

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, May 18, 1951. The Board met in the Special Library at 9:40 a.m.

- PRESENT: Mr. Martin, Chairman
- Mr. Eccles
- Mr. Szymczak
- Mr. Norton
- Mr. Powell

- Mr. Carpenter, Secretary
- Mr. Sherman, Assistant Secretary
- Mr. Murff, 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. Leonard, Director, Division of Bank Operations
- Mr. Vest, General Counsel
- Mr. Young, Director, Division of Research and Statistics
- Mr. Wayne, Acting Director, Division of Examinations
- Mr. Noyes, Director, Division of Selective Credit Regulation
- Mr. Sloan, Assistant Director, Division of Examinations

Before this meeting there had been submitted a memorandum covering topics to be discussed at a joint meeting of the Board and the Presidents of the Federal Reserve Banks to be held today at 10:30 o'clock. The Board considered the topics listed, and it was agreed that the views of the Board would be stated substantially as recorded in the minutes of the joint meeting.

Mr. Norton presented a memorandum dated May 17, 1951 stating that in a letter dated May 16 the Housing and Home Finance Administrator advised

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that as a result of a survey made by the Housing and Home Finance Agency it had been determined that an urgent need existed for 250 housing units to be located within reasonable commuting distance of Fort Leonard Wood, Rolla, Missouri, that the Defense Production Administration had certified the area as a defense area for the purposes of special assistance, that the Administrator had concluded that the area should be designated as a defense area for the purpose of special action to assist in the production of necessary housing, and that the Administrator recommended that if designation of the area was concurred in by the Board the schedule of relaxed credit terms under Regulation X, Real Estate Credit, be the same as that approved for Atomic Energy Commission installations in South Carolina, Kentucky, and Idaho. The memorandum also stated that Mr. Norton concurred in this recommendation.

Thereupon, upon motion by Mr. Norton, unanimous approval was given to a letter to Mr. Foley, Housing and Home Finance Administrator, as follows:

"In response to your letter of May 16, 1951, this is to advise you that the Board of Governors concurs in your designation of the Fort Leonard Wood Area, Rolla, Missouri, as an area for application of special credit terms under section 6 (p) of Regulation X, Real Estate Credit, for purposes of defense construction. Your letter states that there is a need for 250 units to be located within reasonable commuting distance of Fort Leonard Wood. It is our understanding, based on previous conversations with representatives of your Agency, that 150 units are to be held for rental only, and the remaining 100 units are to be offered for sale. Purchase and rental of the entire 250 units will be controlled by the

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"commander of the post through the issuance of affidavits of eligibility.

"In accordance with your suggestion, the relaxation of terms prescribed by Regulation X will be identical with that previously announced for the Atomic Energy Commission installations in South Carolina, Kentucky, and Idaho."

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, Murff, 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 May 17, 1951, were approved unanimously.

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

Approved unanimously.

Memorandum dated May 10, 1951, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Valerie V. Faina as a charwoman in that Division on a temporary basis for a period of two months, with basic salary at the rate of \$2,120 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination, and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Melvin McIlwain as an officer of the Birmingham Branch with the title of Assistant Cashier at the rate of \$6,000 per annum for the period June 1, 1951, through May 31, 1952. According to your letter of May 11, 1951, this is the rate which has been approved by your Board of Directors."

Approved unanimously.

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

"Reurtel May 14, 1951, concerning application of Regulation W to \$1,600 loan for moving owner's house to a different lot and for doing other necessary work in connection therewith, including sewer and water connections. You point out that removal of house is required because of condemnation proceedings covering original location of house."

"As you indicate X-27 treats similar transactions as 'new construction' under Regulation X if they involve an amount in excess of \$2,500. The transaction in question, however, would be subject to the Group D requirements of Regulation W as residential repairs, alterations, or improvements to an existing structure and would not qualify for exemption under section 7(h)(1) of the regulation."

Approved unanimously.

Letter to the U. S. Appliance Company, 77 Main Street, South River, New Jersey, reading as follows:

"This refers to your letter of May 9, 1951, pertaining to the effects of Regulation W on instalment sales of household appliances. It is suggested in your letter that the regulation be changed to allow trade-ins on such sales to count against the down payment requirement as is permitted by the regulation for instalment sales of automobiles."

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"Present trade-in rules under the regulation have been in effect since Regulation W was first issued by the Board in 1941. For reasons that have seemed to be compelling, the approach to the regulation of automobile instalment credit has been and is different from the approach in the appliance and furniture areas.

"In administering the regulation the Board makes every practicable effort, consistent with the purposes of the regulation, to avoid disturbing established competitive relationships between sellers of the different regulated articles. To some extent all of the listed articles compete with each other for a share of the consumer's disposable income. A major relaxation for one group of regulated articles would tend to create important inequities unless there was also such an equivalent relaxation for competing articles. This would amount to a general relaxation that would tend to nullify the effectiveness of the regulation.

"The consumer credit regulation must be restrictive, of course, if it is to accomplish its major purpose of helping to restrain general inflationary forces by curbing consumer instalment credit. While the Board does not wish to be excessively restrictive in the case of individual articles or industries, nevertheless in carrying out its responsibilities under the Defense Production Act it must at the same time consider the necessity of curbing the inflationary effect of instalment credit in the interests of the country as a whole in this period of national emergency.

"Although the Board recognizes that there has been a general softening in the markets for consumer durable goods following the heavy buying wave of last December and January, nevertheless, in the light of general economic and credit conditions, the suggested relaxation of the regulation at this time does not appear to be in the interest of the national defense program.

"The Board is continuing to study the particular problems of the appliance dealers including those that might arise from the present down payment provisions of the regulation, and we are glad to have your views in this connection."

Approved unanimously.

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Letter to the Honorable William F. Knowland, United States Senate,  
Washington, D. C., reading as follows:

"Thank you for referring to the Board of Governors Mr. Lovick B. Pearce's letter of March 26 concerning restrictions on real estate credit. As you know, the restrictions were authorized by Congress in the Defense Production Act of 1950 for the purpose of combating inflation and conserving materials. In order to achieve these objectives it has been necessary to place restrictions on the financing of houses built by individuals for their own use as well as houses built for sale to others. Both have been important elements in the increased production of housing, and the regulation is equally restrictive in both cases.

"The regulation requires that a certain proportion of the cost of a new house be met from the buyer's own resources. Unfortunately, this requirement makes it difficult or impossible for some persons to buy a new house, but if this were not the case, the regulation would not be achieving its objective.

"It is our view that individuals who are buying or building more expensive houses should be required to make relatively larger down payments than those buying or building smaller and less expensive houses. In Mr. Pearce's instance, based on the facts he stated, the regulation would require a down payment of approximately \$12,500. The regulation, however, would allow all or any part of this amount to be met from the proceeds of the sale of the securities which Mr. Pearce mentions, or from borrowing on a life insurance policy.

"Mr. Pearce mentions a clipping from the Wall Street Journal which, in his mind at least, gives 'relief to the various organizations that are doing so much building'. This clipping was not attached to the letter when we received it, but it apparently referred to the addition of Section 5(g) to the regulation. That amendment was equally applicable to individuals and large companies building multi-unit residential and nonresidential construction. It was adopted to provide relief where substantial commitments or undertakings had been made before the imposition of credit controls and there was an inability to obtain credit to finance the construction on the basis contemplated by the borrower and lender prior to the imposition of the controls,

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"and compliance with the regulation would cause a clear and substantial financial hardship. A similar provision applicable to persons building residential property was made in the regulation when first issued last October.

"We hope this will help to explain the Board's position on the matter. If we can be of further assistance, please do not hesitate to call upon us."

Approved unanimously.

Letter to the Honorable Burnet R. Maybank, Chairman, Committee on Banking and Currency, United States Senate, Washington, D. C., prepared pursuant to action taken by the Board on April 23, 1951, reading as follows:

"This is in response to Mr. McMurray's letter of January 25, 1951, requesting a report on S. 515, a bill to amend the Reconstruction Finance Corporation Act.

"The principal changes which would be effected by S. 515 include the substitution of a single administrator (governor) for the five-man board of directors (This has already been accomplished by Reorganization Plan No. 1 of 1951, prepared in accordance with the Reorganization Act of 1949.); use of appropriated funds rather than funds borrowed directly from the Treasury; the Corporation to establish an interest rate on its loans calculated to pay all expenses as well as to provide an adequate reserve for losses; and the maintenance of records and a system of reports which will insure proper accounting controls and keep the Congress adequately informed as to operations. Under this bill, as under existing law, the Corporation would be authorized to make loans in four main categories: (a) to business enterprises, (b) to banks and insurance companies, (c) to public agencies and (d) catastrophe loans.

"This report is confined to that portion of the bill which relates to the lending functions of the RFC. The Board believes that any credit necessary for the national defense or other purposes should be made available to the fullest extent possible through private credit channels. In the exceptional cases in which Government assistance may be required, guarantees of loans made by private institutions are more desirable than direct Government loans. This was the basis of the V-loan program which was so successful

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"during World War II and which has been reinstated during the present emergency. If the powers of the RFC to make direct loans are to be continued, they should be in such form as to require that loans may be made only in the exceptional cases in which credit is not available from other sources including the V-loan program. The RFC was established in 1932 as an emergency organization and the Board feels that the Corporation should continue to be essentially so regarded.

"In recent months the Government has found it necessary to adopt various measures in order to control dangerous inflationary pressures in our economy and to conserve materials vital to national defense. In the face of these efforts, therefore, it is difficult to perceive why the Government should be making direct loans to business except as authorized by the Defense Production Act of 1950.

"The Bureau of the Budget has advised that it has no objection to the submission of this report."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., reading as follows:

"This is in response to your communication of April 19, 1951 requesting an expression of the Board's views with respect to a draft proposal of the Department of Agriculture 'To further amend the Farm Credit Act of 1933 with respect to commissions on debentures sold by the Central Bank for Cooperatives, and for other purposes.'

"In the explanatory letter accompanying the draft proposal, the Department of Agriculture states that the limited purpose of the bill is to grant permission to national banks and State member banks to accept commissions in connection with the sale of debentures of the Central Bank for Cooperatives and that the draft is not designed generally to exempt Central Bank debentures from the requirements of section 5136 of the Revised Statutes (12 U.S.C. 24).

"The letter further states that the Central Bank for Cooperatives is in an unfavorable position with respect to the marketing of its securities as compared with that of the Federal land banks and Federal intermediate credit banks since the latter are exempt from the requirements of Section 5136



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"and are likewise not subject to the requirements of the 'Investment Securities Regulation' promulgated by the Comptroller of the Currency.

"The absence of a similar exemption for debentures of the Central Bank for Cooperatives has been construed as prohibiting national and State member banks from accepting such commissions with respect to Central Bank debentures purchased for the account of customers. Consequently, in order to have the assistance and cooperation of national banks and State member banks, the Department of Agriculture desires that before the next offering of Central Bank debentures this group of institutions be permitted to accept commissions on such purchases.

"While the Board would have no objection to an amendment which would accomplish this limited purpose, it is believed that the language of the draft may well be construed as going much further than intended -- possibly so far as to remove all the limitations and restrictions of section 5136. In this connection it is suggested that whatever language is finally decided upon might more appropriately be in the form of an amendment to that section rather than to the Farm Credit Act of 1933."

Approved unanimously.

Letter to Mr. Charles A. Quattlebaum, Library of Congress Annex Building, Washington, D. C., reading as follows:

"With reference to the questionnaire which you recently sent to Mr. Bethea concerning a study for the use of the House Committee on Education and Labor with regard to educational projects and activities and to our subsequent telephone conversation concerning it, this letter is to inform you that the Board of Governors does not have specific programs of educational activities of the type covered by your inquiry.

"Several activities at the Board, however, are directed toward educational objectives in the broad sense of promoting understanding by the public of the functions of money and credit and of the Federal Reserve System in our economy. These activities center around the publications of the Board and their distribution. In some publications, such as the

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"monthly Federal Reserve Bulletin and the monthly Federal Reserve Charts on Bank Credit, Money Rates, and Business, information on and analyses of the business and credit situation which have been prepared to enable the Board to fulfill its statutory responsibilities are made available to the public in order to promote a wider understanding of money and credit developments and of the System's credit policies. A list of the Board's publications appears on pages 478-79 of the Bulletin for April, a copy of which is enclosed.

"In other publications, such as The Federal Reserve System -- Its Purposes and Functions and Banking Studies, an effort is made to provide explanatory material on the Federal Reserve and commercial banking system for the businessman, the banker, the labor leader, and the student. These publications are also a by-product of the regular work of the System's staff, but they are made available in special form for distribution to interested persons.

"Educational activities are also directly affected by the Board's policy in distributing its publications. Some publications, especially the book on the System and reprints of Bulletin articles, are available without charge. Libraries of educational institutions are furnished free copies of all publications upon request. In some Federal Reserve districts certain publications have been provided on a complimentary basis to the college and university teachers of money and banking.

"On occasions the Board has cooperated with individual Federal Reserve Banks in conducting short seminar sessions at the Banks and the Board, through which college and university teachers of money and banking are given an opportunity to become more familiar with the economic and financial information developed, or in process of development, by the System's research staff and also an opportunity to observe and discuss first hand the functions and operations of the Federal Reserve Banks and the Board. These seminars also have the indirect objective of broadening the public's understanding of the economy's monetary and credit mechanism.

"These various activities are integrated with the regular duties and assignments of the staff of the Board and the Banks, and as a consequence no special budget is

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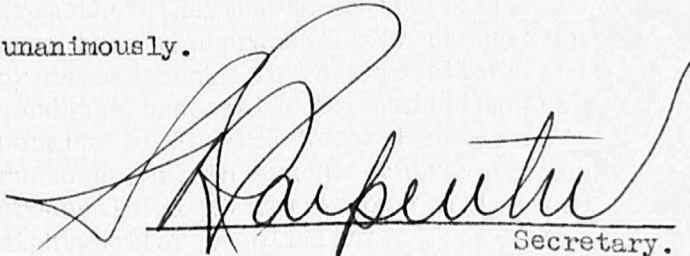
"maintained or could be maintained to cover them. All expenses of the Reserve Banks are covered by the income earned by their operations, and the expenses of the Board of Governors, which has statutory supervisory responsibility with respect to the Banks, are assessed against the Banks and carried by them as expenses. No funds appropriated by the Congress are involved in defraying any of the expenses of the Federal Reserve System.

"Still another form of educational activity which may not fall in the categories for which you are seeking information is the preparation of films with respect to the Federal Reserve System. The Federal Reserve Bank of Minneapolis prepared a film covering certain aspects of the operations of a Federal Reserve Bank designed for use particularly in high school classes, and the Board paid half the cost of the film or somewhat less than \$10,000. Distribution of the film is handled entirely by the Federal Reserve Bank of Minneapolis. The Board also paid a portion of the cost of preparing a film on the Federal Reserve System by Encyclopaedia Britannica Films, Inc., and assisted in review of the script for the film. This was a project of Encyclopaedia Britannica, Inc. for which they assumed full responsibility, including distribution within the United States and foreign countries. The contribution by the Board of \$17,750 was to assist in defraying a portion of the initial 'out of pocket' costs of the actual filming of the project.

"The Board provides for reimbursement of the tuition and incidental expenses incurred by a limited number of its staff for attendance at the two-week course at the Graduate School of Banking given at Rutgers University under the auspices of the American Bankers Association each year, and it grants the necessary leave to the individuals for whom reimbursement is approved.

"We hope this information will be of some use to you in the study you are making."

Approved unanimously.

  
Secretary.