

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, January 22, 1951.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Evans
Mr. Vardaman
Mr. Norton

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 January 19, 1951, were approved unanimously.

Memorandum dated January 19, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the temporary appointment of William Russell Smith, a laborer in that Division, be extended on a permanent basis, effective January 22, 1951, with no change in his present basic salary at the rate of \$2,120 per annum.

Approved unanimously.

Memorandum dated January 18, 1951, from Mr. Noyes, Assistant Director of the Division of Selective Credit Regulation, recommending that the Miscellaneous account of the budget of the Office of Real Estate Credit for 1950 be increased by \$625 to permit the reimbursement of the Federal Reserve Bank of Philadelphia in connection with the loan of the services of Messrs. Benner and Eastburn to assist in work on the regulation of real estate credit during a part of 1950.

Approved unanimously.

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Memorandum dated January 18, 1951, from Mr. Vest, General Counsel, recommending that the 1950 budget of the Legal Division be increased by \$100 for stationery and supplies and \$100 for printing and binding.

Approved unanimously.

Memorandum dated January 18, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending that payment be made in the amount of \$1,232.04 to cover salaries and related expenses incurred during November 1950, for Mr. Gregory O'Keefe and Mr. Arthur Phelan, to the Federal Reserve Bank of New York, and stating that in the absence of objection the Federal Reserve Banks of New York, Philadelphia, Richmond, and Chicago will be reimbursed for retirement contributions in connection with the arrangements for services of Messrs. Phelan, Hilkert, Wayne, and Heath, respectively. The memorandum also stated that, in the absence of instructions to the contrary, reimbursement of Federal Reserve Banks for the services of personnel on a reimbursable loan basis since January 1, 1951, when Federal Reserve Bank employees were placed under Social Security, would include the Bank's contributions to the social security fund when such amounts were included in the bills.

Approved unanimously.

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Letter to The Citizens National Bank of Lubbock, Lubbock, Texas, reading as follows:

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

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

"Referring to your letter and recommendation of January 16, 1951, the Board of Governors extends until June 22, 1951, the time within which 'The Sylvania Savings Bank Company', Sylvania, Ohio, may establish the branch in the Village of Trilby, Washington Township, Lucas County, Ohio, as approved by the Board under date of September 22, 1950."

Approved unanimously.

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Letter to Mr. Gales, Assistant Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of January 15, 1951, in which you advised that the expenses for the Provision of Space function at your Little Rock Branch exceeded the 1950 budget estimate by \$21,557.

"Appropriate notations are being made in the Board's records concerning this overexpenditure."

Approved unanimously.

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

"Pursuant to the January 17 recommendation of the Ad Hoc Mortgage Credit Subcommittee of the System Research Advisory Committee on the desirability of appraising at this time the effects of Regulation X on residential real estate activity, the following questions prepared with the participation of the Subcommittee, are suggested for use in connection with a quick canvass of developments in the building and mortgage lending field. It is desired that these questions be asked of as many representative builders and lenders in your district as is feasible in the time available. Replies should be summarized for each major area covered and should be wired to the Board to arrive not later than close of business, Wednesday, January 31.

Questions for Mortgage Lenders (Where important distinguish between 1-4 family and other residential properties)

- L-1. Loan business on residential properties in the past three months.
- a. What has been happening to the number and amount of your applications for loans, your loans in process, and your loan closings compared with a year ago? On existing properties? On new? For construction?
 - b. What proportion of closings, roughly, has represented transactions exempt from or not subject to the October regulations of the Board and FHA and VA? What portion do you expect for the next three months?

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"c. Since last summer, have you made any changes in the terms on which you approve applications? (Takeouts, etc.)

L-2. Have sales of residential properties in the past three months been active or slow for this season of the year? Any difference between old and new properties?

L-3. How do prices of new homes compare with last June? October? How about prices of old properties?

L-4. What has been happening to builders' costs in recent months? About how much have they changed since June?

L-5. Do you think funds available for mortgage loans will be easier or tighter in 1951 than in 1950, so far as your institution is concerned?

L-6. How do you think the October real estate credit regulations have affected lending and building activity in your community?

Questions for Builders (Where important distinguish between

L-4 family houses and other residential properties)

B-1. How many units do you now have under construction? How many did you have a year ago? Of the units now under construction, what proportion are exempt from or not subject to the credit terms established in October by the Board and FHA and VA?

B-2. How many units do you intend to start in the first quarter? How does this compare with a year ago? On what portion of these units do you have commitments for construction financing? Permanent financing? What portion of the units you expect to start will be on the credit terms established in October?

B-3. Do you have plans for starts beyond March?

B-4. Do you have materials on hand to complete the units under construction? What, if any, materials are you finding difficult to get? How does this affect your operations?

B-5. What has been happening to your costs in recent months? About how much have they changed since June? What are the important sources of the change?

B-6. In the past three months have sales of residential properties in your community been active or slow for this season of the year? Any difference between old and new properties?

B-7. How do prices of new properties compare with last June? October? How about prices of old properties?

B-8. What changes, if any, have you made in recent months in your arrangements for financing construction?

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"Have you found any change recently in lenders' policies on making construction loans or making commitments for construction loans?"

B-9. How do you think the October real estate credit regulations have affected lending and building activity in your community?"

Approved unanimously.

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

"In connection with problem resulting from unwillingness of banks to participate in V-loan program because of opinions of Comptroller General under Assignment of Claims Act, Board's staff has been cooperating with other agencies in effort to reach agreement on amendment to law clarifying this question. Questions have been raised in some quarters as to seriousness of problem and extent to which banks actually are not making loans to defense contractors because of this problem. In order to demonstrate need for such legislation it will be appreciated if you will furnish us such specific information as may be possible such as names of particular banks that have expressed concern because of this question and consequently are not making V-loans. While it would of course be more effective if names of specific banks might be mentioned, it is to be understood that no bank's name would be made public without its consent. In view of urgency of matter will appreciate early advice."

Approved unanimously.

Letter to Mr. F. C. Stiles, 1600 Linden Avenue, S. E., Grand Rapids 7, Michigan, reading as follows:

"Congressman Ford has referred your letter of January 2 concerning exemption from Regulation X to the Board of Governors for consideration.

"The Regulation does not curtail credit which builders need for construction purposes inasmuch as it makes specific exemption of construction credit of eighteen months or less. The purpose of Section 5(g) is principally to provide relief

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"for an individual home purchaser who might suffer hardship because the new terms were more restrictive than those which he and his lender had previously contemplated. Thus Section 5(g) states that:

'Any builder or other person who had made substantial commitments or undertakings before August 3, 1950, with a view to the building of new construction and who asserts that his inability to obtain credit to finance such new construction on the basis contemplated by him and by the Registrant prior to August 3, 1950, would cause him substantial hardship, may apply to the Federal Reserve Bank of the district in which the new construction is contemplated for an exemption from this regulation for such new construction, showing all the facts and submitting all necessary supporting documents with respect to his commitments or undertakings and why compliance with the regulation would cause him substantial hardship. If such Federal Reserve Bank after consideration of the application and supporting documents determines that substantial commitments were made prior to August 3, 1950, and that substantial hardship would result from the application of this regulation in such case, it may issue to such builder or other person a certificate approving such application and thereupon any extension of credit to such builder or other person by any Registrant with respect to the new construction that may be specified in such certificate shall be exempt from the prohibitions of this regulation.'

The Board has also made the attached ruling to the effect that exemption under Section 5(g) requires that contacts or negotiations with a lender had been made before August 3, 1950. Section 5(g) does not extend to credit involved in a subsequent sale of property.

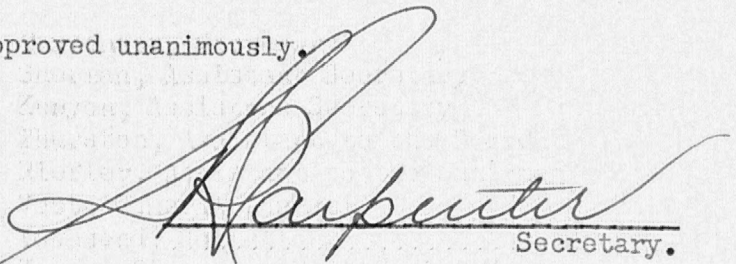
"Such a regulation as Regulation X necessarily makes it more difficult for some individuals who had hoped or expected to build or purchase houses to carry out their plans. Otherwise the regulation would not accomplish its purposes or the purposes of the law. While the circumstances of particular cases vary greatly, it is inevitable that there will be some instances in which the persons affected will feel that they are being subjected to hardship and it is impossible to have an effective regulation under which no such cases may arise.

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"Nevertheless, the current and prospective trends of business conditions raise a real question as to whether there will be any serious difficulty in selling soundly constructed and fairly priced homes even under the present terms of Regulation X.

"I hope that we have explained to your satisfaction the purpose of Section 5(g) and the reasons for the actions of the Federal Reserve Bank of Chicago. I am sure that the Federal Reserve Bank will be glad to consider any additional facts you may wish to present."

Approved unanimously.


Secretary.