

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 13, 1951.

PRESENT: Mr. Martin, Chairman
Mr. Norton
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Memorandum dated June 11, 1951, from Mr. Noyes, Director of the Division of Selective Credit Regulation, recommending the appointment of Miss Marlene Mayer as a Clerk-Typist in that Division, on a temporary basis for a period of six months, with basic salary at the rate of \$2,450 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.

Memorandum dated June 11, 1951, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending increases in the basic annual salaries of the following employees in that Division, effective June 24, 1951:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
John J. Hart	Technical Assistant	\$5,400	\$5,600
E. Ralph Massey	Technical Assistant	5,600	5,800
Jean T. Powell	Statistical Clerk	2,730	2,810

Approved unanimously.

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Memorandum dated June 11, 1951, from Mr. Carpenter, Secretary of the Board, recommending that the temporary appointment of Miss Barbara A. Huey, Clerk-Typist in the Office of the Secretary, be extended on a temporary-indefinite basis, with an increase in her present basic salary from \$2,650 to \$2,730 per annum, effective June 24, 1951.

Approved unanimously.

Memorandum dated June 12, 1951, from Mr. Powell, recommending that J. Lawrence Pagen, Vice President and Treasurer of Blyth and Company, Inc., 14 Wall Street, New York, New York, be appointed an alternate member of the Voluntary Credit Restraint Committee to serve in the absence of Lee M. Limbert.

Approved unanimously.

Letter to the Honorable Spessard L. Holland, United States Senate, Washington, D. C., reading as follows:

"This refers to your note of June 7, 1951, transmitting a copy of a letter to you dated May 30, 1951, from Mr. T. F. Green, Jr., Treasurer of the General Construction Corporation, St. Petersburg, Florida, concerning an application made to the Federal Reserve Bank of Atlanta for a loan under Section 13b of the Federal Reserve Act. Mr. Green had sent us a copy of his letter to you, and immediately upon receipt thereof we requested the President of the Federal Reserve Bank of Atlanta to make an investigation of the case. President Bryan states that he made a personal review of the credit files and pertinent material, and for your information there is enclosed a copy of his report, a copy of which we are also sending to Mr. Green. From our review it appears that the application received fair and impartial consideration, and we are inclined to agree with Mr. Bryan that 'it could not have been approved on any basis related to the financial condition or record of the corporation . . .'

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"To supplement your file on this complaint, we are also enclosing a copy of our letter to Mr. Green, a copy of Mr. Green's letter of May 30, 1951, to Mr. V. K. Bowman, Vice President of the Federal Reserve Bank of Atlanta, and a copy of Mr. Bowman's reply of June 4, 1951, to Mr. Green's letter.

"With reference to Mr. Green's letter to you of May 30, 1951, we would like to make certain comments. The Federal Reserve Banks and the Board of Governors are, as you know, taking an active part in the Program for Voluntary Credit Restraint pursuant to the provisions of Section 708 of the Defense Production Act of 1950. At the same time, the Federal Reserve Banks have a responsibility to facilitate the financing of contracts for defense production. Under the Board's Regulation V, they act as fiscal agents of the military and other procurement departments and agencies of the Government in connection with guarantees by such agencies of loans made by banks and other private institutions to finance contracts for materials and services which the procurement agencies regard as necessary for the national defense. The Federal Reserve Banks themselves, as financing institutions, may make such loans under Section 13b of the Federal Reserve Act, but the Act authorizes them to make direct loans only on a sound and reasonable basis.

"In Mr. Green's letter he refers to the membership of the Industrial Advisory Committee. The members of this committee in the Atlanta Federal Reserve District are:

Mr. John E. Sanford, President
Armour Fertilizer Works, Inc.,
Atlanta, Georgia.
Mr. W. W. French, Chairman,
Moore-Handley Hardware Co.,
Birmingham, Alabama.
Mr. I. C. Milner, President,
Gate City Mills Co.,
Atlanta, Georgia.
Mr. George Winship, President,
Fulton Supply Company,
Atlanta, Georgia.
Mr. Luther H. Randall, President,
Randall Brothers, Inc.,
Atlanta, Georgia.

These men are appointed by the Federal Reserve Bank subject to the approval of the Board of Governors, as provided in

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"Paragraph (d) of Section 13b of the Federal Reserve Act, and pursuant to the Act they are all 'actively engaged in some industrial pursuit' within the Federal Reserve District.

"With reference to Mr. Green's statement that the Federal Reserve Bank overlooked \$6,836.37 earnings for the first quarter of this year and ignored the consistent capital gains for the last five years that have averaged around \$20,000 a year, we refer you to the attachments of Mr. Bryan's letter of June 7, 1951. It would appear that in three of the past five years, the General Construction Corporation incurred a loss from operations. The capital gains appear to have resulted primarily from writing up the value of real estate and buildings.

"We trust that this information will enable you to answer Mr. Green's complaints, but if not, please call upon us for any further information you would like to have."

Approved unanimously.

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

"At the recent joint meeting of the Presidents and the Board there was a brief discussion of whether any action should be taken to increase the reserves for contingencies of the Federal Reserve Banks or to change the present arrangement under which 90 per cent of their net earnings after dividends are paid to the U. S. Treasury as interest on outstanding Federal Reserve notes.

"The suggestion was made that it would be desirable to increase the permanent capital accounts of the Reserve Banks. However, it was stated that the Board questioned whether any action should be taken at this time to reopen the existing arrangement with the Treasury, particularly since the depreciation in the Open Market Account resulted from a decline in prices of Government securities which was permitted to occur in accordance with Federal Reserve views advanced during recent discussions with the Treasury.

"The Board also feels, in view of the substantial net earnings of the Reserve Banks available for losses, that there is no present need for increasing reserves for contingencies. It has been suggested, however, that the unamortized premium of \$9,720,758 (on June 6, 1951) on the

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"nonmarketable 2-3/4 per cent bonds of 1975-80 be charged off. This premium was carried over from the restricted 2-1/2 per cent bonds which were exchanged for the nonmarketable 2-3/4's. It has been pointed out that insurance companies and savings banks in New York State have been authorized to carry over the premium and that this method is consistent with the 1938 Supervisory Agreement, which permits the carrying of securities of investment quality at amortized book value. On the other hand, it may be contended that the remaining premium carried over from the 2-1/2's should be charged off, since the Open Market Account differs in purpose from an investment portfolio. The 1938 Supervisory Agreement contains no prohibition against charging off premium or making other charge-downs in the carrying value of securities.

"The Board would like to have your views on the suggestion that the amount now being carried as premium on the 2-3/4 per cent bonds, Investment Series B-1975-80, be eliminated. If a majority of the Presidents approve, the premium could be charged off this quarter. It is proposed to show the charge-off, if made, in the statement of earnings and expenses of the Federal Reserve Banks in the Board's 1951 Annual Report as a separate item under deductions from current net earnings opposite the caption 'Losses on U. S. Government securities exchanged before call date.'"

Approved unanimously.

Letter to the Honorable Peter W. Rodino, Jr., House of Representatives, Washington, D. C., reading as follows:

"Reference is made to your letter of June 4, 1951, addressed to Mr. McCabe as Chairman of the Board of Governors and requesting comment on a letter, dated May 27, 1951, received by you from Mr. Anthony P. Ciardi with respect to the proposed merger of the Bank of Nutley and The First National Bank of Nutley, both in Nutley, New Jersey.

"Although the Bank of Nutley is a member of the Federal Reserve System, the consent of the Board of Governors is not required for the merger as proposed since the resulting institution is to have capital and surplus equal to the aggregate capital and the aggregate surplus, respectively, of the constituent institutions. Also, the approval of the Board of Governors is not required for the establishment

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"of the branch contemplated under the merger plan because the branch is to be located within the limits of the city in which the continuing bank is to be located. However, the Board has been advised that approval of the Commissioner of Banking of the State of New Jersey was obtained and has been furnished other information.

"It appears that Mr. Ciardi is under the impression that the stockholders of the national bank are to receive only one-half share in the continuing institution for each share of the national bank surrendered in exchange. The merger agreement provides that such stockholders will receive one and one-half shares of the stock of the continuing institution for each share of national bank stock surrendered. The Bank of Nutley now has outstanding 20,000 shares of common stock with a par value of \$25, and The First National has 4,000 shares with a par value of \$25 outstanding. The continuing institution is to have 26,000 shares outstanding with a par value of \$25 and 6,000 of these shares will have been delivered to the holders of the stock of the national bank. According to information furnished the Board, the present book value of the stock of the Bank of Nutley is \$57.30 per share, the book value of the national bank stock is \$59.50 per share and, after the merger, the book value of the stock of the continuing Bank of Nutley will be \$53.23 per share. Therefore, the holders of stock of the national bank will receive for each share, book value \$59.50, one and one-half shares of Bank of Nutley stock having a book value of \$79.84, a net gain of \$20.34 per share in book value.

"The question of competition or monopoly is a factor to be taken into consideration, among others, in connection with administrative action in any case. As indicated above, the Board's approval or consent is not required by law in this proposed merger. It appears, however, that the merger will be legally consummated with the approval of the appropriate State authorities and after approval and ratification by the shareholders of the respective banks.

"In accordance with your request, Mr. Ciardi's letter with enclosures is returned herewith."

Approved unanimously.

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

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"Reference is made to your letter of May 26, 1951, submitting the request of The Commercial Bank of Utah, Spanish Fork, Utah, for permission to establish a branch in Roosevelt, Utah, in connection with its proposal to absorb through merger the Roosevelt State Bank. It is noted that the proposal to establish a branch in Duchesne, Utah, which is mentioned in your letter, is to be the subject of a later recommendation with further information.

"In view of your recommendation, the Board of Governors approves the establishment and operation of a branch in Roosevelt, Utah, by The Commercial Bank of Utah, Spanish Fork, Utah, provided the prior approval of the appropriate State authorities is obtained and the merger with the Roosevelt State Bank is effected substantially in accordance with the plan as submitted.

"It is understood that Counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the merger and establish the branch."

Approved unanimously.

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

"This refers to your letter of June 5, regarding the related cases of Roberts Motor Company and Norm Birkhead Auto Sales, under Regulation W.

"In those cases, as you know, there were apparently some violations of the down payment requirement of Regulation W, but the principal difficulty arose from the fact that the books of the registrants contained inconsistent figures so that it was not possible for the investigators to determine how many violations there were. After several discussions it was decided to subpoena witnesses in order to ascertain the true state of affairs.

"The evidence which was thus obtained showed a small number of violations, almost all of which occurred several months previously and some which involved automobiles which the registrants had not thought worth repossessing when the customer stopped paying. It was also found that the issuance of subpoenas had had a salutary effect in stimulating compliance.

"In the circumstances, the Board approves the proposed disposition of the matter described in your letter of June 5,

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"1951, which was the consensus of those present at the meeting at your Bank on May 24, namely, that the partners be called in for a disciplinary conference in lieu of any other action."

Approved unanimously.

Letter to Mr. Peter J. Simons, Automobile Salesman, Schroeder Motor Sales Company, Saginaw, Michigan, reading as follows:

"Thank you very much for your post card dated June 6 commenting on the effects of Regulation W and for your suggestions with regard to its present terms.

"The Board appreciates your taking the trouble to express your views as it is very helpful to have the reaction of those operating under the regulation. You may be assured that your ideas will receive careful consideration."

Approved unanimously, with the understanding that similar letters would be sent in response to other communications where appropriate.

Letter to Mr. Rockwell, Assistant Cashier of the Federal Reserve Bank of Minneapolis, reading as follows:

"In reply to your letter of May 21, 1951, where the Willys Sedan Delivery is delivered with side glass and the sale includes arrangements for the installation of rear seats, it would be properly classified as a passenger automobile under Regulation W and in accordance with S-1263 (W-130) to which you referred. On the other hand, when the sale does not include such arrangements made at or about the time of the sale or delivery of the vehicle, it would not be a passenger automobile for the purposes of Regulation W."

Approved unanimously.

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

"The application of item 1, Group B of the Supplement to Regulation W covering 'Cooking stoves and ranges, designed for household use', has been re-examined, especially as it relates to paragraph (49) of the summaries published at 222.118, 15 Federal Register 7827, November 17, 1950 and 1950 Federal Reserve Bulletin 1620. The Board has concluded that the summary in paragraph (49), while of course remaining subject to the qualifications indicated for such summaries, should be revised to read as follows:

'(49) Cooking stoves and ranges. - The classification "Cooking stoves and ranges" does not include cooking equipment designed for commercial use in restaurants and hotels; nor does it include any cooking equipment with less than 3 heating surfaces.'

Approved unanimously.

Memorandum dated June 8, 1951, from Mr. Chase, Assistant Solicitor, stating that the Federal Reserve Bank of St. Louis had reported that Robert A. Burns, doing business as Bush-Burns Realtors, 722 Chestnut Street, St. Louis, Missouri, had refused to submit his books and records for examination in spite of information indicating that he was engaged in business subject to Regulation X, Real Estate Credit; and recommending that in accordance with the recommendation of the Reserve Bank, the Board adopt an order for investigation as follows in order that a subpoena might be issued requiring Mr. Burns to submit his books to examination:

"UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal Reserve System held at its offices in the City of Washington, D. C.
on the 13th day of June, A. D., 1951.

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In the Matter of
ROBERT A. BURNS,
d.b.a., Bush-Burns Realtors,
722 Chestnut Street,
St. Louis, Missouri.

ORDER DIRECTING INVESTIGATION
 AND DESIGNATING OFFICERS TO
 TAKE TESTIMONY.

I

Members of the staff of the Federal Reserve Bank of St. Louis have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

1) Robert A. Burns, an individual doing business as Bush-Burns Realtors, is engaged in the business of extending real estate credit subject to Regulation X, Real Estate Credit, issued by the Board of Governors of the Federal Reserve System.

2) Robert A. Burns has failed and refused to permit the Federal Reserve Bank of St. Louis, by its duly authorized representatives, to inspect the books and records which he is required to keep pursuant to the said Regulation.

II

The Board, having considered the aforesaid report, deems it necessary and appropriate that an investigation be made for the purpose of determining whether or not Robert A. Burns is engaged in the business of extending real estate credit subject to Regulation X and, if so, whether he has violated the provisions of Sec. 602 (b) of the Defense Production Act of 1950 and of Sec. 6 (d) of Regulation X in refusing to permit inspection of his books and records.

III

It is ordered pursuant to Sec. 705 of the Defense Production Act of 1950 and Sec. 902 (a) of Executive Order 10,161, that an investigation be made to determine the matters set forth in paragraph II hereof.

It is further ordered, pursuant to Sec. 902 of the said Executive Order, that for the purpose of such investigation, J. Leonard Townsend, G. Howland Chase and Harold B. Kline, and each of them, is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence and require the production of such books, papers, correspondence, memoranda or other records as may be deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

By the Board.

(signed) S. R. Carpenter,
 Secretary."

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Approved unanimously.

Letter to Mr. Franklin B. Wimer, Franklin Land Company, South Oak Hill Road, Pittsburgh, Pennsylvania, reading as follows:

"Thank you for your letter of May 21, 1951, giving the Board of Governors the benefit of your observations concerning the current effects of Regulation X on the residential construction business in the Pittsburgh area. The Board is glad to have the views of those active in the building field.

"Real estate credit restrictions, authorized by Congress in the Defense Production Act of 1950, are designed to conserve labor and materials for the defense effort and to aid in restraining inflation by curbing the expansion of real estate credit which has attained considerable proportions in the postwar period. It may seem unfortunate that credit restrictions interfere with plans of some individuals, but as you can appreciate, if this were not true, the regulation would not achieve its purposes.

"As you indicate, material shortages are developing. Under these circumstances the defense effort would be hindered if we were to allow easily available credit to contribute to the rise in prices of scarce materials and accentuate the inflationary spiral in other sectors of the economy. On the other hand, it is certainly not our desire to 'kill the home building industry'. We should like to see this industry operate on as high a level as possible consistent with national defense and anti-inflation efforts. At the time Regulation X was adopted last fall, it was estimated that such a level would involve about 800,000 to 850,000 new home starts in 1951. While this would be a cut from the record level of 1950, it would still compare favorably with other years since World War II. If the terms of the regulation are either too restrictive or not restrictive enough to achieve the goal, they may be changed; or, if changing conditions warrant, the goal itself may be revised.

"The Board is watching current trends closely and is prepared to modify the regulation if that action becomes necessary. We are aware of the fact that 'construction cannot be turned on and off like a faucet' and for that reason hope that you and others engaged in building will continue to supply us with comments on conditions in the industry."

Approved unanimously.

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

"We acknowledge your letter of May 29 regarding the scope of amendment No. 4 to Regulation X with respect to the substitution of a similar property for one which the borrower may be deprived of through threatened condemnation proceedings. In the example you cite, the Memphis Public Housing Authority has recently announced housing projects in Memphis, and a resident of an area selected for the site of one project has sought to take advantage of amendment No. 4 despite the fact that the condemnation proceeding is 'threatened' rather than one which has actually occurred through formal legal action.

"We do not think that the mere threat or 'imminence' of eminent domain or condemnation proceedings amounts to a deprivation of the structure. A threat of such proceedings might conceivably hang, and often has hung, over a property for years before resulting in final condemnation. In some actions of this type, final condemnation may never occur as, for instance, in the case of some threatened proceedings to correct an unsafe or unsanitary condition which in the long run may not result in an actual deprivation of the property. Hence, until a formal legal action has been started or until other incontrovertible proof is available that the owner of a property will be deprived of the property through a condemnation proceeding, it would seem that he should not be permitted to avail himself of the exemptions provided by amendment No. 4 to Regulation X."

Approved unanimously.

Letter to the Honorable Edwin C. Johnson, United States Senate, Washington, D. C., reading as follows:

"We acknowledge your letter of May 28, 1951, which quotes in part a letter you received from F. E. Sechler of Denver, Colorado, regarding the shortage of mortgage funds.

"It is not altogether apparent that the building industry is yet suffering the effects of the serious curtailment that Mr. Sechler indicates. During the first four months of 1951, a total of 346,900 new permanent non-farm

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"dwelling units were started. For comparative purposes, it is interesting to observe that 412,300 units were started during the corresponding period of 1950, 258,100 in 1949, and 279,500 in 1948. It is clear, therefore, that the rate of starts thus far in 1951 has been greater than in the three previous years excepting 1950 which was the greatest building year in United States history.

"It is scarcely conceivable that so many housing units would have been started during 1951 unless mortgage funds were available for their permanent financing. The private mortgage industry has financed the greatest building years in the history of the country, that is, the years 1948 to 1950, inclusive, when housing units constructed averaged considerably more than one million per year. While there is a relative shortage of mortgage funds currently available, this condition would seem to be caused chiefly by the financing demands made by the large volume of activity in recent years.

"The number of housing starts in early 1951 is chiefly accounted for by the unused backlog of pre-Regulation X exempt commitments. As you know, the construction of a house is the product of a long period of preparation by the builder. Land must be purchased, plans drawn, the site cleared and utilities installed, and construction gotten under way and completed, all of which takes many months of time. Many builders had made such plans for construction, and also had obligated themselves to heavy financial commitments prior to the issuance by this Board of Regulation X. In order to avert general hardship, the transition to the new regulation was facilitated by permitting such builders to complete their construction programs if they had firm commitments for the extension of real estate construction credit made prior to the effective date of the regulation, October 12, 1950. Consequently, the early part of 1951 has witnessed the gradual reduction of such commitments. It is probable that by the middle of the year most building starts under these exempt commitments will have been made.

"You inquire whether the Board of Governors contemplates easing credit curbs on building loans. At the present time there has been no such decision, although, in this connection, it should be noted that the Board constantly reviews the effect of Regulation X on real estate credit. The efficacy of this regulation as an instrumentality for the fulfillment of the purposes of the Defense Production Act of 1950

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"depends upon its restraint of real estate credit inflation and the conservation of labor and materials essential to the national defense. If in the future the regulation proves to be unnecessarily severe because of changed conditions, the Board will take appropriate action. However, it should be pointed out that a relaxation of the maximum loan value and amortization provisions of Regulation X would not increase the availability of mortgage funds."

Approved unanimously.

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

"There are being forwarded to your Bank under separate cover 100 copies of form F. R. 566, for use in making monthly reports to the Board covering Regulation X enforcement activities. You will recall that the Board's letter of November 17, 1950, S-1204 (X-18), stated that it was contemplated that monthly reports concerning the administration and enforcement of Regulation X would be furnished, and a draft of the report form was submitted to the Federal Reserve Banks for their suggestions and opinions with the Board's letter of April 17, 1951. The tentative form thus submitted has been revised in a few respects, in line with the suggestions of the Banks.

"It will be appreciated if your Bank will forward a single copy of this report monthly to reach the Board as soon after the end of the month as possible. The first complete monthly report should cover May 1951. For the period since the inauguration of investigative work until the beginning of May, a report containing the statistical data called for on the face of the form only, insofar as such information is available, will suffice, unless your Bank desires to submit the items of additional information in connection with the pre-May enforcement work as well.

"In view of the fact that these reports may contain details which may be helpful to other Banks in their enforcement programs, but which cannot be readily summarized, it is suggested that each Federal Reserve Bank send a copy of its monthly report to all other Reserve Banks as well as the Board.

"As soon as the reports are received in the offices of the Board, they will be summarized, and a copy of the System summary sent to each Federal Reserve Bank for its information."

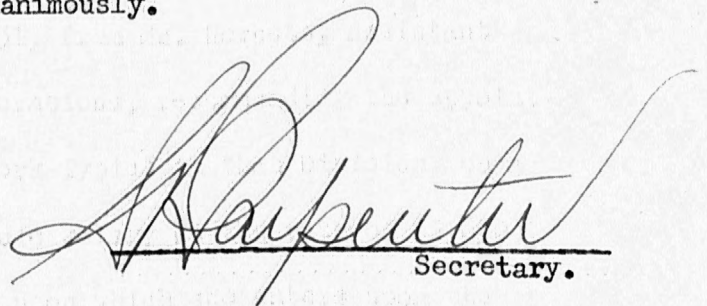
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Approved unanimously.

Memorandum dated June 11, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending that a special tabulation of the 1948 Census of Business data be obtained from the Bureau of the Census to show the amount of consumer credit extended by retail trade groups within each Federal Reserve District. The memorandum stated that this tabulation, covering all retail establishments, would provide a basis for analytical work on consumer credit statistics within each Federal Reserve District and for checking and improving the adequacy of the current reporting sample of consumer credit information, and that the Bureau of the Census had estimated that such a tabulation would cost about \$4,295. The memorandum also recommended that the cost of this tabulation be absorbed by the current budget of the Board's Division of Research and Statistics.

Approved unanimously.



Secretary.