Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, March 6, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Norton
Mr. Powell
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. Young, Director, Division of Research and Statistics
Mr. Horbett, Assistant Director, Division of Bank Operations
Mr. Solomon, Assistant General Counsel
Mr. Koch, Chief, Banking Section, Division of Research and Statistics
Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a report on recent developments in the Government securities market, following which Mr. Leach withdrew from the meeting.

Reference was made to the discussion at the meeting of the Board yesterday regarding four principal plans outlined in a memorandum from Mr. Young dated February 27, 1951 for increasing Federal Reserve authority over bank reserve requirements. In accordance with the understanding at the conclusion of yesterday's meeting, there was presented and read by the Secretary a memorandum from Mr. Powell dated today, commenting
further on the loan expansion reserve plan, and incorporating suggestions advanced during yesterday’s discussion. The memorandum was as follows:

"I. The Purpose of the Plan -- to control private credit expansion.

II. Principal Features of the Plan

1. The plan would relate commercial bank reserve requirements in part to changes in bank holdings of loan assets, loan assets being defined to include all loans and investments other than U. S. Government securities.

2. Under the plan the Board would be authorized to require any bank whose loan assets rose after the date of the adoption of the plan to hold a supplementary reserve requirement up to a maximum of 50 per cent of the increase in loan assets, provided that:

   a. No bank would be subject to the supplementary reserve requirement until its loan assets equalled 38 per cent of its gross demand and time deposits (the actual ratio of the average member bank before Korea).

   b. Banks with loan assets over 55 per cent of deposits would be required to hold supplementary reserve requirements against that portion of their loan volume in excess of 55 per cent of deposits, but would be given 6 months to meet these additional reserve requirements.

3. The plan would apply to nonmember as well as to member banks.

4. In the case of member banks, the supplementary reserves would be held in the form of deposits with the Federal Reserve System. There would be no distinction of any sort between primary and supplementary reserve balances of member banks. In the case of nonmember banks, the reserves could be held either as balances with the Reserve Banks or as balances with correspondent banks.

III. A Possible Alternative

1. A possible alternative, but one less consistent with the present program of credit restraint,
would be to seek additional authority over primary reserves, say up to 20 per cent on demand deposits.

2. The use or threat of use of this additional authority would be a deterrent to shifting out of Government securities. But it should be noted that all member banks now hold over 30 per cent of their deposits in short-term Government securities as contrasted with about 22 per cent in mid-1947."

There followed a discussion of the manner in which the loan expansion reserve plan would operate, the effectiveness of the plan in controlling bank credit expansion, and whether, if the imposition of supplementary reserve requirements were related to a standard loan-to-deposit ratio as of a given base period, special treatment should be accorded to those banks whose loan-deposit ratios were substantially in excess of that percentage. In the course of the discussion, it was suggested that the staff give further consideration to this question and also to the questions raised by Mr. Eccles whether the plan would provide sufficient flexibility to accommodate the needs for credit in expanding communities, such as in defense areas, and whether there should be any exemption in applying the plan to banks in which savings accounts made up a large proportion of their deposits.

This suggestion was approved unanimously, with the understanding that the plan would be considered further at a meeting later this week.

Mr. Vardaman withdrew during the foregoing discussion.

Mr. Powell stated that, in accordance with the understanding at the meeting of the Board on January 9, 1951, he had discussed with
representatives of the Federal Deposit Insurance Corporation a draft of legislation prepared by the staff to modify the capital requirements of member banks, being careful to explain that the views which he presented did not necessarily reflect the position of all members of the Board. He went on to say that he had an appointment this afternoon to discuss this matter with the Office of the Comptroller of the Currency and that he hoped to report to the Board regarding his conversations with these agencies shortly.

At this point Chairman McCabe withdrew from the meeting.

Mr. Powell then stated that the proposed Program for Voluntary Credit Restraint recently approved by the Board provided for the appointment by the Board of a Voluntary Credit Restraint Committee to be composed initially of 12 members, four representing the life insurance companies, four representing the investment bankers, and four representing the banks. He said that he had given careful consideration to persons who might be selected by the Board for this purpose and that he would recommend that, effective as of the date the program is approved by the Attorney General, the following appointments be made, each for a term ending June 30, 1951, with the understanding (1) that, if the Defense Production Act of 1950 was extended, a plan of rotation of membership of the committee would be devised in order to avoid undue imposition on the time of the members, and (2) that, before letters of appointment were sent by the Secretary, Mr. Powell would ascertain informally by
telephone in each case whether the individual would be willing to serve:

<table>
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<tr>
<th>Name</th>
<th>Representing</th>
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<tr>
<td>George S. Moore, Vice President</td>
<td>American Bankers Association</td>
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<td>National City Bank</td>
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<td>New York, N. Y.</td>
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<td>Carlisle R. Davis, Vice President</td>
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<td>State-Planters Bank and Trust Company</td>
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<td>Richmond, Va.</td>
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<td>Kenton R. Cravens, Vice President</td>
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<td>Mercantile-Commerce Bank &amp; Trust Company</td>
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<td>St. Louis, Missouri</td>
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<td>Everett D. Reese, President &amp; Trust Officer</td>
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<td>Park National Bank</td>
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<td>Newark, Ohio</td>
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<td>George L. Harrison, Chairman</td>
<td>American Life Convention</td>
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<td>New York Life Insurance Co.</td>
<td>and</td>
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<tr>
<td>5 Madison Avenue</td>
<td>Life Insurance Association of America</td>
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<td>New York 9, N. Y.</td>
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<td>Carrol M. Shanks, President</td>
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<td>Prudential Insurance Co. of America</td>
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<td>Newark, New Jersey</td>
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<td>E. B. Stevenson, Jr., Executive Vice President</td>
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<td>National Life and Accident Insurance Co.</td>
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<td>Nashville, Tennessee</td>
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<td>Claude L. Benner, President</td>
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<td>Continental American Life Insurance Co.</td>
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<td>Wilmington 99, Delaware</td>
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<td>Lee M. Limbert, Vice President</td>
<td>Investment Bankers Association</td>
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<tr>
<td>Blyth &amp; Co., Inc.</td>
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<td>14 Wall Street</td>
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<td>New York 5, New York</td>
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<td>Walter S. Robertson, Partner</td>
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<td>Scott &amp; Stringfellow</td>
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<td>Mutual Building</td>
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<td>Richmond, Va.</td>
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Mr. Powell's recommendation was approved unanimously.

Inasmuch as the Program for Voluntary Credit Restraint required that meetings of the Voluntary Credit Restraint Committee shall be held at the call of an official of the Federal Reserve System designated by the Board, shall be under the chairmanship of such an official, and an agenda for such meetings shall be prepared by such an official, the Board by unanimous vote designated Mr. Powell to serve in that capacity, effective as of the date of approval of the Program by the Attorney General.

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 March 5, 1951, were approved unanimously.

Letter to Mr. Latham, Vice President of the Federal Reserve Bank of Boston, reading as follows:
"In accordance with the request contained in your letter of February 28, 1951, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Boston:

William F. Belyea
Thomas L. O'Brien
Arthur E. Colgate
Frederick T. Strachan
Edward J. Quirk
Joseph M. Ahern
James D. Coveney
Fred D. Sahagian
Edward F. Holway
William M. Quirk
John A. Treimann
Marion E. Connell
Irene M. Finn
Alice T. Kennedy
Alexander C. Capobianco
James H. Chalmers
Eugene W. Kenney
Harold Laverty
Francis J. Loughran
George C. Slack
Albert T. Smith
Arthur Stetson
John F. Sullivan
G. Gordon Watts
William C. Rich
George K. Graw
Theo G. Morss

"Appropriate notation will be made in our records of the names reported as deletions."

Approved unanimously.

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

"In accordance with the request contained in your letter of February 28, 1951, the Board approves the designation of Patrick E. Hackett, an employee of the Detroit Branch, as a special assistant examiner for the Federal Reserve Bank of Chicago."

Approved unanimously.

Letter to Honorable Raymond M. Foley, Administrator, Housing and Home Finance Agency, Washington 25, D. C., reading as follows:

"The Board is returning herewith the original and three signed copies of your proposed issuance setting forth the policy and procedure for the processing and approval of exceptions from residential credit controls in areas affected by the Savannah River Installation and the Paducah, Kentucky Installation of the Atomic Energy Commission."
"The Board has approved the policy and procedure set forth and it is our understanding that it will be published in the Federal Register."

Approved unanimously.

Letter to Mr. Wessel, Manager of the Accounting Department of the Federal Reserve Bank of New York, reading as follows:

"This refers to your letter of February 26 regarding the penalty of $1,340.60 incurred by the National State Bank, Newark, New Jersey, on a deficiency in its reserves for the period ended February 15.

"It is noted that the deficiency resulted from the fact that the subject bank overlooked the increase in reserve requirements of country banks effective on February 1; that the bank has maintained substantial excess reserves for the past two years; and that this is the first deficiency in its reserves since March 1924. It is understood also that, if allowance were made for excess reserves during the period ended February 28, the deficiency during the previous period would be reduced to about 3 per cent of required reserves and the penalty to approximately $820.00.

"In the circumstances, the Board authorizes your Bank to waive assessment of the penalty in this case."

Approved unanimously.

Letter to Mr. Robert Sterling, Attorney at Law, 52 Vanderbilt Avenue, New York 17, N. Y., reading as follows:

"This refers to your letter of February 14, 1951, regarding the Board's margin regulations, Regulations T and U. You refer to a loan which would be made by a member of the New York Stock Exchange or a bank, would be secured by stocks registered on the New York Stock Exchange, and would be for the purpose of purchasing options to purchase stocks which are so registered, the options themselves not being listed."
"You ask, in effect, whether the credit should be considered to be subject to Regulations T and U. "You are advised that such a loan should be considered to be subject to the margin regulations."

Approved unanimously.

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

"This refers to your letter of February 1, 1951, regarding the practice to be followed in providing for covenants for future assignments of Government contracts as collateral for V-loans, where an immediate assignment of such contracts does not appear necessary.

"You state that some banks have suggested that, instead of making it optional for either the financing institution or the guarantor to request such assignments, the covenant to assign be changed so that both the financing institution and the guarantor must make any such request, thus in effect permitting the financing institution to veto the guarantor's wishes in this respect. It is understood that the suggestion is prompted by the concern of financing institutions, in view of certain rulings of the Comptroller General, as to the possibility of the subsequent assertion of claims by the Government against an assignee bank.

"We have informally consulted the Department of Defense and have learned that the Military Departments in certain instances have approved V-loan guarantees where a covenant to assign provided for assignments of contracts upon the request of the financing institution only. In the light of the hazards to which assignee banks are now subject under the rulings of the Comptroller General, the Departments of the Army, Navy, and Air Force have informally indicated that they will not object for the present to a provision for future assignments of Government contracts upon request by both the financing institution and the guarantor. However, it is possible that the Departments may later wish to return to their former policy if the Assignment of Claims Act of 1940 should be amended so as to remove the undue risk of loss to which assignee banks are presently exposed."
Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"Several inquiries have been received by the Board regarding the determination under Regulation X of 'appraised value as determined in good faith' where there is to be construction on improved real property. The inquiries have related particularly to cases where there is an existing structure on the property such as a residence, servants' quarters, garage, or garage-apartment, but similar inquiries should be answered in accordance with the principles of this interpretation. In such cases, should the Registrant, in making his appraisal in good faith, appraise only the land or should he appraise the land and improvements?

"In cases where the existing structure and the proposed construction are to be so located on the property that the possibility of separation in the case of resale would be remote and unlikely, it is the opinion of the Board that the Registrant may appraise the land and improvements. However, any outstanding credit secured by the improved real property necessarily would have to be taken into consideration in determining the amount of credit the Registrant could extend.

"For example, if a prospective borrower desires to build a new residence at a cost of $20,000, on improved real property having a 'value' of $10,000, the Registrant's appraised value may be $30,000 and the maximum loan value $15,000. However, if there were outstanding credit secured by the improved real property in an amount of, say, $5,000, the Registrant could not extend additional credit in an amount exceeding $10,000.

"In cases where the existing structure and the proposed construction are to be so located that separation in the case of resale would not only be possible, but would be likely, it is the opinion of the Board that the Registrant should appraise only the land area on which the new construction is to be located.
"For example, if the prospective borrower owns a tract of land consisting of several adjoining lots, some of which are improved with existing structures, and the borrower proposes to build a new structure on one of the vacant lots, the Registrant should appraise only the vacant lot."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks,

reading as follows:

"In connection with the amendment to Regulation X for defense construction, effective March 5, 1951, the following general procedure, which has been approved by the Housing and Home Finance Agency, will be followed in implementing this amendment:

1. The Housing Agency would make surveys with respect to the needs for new construction within possible areas to be designated.

2. After such surveys, the Administrator would recommend to the Board that a general area should be designated as an area for this purpose, and the Board would be asked to concur in this designation.

3. The Housing Agency would also submit information and make recommendations as to what specific new construction is needed.

4. If the Board concurs in the area designation, it would, after considering available information, prescribe terms to facilitate the necessary new construction. Such terms would be applicable to conventional loans, and, under the procedure prescribed by Executive Order 10161, terms would be established by the Housing Administrator for the Government-aided programs which would conform to those prescribed by the Board. In so far as possible, the same schedules would be used in any defense areas designated, but the procedure permits deviation from these schedules when the facts warrant.

5. A public announcement of the area designation and the terms would be made jointly by the two agencies.

6. The Housing Agency would provide representatives in areas so designated and accept applications by builders or other persons for certificates of exception to be made available for the specific new construction needed."
"The offices would follow prescribed criteria and would make qualitative selections in issuing such certificates. The holders of such certificates could present them to any lender, and the presentation of the certificate would authorize the lender to extend credit to the holder either on a conventional or Government-aided basis according to the announced terms.

"A copy of a letter from Mr. Foley recommending the designation of areas in the vicinity of the Atomic Energy Commission installations at Savannah River and Paducah is attached. This designation was concurred in by the Board."

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks,

reading as follows:

"Inquiries have been received by the Board concerning the meaning of the phrase 'actual date such credit is extended' as used in section 6(1) of Regulation X.

"Many types of credit extensions are subject to Regulation X and it is administratively impossible to prescribe a specific rule which would be fairly applicable to all types of financing arrangements affected by the regulation. However, for the purposes of Regulation X the general rule to be followed in most extensions of credit affected by the regulation is that the 'actual date such credit is extended' is that date which is (1) the date on which the lender first disburses funds to, or makes funds available to the account of, the borrower, or (2) the date of execution of the note or other credit instrument evidencing the credit extended, whichever shall last occur."

Approved unanimously.

Memorandum dated February 27, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that, in
connection with the 1950 Survey of Consumer Finances, the Survey Research Center be reimbursed in the amount of $2,321.30, the amount by which the cost of the Survey exceeded the estimate of $139,300 specified in the contract, and that the appropriate classification of the 1951 Budget of the Division of Research and Statistics be increased by an amount sufficient to cover this expenditure.

Approved unanimously.

Memorandum dated March 2, 1951, from Mr. Townsend, Solicitor, requesting that the 1951 budget for the Solicitor's Office for furniture and equipment be increased by an additional $300.00.

Approved unanimously.

Memorandum dated March 5, 1951, from Mr. Vest, General Counsel, transmitting a draft of proposed statement to be read by him at a hearing of a subcommittee of the House Judiciary Committee on an amendment to the Assignment of Claims Act.

Approved unanimously.

Secretary.