

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, April 15, 1952. The Board met in executive session in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Mills
Mr. Robertson

Following the executive session, Messrs. Carpenter, Secretary, and Allen, Director of the Division of Personnel Administration, were called into the meeting.

The Chairman informed the Secretary that Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, had discussed with him informally the appointment of Mr. Murff, Assistant Secretary of the Board, as Auditor of the Reserve Bank, with salary at the rate of \$13,000 per annum, and that during the executive session the Board had approved the salary proposed for Mr. Murff in that position, effective as of the date upon which he enters upon the performance of his new duties.

The Secretary was also informed that the Board had approved a travel authorization request covering travel by the Chairman to New York City on April 17 and 18, 1952, to meet with and address the Board members of the National Industrial Conference Board.

Before this meeting there had been circulated among the members of the Board a draft of letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

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"The Board of Governors approves in accordance with your letter of March 17, 1952, the following minimum and maximum salaries for the respective grades contingent upon the approval of the Wage and Salary Stabilization Boards:

Grade	HEAD OFFICE-EL PASO-HOUSTON		SAN ANTONIO	
	Minimum Salary	Maximum Salary	Minimum Salary	Maximum Salary
1	\$1590	\$2122	\$1565	\$2110
2	1722	2321	1701	2314
3	1921	2587	1837	2518
4	2120	2851	1973	2655
5	2386	3183	2109	2859
6	2651	3581	2313	3131
7	2982	3978	2517	3403
8	3247	4420	2790	3743
9	3711	4973	3130	4197
10	4087	5525	3470	4651
11	4529	6077	3878	5218
12	5081	6851	4309	5785
13	5559	7490	4763	6465
14	6296	8508	5671	7600
15	7070	9502	6691	8961
16	7622	10386	7485	10095

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable.

"In approving these salary structures the Board notes that the structure at the Houston Branch will be below the market of that city. The Board recognizes that there may be reasons which make such a relationship desirable at this time, but it hopes that as soon as practicable the Houston structure will be brought into conformity with the general policy that the salary structures of Federal Reserve Banks and Branches shall be within the third quartile bracket of the community wage market.

"Please advise the Board as to the date on which the above structures will become effective."

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In response to an inquiry, Mr. Allen stated that the salary scales proposed by the Federal Reserve Bank of Dallas were in accordance with established System policy except that the increase proposed for the Houston Branch would still leave the branch salary structure approximately six per cent below the Houston market, that the matter had been discussed with the officer in charge of personnel administration at the Dallas Bank, but that the Bank felt quite strongly that it was bad practice from an administrative standpoint, particularly since the normal line of promotion was from the branches to the head office, to have higher structures at the branches than at the Dallas office. Mr. Allen also said that while he felt the Houston structure should be raised, it was his opinion, in view of the fact that the request for approval of the proposed structure had also been submitted to the regional office of the Wage Stabilization Board, that the Board should approve the structure as submitted but should urge that it be raised to the Houston market as soon as practicable. It was for that reason, he said, that a paragraph to that effect was included in the proposed letter to the Dallas Bank.

The matter was discussed in the light of the over-all System policy of providing salary structures for employees at the Reserve Banks which would be within the third quarter bracket of the community wage

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market and of the considerations entering into such policy. There was a discussion of the possible effects at the Houston Branch of the continuation of salary scales which were below the market for that city and the view was expressed that while there was no pressure from the employees of the branch (who were predominantly employees with long service) for salary increases, it would be desirable in order to attract promising new employees as vacancies occurred for the branch to be in a position to pay salaries in accordance with the over-all System policy. The suggestion was also made that the Board should not insist on the Dallas Bank raising the salary structure for the Houston Branch without full consideration of the views of the Bank and the reasons that might be advanced for and against such a change.

At the conclusion of the discussion, the letter to the Federal Reserve Bank of Dallas, as set forth above, was approved unanimously.

The following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 14, 1952, were approved unanimously.

Letter to Mr. Wiltse, Vice President, Federal Reserve Bank of New York, reading as follows:

"In accordance with the requests contained in your letter of April 9, 1952, the Board approves the appointments of Everett A. McMunn and Harold Simonsen, at present

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"assistant examiners, as examiners for the Federal Reserve Bank of New York.

"Please advise us of the dates upon which the appointments are made effective."

Approved unanimously.

Letter to Mr. Morrison, Vice President, Federal Reserve Bank of Cleveland, reading as follows:

"In view of the circumstances described in your letter of April 4, 1952, the Board of Governors approves the payment of salary to Miss Florence Hambidge while occupying the position of Wire Transfer and Coding Clerk at the rate of \$4,173 per annum, which is \$208 in excess of the maximum established for the grade in which her position is classified.

"It is assumed that Miss Hambidge will be placed in a position commensurate with her salary as early as possible."

Approved unanimously.

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

"Reference is made to your letters of March 6, 1952, and March 31, 1952, requesting the Board of Governors to approve an increase in salary structure of the Federal Reserve Bank of Chicago and the Detroit Branch. The salary structure of the Chicago Bank is to be raised by \$240 and the Detroit Branch by seven per cent.

"The Board approves the following minimum and maximum salaries for the respective grades for the Head Office and Detroit Branch of the Federal Reserve Bank of Chicago, effective March 10, 1952, subject to appropriate clearance with stabilization officials.

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"Grade	"HEAD OFFICE		DETROIT BRANCH	
	Minimum Salary	Maximum Salary	Minimum Salary	Maximum Salary
1	\$1860	\$2400	\$1800	\$2340
2	2040	2640	1980	2580
3	2220	2940	2160	2880
4	2460	3240	2391	3210
5	2700	3540	2643	3525
6	3000	3940	2958	3945
7	3340	4440	3255	4410
8	3640	4840	3570	4830
9	4040	5340	3990	5355
10	4440	5840	4410	5880
11	4840	6440	4830	6510
12	5340	7140	5355	7245
13	5940	7940	5985	8085
14	6540	8740	6720	8925
15	7140	9540	7560	9765
16	7740	10340	8505	10605

"The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimums of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable or not later than June 30, 1952.

"The Board would prefer that the salary structure at the Detroit Branch conform to the System policy that structure lines generally be within the third quarter bracket of the community salaries. However, because of circumstances that exist with respect to the local Wage Board, the Board of Governors has approved a salary structure for Detroit which in the lower grades is below the level of the community market. It is hoped that as soon as feasible steps will be taken to adjust the lower end of the Detroit salary scale."

Approved unanimously.

Letter to Mr. Earhart, Chairman, Presidents' Conference Committee on Miscellaneous Operations, c/o Federal Reserve Bank of San

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Francisco, reading as follows:

"Thank you for your letter of April 4, with its enclosures, regarding the plan for handling the distribution of the George Washington Carver - Booker T. Washington commemorative 50-cent pieces.

"The Board has no objection to the participation of the Federal Reserve Banks in the distribution of the coins as outlined in the proposed plan and agreement. In accordance with your suggestion, the Board has so advised the Federal Reserve Bank of Richmond."

Approved unanimously.

Letter for the signature of the Chairman to the Honorable Burnet R. Maybank, Chairman, Committee on Banking and Currency, United States Senate, Washington, D. C., reading as follows:

"This is in response to Mr. McMurray's letter of April 2, 1952, requesting the Board's views on H. R. 160 'To amend section 5192 of the Revised Statutes, with respect to the reserves of certain national banks.'

"This bill would apply only to national banks which are located in Alaska or in dependencies or insular possessions or parts of the United States outside the continental United States and which are not members of the Federal Reserve System. The bill would amend the present law to permit such national banks to carry four-fifths, instead of three-fifths, of their required reserves in the form of balances with other national banks. Stated conversely, it would require them to maintain only one-fifth of their reserves in the form of cash in vault instead of two-fifths as required by present law.

"Under existing law, national banks in Alaska and Hawaii are not required to be members of the Federal Reserve System and none of them has elected to join the System. It is the Board's view that, if Alaska and Hawaii are admitted to Statehood, national banks located in such new States, like national banks in other States, should be required to become

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"members of the Federal Reserve System. In the last Congress the Board recommended an amendment to the then pending Alaskan and Hawaiian Statehood bills (H. R. 331 and H. R. 49) which would have had this effect.

"For the present, however, the applicable requirements are those prescribed by the Revised Statutes. Since these requirements relate to national banks which are not members of the Federal Reserve System, they are administered by the Office of the Comptroller of the Currency, rather than by the Board. The change in such requirements which would be made by H. R. 160 would not be significant in connection with national monetary and credit conditions and, from the Board's standpoint, there is no objection to the enactment of the bill.

"The Board made an identical report to the House Banking and Currency Committee on February 20, 1951 and at that time the Bureau of the Budget advised that there was no objection to the submission of the report."

Approved unanimously.

Memorandum dated April 10, 1952, from Mr. Chase, Assistant Solicitor, recommending that in accordance with the recommendation of the Federal Reserve Bank of Chicago, the matter of M. E. Weinstein, doing business as Auto Sales Company, 609 E. Jackson Boulevard, Elkhart, Indiana, a registrant under Regulation W, Consumer Credit, be referred to the Department of Justice for the institution of such criminal proceedings as that Department might deem appropriate.

Approved unanimously.

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

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"Under the provisions of footnote 18a and section 4(a)(5) of Regulation X, a Registrant cannot accept as collateral an assignment of a lease which is 'credit' as that term is defined in section 2(c) of the regulation unless the lease conforms with the regulation at the time it is entered into or conforms at the time of its assignment as collateral. Questions have arisen as to whether this limitation applies when there is a loan that complies with Regulation X, and the lender, out of an abundance of caution, desires the assignment of a nonconforming lease as additional collateral for the conforming loan.

"In issuing Amendment No. 8 to Regulation X, one of the Board's primary concerns was that the total credit extended with respect to leased property might exceed the maximum loan value if, in addition to making a conforming mortgage loan, a Registrant permissively could also extend further credit secured by an assignment of a nonconforming lease. This intention would not be defeated, however, by permitting Registrants to accept an assignment of a nonconforming lease as additional collateral in making a conforming mortgage loan, and, accordingly, the Board will interpose no objection to such use of nonconforming paper. However, any such case should be subject to especially careful analysis and scrutiny to make certain that the basic loan does in fact comply, and that the nonconforming paper is not being used in an effort to circumvent the requirements of the regulation."

Approved unanimously.

Letter to Southwick Brothers, Builders and Contractors, 52 Lynn Street, Peabody, Massachusetts, reading as follows:

"This refers to your wire to the President, dated March 27, 1952, in which you request the removal of credit restrictions contained in Regulation X--Real Estate Credit. Your wire has been referred to this Board for reply, since it is charged with the task of carrying out the authority given to the President to regulate real estate construction credit.

"Regulation X was issued under the authority of the Defense Production Act of 1950. The need for this Act arose in

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"June 1950, as a result of the defense preparations that followed the Korean outbreak. At that time the national economy was enjoying a high level of prosperity. The home building industry was halfway through its greatest year on record—a year in which 1,396,000 new housing units were started, bringing about an unprecedented consumption of materials and expansion of mortgage debt. The imposition of a defense program on a high-level economy necessarily meant that some productive power and materials would be diverted from civilian to defense uses, and that increased incomes bidding against a smaller supply of civilian goods would result in inflationary pressures. Thus, the Defense Production Act of 1950 included authority to regulate real estate credit as one means of helping to divert critical materials from civilian to defense uses and to restrain inflation.

"The need for continued restraint in real estate credit expansion is evident in the record for 1951, when 1,090,000 new housing units were started and mortgage debt increased by an estimated 6.5 billion dollars. The need for restraint is still indicated by the proposed expansion this year in the flow of materials to defense uses. The level of residential construction activity and the rate of real estate construction credit expansion have shown no evidence of abating in the current year. In the first two months of 1952, approximately 145,000 housing units were started. If this rate is continued throughout the year, nearly one million new units will be started with a consequent large increase in mortgage debt outstanding.

"These facts do not indicate that a relaxation of the terms of Regulation X in addition to the relaxation that was made on September 1, 1951, would be appropriate at this time. Nevertheless, we wish to assure you that every effort is continually being made to appraise inflationary and deflationary forces at work in the residential construction industry in order that Regulation X may be adapted quickly to changes in the economic situation and the need to restrain inflation.

"We appreciate receiving your views since comments by members of the residential construction industry assist in our continuing study of the industry."

Approved unanimously.

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

"The Board of Governors has received inquiries from several Federal Reserve Banks concerning the maximum amount of credit that may be extended to finance major additions or improvements under Regulation X, and the subsequent refinancing of such extensions of credit. There are three general principles in this regard that should be of assistance in determining the amount of credit that may be extended. These principles are as follows:

1. The maximum loan value of a major addition or improvement should be computed on the basis of the cost or estimated cost of such addition or improvement, regardless of whether credit that may previously have been extended with respect to the 'property' on which such addition or improvement is to take place is conforming or nonconforming. In other words, the initial financing of the cost of a major addition or improvement is wholly divorced from other credit that may have been previously extended with respect to the 'property'.
2. In the event a borrower intends to purchase 'property' and also to finance a major addition or improvement thereto, the applicable maximum loan value should be computed in two distinct steps. The proposed credit should be treated as being for mixed purposes, and, therefore, the maximum loan value should be computed on the basis of the sale price of the 'property' and the cost or estimated cost of the major addition or improvement, each being viewed separately although the financing constitutes a single package. That portion of the mixed-purpose loan which is subject to the regulation also must comply with the maturity and amortization requirements of the regulation.
3. Whenever any major addition or improvement has been made to 'property', the maximum loan value in any subsequent refinancing of the total credit that has been extended with respect to such property (which is 'new construction' as a result of such major addition or improvement) must be determined according to the applicable provision of section 2(i)(2) of the regulation even though this determination may limit the

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"maximum extension of refinanced credit to an amount less than was previously outstanding.

"As illustrations of the types of questions that may arise with regard to the above-stated principles, following are several factual situations:

1. A person finances, through a non-Registrant, the purchase of a residence built in October 1951, and the credit extended does not conform with the terms of the regulation. He desires at a later date to finance a \$5,000 major addition to his home through a Registrant. The Registrant need not consider the nonconforming credit previously extended on the property and, if he desires, may extend \$4,500 in credit (the maximum loan value of the major addition) to the owner to finance the major addition.

2. (a) A person desires to finance the purchase of a nonresidential structure built in 1935, the sale price being \$30,000. At the same time, he desires to make additions and improvements to the property which will cost \$20,000. He approaches a Registrant with a question regarding the maximum amount of credit that may be extended to finance the total operation.

"The Registrant may extend the maximum loan value of such additions and improvements, which is \$10,000. Because the property on which the major additions and improvements is to take place is not 'new construction', the Registrant is not limited in the amount of credit he may extend to finance the purchase of the nonresidential structure, and may, if he desires, extend a total of \$40,000 credit, \$10,000 of which must also comply with the maturity and amortization provisions of the regulation. If the \$20,000 major addition had been made before the sale, however, it would be a sale of 'new construction' and the maximum loan value would be \$25,000, or 50 per cent of the sale price of \$50,000.

(b) A person desires to finance the purchase of a one-family unit residential structure which was built in August 1951, the sale price being \$25,000. At the same time, he desires to add a major addition to the property which will cost \$5,000. He approaches a Registrant with the same question as above.

"The Registrant may extend the maximum loan value of the cost of such addition which, according to the Supplement to

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"the regulation, is \$4,500. Because the property on which the major addition is to be attached is 'new construction', a Registrant may extend the maximum loan value of the bona fide sale price of such property, which would be \$12,500. Therefore, a Registrant in this given illustration could extend a maximum loan value of \$17,000 credit for the total operation. However, the Registrant in this instance should be clearly satisfied that it is a bona fide major addition, and not merely an effort to divide a single construction job into what will appear to be two parts. In order to qualify for separate loan values, there must be two separate and distinct projects. In this regard, attention is especially called to clause (5) of section 2(j) of the regulation, which requires that the cost of 'any alteration or other modification made or to be made to the property as an incident to the sale thereof' be included within the sale price.

3. A person finances the purchase of a \$30,000 home in July 1951, under the terms of the regulation, and is extended \$15,000 credit. In October 1951 he finances the cost of a \$6,000 major improvement to his home and \$5,400 credit is extended in compliance with the regulation. He now contemplates consolidating the two outstanding loans on a more favorable interest basis with a new Registrant, the consolidated credit to be secured by the property.

"The new Registrant should compute the maximum loan value of the property according to the applicable provision of section 2(i)(2). Because the entire cost of the residential property has been incurred within twelve months, the new Registrant should compute the maximum loan value on the basis of the bona fide cost of the property to the borrower in accordance with section 2(i)(2)(B)(i). Therefore, in this illustration, the 'value' would be \$36,000 and he could consolidate and refinance only to the extent of \$18,000."

Approved unanimously.

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

"The following is the Board's reply to a recent letter from one of the Federal Reserve Banks which will serve to

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"extend and expand the principles of the Board's letter concerning Regulation X of March 6, 1951, S-1276 (X-35), to cover the type of situation referred to below:

'This refers to your letter concerning the classification for purposes of Regulation X of a loan with respect to a parcel of real property on which there is a residence constructed before August 3, 1950, and a nonresidential store building which is new construction under the regulation. You state that it is your Bank's understanding that the respective values of the two structures are approximately equal and that their location on the property is such that the possibility of separation in the case of resale would be remote and unlikely.

'In accordance with the applicable principles stated in the Board's letter of March 6, 1951, S-1276 (X-35), we agree with you that the entire property should be considered "real property on which there is new construction." The question is whether subsequent financing with respect to the property should be treated as (1) residential credit, (2) nonresidential credit, or (3) a mixed purpose loan.

'(In) a similar question (referred) to the Board...the principles stated in the Board's reply ..., (were that) subsequent financing with respect to the property should be treated as an extension of credit for mixed purposes. An appropriate portion of the land value should be allocated to each structure in determining the maximum loan value of each portion of the mixed purpose credit extension.'

"The status of garages appurtenant to residences is a somewhat related matter, and the Board has been reviewing the position of such garages under the provisions of the regulation. Up until the present time the Board has viewed the construction of a garage on another part of the lot containing the residence as a nonresidential structure subject to the credit terms set forth in the nonresidential schedule of the Supplement to the regulation, whereas the erection of a garage to be physically attached to the house or connected thereto by means of a 'breezeway' or other permanent construction has been considered a major addition or improvement

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"to the residence, if of sufficient cost. After fully considering this matter we do not consider it reasonable and fair to residential property owners to require the financing of a garage building situated on another part of the property and separated from the house to meet the nonresidential terms, while a garage to be connected to the house is eligible for the generally less restrictive residential credit terms. Therefore, we are of the view that all garages which are appurtenant to the residence should appropriately be considered residential construction, that is, garages in which family automobiles are stored and which are used to store household and automotive possessions, tools, and equipment or other similar personal property. On the other hand, garages on the same property as the house that are used or designed for use for business or rental purposes continue to remain properly classifiable as nonresidential construction."

Approved unanimously.

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

"At the last Conference of Presidents it was suggested that the Board give consideration to experimentation with a more flexible policy of bank examination requirements insofar as frequency of examinations is concerned.

"It is the understanding of the Board that this suggestion contemplates some modification of the present policy that at least one examination of each State member bank be made during each calendar year by examiners for the Federal Reserve Bank either independently or jointly with the State banking authorities. It is also understood that the Presidents reviewed fully the reasons that might be advanced for and against such a change.

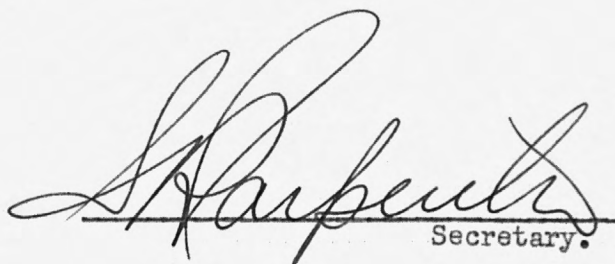
"The Board of Governors has also considered these differing viewpoints and has come to the conclusion that at least until such time as there is more complete agreement as to the course that should be followed with respect

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"to examination of banks and a more definite proposal as to the change, if any, that should be made, the present policy with respect to frequency of examinations of State member banks should be continued."

Approved unanimously.


Secretary.