

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 9, 1951. The Board met in the Board Room at 10:35 a.m.

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

Mr. Carpenter, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Thurston, Assistant to the Board  
 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. Solomon, Assistant General Counsel

Messrs. Raymond M. Foley and Neil J. Hardy, Administrator and Assistant Administrator, respectively, of the Housing and Home Finance Agency also were present.

Chairman Martin stated that in a conference which Mr. Evans had with Mr. Foley following the meeting of the Board on August 7, 1951, the latter requested an opportunity to present to the Board his views with respect to the desirability of some relaxation in the terms of Regulation X, Real Estate Credit.

Mr. Foley made substantially the following statement:

In discussions as to which Government agency should be chosen to administer the real estate regulations I opposed giving full authority over residential construction credit to the Housing and Home Finance Agency on the grounds that much of the construction entailed conventional financing and that there was involved a

8/9/51

-2-

broad question of the inflationary influences of such credit which would affect the whole economy. I pointed out at the time that the Housing and Home Finance Agency had been given responsibility by Congress for attempting to carry out various housing projects, but that the problem of the regulation of credit seemed objectively to be a field in which the Board of Governors had far greater interest and responsibility and could exert greater effectiveness. In the circumstances, I proposed that there be a joint undertaking in administering the controls, and despite the prophesies of many persons that such a joint undertaking could not prove successful, the record has revealed that a good job has been done in carrying out a difficult task, which should set a pattern for the future.

When the terms of Regulation X and its companion VA and FHA restrictions were formulated, it was realized that there were no exact guides and that the Board and the Housing and Home Finance Agency were proceeding on the basis of their best judgment in the light of existing conditions and conditions envisaged for the future. It was also understood at that time that the agencies could not hope to control or restrict commitments already made and that this unrestricted backlog would have to be taken into consideration. Therefore, in setting the goal of 800-850 thousand housing starts for the year 1951 and preparing regulatory terms, it was understood that the terms would have to be made more severe to achieve the goal than if the backlog of commitments had not been involved. The joint announcement issued when the regulations were instituted recognized that fact by stating that the goal of housing starts and the terms of the regulations would be re-examined at a later date, and that the goal and the terms would be modified if the situation justified. Now, the overhang of pre-regulation commitments is largely out of the picture and evidence available indicates that the rate of housing starts is falling and probably will continue to fall. Mr. Wilson, Director of the Office of Defense Mobilization, has stated recently that the same number of housing starts for 1952 would appear at this time to be compatible with the defense program.

Therefore, serious consideration should be given to a modification of the terms of Regulation X. The Housing and Home Finance Agency deems it necessary to maintain as large a production of housing as is consistent with announced policies of the Government, provided such reduction is well-balanced. The need for housing still exists, particularly in certain price, size, and rental brackets, and the backlog of demand will continue to grow, and it is important that we avoid if possible a situation parallel to that following World War II when a severe housing

8/9/51

-3-

shortage necessitated emergency actions.

With respect to the trend in housing starts, a judgment cannot be formed solely on the basis of the effect of Regulation X and its counterpart FHA and VA regulations, since the current tightness in the mortgage market is also an element. The latter factor is present in various degrees in different sections of the country and particularly affects the lower-priced housing field. We cannot forecast how long this situation will prevail but there are some signs of an easing in the market.

It is highly important to take modifying action at this time in such a fashion that the announcement of the action will not convey to the public the impression that the danger of inflation has passed. Such an impression can be avoided by making it clear that the modification is an attempt to obtain the kind of results which were sought when the regulations were instituted. I do not know whether an adjustment of the down-payment schedules under the regulations will forestall the writing of restrictions into the defense housing bill which has passed the Senate and is pending before the House. The retention in the legislation of the proposed limitations on housing terms of loans to veterans would make the regulations extremely difficult, if not impossible. I stated to Mr. Evans and members of the Board's staff last week and to Chairman Martin this morning that I feel strongly that action to relax the regulations would not be justified because of the threat of Congressional action, but that I would not be deterred from action by such a threat if I thought a change was called for. There is a substantial body of evidence that a modification of the down-payment schedules is justified at this time, and it is on that basis only that I am proposing action.

I am not concerned about the rate of production of housing this year, but on the basis of a projection of recent trends I am concerned about the rate of housing starts in 1952. Realizing that in this industry there is necessarily a three to six-month lag before any change in terms begins to be effective, I feel that action is desirable now. While it can not be proved by exact statistical reports, the Housing and Home Finance Agency is in close contact with the building industry throughout the country and it appears increasingly evident that there is a growing tendency under the present terms of the regulations toward production of houses in the higher-priced brackets.

Mr. Foley then called upon Mr. Hardy who presented statistics prepared by the Housing and Home Finance Agency showing a higher percentage

8/9/51

-4-

decrease in housing starts in 1951 with each succeeding month below the corresponding month in 1950. He also stated that FHA and VA applications were off greatly percentagewise during the first three weeks of July as compared with the similar period in 1950 and referred to a special study of builders' intentions being conducted for the Housing and Home Finance Agency by the Bureau of Labor Statistics which on a preliminary basis indicated a decline in starts in the third quarter of 1950 of about 20 per cent in certain large Eastern cities below the second quarter of this year.

Mr. Foley referred to the alternative down-payment schedules which were incorporated in the staff memorandum of August 6, 1951, which was discussed at the meeting of the Board on August 7, and said that he would be agreeable to the first of the two schedules (Schedule II), but that the other schedule proposed by the Board's staff (Schedule III) would not involve sufficient relaxation to justify a change in the present terms.

Following a discussion based on Mr. Foley's comments, Chairman Martin said that the Board would advise him as quickly as possible of its decision in the matter.

Thereupon, Messrs. Foley and Hardy withdrew.

There followed a discussion of the three alternative down-payment schedules which had been discussed at the meeting on August 7, and it was the consensus of the members of the Board that Schedule II would be most

8/9/51

-5-

suitable, although some minor modifications would be desirable to avoid any tightening of terms at the extreme lower end of the schedule. It was then suggested that Mr. Evans be authorized to negotiate with Mr. Foley concerning minor adjustments in the proposed down-payment schedule with the understanding that the Board would agree in principle to a modification of terms of Regulation X along the lines suggested in Schedule II attached to the staff memorandum of August 6, 1951. It was also suggested that if there was to be a relaxation of the terms, a joint press release should be issued and that a joint press conference, similar to that held on October 10, 1950, in connection with the original announcement of Regulation X and its companion VA and FHA restrictions, should be held, with Mr. Foley present, in order to explain the reasons underlying the relaxation of requirements.

These suggestions were approved unanimously.

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 7, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 8, 1951, were approved and the actions recorded

8/9/51

-6-

therein were ratified unanimously.

Memorandum dated July 31, 1951, from Mr. Vest, General Counsel, recommending an increase in the basic salary of Mrs. Eunice M. Boyd, Stenographer in the Legal Division, from \$3,035 to \$3,115 per annum, effective August 19, 1951.

Approved unanimously.

Memorandum dated August 7, 1951, from Mr. Allen, Director, Division of Personnel Administration, recommending the appointment of Mrs. Alice Cooper Hook as a Clerk-Typist in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,730 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.

Letter to Commerce Trust Company, Kansas City, Missouri, reading as follows:

"In response to your formal application dated July 31, 1951, and submitted through the Federal Reserve Bank of Kansas City, the Board of Governors hereby consents, pursuant to the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the purchase of assets and assumption of deposit liabilities of The Stock Yards National Bank of Kansas City, Kansas City, Missouri, by the Commerce Trust Company.

"The foregoing is, in effect, confirmation of the informal consent to the proposed absorption given July 30, 1951, in view of the emergency situation resulting from the recent flood."

8/9/51

-7-

Approved unanimously, for transmittal through the Federal Reserve Bank of Kansas City.

Letter to The National City Bank of New York, New York, New York, reading as follows:

"In view of your request submitted through the Federal Reserve Bank of New York and the information contained in your letter dated July 27, 1951, the Board of Governors extends to December 1, 1952, the time within which you may establish an additional branch in the City of Sao Paulo, Brazil, under the authority granted in the Board's letter of November 10, 1950."

Approved unanimously, for transmittal through the Federal Reserve Bank of New York.

Letter to the Honorable A. W. Hall, Director, Bureau of Engraving and Printing, Washington, D. C., reading as follows:

"We have received requests from the Federal Reserve Banks of Richmond and Dallas for specimen sets of certain Federal Reserve currency, faces and backs, to be printed on nondistinctive paper.

"The request from the Federal Reserve Bank of Richmond supersedes the one which you received some time ago direct from the Bank. The Richmond Bank would like to obtain six sets of all denominations of each of the series of notes issued by the Bank as they may be available, as follows:

Old size	Federal Reserve notes	Series 1914	5's and up
Old size	Federal Reserve bank notes	Series 1918	1's and 2's
New size	Federal Reserve notes	Series 1928	5's and up
New size	National Currency	Series 1929	10's and 20's
New size	Federal Reserve notes	Series 1934	5's and up
New size	Federal Reserve notes	Series 1950	5's and up

"In connection with the above list, we assume or have been advised informally that (1) old-size 1918 Series Federal Reserve notes in the \$500, \$1,000, \$5,000, and \$10,000 denominations were intended to be covered by the first item; (2) old-size 1915 or 1918 Series Federal Reserve bank notes in the \$5, \$10, and

8/9/51

-8-

"\$20 denominations are desired in addition to the denominations listed in the second item; and (3) the new-size National Currency (Federal Reserve bank notes) Series 1929, in the \$100 denomination is desired in addition to the denominations listed in the fourth item.

"The Federal Reserve Bank of Dallas states that it has at its head office in Dallas a set of specimens of the 1934 Series Federal Reserve notes and the 1929 Series of Federal Reserve bank notes. If available, it wishes to obtain three sets of specimens of each of these issues, one set apiece for its branch offices at El Paso, Houston, and San Antonio.

"The Board of Governors would like to obtain a set of the 1950 Series Federal Reserve notes. These could be notes of the Federal Reserve Bank of Richmond if it would be convenient to prepare them along with the 1950 Series notes requested by the Richmond Bank.

"It will be appreciated if you can arrange to have these notes prepared and to have those for the Federal Reserve Banks of Richmond and Dallas mailed direct to the Banks."

Approved unanimously.

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

"You were advised in a telegram dated June 28, 1951, that the Board had deferred action on the question of charging off unamortized premium on the nonmarketable 2-3/4 per cent bonds of 1975-80 held in the open market account and that no such charge-off would be made during the second quarter.

"Since then the Board of Governors has given further consideration to the matter and would prefer to let it rest without further action, in view of the differences of opinion that have been expressed and the arguments that might be made in support of or against such special charge-offs. However, should the Presidents wish to renew consideration of the question, the Board will be glad to discuss it at the meeting of the Presidents and the Board in October."

Approved unanimously.

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



8/9/51

-9-

"We acknowledge your letter of July 18, 1951, with respect to real estate credit regulations, in which you quote the contents of a telegram received from Mr. Warren L. Williams, President of Murphy Favre Mortgage Company of Spokane, Washington.

"As you know, the real estate credit regulations were authorized by Congress in the Defense Production Act of 1950 and by the President in Executive Order No. 10161. In his Executive Order, President Truman, in delegating the functions conferred on him by Section 602 of the Act, provided that the Board should obtain the concurrence of the Housing and Home Finance Administrator ". . . before prescribing, changing, or suspending any real estate construction credit regulation". Furthermore, the Administrator was delegated the authority to issue such regulations and take such other actions as may be necessary to insure that the real estate restrictions would be applicable to the fullest extent practicable to real estate loans insured or guaranteed by the United States Government. The responsibility for the real estate credit regulations is substantially shared by the Governmental agencies involved and consequential decisions affecting the regulations are given consideration by each.

"Before Regulation X, affecting credit on one- and two-family homes, was issued on October 12, 1950, its terms were given prolonged and painstaking consideration, not only by the technical and official staffs of the various agencies involved, but also by representatives of the house-building and finance industries. At that time, with the serious consequences of the Korean War and the excessive price inflation coincident therewith uppermost in everyone's mind, there was a disposition in most quarters to consider the terms of the regulation no more than adequate, in fact, we were criticized by some for undue moderation. These last criticisms were sufficiently persistent that along with our continuing over-all consideration of the effects of the regulation, we have from time to time reviewed various procedures for tightening the terms as initially issued last October, but actually no changes have been made in the terms relative to individual home construction except two modifications: (1) computation of maximum loan values on the basis of the value of family units in one- to four-family residences, and (2) relaxed terms in critical defense housing areas.

"You are, of course, fully informed of the initial decision of the Government to allocate to the house-building industry

8/9/51

-10-

"a sufficient share of the national resources in a war year to support the construction of 850,000 housing units. Although this is a cut of 40 per cent below the total produced in 1950, 850,000 housing units compares most favorably with other years since World War II. In order to bring about such a reduction in construction, it was necessary to make the terms of financing moderately restrictive, otherwise no such reduction would have occurred since the industry started approximately 1,400,000 housing units in 1950. The most conscientious effort was made to make the terms equitable to all income groups, but it is apparent that, if the regulation is to accomplish the objectives of the Defense Production Act to help conserve materials for the defense effort and to aid in restraining inflation, some persons must feel its restrictive effects. During the first six months of 1951, housing starts totaled 575,000 units (a larger number than in the comparable period of 1949); hence, it seems reasonable to believe that the goal of 850,000 starts will be reached before the year's end, producing a substantial volume of housing in the nation.

"We agree with you that many loose statements are made about the 'average' American family and what it might or might not do. However, it appears from the sample surveys of people's financial position that considerable amounts of liquid assets are held by people in all walks of life--by wage earners as well as businessmen, by low-income groups as well as high-income groups. Based on sample data, it is estimated that the half of the population (26 million consumer spending units) with incomes of less than \$3,000 owned about \$35 billion in bank deposits and savings bonds at the beginning of this year. Approximately \$51 billion was owned by the 21 million spending units with incomes of from \$3,000 to \$6,200, and roughly \$49 billion was owned by the 5 million units with incomes of \$6,200 or more.

"These amounts of money are very substantial. You are undoubtedly correct in saying that inflation has raised the cost of living in the postwar period somewhat faster than liquid assets have increased. But the \$140 billion of liquid assets, apart from currency, in the hands of consumers is so huge and so widely held that it does constitute a serious further inflationary threat. If all or even a substantial fraction of consumers were to attempt to spend their liquid assets in the next year, the pressure upon prices would be greatly increased.

"We are enclosing for your information reprints of reports on the Survey of Consumer Finances and a survey of recent home purchases.

8/9/51

-11-

"We assure you that we are giving the most careful consideration to the effect of the terms of the regulation, and if a relaxation seems to be desirable we will gladly initiate such a change."

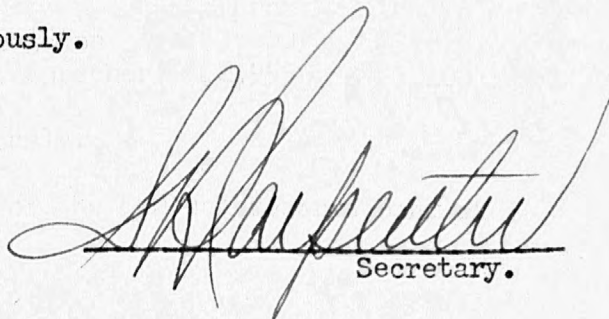
Approved unanimously.

Letter to Mr. Blair, Vice President, Counsel and Secretary of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of August 2, 1951, to Mr. Vest, concerning an interpretation of the provisions of section 5(b) of Regulation X. You asked whether a note dated January 3, 1951, which evidences a combination construction and permanent financing loan, and which provides for the first payments of principal and interest on August 15, 1951, the final instalment to become due July 15, 1971, complies with the maturity requirements of Regulation X.

"The question of when credit is extended within the meaning of Regulation X has been most difficult and troublesome, and the Board's interpretation (S-1274, X-33) was meant to be only a general rule which could be followed for most transactions affected by the regulation, although it was expected that there would be exceptions in factual situations where its application would be inappropriate. However, it does not seem to be necessary to apply the rule in this particular case. Section 5(b) was intended to permit combination construction and permanent financing loans, and we believe that the note in question complies with the maturity requirements of the regulation. When the purpose of the loan is taken into consideration, and the terms of the credit instrument itself, we believe a reasonable interpretation of the second sentence in section 5(b) will indicate compliance with that provision inasmuch as it appears that July 15, 1951 was the date the Registrant estimated in good faith the construction would be completed."

Approved unanimously.

  
Secretary.