

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, July 24, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, 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. Noyes, Director, Division of Selective Credit Regulation
Mr. Boothe, Assistant Director, Division of Selective Credit Regulation
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics
Mr. Leach, Economist, Division of Research and Statistics

Mr. Thomas presented a report on developments in the Government securities market, following which Messrs. Boothe, Youngdahl, and Leach withdrew from the meeting.

Mr. Vest stated that, at the request of the Office of Defense Mobilization, he attended a meeting at that Office yesterday afternoon at which there were present members of the legal staffs of the various agencies affected by the Senate and House versions of the bill S. 1717, to amend and extend the Defense Production Act of 1950, the purpose of the meeting being to review the two versions of the bill and consider

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what background material should be available when the Senate and House conferees met for discussion beginning July 25. At the conclusion of the meeting, Mr. Vest said, representatives of the Office of Defense Mobilization requested that the staffs of the several agencies prepare and submit by noon today such memoranda as they felt might be helpful to the conferees in reconciling differences between the Senate and House bills, particularly with respect to specific provisions which might cause administrative difficulties or have other objectionable features. The Office of Defense Mobilization, Mr. Vest said, intimated that this request had come from the staffs of the Senate and House Banking and Currency Committees.

Mr. Vest said that before attending the meeting he discussed the request with Chairman Martin who felt that there was nothing to be added to the Board's stated position on policy aspects of the legislation, which already had been made clear to the Congress, but that there was no objection to the staff assisting in the drafting of provisions if that would be helpful to the banking and currency committees, or to its indicating at staff level preferable versions of any provisions in the bills which might be objectionable or cause difficulty from an administrative standpoint.

There were then read and discussed five memoranda prepared by the staff relating to provisions in the Senate and House bills, two with respect to the regulation of consumer credit and three with respect to the regulation of real estate credit. In this connection, Mr. Evans

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suggested that the memoranda relating to the regulation of consumer credit be revised in the light of comments at the meeting and submitted to him for approval before they were transmitted to the Office of Defense Mobilization. It was also suggested that the memoranda relating to the regulation of real estate credit be revised in the light of the discussion and submitted to Mr. Norton for approval before transmission.

These suggestions were approved unanimously, Mr. Vardaman stating that in agreeing to this procedure he understood that the memoranda relating to consumer credit would not in any way conflict with the views of the Board set forth in Chairman Martin's letter of July 9, 1951, to Messrs. Maybank and Spence, Chairmen of the Senate and House Banking and Currency Committees, respectively.

In the course of the foregoing discussion, Mr. Norton noted that the staff had not discussed with him previously either the meeting at the Office of Defense Mobilization or the proposed drafts of the memoranda relating to real estate credit legislation and that this raised certain questions with respect to the existing assignments of subjects to Board members which he proposed to discuss with Chairman Martin at the first opportunity.

Mr. Norton also mentioned that certain weekly newsletters were reaching his desk much later than their publication dates and suggested that instead of circulating the letters they be placed in a convenient location upon receipt where those interested could read them.

This suggestion was approved unanimously, with the understanding that upon receipt the letters would be placed in binders in the Special Library.

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At this point all of the members of the staff with the exception of Messrs. Carpenter and Riefler withdrew from the meeting.

Mr. Riefler referred to a memorandum dated July 20, 1951 from Mr. Wilson, Director of the Office of Defense Mobilization, which was addressed to the Secretaries of 6 departments and the heads of 19 agencies of the Government, including the Board of Governors. The memorandum, after stating that the President had asked Mr. Wilson to direct and coordinate the action of Federal departments and agencies toward the restoration of the general economy in the flooded area in the Middle West, requested that the Board designate a representative to sit on an Emergency Washington Committee and also on the Kansas City Regional Defense Mobilization Committee, the persons appointed to be persons of recognized competence for emergency operations and authorized to speak for the Board. The memorandum also asked that the Board undertake the following tasks:

- "(1) To determine the extent of the damage to the economy as it affects the policies and programs of your agency
- (2) To advise me concerning the present programs being undertaken by your agency with respect to rehabilitation efforts
- (3) To inform me concerning such policy and program adjustments within your authority as may be necessary to restore the economy
- (4) To propose such additional authority and funds as may be necessary to permit your agency to develop appropriate rehabilitation programs."

The memorandum contained the further request that a report on the above matters be sent to Mr. A. E. Howse, Assistant to Mr. Wilson, not later than noon today.

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Mr. Riefler stated that while a draft of reply to the above memorandum was being prepared, he received notice of a meeting in Mr. Wilson's office and that he attended the meeting, which was under the chairmanship of Mr. Howse and which was for the purpose of discussing plans being made for the rehabilitation program. He also said that the representatives of the different agencies were asked at that meeting to name the persons to be designated to represent the agencies as contemplated in Mr. Wilson's memorandum, and in response to an inquiry as to the Board's representative he replied that for the time being he would serve on the Washington Committee and Mr. Leedy, President of the Federal Reserve Bank of Kansas City, would represent the System on the Kansas City Committee. He also reported that he outlined briefly the discussion at the meeting of the Board on Wednesday, July 18, 1951, and stated the reasons for the feeling of the Board that the most feasible way to meet the problem of financial assistance in the flooded areas would be through the use of the existing authority of the Reconstruction Finance Corporation to make disaster loans. The question of participation by the System, he said, in the making of such loans or participation in a program for guaranteeing loans was not raised. He made the further statement that, in response to an inquiry as to what the Reconstruction Finance Corporation was doing, the representative of the Corporation present stated that inasmuch as the Federal Reserve Banks had suspended Regulations W and X

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in the flooded areas it would be possible for the Reconstruction Finance Corporation to make disaster loans at a 3 per cent rate for a period of 10 years, that the Corporation had \$35 million available for such loans, and that 8 regional offices were being opened in the area and 60 people were being moved in to handle the work of processing loan applications. In response to a further request, Mr. Riefler said, the Reconstruction Finance Corporation representative stated that it would take about two weeks to process loans and Mr. Howse replied that that would be too slow to meet the problem and that he would like to have two representatives of the Reconstruction Finance Corporation go with him to Kansas City for the purpose of expediting the Corporation's loan operations. It was Mr. Riefler's impression that if the Reconstruction Finance Corporation operation was not effective in meeting the problem, a request might be made for the Federal Reserve Banks of St. Louis and Kansas City to serve under legislation to be proposed as fiscal agents in handling guaranteed loans under a procedure similar to the present V-loan program.

Before this meeting there had been distributed among the members of the Board copies of a draft of reply to the memorandum from Mr. Wilson. After a brief discussion, Messrs. Carpenter and Riefler withdrew from the meeting and the Board went into executive session.

At the conclusion of the executive session, Messrs. Carpenter, Riefler, and Thurston were called back into the meeting and were informed that the draft of letter to Mr. Howse in reply

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to the memorandum of July 20 from Mr. Wilson had been approved in the following form, with the understanding that copies of the memorandum and reply would be sent to Messrs. Johns and Leedy, Presidents of the Federal Reserve Banks of St. Louis and Kansas City, respectively:

"This letter is in response to Mr. Wilson's memorandum of July 20, 1951, with respect to the steps being taken to provide relief in the flooded areas in the middle west and for the restoration of the general economy in the disaster area.

"In response to Mr. Wilson's request, the Board has temporarily designated Mr. Winfield W. Riefler, Assistant to the Chairman, to represent it on the Emergency Washington Committee, and Mr. H. G. Leedy, President of the Federal Reserve Bank of Kansas City, will represent the System on the Kansas City Regional Defense Mobilization Committee.

"With respect to the four tasks which Mr. Wilson's memorandum requests that the Board undertake, I am pleased to advise as follows:

"We have been in touch with the Federal Reserve Banks of St. Louis and Kansas City by telephone and they are cooperating in every way they can to meet the situation. It does not appear from the information available that the ability of the banking system to meet the usual credit needs of the area will be seriously impaired. The credit problems that arise from the disaster generally will reflect impairment of the financial position of the borrower rather than a lack of ability of the banking system to extend credit. The Federal Reserve Bank of Kansas City advises that only a few commercial banks have suffered flood damage. The Reserve Bank and commercial banks in the area are working together to see that the currency, check clearing, and other operating needs of the flooded banks are met.

"On July 13 the Federal Reserve Banks of St. Louis and Kansas City acted to exempt from the provisions of Regulation W, Consumer Instalment Credit, instalment credit extended prior to January 13, 1952, for the replacement or repair of property lost or damaged as the result of the flood.

"Regulation X, Real Estate Credit, which limits the amount of credit that may be extended in connection with the 'conventional' financing of residences or the financing of nonresidential structures erected after August 3, 1950, contains an exemption of any credit used solely for the replacement,

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"reconstruction, or repair of property destroyed or substantially damaged by flood, fire, or other similar casualty.

"The Federal Reserve Banks of St. Louis and Kansas City stand ready to be of whatever help they can in extending credit under section 13b of the Federal Reserve Act to make or participate in loans to flood sufferers. However, the Banks' authority in this field is restricted by law to loans that can be made on a reasonable and sound basis for working capital purposes with maturities of not to exceed five years. The extent to which this authority can be used is therefore greatly limited.

"As you know, the Federal Reserve Banks act as fiscal agents in connection with the V-loan program for the guaranteeing of defense production loans and they will be in touch with the situations which might be helped by the use of this authority.

"No change in the authority of the Board of Governors or the Federal Reserve Banks will be required to carry out the measures referred to above. However, in order to meet the emergency financial needs of the area it may be necessary to increase the authority or funds available to certain other Government departments and agencies. Should it be the decision that legislation should be sought to authorize additional financial assistance to flood sufferers, the Board will be glad to cooperate in every way possible to work out a solution.

"The Board wishes to assure the Office of Defense Mobilization that it will be glad to do everything it can to further whatever program is adopted to meet the emergency. The Reserve Banks will also be in close touch with the Federal and State authorities in the flood areas and will cooperate in every way they can in carrying out the programs referred to above or making space or facilities available to carry on the relief and rehabilitation activities."

It was also stated that during the executive session it was agreed that communications of the kind referred to above should be presented to Mr. Thurston for editing before being presented to the Board.

Mr. Vardaman requested that the minutes of this meeting show that he would oppose any member of the staff serving as an alternate for the Chairman or a member of the Board on any committees or at meetings

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which ordinarily would be attended by a member of the Board of Governors as a representative of the Board.

At this point Messrs. Thurston and Riefler 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 July 20, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 23, 1951, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated July 23, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Miss Martha Jane Harris as a Stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,875 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 July 20, 1951, from Mr. Sloan, Director, Division of Examinations, recommending that the expense voucher submitted by C. S. Barker, Federal Reserve Examiner in that Division, for the period July 1 to July 15, 1951, during which period Mr. Barker was on sick leave for nine days, be paid in full as submitted.

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The memorandum further recommended that per diem in lieu of subsistence be paid to Mr. Barker during the period of his illness while away from his official headquarters in Washington, D. C., with the understanding that this authorization would expire September 30, 1951, and be subject to further consideration at that time, if necessary.

Approved unanimously.

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

"In accordance with the request contained in your letter of July 20, 1951, the Board approves the appointment of George William Metz as an assistant examiner for the Federal Reserve Bank of Philadelphia. If the appointment is not made effective September 1, 1951, as planned, please advise us."

Approved unanimously.

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

"This refers to your letter of July 17, 1951, enclosing a copy of a letter from the Tower Grove Bank and Trust Company, St. Louis, concerning an interpretation of the provisions of section 5(b) of Regulation X. As we understand the inquiry, the bank finances builders of housing subdivisions by taking a blanket mortgage on the entire subdivision for a period of 6 months to a year, and by taking the builder's short-term collateral notes secured by the blanket mortgage for periods not exceeding 90 days. The bank asks whether it is permitted to renew such short-term collateral notes from time to time even though construction of several of the houses in the subdivision may have been completed at the time of the renewal.

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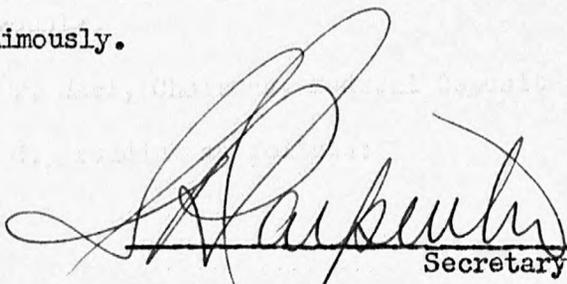
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"Short-term construction credit for residential purposes is exempt from the regulation for the underlying reason that the vast majority of houses are built for sale and the regulation is effective at the time of the sale. This, of course, is not true for most multi-unit residential and nonresidential construction, which ordinarily is built for investment purposes; accordingly, the exemption in section 5(c) of short-term credit for multi-unit residential and nonresidential purposes is somewhat different.

"The residential construction and sale period ordinarily is approximately 6 to 9 months, and the 18 months' limitation in section 5(b) was adopted as an outer limit of the construction and sale period, with the proviso that exempt credit may not be renewed or refinanced except on terms which comply with the regulation. The Board, in interpreting this section, has stated in its telegram of November 8, 1950 (S-1189; X-13) that a note having a maturity of less than 18 months may be renewed pending completion of construction and, in its telegram of May 25, 1951 (S-1337; X-53), that such a note may not be renewed after construction has been completed.

"In a situation such as that presented, where the blanket mortgage securing the collateral notes has a maturity within the 18 months' limitation, and the collateral notes are not related to individual houses within the project, our view is that the mere fact that construction of some of the houses in the project may have been completed does not mean that construction has been completed within the meaning of the interpretations referred to above. Accordingly, in such circumstances, the notes may be renewed pending the maturity of the blanket mortgage and completion of the construction project."

Approved unanimously.


Secretary.