quite different from the situation in 1940-41. If the defense program is to be met, there will of necessity be cutbacks in the output of civilian goods. Therefore, the credit controls are designed to restore more of a balance between total demand and the supply of available goods. If this objective is not accomplished, then the result, with demand in excess of supply, will be higher prices and continuing inflationary trends.

"We are constantly reviewing the factors relating to these regulations. We are getting excellent cooperation from the trade in supplying the latest data on market trends and, of course, are constantly receiving reports from the twelve Federal Reserve Banks and their twenty-four branches on the situation in all parts of the country. I believe you will agree that our record of previous administration of these Regulations demonstrates that we maintain an open mind on such questions and we have been quick to adapt the Regulations to changing economic conditions. This we are prepared to do again whenever the underlying economic facts warrant such action.

"We thank you for referring Mr. Silk's second letter to us. We are glad to receive such expressions from the public for inclusion in our continuing study of the consumer credit field."

Approved unanimously.

Telegram to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Retel November 14 concerning application of Regulation X in case involving proposed loan to builder to finance construction of houses where builder holds an October 11 firm commitment covering loans to purchasers of the houses. We agree that procedure outlined in your telegram is not prohibited by Regulation X."

Approved unanimously.

11/17/50

-11-

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

"The purpose of this letter is to transmit the Board's views on the administration and enforcement of Regulation X, and to inform you of the program already initiated for the correlation of the enforcement program with other supervisory authorities.

"Enforcement by Supervisory Agencies -- The responsibility which the law has placed on the Federal Reserve System for the regulation and limitation of real estate construction credit makes it essential that an effective and uniform enforcement procedure be established throughout the country. As a means of correlating the activities of all supervisory authorities in a uniform procedure, a summary of the general actions to be taken by the various supervisors is set forth in the attached 'Outline of Enforcement Program for Regulation X'.

"Recently, meetings have been held in Washington with representatives of supervisory authorities for the purpose of discussing the general enforcement procedure to be followed in connection with Regulation X. These representatives concurred in the program set forth in the attached Outline, and gave assurances of cooperation in the enforcement of the Regulation.

"Representations from the following groups were present:

The Comptroller of the Currency
Federal Deposit Insurance Corporation
Home Loan Bank Board
Farm Credit Administration
National Association of Supervisors
of State Banks
National Association of Insurance
Commissioners

"As mentioned in section I-B-2 of the Outline, the Board will continue to maintain contact with the head offices of the cooperating Federal supervisory agencies, but expects the Federal Reserve Banks to maintain contacts with the regional offices of those agencies, assisting them in any way possible. Copies of the regulation have been supplied to the Federal supervisory agencies for the use of their field staffs, and an adequate supply of the 'Outline of Enforcement' will be forwarded to them.

11/17/50

-12-

"The Board would like each Federal Reserve Bank to maintain close contact with State supervisors and assist them in whatever manner is feasible in providing effective supervision of financial institutions subject only to State supervision. Copies of the Outline should be forwarded directly by the Federal Reserve Banks to State supervisors. It will be the responsibility of the Federal Reserve Banks to work out with the State authorities, if necessary, the means of handling such State institutions as may not be appropriately covered under the State program.

"Administration and Enforcement by Reserve Banks --
The Board would like to be informed about the program for the administration of Regulation X now in force in the Federal Reserve Banks. This information should include the names of official personnel and others directly responsible for the administration of the Regulation in the Banks and branches, and the general methods which have been pursued to bring to the attention of the trade and the public information about Regulation X. It would also be of interest to know the scope of the program contemplated for the enforcement of the Regulation through investigational procedure and, in this connection, it is contemplated that the Reserve Banks will furnish the Board with monthly reports in respect to activities in connection with the enforcement of Regulation X. You will be advised shortly of the nature of such reports.

"Of greatest importance at this time is the formulation of plans for the institution of an effective investigative program. The Board is aware of the difficulties which are involved in organizing an adequate staff of investigators, especially in view of the June 30, 1951, expiration date. However, it is prepared to approve whatever cost may be reasonably necessary to organize an adequate investigational program, and would appreciate the inauguration about January 1, 1951, of field investigations since they are unquestionably a most important part of the enforcement procedure.

"The basic investigative procedure is summarized in the Outline of Enforcement Program attached hereto, and because of the relatively short period between now and the expiration date, the Board believes that the activities there outlined should be conducted on a reasonably broad scale.

11/17/50

-13-

"It is not possible to establish an exact measure of the investigative work that should be accomplished, and the results of future experience will need to be employed to determine satisfactory goals which will establish an effective enforcement of the Regulation. The objective to be attained probably cannot be defined in terms of a set percentage of registrants to be investigated. Rather, a selective approach is suggested which will concentrate the effort in places where the most can be accomplished. It seems essential, for instance, that investigations be made of a reasonable proportion of large real estate and mortgage company registrants, especially F.H.A. approved mortgagees, since a substantial volume of all new residential construction is financed through such organizations. A representative selection of other kinds of registrants for investigation is necessary, and it may be desirable that Regulation W and Regulation X investigations of companies whose extensions of credit may be subject to the provisions of both regulations be made at the same time.

"In connection with the regular examinations of State member banks, it is expected that under the current policy, they will be covered at least once a year.

"Registration -- No decision has been made respecting the necessity for a formal registration. However, the Board would be interested in knowing whether a list has been compiled of possible registrants in your district, and, if so, how many registrants are included who are not regularly examined by a supervisory agency.

"Statement of the Borrower -- Discussions with Federal supervisory agencies elicited the information that they believe many financial institutions are not sufficiently well informed of their responsibility for the maintenance of records which disclose whether extensions of credit are or are not real estate construction credit. They urged that, if it has not already been done, a circular letter be sent to all banks (and other known registrants) setting forth the means by which compliance with the first sentence of section 4(c) of Regulation X may be demonstrated. If such a circular letter is deemed to be advisable in your district, it should include the minimal requirements suggested in the Board's telegram S-1166.

11/17/50

-14-

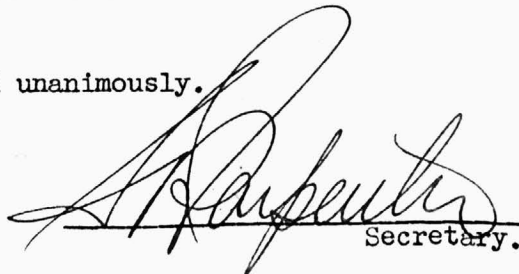
"Handbook for Regulation X -- Consideration is being given to the preparation of a handbook containing the Regulation, amendments and interpretations, similar to that formerly distributed for Regulation W. Would such a handbook be of assistance to the staff of your institution?

"Public Relations -- The emphasis placed on the enforcement program in this letter is not intended to divert attention from other important administrative activities, particularly an educational program designed to obtain amicable public acceptance of Regulation X. In fairness to those affected by the Regulation, including home owners, home-buyers and registrants alike, the Board believes that a vigorous educational effort should be continued to acquaint such persons with the purpose of the law and the effect of Regulation X on them and their businesses. It is also necessary that educational activities form a part of the investigational procedure, for, while an early and vigorous enforcement will create respect for the Regulation, it is desirable that observance of the Regulation be obtained to the greatest extent possible by the voluntary acquiescence of registrants.

"The effective administration of Regulation X, whether for a short or a longer period, presupposes a continuous exchange of information between the Board and the Reserve Banks. It is anticipated that you will keep the Board informed of the conditions in your district and the special problems which you encounter in the administration and enforcement of the Regulation. It will be appreciated if you will advise the Board of your observations on the operation of the Regulation and of any suggestions or recommendations you wish to make based on your observations and experience.

"As in the case of the enforcement program for Regulation W, the program for Regulation X has been submitted to the Department of Justice and we will inform you when their concurrence is received. In the meantime the program may be put into effect in so far as it relates to the activities of the Federal Reserve Banks and other supervisory agencies."

Approved unanimously.


Secretary.