

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, September 27, 1951. The Board met in the Board Room at 10:40 a.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Townsend, Solicitor
Mr. Young, Director, Division of
Research and Statistics
Mr. Noyes, Director, Division of
Selective Credit Regulation
Mr. Allen, Director, Division of Personnel
Administration
Mr. Solomon, Assistant General Counsel

Before this meeting, there had been circulated among the members of the Board a memorandum from Mr. Young dated August 15, 1951 recommending that the Board authorize negotiations with the Survey Research Center of the University of Michigan for a Seventh Nation-wide Survey of Consumer Finances to be conducted in January and February 1952 at an estimated cost of \$150,000 with provision of a contingency reserve of \$10,000 to cover any excess expenditures over cost estimates on the survey.

Chairman Martin stated that he had studied the proposal carefully when it came to him, that subsequently Mr. Vardaman had expressed the view to him that the expenditure was not justified, and that he had hoped the memorandum could be discussed at a meeting when Mr. Vardaman could be

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present. Chairman Martin went on to say that he was prepared to go ahead with the proposed survey because he felt the information developed was very helpful and worth-while, that his investigation had convinced him that the job was being done competently, but that it was a type of expenditure which could be eliminated in any period in which it became necessary to make substantial reductions in expenses. It was his suggestion that there be a careful review during the coming year of the reasons which might be advanced for and against the Board's continuing the survey.

Mr. Powell whose assignments included System research stated that he felt the project was desirable, that while he had questioned the expenditure for such a survey some years ago when it was first proposed, he had become convinced that it provided very useful information not only for current assistance to the Board in reaching decisions on policy questions but in connection with preparation of selective credit and other regulations. The other members of the Board present also stated that they favored continuation of the survey.

Mr. Young then reviewed the history of the survey and the uses made of it by the Board, other Governmental agencies, and non-governmental agencies, following which there was a general discussion of the matter.

Mr. Carpenter stated that before Mr. Evans left for Europe he requested that when Mr. Young's memorandum was considered by the Board

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he be recorded as voting to approve the recommendations contained therein.

At the conclusion of the discussion, the recommendations contained in Mr. Young's memorandum were approved unanimously. In taking this action it was understood that, if they had been present, Mr. Evans would have voted to approve Mr. Young's recommendations and that Mr. Vardaman would have voted "no".

Mr. Norton referred to a memorandum from the Personnel Committee dated September 20, 1951, (copies of which had been sent to all members of the Board) recommending appointments of Class C Directors, Deputy Chairmen, and Branch Directors at Federal Reserve Banks and Branches, in addition to those approved at the meeting on September 11, for terms beginning January 1, 1952. He stated that the Class C directors proposed were re-appointments excepting in the case of the Federal Reserve Bank of San Francisco where the services of Mr. Harry R. Wellman, Deputy Chairman of the Bank, would be terminated and Mr. Fred G. Sherrill, presently a director of the Los Angeles Branch, would be appointed to succeed Mr. Wellman as a Class C Director, if it were ascertained that he would accept, and Mr. William R. Wallace, Jr., presently a Class C Director of the Bank, would be designated Deputy Chairman for the year 1952.

Following a brief discussion, upon motion by Mr. Norton and by unanimous vote, actions were taken by the Board to make the

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following appointments and designations with the understanding that advice would be sent promptly to the individuals concerned, but that no announcement of the appointments and designations would be made until the customary statement was given to the press toward the end of the year.

The following were appointed as Class C directors of the respective Federal Reserve Banks shown, each for a term of three years beginning January 1, 1952:

<u>Name</u>	<u>Federal Reserve Bank</u>
Ames Stevens	Boston
R. B. Anderson	Dallas

The following were appointed as Deputy Chairmen of the respective Federal Reserve Banks for the year 1952:

<u>Name</u>	<u>Federal Reserve Bank</u>
Ames Stevens	Boston
R. B. Anderson	Dallas
Wm. R. Wallace, Jr.	San Francisco

The following were appointed as directors of the respective branches of the Federal Reserve Banks shown, each for a term of three years beginning January 1, 1952:

<u>Name</u>	<u>Federal Reserve Bank Branch</u>
Ross Stewart	Houston
Henry P. Drought	San Antonio

The following were appointed as directors of the respective branches of the Federal Reserve Banks shown, each for a term of two years beginning January 1, 1952:

<u>Name</u>	<u>Federal Reserve Bank Branch</u>
Paul H. Helms	Los Angeles
Frank M. Browning	Salt Lake City

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The memorandum from the Personnel Committee also recommended that, to fill vacancies that would exist at the end of this year, appointments for three-year terms be tendered Mr. Fred G. Sherrill, Vice President, J. G. Boswell Company, Los Angeles, California, as a Class C Director of the Federal Reserve Bank of San Francisco; Mr. Clayton White, Dairying and General Farming, Stow, New York, as a director of the Buffalo Branch of the Federal Reserve Bank of New York; Mr. C. F. Hood, Executive Vice President, U. S. Steel Company (a subsidiary of U. S. Steel Corporation), Pittsburgh, Pennsylvania, as a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland; and Mr. James A. Dick, Jr., President of James A. Dick Company, El Paso, Texas, as a director of the El Paso Branch of the Federal Reserve Bank of Dallas, if it were ascertained that they would accept the appointments.

These recommendations were approved unanimously.

Mr. Allen withdrew from the meeting at this point.

Mr. Norton presented a draft of telegram to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reurlet September 12 regarding question raised by Safeway Stores as to applicability of Regulation X to certain heating, cooling, and ventilation equipment.

"After carefully considering the information presented Board is of the view that the equipment in question should be considered to be 'major additions or major improvements' if within the cost test specified in section 2(g) of the regulation.

"Board has reviewed the position previously taken in other similar cases and has concluded that present

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"cases fall within the principles previously established and that these principles are sound and desirable applications of the regulation to the situations involved."

Mr. Norton stated that he was bringing this matter to the attention of the Board primarily for its information in view of the fact that attorneys for Safeway Stores took a different view of the definition of a major alteration to a commercial structure than that taken by the Board's Legal Division, and that Mr. Wilbur, Chairman of the Federal Reserve Bank of San Francisco, had expressed the opinion that the view held by attorneys for Safeway Stores was the preferable position. Mr. Norton went on to say that while there was a basis for difference of opinion, he felt that the position stated in the proposed telegram was sound from an administrative viewpoint and that Mr. Solomon was satisfied that it was legally sound. Therefore, he recommended that the draft telegram be sent to Mr. Earhart.

Following a discussion, upon motion by Mr. Norton, the above telegram to Mr. Earhart was approved unanimously.

Mr. Szymczak then presented a memorandum dated September 27, 1951, from Mr. Schmidt, Chief, Business Finance and Capital Markets Section, Division of Research and Statistics, in which he commented on recent developments in the stock market in terms of price movements, trading activity, and credit.

In commenting on the memorandum, Mr. Szymczak stated that in

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spite of the fact that prices of securities had risen substantially in recent months and volume of trading had continued above early summer levels, the expansion in stock market credit since the outbreak of the Korean War had been relatively small. Since there was no evidence of any undue expansion in stock market credit, he said, neither an increase in margin requirements nor a tightening of the withdrawal rules would seem to be called for at this time.

At this point all of the members of the staff with the exception of Messrs. Carpenter and Sherman 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 September 25, 1951, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 26, 1951, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated September 25, 1951, from Mr. Young, Director, Division of Research and Statistics, recommending an increase in the basic salary of Miss Margaret Ellis, Executive Assistant in that Division, from \$6,000 to \$6,125 per annum, effective September 30, 1951.

Approved unanimously.

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Memorandum dated September 24, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending increases in the basic annual salaries of the following employees in that Division, effective September 30, 1951:

<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Hugh T. Ladd	Offset Pressman	\$3,100	\$3,450
Joseph W. Wright	Photographer (Offset)	3,100	3,450

Approved unanimously.

Memorandum dated September 26, 1951, from Mr. Bethea, Director, Division of Administrative Services, recommending the appointment of Miss Lillian E. Hughes as a Page in that Division, on a temporary indefinite basis, with basic salary at the rate of \$2,200 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 Mr. Nosker, Assistant Cashier of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of September 21, 1951, the Board approves the designation of Murray T. Donoho as a special assistant examiner for the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter to Miss E. F. Downey, Secretary, Federal Deposit Insurance Corporation, Washington, D. C., reading as follows:

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"Reference is made to your letter of September 17, 1951, concerning the application of The Peachtree Bank & Trust Company, Atlanta, Georgia, for continuance of insurance after withdrawal from membership in the Federal Reserve System.

"The report of examination of The Peachtree Bank & Trust Company, made as of March 30, 1951, reflected a condition which could be regarded as only fair. Liberal credit policies had resulted in a disproportionate amount of adversely classified loans and loans subject to special mention. Moreover, the bank's capital ratio to risk assets was quite low and it was just beginning to show a small net profit from operations. These matters were brought to the management's attention at a conference held at the Reserve Bank on May 10, 1951, and assurances were given that corrective measures would be taken promptly.

"No other corrective programs have been urged upon the bank, or agreed to by it, in connection with which the Board of Governors would consider it desirable to incorporate conditions with respect to continuance of insurance."

Approved unanimously, with
a copy to Mr. Denmark, Vice President
of the Federal Reserve Bank of Atlanta,
and the following letter to Mr. Clark,
First Vice President of the Federal
Reserve Bank of Atlanta:

"Reference is made to your letter of September 14, 1951, enclosing a certified copy of a resolution adopted by the Board of Directors of The Peachtree Bank & Trust Company, Atlanta, Georgia, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

"As requested, the Board of Governors waives the requirement of six months' notice. Accordingly, upon surrender of the Federal Reserve Bank stock issued to The Peachtree Bank & Trust Company, Atlanta, Georgia, you are authorized to cancel such stock and make appropriate refund thereon. Please advise the date upon which cancellation is effected.

"The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the

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"Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective."

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

"Reference is made to your letter of September 17, 1951, submitting the request of the Bank of York, York, Alabama, for approval under Section 24A of the Federal Reserve Act, of an additional investment of \$11,000 in connection with the construction of its new building and the purchase of fixtures. It is noted that the additional amount covers costs exceeding the original estimate of \$100,000.

"In view of your recommendation, the Board approves the additional investment of \$11,000 as proposed."

Approved unanimously.

Letter to the Honorable Kenneth McKellar, United States Senate, Washington, D. C., reading as follows:

"This refers to your letter of August 24, 1951, which forwarded a letter from Mr. H. C. Dewey of the Chapman and Dewey Lumber Company, Memphis, Tennessee, dated August 21, 1951. Mr. Dewey takes issue with the statement in our letter to you on August 17 which said in effect that prices of lumber and hardwood flooring had remained steady during the first six months of 1951, during which time 575,000 housing units had been started.

"It is difficult for us to compare the prices which Mr. Dewey quotes with data available since his prices are not dated. Also, individual and regional prices will always occur above and below the national average. With this problem in mind, we respectfully submit the following index of Wholesale Lumber Prices for the purposes of specific discussion. This index is based on the average of prices for the base period 1935 to 1939.

July 1947	299
July 1948	355
July 1949	309

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	<u>"1950</u>	<u>1951</u>
January	320	397
February	325	401
March	330	402
April	333	402
May	346	400
June	359	392
July	376	386
August	398	
September	414	
October	399	
November	385	
December	388	

Although May and June of 1951 represent counter-seasonal declines from the peak of 402 in March and April, it is true that prices as of June were holding up remarkably well. Of course, we now have the additional perspective of July data, which indicate a further decline, and the months of May, June, and July may possibly be the forerunners of a downward trend in lumber prices. However, it should be recalled that the July index of 386, although a decline, is a decline from unprecedented heights. This figure represents an increase over all previous July figures and a very substantial increase over July 1947, July 1948, and July 1949. All of these years were considered good construction years until the high levels of 1950 were attained. In addition, the July 1951 index of 386 represents a much greater increase than can be accounted for in the depreciation in the purchasing power of the dollar that has occurred from the base period 1935-1939 to July 1951.

"By all means it is desirable that the lumber industry carry no more than its fair share of the burden of meeting the nation's defense effort. It now seems certain that the goal of 850,000 housing units will be exceeded this year. This goal was considered to be reasonable in view of demands by the defense effort and it represents an active building year compared to all historical statistics except the unprecedented heights reached in 1950.

"Although there appears to be a substantial inventory of lumber available for housing purposes, we should also center our attention on the controlled materials which, in the case of housing, become complementary products to lumber. The Office of Defense Mobilization and the Council of Economic Advisers have consistently stated that supplies of controlled

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"materials will not be sufficient to meet both civilian and military needs, once the defense effort has reached the goal of consuming 20 per cent of the nation's production in 1952. However, current allocations of controlled materials for the fourth quarter of 1951 do not contemplate a reduction in housing starts below the 850,000 annual rate, and it is possible that materials available will support a construction rate in excess of this level.

"Nevertheless, Mr. Dewey may find material relief in the relaxation in credit terms specified in the Supplement to Regulation X for one- to four-family units which was made by the Board on September 1, 1951, in accordance with the Defense Housing and Community Facilities and Services Act of 1951. A copy of the schedule of maximum loan values which has been incorporated into Amendment No. 6 to Regulation X is attached. The Federal Housing Administration has made a similar relaxation in its credit terms. Loans guaranteed by the Veterans Administration will allow a larger maximum loan value in order to maintain the veterans' preferential status as prescribed in Section 605 of the Defense Production Act of 1950, as amended. In addition to the increase in maximum loan values indicated in the schedule, maximum maturities have been increased from 20 to 25 years for houses valued at \$12,000 or less.

"We are grateful for the opportunity to clarify our earlier statement and we hope that this explanation is satisfactory. Should Mr. Dewey require additional information or assistance concerning the new amendment to Regulation X, it may be more convenient for him to contact the Memphis Branch of the Federal Reserve Bank of St. Louis."

Approved unanimously.

Letter to Mr. Reg F. Dupuy, 533 East Ocean Boulevard, Long Beach, California, reading as follows:

"Thank you for your letter of September 11, 1951, with further reference to Section 2(i), maximum loan value, of Regulation X, Real Estate Credit, as previously referred to in an extract from your letter to Mr. Calvin K. Snyder of the National Association of Real Estate Boards which was transmitted to the Board of Governors.

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"The services of recognized experts in the real estate and construction fields were utilized by the Board in the formulation of Regulation X, including subsection 2(i)(2)(B)(ii) which requires that value shall be the appraised value as determined in good faith by the Registrant when any part of the cost of the residential property to the borrower has been incurred by him more than twelve months prior to the extension of credit or has been acquired by gift, exchange, or inheritance. In addition, the Board availed itself of numerous and extensive consultations with representatives of the mortgage finance and building industries who approved the present practice.

"The Board always appreciates the views of those in the real estate business, as this is one of the best sources of information for its continuing study and review of the regulation's operation. In considering possible modifications in the regulation, the statements presented in your letter will be given full consideration."

Approved unanimously, with a copy to Mr. Millard, Vice President of the Federal Reserve Bank of San Francisco.

Memorandum dated September 27, 1951, from Mr. Townsend, Solicitor, stating that the Federal Reserve Bank of Dallas had reported refusal by Texas Mortgage Company, Houston, Texas, to submit its books and records for examination in spite of the fact that available information indicated that the Company was engaged in business subject to Regulation X, Real Estate Credit, and recommending that in accordance with the recommendation of the Reserve Bank, the Board adopt an order for investigation as follows in order that a subpoena might be issued requiring the Texas Mortgage Company to submit its books to examination:

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"UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
At a meeting of the Board of Governors of the Federal Reserve System
held at its offices in the city of Washington, D. C.,
on the 27th day of September, A.D., 1951.

In the Matter of

ORDER DIRECTING INVESTIGATION
AND DESIGNATING OFFICERS
TO TAKE TESTIMONY.

TEXAS MORTGAGE COMPANY

I

Members of the staff of the Federal Reserve Bank of Dallas have reported information to that Bank, which that Bank has transmitted to the Board, which tends to show that:

1) Texas Mortgage Company is engaged in the business of extending real estate credit subject to Regulation X, Real Estate Credit, issued by the Board of Governors of the Federal Reserve System.

2) Texas Mortgage Company has failed and refused to permit the Federal Reserve Bank of Dallas, by its duly authorized representatives, to inspect the books and records which the Company is required to keep pursuant to the said Regulation.

II

The Board, having considered the aforesaid report, deems it necessary and appropriate that an investigation be made for the purpose of determining whether or not Texas Mortgage Company is engaged in the business of extending real estate credit subject to Regulation X and, if so, whether it has violated the provisions of Section 602 (b) of the Defense Production Act of 1950 and of Section 6 (d) of Regulation X in refusing to permit inspection of its books and records.

III

It is ordered pursuant to Sec. 705 of the Defense Production Act of 1950 and Sec. 902(a) of Executive Order 10,161, that an investigation be made to determine the matters set forth in paragraph II hereof.

It is further ordered, pursuant to Sec. 902 of the said Executive Order, that for the purpose of such investigation, Harry A. Shuford and George F. Rudy, and each of them, is hereby designated an officer of the Board and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence and require the production of such books, papers, correspondence, memoranda or other records as may be deemed relevant or material to the inquiry, and to perform all other duties in connection therewith as authorized by law.

By the Board.

(signed) S. R. Carpenter,
Secretary."

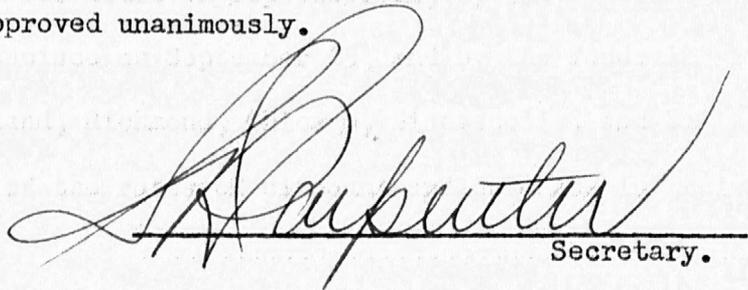
Approved unanimously.

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Memorandum dated September 17, 1951, from the Personnel Committee, recommending for the reasons stated therein, that the Board approve the issuance of identification cards annually, in the form of specimens attached, to the following groups: Chairmen, Presidents, and other officers of Federal Reserve Banks and branches whose names are listed in the Federal Reserve Bulletin; Members and Secretary of the Federal Advisory Council; and Directors of Federal Reserve Banks and branches.

Approved unanimously.



Secretary.