

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, September 19, 1951.

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

Mr. Carpenter, Secretary

Minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on September 18, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 18, 1951, were approved unanimously.

Memorandum dated September 17, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Mrs. Angelina M. Ferguson as a Cafeteria Helper in that Division, on a temporary basis for a period of two months, with basic salary at the rate of \$2,120 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.

Telegram to Mr. A. G. Decker, Jr., Black and Decker Manufacturing Company, Towson, Maryland, reading as follows:

"Board of Governors of the Federal Reserve System has appointed you director of Baltimore Branch

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"of Federal Reserve Bank of Richmond for three-year term beginning January 1, 1952, with understanding that you will resign as a commercial bank director and that you do not hold any political or public office. Should your situation in these respects change during the tenure of your appointment, it will be appreciated if you will advise the Chairman of the Board of Directors of the Federal Reserve Bank of Richmond.

"Your acceptance by collect telegram will be appreciated."

Approved unanimously.

Letter to The Ouachita National Bank in Monroe, Monroe, Louisiana, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee for bond issues and registrar of stocks and bonds, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

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

Letter to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Atlanta, made as of June 11, 1951, by the Board's examiners, a copy of the report of examination was left for your information and that

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"of the directors. A copy was also left for President Bryan.

"The Board will appreciate advice that the report has been considered by the Board of Directors. Any comments you may care to offer regarding discussions with respect to the examination, or as to action taken or to be taken as a result of the examination, will also be appreciated."

Approved unanimously.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City, made as of May 17, 1951, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Leedy. The Board will appreciate advice that the report has been considered by the Board of Directors.

"The Board has noted the information on pages 14 and 73 of the report regarding the holding of securities in safekeeping for local member banks by the head office and the Denver Branch, and would like to be informed as to the results of the review of the circumstances under which these securities were being accepted.

"It is understood from Mr. Lang that the matter of strengthening the staff of the Auditing Department was discussed again during this examination and was receiving continued attention with a view toward corrective action at an early date. In view of the importance of the audit function from the standpoint of protection of the Bank, the Board feels that action should be taken promptly to cure the unsatisfactory situation which has existed for some time and to see that the Auditor is provided with an Assistant Auditor fully capable of discharging the duties and responsibilities of the position. Information as to the progress made in this matter since the time of the examination will be appreciated.

"The Board also would appreciate being informed as to what plans are being made to strengthen the senior official staff and to provide for replacements in

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"connection with forthcoming retirements of senior officers of the Bank.

"The Board would like to have any comments you may care to offer regarding other discussions with respect to the examination, or as to other action taken or to be taken as a result of the examination."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading

as follows:

"The Office of Defense Mobilization recently adopted the attached Amendment No. 2 to Defense Mobilization Order No. 6 (a copy of which is also enclosed) to provide for participation by representatives of the Defense Transport Administration, the Board of Governors of the Federal Reserve System, the Atomic Energy Commission, the Selective Service System, and the Civil Service Commission, in matters being considered by the Regional Committees on Defense Mobilization created by the order whenever problems of concern to such agencies are under discussion. We have been in touch with the Office of Defense Mobilization and they have advised that participation by the Federal Reserve System will be by advance notice whenever agenda items within the System's sphere of interest are set up for a scheduled or special meeting of a Regional Committee and such notice will be given by the Regional Committee directly to the Federal Reserve Bank. The suggestion has also been made that the Board of Governors designate someone at each Federal Reserve Bank to participate in such discussions.

"Accordingly, the Board has designated the Presidents of the Federal Reserve Banks to participate in discussions of matters of interest to the System arising in the respective Federal Reserve Districts which may come before the Regional Committees on Defense Mobilization. Should you desire to have an alternate attend any of these meetings in your absence, the Board would be glad to have you designate such an alternate from among the officers of your Bank.

"You will note from the attached list of Defense Mobilization Regions that they are not coterminous with the Federal Reserve Districts. In order to meet this

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"situation, the Board is suggesting to the Office of Defense Mobilization that whenever a matter arises which is of interest to the System it be taken up with the President of the Federal Reserve Bank of the district in which the problem arises even though the headquarters of the Regional Committee may be in another district.

"In the event you are invited to participate in discussions of a Regional Committee the Board would be glad to have a report of any developments which you think would be of interest to it or to the other Federal Reserve Banks."

Approved unanimously.

Letter to the Honorable Gerald R. Ford, Jr., House of Representatives, Washington, D. C., reading as follows:

"This is in response to your letter of September 10, 1951, addressed to the Chairman, concerning the Board's interpretation of the provisions of section 602 of the recently enacted 'Defense Housing and Community Facilities and Services Act of 1951'.

"In prescribing the amendments to Regulation X which were made necessary by section 602, that section was interpreted to mean that the Board could not impose by regulation any credit requirements more restrictive than those set forth in the section. However, we do not believe there is any statutory or regulatory provision which prevents borrowers and lenders from agreeing to credit terms more restrictive than those set forth in section 602. In fact, section 6(k) of Regulation X assures lenders of the right to impose stricter requirements by providing as follows:

'(k) Right of Registrant to Impose Stricter Requirements.--Any Registrant, if he desires, may refuse to extend credit, extend less credit than the amount permitted by this regulation, or require that repayment be made within a shorter period or in larger instalments than prescribed in the Supplement to this regulation.'

"We hope this will answer the questions raised by you. If we can be of any further service, please do not hesitate to call upon us."

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Approved unanimously.

Telegram to Mr. Schlaikjer, Vice President of the Federal Reserve Bank of Boston, reading as follows:

"Reurtel August 30 respecting credits to finance the construction and purchase of a service station for Joseph White. Board will raise no objection if you conclude that there is a firm written commitment for a \$28,000 credit exempt from Regulation X under section 6(b) for the construction of the gasoline service station. The Board also concurs in the conclusions expressed in the third paragraph of your letter that the credit for \$16,000 is subject to the regulation for the reasons stated therein. While you do not make an explicit recommendation in your letter, it may be inferred that you would like to exempt the \$16,000 credit from the regulation because of hardship that will otherwise be suffered by White. This conclusion was strongly supported by Messrs. Berge, Brady, and Willis on their recent visit. The Board has no fundamental objection to reopening section 5(g) by amendment to the regulation, either by striking out the April 15 deadline, substituting a later date, or granting the Reserve Banks permission to waive the deadline in exceptional circumstances. Heretofore, when we have suggested these alternatives to the Reserve Banks, they have been almost unanimously opposed to the reopening in any form of section 5(g). However, if you care to recommend the reinstatement of this section in one of the above-suggested forms, the Board will again submit such an amendment to the Reserve Banks for their consideration."

Approved unanimously.

Letter to Mr. Albert Gersten, Whittier College Heights, 6363 Wilshire Boulevard, Los Angeles, California, reading as follows:

"Thank you for your letter of August 2, 1951, addressed to Chairman Martin. The Board is always glad to learn about special conditions in the real estate field, and your suggestions about Regulation X were read with interest."

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"Your reference to the 'Economic Control Bill' is probably a reference to the Defense Production Act of 1950 which was amended by Congress and enacted on July 31, 1951. As you no doubt know, Regulation X is only one of a number of measures which the Government has pursued to aid in the restraint of inflation. The enormous expansion in real estate credit in 1950 was an important cause of the injurious inflationary developments which followed the Korean War. So long as credit was freely available, it provided a basis for steadily increasing demand with an overburdening of an already strained productive system. If these forces had not been checked, prices would have risen even more than they have during the past year, and buyers would have received progressively less value for their money.

"The terms of Regulation X and the companion regulations of the Federal Housing Administration and the Veterans Administration were the result of the most painstaking consideration by the Governmental agencies involved. At the time those terms were adopted, when the serious inflation beginning with the Korean War was apparent to everyone, the terms of the regulation were generally considered to be fair and appropriate. It is obvious, of course, that if the regulations are to be effective they must be restrictive to some extent with respect to all classes of persons. The appropriateness of a given set of terms to accomplish this result is a matter of judgment on which opinions may honestly differ, and in the continuing study of the effect of the regulations the most scrupulous attention is given to such considerations. The Board and the other Governmental agencies concerned have made a most conscientious effort to state requirements which would be as equitable as possible in their effect on all persons, but we do not think at this time that the suggestions you have made would accomplish such a result, and they would also unquestionably produce a considerable expansion in real estate credit.

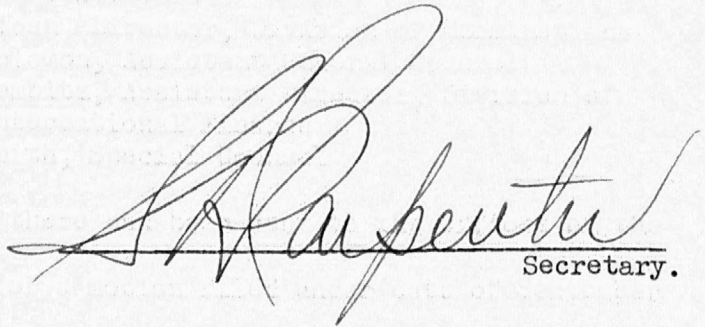
"As you perhaps already know, Regulation X has been relaxed to the extent provided for by Congress in the Defense Housing and Community Facilities and Services Act of 1951. The relaxation covers one- to four-family

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"dwellings and provides for increases in the maximum loan values and maximum maturities for houses valued at \$12,000 or less. A copy of the amended Regulation is enclosed.

"We appreciate your interest in writing to us and wish to assure you that the views you express will be carefully considered in our continuing study of the regulation."

Approved unanimously, with copies being sent to Messrs. Millard and Volberg, Vice Presidents of the Federal Reserve Bank of San Francisco.


Secretary.