

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, March 23, 1951.

PRESENT: Mr. McCabe, Chairman  
Mr. Szymczak  
Mr. Evans  
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 March 21, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on March 22, 1951, were approved and the actions recorded therein were ratified unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on March 20, by the Federal Reserve Banks of Atlanta and St. Louis on March 21, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, and Dallas on March 22, 1951, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 22, 1951, from Mr. Marget, Director of the Division of International Finance, recommending an increase in the

3/23/51

-2-

basic salary of Dorothy V. Wright, a clerk in that Division, from \$3,115 to \$3,195 per annum, effective April 1, 1951.

Approved unanimously.

Memorandum dated March 15, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that the resignation of Miss Joyce E. Latham, a clerk in that Division, be accepted to be effective, in accordance with her request, at the close of business March 31, 1951.

Approved unanimously.

Memorandum dated March 21, 1951, from Mr. Marget, Director of the Division of International Finance, recommending that the resignation of Gerald M. Alter, an economist in that Division, be accepted to be effective, in accordance with his request, at the close of business March 30, 1951.

Approved unanimously.

Letter to Mr. Neely, Federal Reserve Agent of the Federal Reserve Bank of Atlanta, reading as follows:

"In accordance with the request contained in your letter of March 19, 1951, the Board of Governors approves, effective April 1, 1951, the payment of salary to Mr. J. R. Moser, Jr., Federal Reserve Agent's Representative, at the rate of \$4,800 per annum."

Approved unanimously.

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



3/23/51

-3-

"Reference is made to your letter of March 9, 1951, requesting the Board to approve the retention in service until July 1, 1952, of Mr. Leon C. Meyer, Assistant Manager of the Los Angeles Branch, who will attain age 65 on May 2, 1951.

"For the reasons outlined in your letter the Board of Governors approves the payment of salary to Mr. Meyer at the rate of \$8,000 per annum, or such other rate as may subsequently be fixed by the board of directors and approved by the Board of Governors, from May 1, 1951, through June 30, 1952."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 20, 1951, the Board approves the designation of Eliot J. Swan as a special assistant examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

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

"Reference is made to your letter of March 6, 1951, submitting the request of The Parker Bank and Trust Company, Cullman, Alabama, for approval under Section 24A of the Federal Reserve Act of an investment in bank premises in an amount not to exceed \$135,000, for the purchase of a lot and the construction of a new bank building.

"Although the condition of the bank's loans cannot be regarded as satisfactory, it is noted that you regard its fundamental condition as sound and the present management as entirely capable of improving the situation. In the circumstances and in view of your recommendation, the Board approves the investment as proposed."

Approved unanimously.

3/23/51

-4-

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

"This refers to the copy of the letter from Mr. Gottschalk, Executive Secretary, Maryland Savings and Loan League, dated March 2, which you referred to us for information and consideration on March 7.

"As you know, the Board has recognized that there might be cases of necessitous home repairs in which the instalment credit restrictions under Regulation W resulted in some hardship. This possibility was recognized by the Board when it decided to provide a maximum maturity of 30 months for home improvements and repairs as against the maximum maturity of 15 months provided for other listed articles. Moreover, the down-payment requirement of 10 per cent for home repairs and improvements is of course substantially less than that provided for other articles. Because of these more liberal requirements, home owners in many cases should be able to finance necessary home repairs under the provisions of Regulation W when they would be unable to meet the regulated terms for the purchase of other articles.

"The Board has also considered the desirability of adopting an amendment to the regulation which would ease or eliminate the credit restrictions in certain specific cases of necessitous home repairs. There are difficult problems connected with such a provision, however. The proposals so far advanced have all had the serious disadvantages of either tending to nullify the credit restriction in the home improvement area or of placing an excessive administrative burden on the trade or on the Federal Reserve System. Mr. Gottschalk's proposal, for example, would appear to permit exemptions on such general grounds as to permit Registrants to treat a large proportion of all home improvements as exempt from the regulation.

"While the Board is very much interested that the provisions of Regulation W not be unduly restrictive in individual cases, it must also consider that the regulation must strongly curb instalment credit as a whole if it is to accomplish its purpose of helping to restrain the serious inflationary forces in the present emergency period. The present terms of the regulation are, of course, far from a prohibition of instalment credit.



3/23/51

-5-

"It has occurred to us that Mr. Gottschalk may not be aware of the mixed credits provision in Regulation W. In the example he gives, for instance, payments of at least \$10.50 per month would be sufficient to meet the requirements of Regulation W on the combined balance of \$1515 after obtaining the \$35.00 down payment.

"The Board is continuing to study the need for a hardship exemption for home repairs and the possible ways that such a need might be provided for. We are glad to have Mr. Gottschalk's views in this connection and they will be carefully considered in our continuing study of this subject."

Approved unanimously.

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

"An inquiry has been received asking whether borrowing by a prospective tenant in a cooperative development is subject to Regulation X if the loan is for the purpose of purchasing a participating share in the cooperative development which will entitle the owner thereof to acquire or use a family unit in the cooperative development.

"Cooperative developments ordinarily are built and operated by a nonprofit corporation organized for that specific purpose. Credit secured by a blanket mortgage covering the development is extended to the corporation. The corporation's equity or capital investment is raised by the sale of shares of capital stock to the individual cooperators. Ownership of a share carries with it the right to acquire a long term lease upon a family unit in the cooperative development.

"It is the opinion of the Board that borrowing is subject to Regulation X when it is for the purpose of purchasing a share in a cooperative development. The total amounts borrowed by the corporation and the individual shareholders may not exceed the maximum loan value of the cooperative development."

Approved unanimously.

3/23/51

-6-

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

"Several inquiries have been received by the Board concerning the applicability of Section 2(r)(5) of Regulation X to structures used wholly or partly for the processing of food products.

"It is the opinion of the Board that concerns engaged in the preparation of foodstuffs are engaged in the 'processing of materials, goods, or articles into finished or partly finished manufactured products' if they change the form of the foodstuffs and add value to the product itself. Examples of such activities, as listed by the Standard Industrial Classification Manual, are: slaughtering, dressing, and packing of poultry and meats; processing of dairy products; canning, preserving, and freezing of fruits, vegetables, and sea foods; processing of flour and other grain products; baking; sugar refining; manufacture of confections; preparation and bottling of beverages. Operations limited to the sorting and packaging of food or other products are not regarded as processing; neither would operations which involve simply the breaking down of wholesale lots into smaller units, even though the combined value of the smaller units at retail exceeded the cost of the wholesale lots.

"In determining whether structures used for such activities are exempt from Regulation X under Section 2(r)(5), only that portion of the floor space thereof which is essential to and an integral part of the operations involved in the processing of foodstuffs should be considered. In other words, storage space, beyond that which is essential to the processing operations, should not be considered."

Approved unanimously.

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



3/23/51

-7-

"Questions have been raised regarding the application of Regulation X to a sale of residential property on which there is new construction begun after October 12, 1950, where the vendee takes the property subject to indebtedness secured by a mortgage on the property. The questions have related particularly to sales where such indebtedness exceeds the maximum loan value of the property, but evidences credit extended after October 12, 1950, pursuant to a firm commitment made prior to October 12, 1950, which provided for an extension of credit to the builder-vendor in the form of a combination construction-permanent mortgage loan.

"One underlying purpose of the exemption in section 6(b) for credit extended pursuant to firm commitments was to allow parties affected by the regulation to carry out in certain circumstances financing arrangements previously contemplated or arranged by them. An exemption for credit extended to a builder as a combination construction-permanent mortgage loan, where the builder is building for resale subject to such indebtedness, is, in effect, an indirect exemption to the vendee of such property, and for the regulation to prevent such a sale would defeat the purpose for which the exemption was provided. For this reason, it is the opinion of the Board that section 4(a)(6) of the regulation, which deals specifically with sales by Registrants of property subject to existing indebtedness, has no application to sales of real property by builders subject to existing indebtedness evidencing combination construction-permanent credit extended to the builder pursuant to an exemption under section 6(b)."

Approved unanimously.

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

"The special arrangements for the investigation of insurance companies for compliance with Regulation X were covered in our letter of January 10, 1951, S-1246 (X-25). Inquiries have been received as to whether branch offices of insurance companies having their head offices in other States should be investigated and, if so, which State Commissioner of Insurance should be notified of the investigation.

"It was contemplated when the arrangements were made for the investigation of insurance companies that the Federal

3/23/51

-8-

"Reserve Banks would exercise a discretionary authority as to whom they would investigate. If for good business reasons it becomes necessary to investigate the branch office of an insurance company whose head office is located in another State, such investigation should be made. It is well known that some branch offices of insurance companies have a broad authority to make loans and even retain the assets in their custody. Under such circumstances, it would seem that such branches should be investigated, and, moreover, any branches should be investigated if in the judgment of the Reserve Bank this is a prudent and necessary thing to do.

"It is probable that under the law of all States insurance commissioners have jurisdiction over branch offices located in the States they supervise. In making investigations, therefore, of branch offices, it may prove to be desirable to notify the insurance commissioner having jurisdiction over the branch. It would also seem expedient to notify the insurance commissioner having jurisdiction over the home office of the insurance company since in the making of an investigation any information that can be received about insurance companies or plans for their examination by the insurance commissioner in the near future would be of interest to the Reserve Bank proposing to make the investigation. Any procedure of this kind, however, seems to us to depend somewhat on experience, and if Reserve Banks believe that the notification of the investigation made to the insurance commissioner having immediate jurisdiction over the branch is sufficient, then the arrangements should be concluded therewith. In discussing this matter with both the Life Insurance Association of America and the American Life Convention, officers of each organization stated that they thought that the insurance commissioner having jurisdiction over the branch would not be particularly interested in an investigation of the branch but that the commissioner having jurisdiction over the company in the State in which it is incorporated would be interested.

"With regard to notification of the N.A.I.C. Zone Chairman, the officials of the organizations mentioned above also believe that the Chairman having jurisdiction over the head office would be the one most interested in receiving information about an investigation.



3/23/51

-9-

"In general, therefore, while we believe that local practice may to some extent alter the procedure, it would seem desirable that both the insurance commissioner and the N.A.I.C. Zone Chairman having jurisdiction over the home office be notified when it is deemed essential in the discretion of the Federal Reserve Bank to investigate the branch office of an insurance company."

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of February 8, 1951, concerning questions relating to Regulation X. You asked four specific questions and also raised a related question pertaining to a statement of facts filed by a Registrant pursuant to clause (2) of section 6(b) of the regulation.

"As to question 1, we concur in your opinion that a Registrant may purchase a note evidencing nonconforming real estate construction credit extended by another Registrant after October 12, 1950, pursuant to a firm commitment made prior to that date.

"As to questions 2, 3, and 4, all of which relate to sales of property subject to a mortgage securing nonconforming credit, an interpretation of the regulation is being issued on these questions. You will note that the interpretation refers only to section 6(b) cases, but if any should arise under section 5(g), the same principles would apply.

"In the other question raised by you, you stated that a Registrant who 'undertakes to procure the permanent financing for his short-term borrower (builder) or for any purchaser from the short-term borrower of the particular units if such purchaser has a credit standing satisfactory to Registrant B' had filed with your Bank a statement 'reciting facts with respect to his undertaking to procure permanent financing and with respect to the short-term borrower's (builder's) action taken prior to the effective date of the regulation.'

"Clause (2) of section 6(b) exempts credit extended pursuant to 'any other agreement to extend credit' in certain circumstances if the necessary procedural steps are followed. However, in the case you referred to there

3/23/51

-10-

"does not appear to have been an 'agreement to extend credit' to the borrower but merely an agreement to undertake to procure credit for the borrower. For this reason, we do not believe that there was a firm commitment within the meaning of clause (2) of section 6(b).

"We hope that this will clarify our position in regard to the questions raised by you."

Approved unanimously.

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

"Reurtel March 17 about Section 5(k). Persons completing construction prior to March 21 would have 32 days from that date to complete permanent financing under amended Section 5(k), which would extend to April 22. If it is necessary, the Board would have no objection if additional time to May 1 is permitted to complete financing arranged in good faith by Registrants in reliance on present Section 5(k)."

Approved unanimously,  
together with an identical  
telegram to Mr. Scheffer,  
Manager, Real Estate and Con-  
sumer Credit Department of the  
Federal Reserve Bank of New York.

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

"Reurtel March 15 re lessee paying entire cost of leasehold improvement which will revert to property owner at expiration of ten-year lease. Based solely upon these facts, and assuming there is no evasive intent, Regulation X does not apply."

Approved unanimously.

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



3/23/51

-11-

"Based on facts in your telegram of March 12 regarding motel without kitchen facilities, it would seem that credit extended to this borrower would have to conform to Regulation X. The borrower does not appear to qualify under amended Section 5(g), and the Registrant apparently has not conformed to requirements of Section 6(b)."

Approved unanimously.

Letter for the signature of the General Counsel, to Mr. Herbert A. Bergson, General Counsel, Office of Defense Mobilization, Room 179, Old State Building, Washington 25, D. C., reading as follows:

"This refers to your memorandum of March 20, 1951, transmitting two copies of a second draft of a bill to amend the Defense Production Act, with an explanatory summary of the draft, and also a draft of provisions on rent control which will be incorporated in the final draft bill.

"We note that, while for the most part the second draft bill to amend the Defense Production Act is substantially like the first draft bill submitted with your letter of March 2, certain additions and changes have been made. We should like to comment on certain provisions of the second draft.

"The new language in section 7 of the draft bill, relating to extension of authority over real estate credit to cover existing as well as new construction, in our opinion is not desirable for two reasons: (1) it appears to exclude from regulatory control real property on which there is no construction; and (2) by specifically including major additions and major improvements it leaves in doubt the questions as to whether additions and improvements which are not major would be subject to control.

"Our experience with the regulation of real estate credit up to date has been such as to show that many questions arise as to what is 'construction' and therefore whether there is construction on real property, and also whether additions or improvements are major in character. We feel that it is important to eliminate the necessity for making fine-spun distinctions in these respects which are confusing to persons subject to the regulations and also difficult to administer. If there is merit in having

3/23/51

-12-

"authority to regulate all types of real estate credit, as we think there is, it seems that the principle involved should apply broadly and the authority should extend to the coverage of all real property, regardless of the question whether there is 'construction' thereon. Moreover, since all construction is intended to be covered, the parenthetical language referring to major additions and major improvements seems superfluous and likely to give rise to difficult questions of interpretation.

"For these reasons, we suggest that the language of section 7 be changed to conform to the language which was included in section 6 of the March 1 draft but with the omission of the parenthetical phrase. As so changed, this section would read as follows:

'SEC. 7. Paragraph (1) of subsection (d) of section 602 of such Act is amended by striking out the first two sentences and inserting in lieu thereof the following sentence: "Real estate construction credit' means any credit which (i) is wholly or partly secured by, (ii) is for the purpose of purchasing or carrying, (iii) is for the purpose of financing, or (iv) involves a right to acquire or use, any real property or any construction thereon whether existing or proposed."

"If after further consideration of this matter you should still be disposed to use the language suggested in your second draft bill, we earnestly request that we be given an opportunity to discuss the matter with you briefly, as we feel that the point is an important one.

"Another provision of the second draft bill which we feel to be objectionable in its present form is the new proviso which would be added to section 605 of the Defense Production Act by section 9 of the draft bill. Mr. B. T. Fitzpatrick, Deputy Administrator and General Counsel of the Housing and Home Finance Agency, furnished me with a copy of his letter to you of March 8, 1951, recommending the inclusion of this proviso. Upon consideration of the language of the proviso, however, we felt considerable concern as to its effect and broad scope, particularly in relation to the provisions of Title V of Executive Order 10161. Accordingly, we discussed this proposal with Mr. Fitzpatrick and, as a result, substitute language was suggested. The proposed substitute, which Mr. Fitzpatrick has



3/23/51

-13-

"advised us is satisfactory to him and which is also agreeable to us, is as follows:

'SEC. 9. Section 605 of such Act is amended by adding at the end thereof the following new sentence:

'The President may require lenders or borrowers and their successors and assigns to comply with reasonable conditions and requirements, in addition to those provided by other laws, in connection with any loan of a type which has been the subject of action by the President under this section. Such conditions and requirements may vary for classifications of persons or transactions as the President may prescribe, and failure to comply therewith shall constitute a violation of this section.'

"In the circumstances, we earnestly hope that the language quoted above will be substituted for the proviso which would be added to section 605 of the Act by section 9 of the draft bill.

"With regard to the provisions of section 4 of the bill, the Board believes, for the reasons stated in Chairman McCabe's letter to Mr. Wilson of March 9, 1951, that it should be the policy of the Government to avoid the creation of additional Government instrumentalities for the purpose of providing credit to business enterprises and that the private credit and production facilities of the country should be utilized for such purposes to the fullest extent possible."

Approved unanimously.

Letter to Mr. Jack Leven, Legislative Reference Service, Library of Congress, Washington, D. C., reading as follows:

"In accordance with your request we are enclosing material describing the Federal Reserve System's contribution to Federal housing programs for inclusion in the pamphlet entitled 'Federal Housing Programs.'"

Approved unanimously.

3/23/51

-14-

Memorandum dated March 22, 1951, from Mr. Carpenter, Secretary of the Board, recommending the purchase of the Recordak equipment now in use in the Files Section (one model C microfilmer with film unit, and two model 10 readers) at the quoted net price of \$1,335, with the understanding that the 1951 budget of the Office of the Secretary would be increased by an amount sufficient to cover the cost in excess of the sum previously budgeted for rental of the machines.

Approved unanimously.

Memorandum dated March 22, 1951, from Mr. Carpenter, Secretary of the Board, recommending that the Board authorize the arranging of a reception in the Board Room for Chairman McCabe on Thursday, March 29, 1951, at an appropriate hour, to be attended by all members of the staff and other invited guests including the Presidents and Chairmen of the Federal Reserve Banks, and to be followed by a buffet dinner in the cafeteria. The memorandum also recommended that the Board approve the payment of the costs of the dinner and other expenses incident to the reception and that the appropriate classifications of the budget be increased to cover these costs.

Approved, Mr. Vardaman  
voting "no".

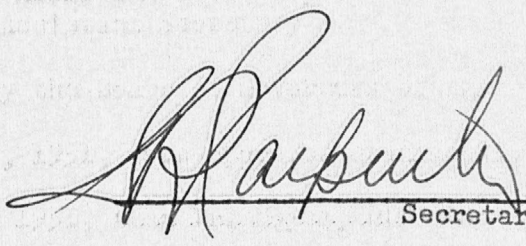
Memorandum dated March 23, 1951, from Mr. Carpenter, Secretary of the Board, recommending that, in connection with Mr. Martin's taking the oath of office as a member of the Board at noon on Monday,



3/23/51

April 2, 1951, the Board authorize the payment of the costs of luncheon, reception, and incidentals as outlined in said memorandum, and that the appropriate item in the 1951 budget of the Division of Administrative Services be increased to cover the costs.

Approved, Mr. Vardaman  
voting "no".

  
Secretary.