Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, August 7, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Evans
Mr. Vardaman

Mr. Carpenter, 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. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Noyes, Director, Division of Selective Credit Regulation
Mr. Boothe, Assistant Director, Division of Selective Credit Regulation
Mr. Benner, Assistant Director, Division of Selective Credit Regulation
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics

Mr. David Eastburn, of the staff of the Federal Reserve Bank of Philadelphia, who had been assisting the Board on a temporary basis in connection with real estate credit matters, also attended the meeting.

Mr. Thomas presented a report on current developments in the Government securities market.

Mr. Vardaman stated that he wished to bring to the attention of the Chairman the fact that at the meeting of the Board on July 31 he raised a question regarding the Board taking formal policy actions without a quorum present. He said that this practice had been followed on occasions

in the past over his protest, and that while he did not want to hinder the efficient operation of the Board, he desired that this matter of administrative procedure be clarified since he did not feel that any definitive action should be taken at any meeting when a majority of the members of the Board were not present unless definite proxies of absent members were in the hands of the Chairman.

Mr. Vardaman then presented a memorandum dated August 7, 1951 from Mr. Boothe reading as follows:

"The Petroleum Administration for Defense is engaged in a program to stockpile for use of the Armed Forces, 75 million pounds of TEL. The plan is roughly as follows:

"The large oil refiners will purchase and store for use of the Armed Forces approximately 60 million pounds of TEL. The remaining 15 million pounds will be allocated to the smaller refiners. Most of the larger oil companies have indicated a willingness to arrange any financing necessary for the purchase and storage of the TEL; however, it is contemplated that some of the smaller companies who will purchase and store the 15 million pounds may need some financial assistance from the Government up to a maximum of 10 million dollars.

"The Petroleum Administration for Defense is anxious to know that whatever Government financing is necessary will be available. Therefore, in those cases where private financing is not available, it is the desire of the Administration to first, offer financing through the medium of a V-loan; second, through the medium of a V-loan, a credit in which a Federal Reserve Bank would participate under the provision of Section 13b; and third, a direct 13b loan made by a Federal Reserve Bank either with or without a guarantee.

"Attached hereto is a tentative proposal outlined by the Petroleum Administration for Defense."

Mr. Vardaman said that he and Mr. Boothe met with representatives of the Petroleum Administration for Defense this morning to review the matter referred to in the above memorandum, and that as a result of that discussion he would recommend that in cases where funds are not available from any other source, in the form of a V-loan or otherwise, credit be extended to the refiners concerned under the provisions of section 13b preferably in the form of a V-loan in which a Federal Reserve Bank would participate, but if necessary as a direct section 13b loan with or without a Government guarantee. If any application for a loan should be received, Mr. Vardaman said, it would be understood that the System would determine whether credit was available from private sources, and if a loan were made by a Federal Reserve Bank it would reserve the right during the life of the loan to undertake to sell it to a private financing institution. He added that under the proposed program he did not feel that it would be necessary to make any loan under section 13b without a Government guarantee.

Mr. Vardaman said that if the members of the Board present, and Mr. Szymczak, who was expected to join the meeting later, approved, he (Mr. Vardaman) would request Mr. Boothe to indicate to Mr. Thorp, of the Petroleum Administration for Defense, that the System would be willing to participate in financing the program in the circumstances and under the conditions which Mr. Vardaman described.

Following a discussion, during which members of the Board present indicated that they would be agreeable to the program as outlined, it was understood that if Mr. Szymczak agreed Mr. Boothe would so indicate to the Petroleum Administration for Defense.

Secretary's note: At Mr. Vardaman's request the Secretary later discussed the matter with Mr. Szymczak, who stated that he would be agreeable to the procedure outlined by Mr. Vardaman.

At this point Mr. Boothe withdrew from the meeting.

Before the meeting there were distributed to the members of the Board copies of a memorandum dated August 6, 1951 from the staff stating that at the request of the Administrator of the Housing and Home Finance Agency, the staff had studied the terms of Regulation X, Real Estate Credit, in the light of experience under the regulation to determine whether some realignment of down-payment requirements would be desirable, particularly with respect to lower priced houses. The memorandum set forth reasons for and against a realignment of terms at this time and recommended that the member of the Board having the assignment for real estate credit control be authorized to negotiate with the Housing and Home Finance Administrator an appropriate realignment of the down-payment schedule prescribed in Regulation X and the FHA and VA counterpart regulations. Attached to the memorandum were three alternative realignment schedules, one suggested by the Housing and Home Finance Agency and the others by the Board's staff as possible alternatives.

Mr. Evans referred to the discussion at the meeting on July 31, at which time he reviewed the discussion which he and members of the Board's staff had with Mr. Foley the previous day regarding the defense housing bill which had passed the Senate and which was under consideration by the House Banking and Currency Committee, it having been Mr. Foley's opinion that the House might undertake to write certain restrictive down-payment provisions in the legislation, but that if the Board and the Housing and Home Finance Agency were willing to join in some voluntary relaxation of the down-payment schedule this might be avoided. Mr. Evans recalled that after returning from the meeting with Mr. Foley and reviewing the matter with the staff, it was his recommendation, in which Chairman Martin and Mr. Norton concurred in telephone conversations, that no definite reply should be made to Mr. Foley pending completion of a study by the staff of the effects of the regulation and the desirability of an adjustment of its terms. He said that the memorandum distributed before this meeting represented the result of that study.

At this point Messrs. Szymczak and Wood, Economist, Division of Research and Statistics, joined the meeting.

At the request of Mr. Evans, Mr. Noyes compared the minimum down-payment schedule suggested by the Housing and Home Finance Agency with the two alternative schedules suggested by the Board's staff, and stated reasons why the latter two schedules were deemed preferable.

Mr. Young pointed out that when the regulation was instituted in the fall of 1950 it was decided that its terms should be relatively severe, that it was understood with Mr. Foley at that time that the situation would be reviewed after experience with the regulation, at least at the end of one year, and that if the terms were found to be too restrictive in the light of prevailing conditions, an adjustment would be made. Therefore, he said, although the legislative development had accelerated the review, it would have been made shortly in any event. Mr. Young said that he felt that Mr. Foley and his staff had made a rather strong case for some adjustment of terms on the grounds that the combination of the impact of Regulation X and a tightening of credit in the mortgage market are tending to have a rather pronounced effect in the housing field, especially in the lower price brackets. In certain areas, Mr. Young said, there was evidence that builders were increasingly indisposed to go ahead with land commitments and development projects, while applications for FHA and VA commitments were falling off considerably. In the circumstances, he said, Mr. Foley felt that by the end of the current year and in early 1952 the level of housing starts might be well below the rate of 800-850 thousand a year which was set as the target when Regulation X and its counterpart FHA and VA restrictions were instituted.

Mr. Young recalled that the Board on August 3 addressed a letter

to Mr. Wilson, Director of the Office of Defense Mobilization, inquiring whether availability of manpower and materials would be such as to permit the construction of at least 850,000 residential dwelling units in the calendar year 1952, and said that while no reply had been received, members of Mr. Wilson's staff had stated informally to members of the Board's staff that a sufficient supply of materials for such a level of housing activity would be available.

Mr. Young went on to say, however, that a case could be made against any relaxation of Regulation X terms on the grounds that the overall credit situation was still inflationary and might become more so, that building costs were high and showed no signs of reacting substantially, that the level of starts thus far in 1951 had been substantially in excess of the 800-850 thousand annual rate, and that the Federal Reserve System might have to get back into a position of supporting the Government securities market under a program of Treasury deficit financing, thus forcing more reliance on selective credit controls. He said it could very well be argued that with a mounting defense program ahead and a continued heavy demand for credit in the mortgage field, no action should be taken at this time due to the risk of inflationary dangers. However, he recognized that the impact of the present terms of the regulation were quite severe in the lower price brackets, and a modest readjustment might be appropriate. Such action, Mr. Young felt, would not conflict with the

basic position of the Board set forth in Chairman Martin's letter of July 9 to the Chairmen of the Senate and House Banking and Currency Committees concerning consumer credit.

In answer to a question by Mr. Vardaman, Mr. Noyes said that the matter had been discussed with Mr. Norton by telephone following the meeting with Mr. Foley on July 30, and Mr. Norton said that he would not be averse to a realignment of the down-payment schedule if that should be the decision of the Board.

There followed a general discussion of the reasons which might be advanced for and against a relaxation of Regulation X terms at this time during which it was agreed that the Board must be guided in its decisions on this matter by the economic justification for a change in the regulation rather than by the possibility that if no action were taken, Congress might act to limit the authority to regulate real estate credit.

At the conclusion of the discussion Mr. Evans was authorized by unanimous vote to say to Mr. Foley that the Board did not feel that the terms of Regulation X should be relaxed at this time but that it would be willing to continue to review the situation with him.

At this point all of the members of the staff with the exception of Messrs. Carpenter 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 August 1, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 2, 3, and 6, 1951, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated August 6, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of George L. Spencer, Jr., as a Clerk-Stenographer in that Division, on a temporary indefinite basis, with basic salary at the rate of $2,810 per annum, 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.

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 request for the views of the Board regarding the enrolled joint resolution (S. J. Res. 78) 'To make the restrictions of the Federal Reserve Act on holding office in a member bank inapplicable to M. S. Szymczak when he ceases to be a member of the Board of Governors of the Federal Reserve System.'

"The Board feels that the enactment of the joint resolution on behalf of Governor Szymczak is appropriate and hopes that the President will approve it. For your further information in connection with the joint resolution, there is enclosed a copy of a letter dated June 21, 1951, which Chairman Martin addressed to Senator Maybank."

Approved, Messrs. Szymczak and Vardaman not voting.

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

"In view of the recommendation contained in your letter of July 31, 1951, the Board of Governors extends to February 15, 1952, the time within which the Wilmington Trust Company, Wilmington, Delaware, may establish a branch in Greenville, Delaware, under the authority granted in the Board's letter of August 15, 1949."

Approved unanimously.

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

"This refers to your letter of July 25, 1951, submitting, with your favorable recommendation, the request of the Mimbres Valley Bank, Deming, New Mexico, for permission to continue to act as Trustee under Agreement of an issue of $17,000 par value Farm Revenue Bonds of the Deming Municipal Board of Education.

"It is understood the member bank is the only available corporate fiduciary in Deming and that the trusteeship grew out of a desire of local businessmen, farmers and ranchers to facilitate the financing of an experimental farm for the benefit of students in the agricultural area. It is also noted that the appointment involves only a limited amount of time and responsibility and that you believe the bank is in a position to properly handle the account.

"In the circumstances, the Board will interpose no objection to the Mimbres Valley Bank acting as Trustee in the matter above described with the understanding that it will not acquire any other fiduciary business without first obtaining the permission of the Board. Please advise the bank accordingly."

Approved unanimously.

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

"Reference is made to your letter of July 27, 1951, submitting the application of Union Bank and Trust Company, Strawberry Point, Iowa, for permission to exercise fiduciary powers.

"In view of the Reserve Bank's recommendation and the information submitted, the Board of Governors of the Federal Reserve System grants the applicant permission, under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under the terms of its charter and the laws of the State of Iowa.

"You are requested to advise the Union Bank and Trust Company, Strawberry Point, Iowa, of the Board's action."

Approved unanimously.

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

"Reference is made to your letter of July 20, 1951, in which you advised that it appears expenses for certain objects at your head office will exceed the 1951 budget estimates as follows:

Object	Amount
Retirement and Social Security Contributions	$48,000
Postage and Expressage:	
Original shipments of F. R. currency	45,000
Other	30,000
Printing, stationery and supplies	52,000
Assessment for expenses of Board of Governors	22,800
Federal Reserve currency:	
Original cost	150,000

"The Board accepts the revised figures as submitted and appropriate notations are being made in the Board's records. It is noted that you expect to furnish an estimate of excesses in Salaries - Employees at the head office and branches after third-quarter figures are available."

Approved unanimously.

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

"We acknowledge receipt of your letter of July 31, 1951, containing enclosures from Kilbane Brothers, Inc., and Abbott Laboratories. According to the correspondence, Kilbane Brothers, Inc., plan to construct a warehouse for Abbott Laboratories which they state will function as an integral part of their manufacturing and processing operations.

"We do not doubt that Abbott Laboratories regards a warehouse for the storage of raw materials and packaging supplies as essential to the manufacturing process as such. However, we do not think that the description of the use of this property coincides with our telegram X-32 and letter of explanation X-39 regarding the processing of materials, goods, or articles into finished or partly finished manufactured products. Many semifinished articles are products which later are combined to make the finished product and it is obvious that storage must be furnished to accommodate such partly finished products; for example, various parts of a motor may be made in different departments of a plant and later assembled in other departments. Storage for these parts, which are in an inbetween stage of the productive process, must be supplied. We do not think, however, that this includes warehouse facilities for either the storage of raw materials or the storage of fully finished products awaiting distribution. It is our opinion that warehouses of this latter type are fully subject to the provisions of Regulation X."

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 letter of July 31, 1951, requesting the views of the Board on a proposed bill submitted by the Treasury Department 'To clarify the act of August 17, 1950, providing for the conversion of national banks into and their merger and consolidation with State banks.'

"The need for this legislation, as explained by the Secretary of the Treasury in his letter, a copy of which was enclosed with your request, arises from the fact that section 4 of the Act of August 17, 1950 (Public Law 706) provides in part that no conversion of a national bank into a State bank shall take place under such act unless under the law of the State in which such national bank is located State banks may convert into national banks 'as provided by Federal law'. The Federal law to which this refers provides that a State bank may convert into a national bank upon a vote of the holders of only 51 per cent of the stock of such bank and contains no provision for the payment of cash to dissenting shareholders. Section 2 of the act of August 17, 1950 provides that a national bank may convert into a State bank upon a vote of the holders of not less than 2/3 of the stock, and dissenting shareholders shall be entitled to the value of their stock in cash. Since the enactment of Public Law 706, several State legislatures have enacted laws imposing conditions on conversions of State banks into national banks similar to those contained in section 2 of the act of August 17, 1950. Such statutes, in effect, prohibit the conversion of a national bank into a State bank because the conditions prescribed by the State statute for the conversion of a State bank into a national bank are not the same as those 'provided by Federal law' although they are identical with the conditions prescribed by Federal law for the conversion of a national bank into a State bank.

"The proposed bill would permit the conversion of a national bank into a State bank if the limitations or conditions of the State law are no more restrictive than those contained in section 2 of the act of August 17, 1950, with respect to the conversion of a national bank into a State bank under state charter.

"You are advised that the Board has no objection to favorable consideration of this proposed legislation."

Approved unanimously.

Memorandum dated August 7, 1951, from Mr. Townsend, Solicitor, referring to the Order for investigation issued by the Board on May 24, 1951, in the matter of Miller Motor Sales, Inc., St. Louis, Missouri, a

registrant under Regulation W, Consumer Credit, and recommending that the Board's file in the case be closed, inasmuch as Miller Motor Sales, Inc., had ceased to do business and was in the process of liquidating its assets.

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 25, 1951, concerning an application for a certificate of exemption under section 5(g) of Regulation X in connection with the construction of a proposed retail center located on approximately 34 acres of land in St. Louis County, at an estimated cost of around $15 million. As we understand the facts, the applicant made his first surveys in 1945, has devoted considerable time and expense toward the planning of the proposed retail center, and has considered several proposed methods of financing, including the formation of a corporation to construct and operate the center.

"Our view is that the fact that a corporation is to be organized to construct and operate the center does not mean that your Bank cannot properly issue a certificate of exemption, should all the other requirements of section 5(g) be satisfied. However, based solely upon the facts as outlined in your letter, we question whether there was a financing plan contemplated by the applicant and by a Registrant prior to February 15, 1951, within the meaning of section 5(g), and we suggest that this question be carefully explored in considering whether a certificate of exemption should be issued."

Approved unanimously.

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

"This refers to your letter of July 19, 1951 concerning the applicability of Regulation X to the financing of the 'completion' of so-called 'basement homes'. As we understand the facts, in a typical case a homebuilder prior to

"August 3, 1950 planned a 1-1/2 story house with a full basement and, after completion of the basement and flooring of the first floor covered the construction with roofing material and used it as a dwelling temporarily and indefinitely until such time as his plans could be completed. The question raised is whether 'completion' at the present time should be regarded as the completion of a residence begun before August 3, 1950 or as a major addition to an existing structure.

"You stated that heretofore it has been your view that in the absence of a fairly consistent process of construction following the occupancy of the basement, Regulation X requires that such construction be considered as a major addition rather than as completion of a residence begun before August 3, 1950. You also had stated in your letter of February 13, 1951 that this was the general rule followed in answering such inquiries, and the Board concurred in your previously expressed opinion in its reply of February 26, 1951.

"The problem as you have outlined it apparently is one peculiar to Minneapolis, and we agree that there may be compelling reasons for a reconsideration and reversal of the position previously taken. It undoubtedly is true that the owners and local financing institutions regard so-called 'basement homes' as incompleted residences and, since it is our understanding that the FHA so regards them, the Board will have no objection if your bank follows the general rule of considering such construction as the completion of residences begun before August 3, 1950, rather than as a major addition to an existing residence."

Approved unanimously.

Secretary.