

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, June 14, 1951.

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

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 12, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 13, 1951, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated June 12, 1951, from Mr. Dembitz, Assistant Director of the Division of International Finance, recommending an increase in the basic salary of Miss Mary M. Maroney, Economist in that Division, from \$4,725 to \$4,850 per annum, effective June 24, 1951.

Approved unanimously.

Memorandum dated May 29, 1951, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending the appointment of Miss Ora E. Ferris, as a Clerk-Typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,650 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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Memorandum dated June 12, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Miss Elsie N. Johnson as a Clerk-Typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,650 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 12, 1951, from Mr. Young, Director of the Division of Research and Statistics, recommending the appointment of Miss Kathryn Ann Walsh as a Clerk-Typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,650 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 13, 1951, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending the appointment of Miss Geraldine Ann Cunningham as a Clerk-Typist in that Division, on a temporary basis for a period of three months, with basic salary at the rate of \$2,610 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.

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Approved unanimously.

Memorandum dated June 13, 1951, from Mr. Horbett, Assistant Director of the Division of Bank Operations, recommending the appointment of Miss Carolyn G. Smith, as a Clerk-Typist in that Division, on a temporary basis during the months of July and August, 1951, 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 12, 1951, from Mr. Sloan, Director of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, and subject to the completion of a satisfactory employment investigation, Richard T. Pettijohn be appointed as an Assistant Federal Reserve Examiner, on a temporary indefinite basis, with salary at the rate of \$3,700 per annum, and with official headquarters at San Francisco, California.

By unanimous vote, Richard T. Pettijohn was appointed an Examiner to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25 (a) of the Federal Reserve Act, for all purposes of the Federal Reserve Act and of all other

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Acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at San Francisco, California, and with basic salary at the rate of \$3,700 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination, and subject to the completion of a satisfactory employment investigation.

Memorandum dated June 8, 1951, from the Division of Personnel Administration, recommending that while as a general practice the Board continue to follow the policy of not employing individuals when a relative is a member of the Board's staff, the rule be considered a flexible one to be set aside whenever, in the opinion of the Board, circumstances warrant.

Approved unanimously.

Letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This refers to the requests by Irving Trust Company and The New York Trust Company for permission to allow the Texas Banking Commissioner's representative to inspect copies of examination reports of such banks.

"After careful consideration of this matter and in view of the fact that the Commissioner considers these inspections essential to his approval of out-of-State reserve depositaries, the Board has decided that it will not object to State member banks permitting such annual inspections of reports of examination. However, the Board's permission is granted upon condition that the inspections are made solely by officers or employees

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"of the State Banking Department and only during the continuance of the Texas statutes requiring the Commissioner's approval of out-of-State reserve depositaries and the confidential treatment of all information, files, and records in the Banking Department.

"This permission is granted for an indefinite period but is subject to revocation if the Board deems it advisable."

Approved unanimously.

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

"Reurtels June 13 Board of Governors interposes no objection to amendment of Article VII of By-Laws of the Federal Reserve Bank of San Francisco and resolutions adopted by directors to permit closing head office on all Saturdays commencing July 7 and Los Angeles Branch when such closings conform with local clearing house association rules. It is noted that such action was taken under the provisions of Section 9 of the Civil Code of California and that the head office will be closed on Saturdays beginning July 7, 1951, for an indefinite period and the Los Angeles Branch will be closed on all Saturdays during July and August 1951."

Approved unanimously.

Letter to the Honorable Warren G. Magnuson, United States Senate, Washington, D. C., reading as follows:

"This refers to your letter of May 24, 1951 to Mr. Riefler which enclosed a letter you have received from Mr. Edward W. Thompson of Spokane, Washington, regarding taxation of instalment payments. Mr. Thompson suggests a program for taxing delinquent credit payments in order to aid business men in keeping their accounts

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"current, restrain over-extension of debt, and increase tax revenues. We appreciate Mr. Thompson's interest in reducing the inflationary effects that may result from over-extensions of instalment credit.

"The Treasury Department, of course, has the responsibility for formulating tax proposals for consideration of the Congress. Although we are not in a position to comment on the suggested tax proposals as such, it may be of interest that the restrictions of Regulation W are applied through establishing minimum down-payments and maximum maturities for certain instalment credits and are not applicable directly to collections on delinquent accounts. It has seemed to us that it would be inappropriate to use a credit control measure such as Regulation W primarily as a means of protection against loss for either the creditor or the borrower, though its provisions may have an incidental effect in this direction.

"Thank you for the opportunity to have Mr. Thompson's suggestions and to comment on them."

Approved unanimously.

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

"Questions have been raised concerning the status under Regulation W of certain devices or attachments frequently offered for sale and usable in connection with suction cleaners.

"'Suction cleaners designed for household use', whether tank-type or upright brush-type, are articles listed in item 10 of Group B of the Supplement to the regulation. Devices or attachments which may be fitted to a suction cleaner power unit by means of a flexible hose, wand, or by other means, are 'accessories' within the meaning of section 8(j)(7) of the regulation and must be included in the 'cash price' of the listed article when sold in connection with the suction cleaner power unit. Such attachments include nozzles, sometimes equipped with bristles, adapted for cleaning rugs, furniture, floors, walls, draperies, radiators and the like.

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"To be so classified as 'accessories' within section 8(j)(7), it is not necessary that the device or attachment be usable exclusively with the suction cleaner power unit or for cleaning in the more ordinary sense. It is sufficient that the device or attachment is usable in connection with the suction cleaner power unit. The fact that the device or attachment may be operated manually or with other power units is immaterial. Thus, attachments for scrubbing or polishing floors, vaporizing moth crystals, or spraying rugs, fabrics, etc., are likewise 'accessories' within the meaning of section 8(j)(7).

The same would be true, for example, of a garment bag equipped with a fitting to accommodate an attachment for vaporizing moth crystals, a self-winding extension cord device or attachment, and a device especially designed for holding or storing some or all of the attachments mentioned above.

"The fact that some or all such devices or attachments may be available for purchase independently of the suction cleaner power unit also is immaterial, as is the fact that they may be priced separately."

Approved unanimously.

Letter to the Honorable Victor Wickersham, House of Representatives, Washington, D. C., reading as follows:

"This refers to your request of May 12, 1951, for answers to a number of questions presented in the May 9, 1951 Washington Letter of the National Association of Home Builders concerning the construction and mortgage outlook. We are glad to have this opportunity to explain the Board's position on the points raised. You realize, of course, that the questions involve a broad range of problems in the field of anti-inflation policy, some of which concern action by Congress or Government agencies outside the field of real estate credit. Moreover, within the real estate credit field, the Board's responsibility is confined to so-called 'conventional' financing, that is, non-government-aided credit. We hope that the following comments on the questions which pertain to our area of responsibility will be of assistance to you.

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"In answer to the first question, the Board and other agencies involved are now considering whether Regulation X and companion credit controls should be relaxed, tightened, or left unchanged. This, of course, is not new, inasmuch as we are continually reviewing the effects of the regulations with a view to making them as effective as possible in achieving their objectives. For a considerable period it was difficult to ascertain the effect of the restrictions because of the large volume of units not covered by the regulation -- what we refer to as the 'backlog'. In large part, this complication is no longer present, at least in the field of one- to four-family houses, so that current activity more closely reflects the effects of the credit restrictions than has been the case heretofore. On the basis of activity so far this year, it now appears likely that under present regulations the effective demand for new houses will be less in 1951 than in 1950, when a record total of 1,400,000 units were started. At the same time, with about 350,000 units started in the first four months of 1951, the total for the year will probably exceed the 800,000 to 850,000 units set as a target last October when the terms were first announced. The volume of materials which will be available for civilian construction must now be reappraised by the proper authorities. It has been the Board's view since last fall not only that the regulation should be adjusted if necessary to achieve the target, but that the target itself should be revised if changing conditions so warranted.

"The subject of the second question is the supply of funds available for investment in mortgages. The background for this question, briefly, is that since the outbreak in Korea, the demand for long-term credit has been exceptionally great, and in total has considerably outstripped the supply of savings becoming available for such investment. Some holders of outstanding marketable Government bonds, such as insurance companies and savings banks, were selling from their portfolios in order to raise funds to meet this surplus demand for long-term credit, and the volume of such sales was greatly in excess of the buying by other investors. Until recently, the Federal Reserve System had been buying up the excess of bonds offered

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"for sale, thus preventing price declines. These purchases, however, were very inflationary. They both increased the money supply and swelled the reserves of banks, thus becoming the basis for an expansion of bank lending activities.

"In order to keep down such monetization of the Government debt, the Federal Reserve policy of rigid support of Government bond prices was discontinued. Prices of bonds declined in response to the excess of selling over buying in the securities market. Lenders are now more reluctant to sell their Government securities to make mortgage loans. This has tended to reduce the supply of mortgage funds to some extent, and by diminishing the flow of funds from a highly inflationary source, has restored a more normal situation, in which the demand for mortgage loans is met more completely from the natural flow of savings into lending institutions.

"Federal Reserve policy, however, has not been the only force at work. Many lending institutions have become fully loaned-up for the time being and are not making new commitments at the unusually high volume of last fall. This situation should improve in the near future, as institutions digest the backlog of commitments and receive an increased flow of new savings and pay-offs. Limitation of new housing starts to 850,000 a year will do much to bring about such an adjustment in the mortgage market.

"The third, fourth, and fifth questions in the Letter of the Home Builders Association concern Congressional action, and the sixth and seventh questions involve matters of policy over which the Board has no control. As for the latter part of the fifth question, concerning mortgage credit controls on existing properties, the position of the Board has been recently stated by Chairman Martin in his testimony before the Senate Banking and Currency Committee, as follows:

To make restrictions of mortgage credit adequately effective, the authority over such credit needs to be extended to cover loans made on existing properties. Since passage of the Defense Production Act, prices of old as well as new houses have increased significantly, thereby raising the loan values of old properties and adding to the potential volume of credit

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"based on this type of asset. Price increases for old properties in turn tend to support increases in prices of, and the amount of credit extended on, new houses. Thus, restriction of credit extended on existing properties would help to make the restraint of new construction credit more effective as well as to limit inflationary mortgage credit expansion generally.

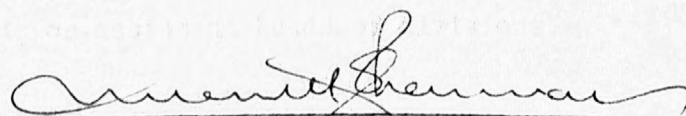
The amount of mortgage credit extended on old houses during 1950 was the largest on record, almost 9 billion dollars, or about three-fifths of all the credit extended on all one- to four-family properties. In the first quarter of 1951, lending on old houses was maintained at a very high rate and continued to account for a large share of the total volume of mortgage credit extension.

The President as well as the Council of Economic Advisers and the Joint Committee on the Economic Report have recommended that authority be granted to control credit on purchases of existing houses. The Board joins in this recommendation and urges that the authority provided in the bill presently under consideration be granted.

Total mortgage debt outstanding on one- to four-family houses, new and old combined, is two and one-fourth times what it was at the end of World War II. Continuation of such rapid expansion of mortgage debt would not only threaten the stability of real estate markets but also have a serious inflationary impact on the whole economy.

"We have attempted to answer, to the best of our ability, the questions pertinent to Federal Reserve policy. If we can be of further assistance, please do not hesitate to call upon us."

Approved unanimously.


Assistant Secretary.