Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, December 26, 1950. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Noyes, Assistant Administrator, Office of Real Estate Credit
Mr. Williams, Acting Assistant Director, Division of Research and Statistics

Mr. Vardaman stated that he had learned of this meeting only fifteen minutes before it was to convene, that on the basis of information given him earlier this morning by the Secretary's office he had made another appointment on the assumption that there would be no meeting today, and that he, therefore, would not be present at this meeting. He reiterated the view which he had expressed at earlier meetings that the Board should have set times for its meetings, that these times should be observed by all members of the Board, and that the Board should always meet at the times scheduled, that is, at 10:30 a.m. on Tuesday and Friday of every week. He added that he did not feel that the Board members could be expected to hold themselves subject to call for meetings at other times.

Mr. Vardaman withdrew from the meeting at this point.

There followed a brief discussion of the days of the week which would be most suitable for regular meetings of the Board, one suggestion being that the Board have regular meetings on Tuesday and Thursday rather than on Tuesday and Friday. It was understood that the question of a possible change in time at which regular meetings were scheduled would be taken up at a meeting when all members of the Board were present.

Mr. Young presented a memorandum dated December 26, 1950, proposing that the Board authorize a national survey of recent purchases of dwelling houses to be conducted in February, March, and April of 1951 covering the first quarter of that year. The memorandum stated that the single survey would cover about 1500 purchases, and that it would be carried out either by the Survey Research Center of the University of Michigan or by National Analysts, Inc. of Philadelphia at an estimated cost of not more than $60,000. The survey would be an alternative to that authorized on October 27, 1950, since planning work showed that that survey could not be conducted for the $75,000 estimated at the time the matter was considered by the Board. The memorandum went on to say that the proposed survey would supply information regarding the price of houses being sold, the manner in which they were financed, and the income and liquid asset characteristics of the purchasers, that such information was needed and desired not only by the Board and the Housing and Home Finance Agency but also by builders, lenders, the Congress, and consumers' representatives, and that information of this type was specified by Congress as affording one desirable base for administering the Defense Production Act of 1950.

In this connection Mr. Young referred to another memorandum dated December 26, 1950, prepared by himself and Mr. Noyes with respect to statistical information in connection with Regulation X, Real Estate Credit. He stated that in carrying out these responsibilities the Board was under statutory direction in the Defense Production Act of 1950 to take into consideration certain statistical information relating to real estate and other economic factors, that the Board's staff in cooperation with the staff of the Housing and Home Finance Agency had developed a program of needed additional factual information, and that the Housing and Home Finance Agency was prepared to undertake primary responsibility for executing the statistical and analytical program provided required funds were allocated from those appropriated for the purpose of carrying out the purposes of the Defense Production Act. Mr. Young made the further statement that although such an arrangement would keep to a minimum the Board's informational expenses in connection with

Regulation X, it would not remove entirely the necessity for larger expenditures by the Federal Reserve System since the Board's staff would need to cooperate closely with the Housing and Home Finance Agency in developing the program and preparing interpretative studies based on specially collected data. He suggested as an alternative that the Board might participate actively in developing additional information for use in helping to determine policy actions in regulating real estate credit, and that two projects might be considered, i.e., a survey, such as that previously referred to, covering a quarterly period or perhaps to be repeated at intervals, of the income and liquid asset and mortgage debt characteristics of recent home buyers, and a quarterly survey of changes in lenders' mortgage portfolios, as referred to at the meeting of the Board on December 22, 1950. Mr. Young went on to say that the latter survey might cost the Federal Reserve System $150,000 a year of which probably $30,000 would fall on the Board's budget, to be split between the Division of Research and Statistics and the Division of Bank Operations.

Still another statistical survey, Mr. Young said, was the collection of basic statistical information useful for both enforcement and policy purposes through a Regulation X registration statement, at an estimated cost to the Federal Reserve System of approximately $50,000.

Chairman McCabe stated that it was his understanding that the question of collecting reports from lenders would be carried over until Mr. Norton returned after the year-end and that the only matter to be considered at this time was the recommendation for a single survey of home purchases contained in Mr. Young's memorandum of this date, to be made during the first quarter of 1951 at a cost of approximately $60,000.

Mr. Jones, Chief of the Consumer Credit Section of the Division of Research and Statistics, joined the meeting at this point.

Following a discussion of the usefulness of such a survey, upon motion by Mr. Szymczak, unanimous approval was given to the recommendation for a single survey of about 1500 purchases of dwelling houses during the first quarter of 1951 to be carried out either by the Survey Research Center of the University of Michigan or by National Analysts, Inc. of Philadelphia at a cost of not more than $60,000, with the understanding that if Mr. Powell did not concur in this action, further consideration would be given to the matter at a later meeting of the Board. In taking this action it was understood that $60,000 of the amount provided in the 1951 budget of the Division of Research and Statistics for the six monthly surveys authorized at the meeting of the Board on October 27, 1950, would be used to cover the costs of the single survey.

Secretary's note: On December 27, 1950, Mr. Young discussed the proposed survey with Mr. Powell and he approved.

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:

Memorandum dated December 22, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective January 7, 1951:

Name	Title	Salary Increase From	To
Richard Shaker	Guard	$2,530	$2,610
Fannie L. Mock	Elevator Operator	2,330	2,400
Ida C. Sutphin	Cafeteria Helper	2,190	2,260
Vera Dulin	Cafeteria Helper	2,120	2,190

Approved unanimously.

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

"In accordance with the request contained in your letter of December 21, 1950, the Board of Governors approves, effective December 28, 1950, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

Name	Title	Annual Salary
J. V. Stryker	Assistant Federal Reserve Agent	$9,085
G. R. Lister	Alternate Assistant Federal Reserve Agent"	5,337

Approved unanimously.

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

"In accordance with the request contained in your letter of December 19, 1950, the Board approves the designation of Ralph E. Springer, Jr., and John R. Bunting, Jr., as special assistant examiners for the Federal Reserve Bank of Philadelphia.

"Appropriate notations will be made in our records of the persons whose names have been removed from the list of special assistant examiners at your Bank."

Approved unanimously.

Letter to Mr. F. W. Larson, National Secretary, American Institute of Banking, 12 East 36 Street, New York 16, New York, reading as follows:

"We are making arrangements to prepare the statistics for State member banks and Federal Reserve Banks that you requested in your letter of December 12. We have also discussed the tabulations with the offices of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and understand that they will prepare similar tabulations for national and insured nonmember banks.

"We will furnish you tabulations of the number of officers and employees of State member banks and of Federal Reserve Banks in towns of over 10,000 population (as defined by the 1950 census). These figures will be as of December 31, 1949 to conform with the data previously sent to you by the Federal Deposit Insurance Corporation. They may not, however, agree with the county, State, and United States totals for cities of more than 10,000 population previously furnished you, because the earlier tabulation was based on the 1940 census.

"This material will be forwarded to you as soon as it can be completed, probably sometime next month."

Approved unanimously.

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

"Reference is made to your letter of December 18, 1950, requesting amendment of condition of membership numbered 3 prescribed for admission of the Bank of Pontiac, Pontiac, Illinois.

"In view of your recommendation, condition of membership numbered 3 prescribed by the Board of Governors in its letter of December 1, 1950, for admission of the Bank of Pontiac, Pontiac, Illinois, to membership in the Federal Reserve System, is hereby amended to read as follows:

3. Prior to admission to membership such bank shall have paid up and unimpaired capital stock of not less than $100,000 and shall have increased its aggregate capital funds through the sale of additional common stock for not less than $40,000."

Approved unanimously.

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

"Subsequent to the telegrams of September 15, 1950 (S-1139, W-65) and October 17, 1950 (S-1168, W-85), certain questions have arisen with regard to the application of section 8(h) of Regulation W to contracts entered into prior to the effective date of the regulation or between that date and Amendment No. 1.

"These questions are whether the use in contracts of such clauses, for example, as 'this contract subject to an investigation of credit' or 'this contract subject to the approval of X finance company', postpones the effective date of the contract and prevents its having been 'entered into' prior to September 18 or October 16, as the case may be, within the meaning of section 8(h) and the above interpretations.

"The exact legal status of such contracts will depend upon all the circumstances of the particular case and often can be the subject of considerable uncertainty. However, the following "is suggested as a general approach or presumption which may prove useful in the consideration of individual cases as they arise.

"Unless the wording of the contract rather clearly indicates that it was the intention of the parties that neither should be bound until completion of the action contemplated by the particular clause of the type in question, it would seem that such clause might properly be presumed not to delay the time when the contract becomes effective for the purposes of section 8(h).

"The need or desirability for further consideration might be indicated, however, where, for example, the particular contract is different from those that have been customarily used by the Registrant in the ordinary course of his business, or where there are present other or unusual circumstances."

Approved unanimously.

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

"This refers to Mr. Swan's letter of December 7, 1950, concerning the determination of 'value' under Regulation X where the residential property has, or will have, more than one residence. Mr. Swan referred to two specific cases and stated the general rules which had been followed in answering such inquiries.

"We have no objection to the general rules followed in answering such inquiries, except that in cases where the proposed structure is to be so located that separation in the case of resale would be remote, if not impossible, we believe that inequities would result in some cases if the value of the existing structure and land area were included in 'value' for purposes of determining the maximum loan value of the new construction, because the outstanding credit with respect to the property necessarily would have to be taken into consideration in determining the amount of credit a Registrant could extend for the new construction.

"For example, in the case Mr. Swan referred to, where the borrower desires to construct a new residence "at an estimated cost of $40,000 on a parcel of land with improvements thereon which is valued at $22,500, if there was an existing mortgage on the property in an amount of, say, $15,000, the Registrant could not extend additional credit in an amount exceeding $16,250 because the total amount of credit outstanding with respect to the property would then be $31,250, that is, 50 per cent of the 'value' of $62,500. This, in effect, would prohibit borrowing 50 per cent of the cost of the new construction.

"The Board is of the opinion that inequities would arise in the application of such a broad general rule in certain individual cases; accordingly, in such cases, it will be permissible to regard the extension of credit for the purpose of the new construction as a separate transaction, and 'value' would be the cost of the construction.

"In this regard, in answering the questions submitted by the American Bankers Association to the Board with respect to Regulation X, which were sent to you on December 18, 1950, the Board answered a similar question as follows:

> Q. A man owns a large lot now improved with a residence ten years old. This property is subject to a mortgage loan. He proposes to renew the existing loan and increase it sufficiently to pay the cost of construction of a second house on the lot. It would seem that only the money loaned for the purpose of new construction would be regulated and the renewal of the existing loan would not be included in the computation. Is this correct?
>
> A. It will be permissible to regard the loan as a mixed-purpose loan and consequently only that portion which is to finance construction of the new house must comply with the regulation."

Approved unanimously.

S R Carpenter

Secretary.