

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

PRESENT: Mr. Szymczak, Chairman pro tem
Mr. Evans

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

Memorandum dated July 19, 1951, from Mr. Leonard, Director, Division of Bank Operations, recommending an increase in the basic salary of Mrs. H. Pauline Franklin, Statistical Clerk in that Division, from \$2,875 to \$3,100 per annum, effective August 5, 1951.

Approved unanimously.

Memorandum dated July 20, 1951, from Mr. Marget, Director, Division of International Finance, recommending that Mrs. Myrtle B. Caldwell, Clerk-Stenographer in the Division of Personnel Administration, be transferred to the Division of International Finance with no change in title and that her basic salary be increased from \$2,875 to \$3,100 per annum, effective as of the date she enters upon the performance of her new duties. The memorandum also stated that the Division of Personnel Administration was agreeable to this transfer.

Approved unanimously.

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

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"In accordance with the request contained in your letter of July 18, 1951, the Board approves the designation of Arthur I. Lee, an assistant examiner who was transferred to the Fiscal Agency Department of your bank, as a special assistant examiner for the Federal Reserve Bank of Minneapolis."

Approved unanimously.

Letter to Mr. Norman Freehling, Freehling, Meyerhoff & Co.,
120 South LaSalle Street, Chicago, Illinois, reading as follows:

"This is in reference to your letter of June 11, 1951, inquiring whether Regulation T permits a creditor to pay out to a customer dividends and interest received on the securities carried in a special subscription account maintained under section 4(h) of the regulation. You also discussed this matter with Governor Szymczak and certain members of the Board's staff on July 17.

"In this regard, you referred to the exception in section 6(g) of the regulation which, subject to certain limitation, permits a creditor to pay to a customer from a general account interest or cash dividends collected by the creditor for such account, even though the account is undermargined and other withdrawals from the account are restricted by the general rule stated in section 3(b).

"Section 4(h) was designed to provide certain concessions for the acquisition of securities through the exercise of subscription rights. You will note that not all of the exceptions applicable in the case of a general account are applicable with respect to a special subscription account in which transactions on the preferential terms permitted by section 4(h) are to be effected. Such exceptions, of course, become applicable in appropriate circumstances after the securities in a special subscription account have been transferred to a general account as provided in section 4(h)(2). Except for such transfer, that section forbids withdrawals of cash or securities from a special subscription account so long as there is a debit balance in the account.

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"In the light of the foregoing, the exception in section 6(g) concerning the payment of interest or dividends from a general account should not be regarded as permitting such payments in the case of a special subscription account.

"The arguments made by you in support of a contrary view have been carefully considered. However, such contrary view, in the Board's judgment, not only would further relax the regulation to an extent not intended, but would also be at variance with the language of the regulation."

Approved unanimously.

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

"This refers to your letter of July 2, 1951, addressed to Chairman Martin, with which you included an excerpt from a letter you received from Mr. James T. Harvey, Secretary - Business Representative, Building and Construction Trades Council of Sacramento - Yolo Counties. The quotation from Mr. Harvey's letter and your own comments refer to Regulation X, Real Estate Credit.

"In the excerpt from Mr. Harvey's letter, he states that 'this regulation is penalizing the low and moderate income groups and eliminates these families from the opportunity to purchase new homes. . .'

"Regulation X was issued under the authority of the Defense Production Act of 1950 and Executive Order No. 10161, and is designed to conserve materials and labor for the defense effort and to restrain inflationary forces. In considering the terms prescribed by the regulation and the accompanying restrictions of the Federal Housing Administration and the Veterans Administration, the Board and the other Governmental agencies concerned took great pains to establish requirements which would be as equitable as possible in their effect on the various income groups. As a result we established after prolonged study, down payment requirements which start at 10 per cent for houses valued at \$5,000 or less, and increase gradually to 50 per cent for houses valued at more than \$24,250. The

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"regulation, therefore, is proportionately much more restrictive, as we think you will agree it should be, on those persons buying more expensive residences. If, however, the regulation is to be effective it must be restrictive to some extent with respect to all classes of persons; that is, some persons must defer the purchase of a new house until they have accumulated greater savings, or perhaps buy an older or lower-priced house. The Board is deeply concerned that the impact of the regulation be as equitable as possible, and stands ready to make whatever adjustments may be necessary to achieve this end.

"With respect to your own comment as to whether it would be possible to relax Regulation X if proposed legislation is passed providing lower down payments for War Veterans in certain price classes and under certain specified conditions, the Board has consistently stated that the terms of the regulation will be modified if it is demonstrated that they are too restrictive.

"At the time Regulation X was issued, the several Governmental agencies responsible for real estate credit regulation estimated that a volume of 800,000 to 850,000 housing starts for 1951 would be consistent with the objectives of the enabling legislation. This volume would represent a substantial reduction from the record-breaking 1,400,000 units started in 1950 but would not be materially out of line with the volume in other years since the war. In the first six months of 1951, approximately 575,000 units have been started, or an average of nearly 96,000 a month. The goal of 800,000 to 850,000 for the year could be reached if starts average only about 45,000 units a month in the remaining six months of the year. Current trends would indicate that it is reasonable to expect the number of housing starts over the next six months to average at least as high as this.

"We would like to see the building industry produce as many houses in all price classes as would be consistent with defense and economic stabilization efforts. However, Federal expenditures for defense and related activities are scheduled to rise sharply over the next year and to place heavy pressure on our resources of

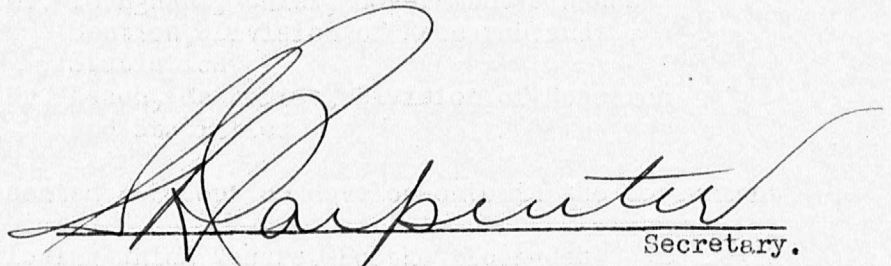
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"manpower, industrial capacity, and materials. If inflationary pressures arising from expansion of defense spending are to be held in check, it appears essential to limit postponable or less essential public and private spending, especially such spending as is financed by borrowing. During the first four months of 1951, nonfarm mortgage recordings of \$20,000 or less totaled nearly 5.3 billion dollars, an increase of nearly one-fifth as compared with the same period a year ago. Until the needs of the defense program have been taken care of and the dangers of further inflation have moderated, liberalization of real estate credit regulations would be of doubtful wisdom.

"Despite all these considerations, we wish to assure you that we believe the regulation should be as equitable as possible to all income classes, and we are glad to give consideration to any proper means to assure the accomplishment of this purpose.

"We hope we have adequately responded to your letter, and if you need further information about the Board's views we shall be glad to furnish it."

Approved unanimously.


Secretary.