

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, November 8, 1951.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary

Telegrams dated November 9, 1951, to the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on November 6, by the Federal Reserve Bank of Kansas City on November 7, and by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas on November 8, 1951, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memoranda from Mr. Young, Director, Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective November 11, 1951:

<u>Date of Memorandum and Name</u>	<u>Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
11/6/51 Miss Rita I. Ryhal	Clerk	\$3,575	\$3,660
11/7/51 Winfield S. Smith	Economist	4,205	4,330

Approved unanimously.

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Letter dated November 9, 1951, to Mr. Meyer, Assistant Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"In view of the circumstances described in your letter of November 7, 1951, the Board of Governors approves the payment of salary to Chester A. Ammerman, as a split shift elevator operator, at the rate of \$4,218.24 per annum, which, when converted to an annual rate on the basis of a 40 hour work-week, exceeds the maximum established for the grade in which the position is classified."

Approved unanimously.

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

"Reference is made to your letter of November 1, 1951, enclosing a certified copy of a resolution adopted by the Board of Directors of The Houtzdale Bank, Houtzdale, Pennsylvania, 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 as of October 31, 1951 and grants the applicant a period of six months from that date within which to effect withdrawal. Accordingly, upon surrender of the Federal Reserve Bank stock issued to The Houtzdale Bank, Houtzdale, Pennsylvania, you are authorized to cancel such stock and make appropriate refund thereon. Please advise the date upon which cancellation was effected.

"The certificate of membership issued to the bank should be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and the date such withdrawal becomes effective."

Approved unanimously.

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Letter to Mr. T. E. Manning, Director, Private Lines Services,  
Western Union Telegraph Company, 60 Hudson Street, New York, New York,  
reading as follows:

"This will acknowledge receipt of your letter of November 5, 1951 to Mr. Bethea in response to the Board's letter of October 22, 1951 requesting that you make certain additional installations in connection with the Federal Reserve Leased Wire System.

"The Board concurs in the recommended rearrangement of the Washington-Baltimore-Philadelphia circuit as outlined in your letter and would appreciate your making the proposed changes as soon as possible.

"In response to your question regarding the installation of a duplex circuit between the switching center at the Federal Reserve Bank of Chicago and the Federal Reserve Bank of New York, it is our understanding that this circuit is to terminate in a position to be made available in the Chicago turret by the discontinuance of the existing 'flip-flop' arrangement on the present Chicago-Washington circuit. In the event any further questions should arise in this connection it is suggested that your representative be guided by the wishes of the Chicago Bank.

"The Board appreciates the assistance rendered by Mr. Willis and your continuing personal interest in seeing that the requested additional installations are made with a minimum of delay."

Approved unanimously.

Letter dated November 9, 1951, to Mr. H. V. Prochnow, Secretary, Federal Advisory Council, 38 South Dearborn Street, Chicago, Illinois, reading as follows:

"In response to your letter of October 18, the Board Room will be available for the Federal Advisory Council on the afternoon of Monday, November 19, in connection with the meeting of the Council to be held



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"November 18-20, 1951. The usual arrangements have been made to have a luncheon for the Council in the Blue Room on Tuesday, November 20.

"The information and material requested in the last two paragraphs of your letter will be sent to the Mayflower Hotel to be held for your arrival.

"The Board of Governors will be pleased if the following items could be included on the agenda for discussion with the Board at the joint meeting to be held at 10:30 a.m. on Tuesday, November 20:

1. The Board would like to have any views the Council might wish to express on the prospective business and economic situation during the next six months and on the policies that should be followed by the System in the field of general credit controls.
2. The Board would like to have a further discussion of the answers to be prepared in response to the questionnaire addressed to the Chairman of the Board by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. Copies of the answers to the questions submitted to the Board will be sent to the members of the Council as they are prepared for sending to the Patman Committee.

"In view of the question raised at the last meeting of the Council concerning delays in processing V-loan applications, it would be appreciated if you would let me know whether the Council would like to have a representative of the Department of Defense meet with the Council or perhaps attend the joint meeting for the purpose of discussing this question. If such an arrangement is desired, we shall take the steps necessary to have a suitable representative on hand for that purpose. Such a representative could no doubt be more helpful to the Council if he knew in advance what types of cases the Council wished to discuss, and in the event a discussion is desired we hope you will be able to indicate some of the specific questions that may be raised."

Approved unanimously.

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Letter to Mr. B. G. Goslin, Sherriff-Goslin Roofing Company,  
Battle Creek, Michigan, reading as follows:

"This refers to your letter of October 27, 1951, in which you ask whether customers may have as much as 30 days in making the down payment required under Regulation W on contracts for home improvements where the maximum maturity is ten months or less.

"Prior to July 31, 1951, the regulation required in the case of Group D articles (home improvements and repairs) that the down payment be obtained 'at or before the time of beginning the agreed upon repairs, alterations, or improvements'. In its present form, however, the regulation provides that the down payment need not be obtained 'in advance of completion of the agreed upon repairs, alterations, or improvements'. Consequently, the down payment required by the regulation for Group D articles must be obtained not later than the time of completion of the work.

"In the case of other articles listed under the regulation, where both the down payment and maturity requirements are more restrictive than in the case of Group D, the down payment must be obtained 'at or before the time of delivery of the listed article'. The special treatment in this regard with respect to Group D, should make the obtaining of the down payment easier in many home improvement transactions than might have been the case under the rule in effect prior to July 31 or if the rule were the same as that applicable to other listed articles.

"In our opinion, any postponement of the time for collecting the down payment would constitute a material relaxation of the credit restrictions even if it were practicable to limit such delays to contracts having maturities of 10 months or less. The effectiveness of the down payment requirement in restricting the expansion of instalment credit would be largely if not entirely nullified by a 30-day delay. In many contracts, particularly where the parties were willing and able to agree to shorter maturities than the maximum required by the regulation, the down payment requirement would represent the only restriction on the instalment sale.

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"We are glad to have this further opportunity to comment on the provisions of Regulation W. If you have any further questions or comments on the regulation, however, you may find it more convenient to contact the Detroit branch of the Federal Reserve Bank of Chicago, since the administration of the regulation has been decentralized among the Federal Reserve Banks and their branches."

Approved unanimously.

Letter dated November 9, 1951, to Mr. Olson, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"We acknowledge your letter of November 1, 1951, enclosing a letter from M. A. Pollak, Vice President of Draper and Kramer, mortgage brokers, which discusses section 2(i)(2)(B)(11) of Regulation X relating to the valuation of residences.

"According to Mr. Pollak, this section of the regulation causes an injustice to home builders owning a lot longer than one year because, for new residential structures, when a lot is owned for more than one year an appraisal of the property is required, whereas, if a lot is owned for less than one year the cost of the property may be used as the basis for the appraisal. He says that the cost method is more favorable to borrowers since loans at the value he mentions may be based on 50 per cent of the cost, whereas, if an appraisal is required the actual cost value is reduced by a 20-per cent depreciation, pursuant to the appraisal method he employs. Thus, in the example he used, a \$40,000 residential property on a cost basis would produce a loan of \$20,000, but on an appraisal basis the loan would be only \$16,500 after depreciating the cost of \$40,000 by 20 per cent to \$33,000, in accordance with the method of appraisal which Mr. Pollak follows. To overcome this alleged disadvantage, he suggests that an appraisal or cost method 'whichever is higher' be substituted.

"There is a manifest disadvantage in modifying a method which is now relatively established by regulation and with which most lenders are now accustomed. No practical reason exists why a change should not be made



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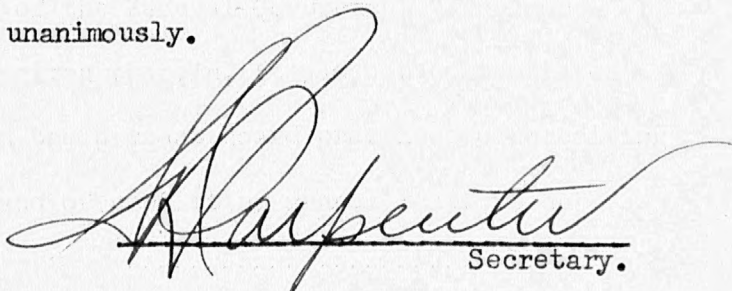
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"in the valuation method employed by Mr. Pollak and other lenders, since there is no sound appraisal principle which requires that from seven to ten years' depreciation or 20 per cent of the cost value be deducted from the value of new property at the time the initial loan is made. It is not so much the procedure under the regulation as the loan appraisal method employed by your correspondent which appears to result in a disadvantage to borrowers. If a 'current market value' appraisal is made in place of the somewhat artificial 'loan value' method disclosed by your correspondent, the disadvantage to most borrowers would disappear since it is hardly likely that a new \$40,000 property would be worth no more than \$33,000 if a current market value appraisal is employed. Obviously, it is not possible to pattern the regulation on a variety of different appraisal methods employed by various lenders throughout the country. Generally speaking, the present valuations required by the regulation appear to be the most practical solution of the problem and, while there have been some objections made, most lenders appear to be satisfied with the procedures for valuation required by the regulation."

Approved unanimously.

Memorandum dated November 7, 1951, from Mr. Carpenter, Secretary of the Board, recommending for reasons stated therein that the Secretary or an Assistant Secretary be authorized to certify on behalf of the Board forms furnished by The Chesapeake and Potomac Telephone Companies in connection with requests for preferential treatment for telephone service for members of the Board's organization.

Approved unanimously.

  
Secretary.