

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, May 22, 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. Powell
Mr. Mills
Mr. Robertson

At the conclusion of the executive session the following members of the staff were called into the meeting:

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of
Bank Operations
Mr. Vest, General Counsel

There had been circulated to the members of the Board a draft of letter for the signature of the Chairman to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington, D. C., prepared in response to a request by the Bureau for an expression of views with respect to testimony by the Housing and Home Finance Agency on May 5, 1952, in support of bill S. 3066, cited as the "Housing Act of 1952".

Consideration was given to several changes in the draft suggested by Governor Mills, and at the conclusion of the discussion unanimous approval was given to a letter to Mr. Jones in the following form:

"This is in response to your letter of May 13, 1952, in which you requested an expression of views with respect to the Housing and Home Finance Agency testimony dated May 5,

5/22/52

"1952 in support of the bill S. 3066, cited as the 'Housing Act of 1952'.

"A major portion of the testimony in question was devoted to the provisions of the bill designed to enlarge very substantially the authority of the Federal National Mortgage Association to make commitments for and to purchase mortgages on programed defense, military and disaster housing. Of primary interest in this connection are sections 3(a)(4) and 3(b) of the bill. Briefly, section 3(a)(4) would increase by \$1,300,000,000 the amount of FNMA commitments which could be outstanding with respect to such mortgages, while section 3(b) would increase by the same amount the purchasing authority of FNMA for such mortgages. In addition, section 2 of the bill would provide \$1,000,000,000 of new FHA insurance authorization and section 4 would increase by \$100,000,000 and \$200,000,000, respectively, the authorization for defense community facilities and services and for defense housing under Title III of the Defense Housing and Community Facilities and Services Act.

"These provisions of the bill, and particularly the proposed enlargement of the authority of FNMA, constitute matters of real importance from the standpoint of the financial burden on the Government and the maintenance of sound credit conditions. Judged in this light, it is the Board's view that the bill is open to serious question; and this is true notwithstanding the fact that the Senate Banking and Currency Committee is recommending some reductions in amounts originally specified in the bill.

"It has become increasingly a matter of basic necessity that all proposed Federal expenditures be most carefully screened. There has been a great effort, both in your Bureau and in the Congress, to reduce Federal expenditures to the absolute minimum during the defense period so as to make possible the financing of defense without adding significantly to inflationary pressures. In this connection, it is understood that the authorizations in the bill for increased Federal assistance with respect to mortgage financing have not been screened by your Bureau. Purchases by FNMA of mortgage loans create the same immediate financing problems as any other disbursements by the Federal Government. Therefore, the Board feels that the proposed increase in FNMA commitment authority and the resulting availability

5/22/52

-3-

"of funds for over-the-counter purchases of mortgages should be held to an absolute minimum and that these amounts, as well as the other increased authorizations in the bill, should be subjected to close scrutiny.

"The HHFA testimony recognized, as did Senator Maybank in introducing S. 3066 on April 24, 1952, that it would be much more desirable if private lending institutions could be induced to make available necessary mortgage financing without providing Government assistance through FNMA or otherwise. In this connection, on February 6, 1952, at the Round-Table Hearings on mortgage financing, after referring to the funds in savings institutions, I stated that:

'A large part of these savings, this year, will need to go into Government bonds, however, if we are to attain our anti-inflation objectives. What part of the remainder, which will be keenly sought by a variety of outlets will flow freely into mortgages at 4 per cent, I am not prepared to predict at the present time. It is important to note, however, and here I strike at the policy problem, that any efforts to stimulate that flow through additional FNMA or direct loans would increase the Government's prospective cash deficit, and therefore increase considerably the difficult problem of financing the Federal budget.'

"The Board believes it to be highly desirable to re-examine the availability of private funds for making the mortgages for which the additional FNMA authorizations are sought. Present evidence indicates that private funds for mortgage loans have increased in availability and to the extent that they can be attracted to the market resort to Federal National Mortgage Association assistance can be lessened. It is the Board's opinion that it is not necessary at this time to release funds for over-the-counter purchases of mortgages by FNMA on other than programed defense, military and disaster housing, in view of the availability of mortgage money in sufficient quantities to support a high level of construction activity.

"In summary, the Board's principal concern is that such monies as it may be necessary to disburse for the purposes covered by the bill should be reduced to the minimum and screened with the same care and diligence which have characterized the review of other expenditures.

5/22/52

-4-

"It is noted that the Senate Banking and Currency Committee in reporting on S. 3066 has included a provision authorizing savings and loan associations to purchase loans on real estate which are insured under the National Housing Act or the Servicemen's Readjustment Act of 1944 without regard to the 50-mile area restriction. The Board of Governors expressed its views with respect to similar legislation in a letter to the Budget Bureau under date of March 19, 1952."

At this point Mr. Thurston, Assistant to the Board, joined the meeting.

Before this meeting there had been circulated to the members of the Board a draft of letter to President Erickson, of the Federal Reserve Bank of Boston, prepared in response to President Erickson's letter of April 21, 1952, in which he commented on a review by that Bank, in the light of a recent larceny in the area, of means of increasing the protection of currency both within the Reserve Bank and during shipment and of reducing the volume of currency shipments to and from the Reserve Bank. The draft concurred in the suggestion of the Boston Bank that expenses incident to shipments of currency between member banks in the same area might be borne by the Reserve Bank. With regard to the further suggestion of the Bank that member banks be paid for the cost of sorting out unfit notes with a view to reducing the number of shipments to and from the Reserve Bank and thereby reducing the expenses of handling currency within the Reserve Bank, the draft stated that in exploring the possibility of such an arrangement any commitments or obligations with respect to paying banks for sorting

5/22/52

-5-

out unfit notes, except purely on an experimental basis, should be avoided until the proposal could be considered as a System matter.

At the request of Chairman Martin, Mr. Leonard reviewed discussions between members of the Board' staff and First Vice President Neal, of the Boston Reserve Bank, relating to the studies made by that Bank. He said that, according to Mr. Neal, the adoption of the Bank's proposals for transfers of currency between member banks and the sorting out by the banks of unfit notes, together with permission for member banks to count vault cash as reserves, might be expected to reduce the volume of currency operations within the Reserve Bank by as much as 40 per cent. In response to a question by Governor Powell, Mr. Leonard stated that the practice of reimbursing member banks for direct shipments of currency and coin between member banks had already been adopted in a few areas but that the practice was not widespread throughout the System.

Governor Powell expressed the opinion that there was a limit beyond which the Federal Reserve Banks should not go in reimbursing member banks for services which they should perform in the normal course of their operations. He pointed out that it was customary for bank tellers to sort out unfit currency in the course of their work and also that if the practice of reimbursing certain banks for the shipping expenses involved in exchanges of currency and coin were followed, the privilege logically would have to be extended to all member banks, which might involve the

5/22/52

-6-

reimbursing of city banks for shipping currency to their country correspondents. In the circumstances, he considered it inadvisable to permit the Boston Bank to proceed, even on an experimental basis, until the matter had been reviewed on a System basis.

After a further discussion, Chairman Martin suggested that the draft of letter be referred to Governors Powell and Mills as a special committee for study and recommendation to the Board as to the reply which should be made to President Erickson.

This suggestion was approved unanimously.

At the request of Chairman Martin, Mr. Carpenter reviewed discussions between members of the Board's staff and representatives of the Savings Bonds Division of the Treasury Department concerning the part which might be played by the Federal Reserve System in aiding the Treasury's current savings bond program. He said that these discussions had resulted in a suggestion that a letter signed jointly by the heads of the Federal and State bank supervisory agencies and the President of the American Bankers Association be sent to all banks within the United States and a further suggestion that a "package" of material be prepared for use by the Federal Reserve Banks. Mr. Carpenter went on to say that these suggestions had been discussed informally with Mr. Leach, Chairman of the Conference of Reserve Bank Presidents, and that Mr. Leach expressed his approval.

5/22/52

There was a general discussion of the draft of joint letter, copies of which had been sent to the members of the Board prior to this meeting, following which the joining by the Board in such a letter was approved and the draft of letter was referred to Mr. Thurston for revision along lines suggested by Governor Powell.

Unanimous approval was given to a letter to Mr. Frank C. Kimball, Executive Assistant to the Chairman, International Development Advisory Board, Washington, D.C., reading as follows:

"This refers to your letter of March 18, 1952, with which you enclosed a document proposing certain amendments to sections 25 and 25(a) of the Federal Reserve Act as amended.

"You indicate that this document was presented to Mr. Eric Johnston by an attorney representing Mr. Winthrop Aldrich, Chairman of the Board of the Chase National Bank, with the thought that the proposed amendments might help to stimulate private enterprise and investment in those areas where the Point 4 Program is operating.

"Section 25 of the Federal Reserve Act authorizes national banks, with the approval of the Board of Governors of the Federal Reserve System, to establish branches in United States possessions or foreign countries, or to invest in the stock of corporations organized under State or Federal law to engage in banking operations in United States possessions or foreign countries. The authorization also applies to State member banks of the Federal Reserve System, since other provisions of law make them subject to the same rules on the point. Section 25(a) provides for the chartering by the Board of Governors of the Federal Reserve System of corporations to engage in banking operations in United States possessions or foreign countries.

"The draft amendments would provide that national banks (and this would automatically apply to State member banks) with capital and surplus of \$1,000,000 or more may invest up to ten per cent of their capital and surplus, without application to the Board of Governors, in one or more

5/22/52

-8-

"corporations organized under section 25(a). The draft amendments would considerably broaden the scope of the activities in which such corporations may engage, and would considerably reduce the supervision to be exercised by the Board of Governors with respect to them.

"Although the present draft amendments are more sweeping in their terms, they are similar to some which were discussed about a year ago. Without undertaking in this letter to discuss the advantages or disadvantages of each of the various specific proposed changes in the law, we would like to offer some general comments on the effect of the present proposal considered as a whole.

"State statutes already provide for the chartering of corporations with authority generally as broad as that proposed in the draft amendments. Hence, there would seem to be no difficulty at the present time in obtaining corporate charters with authority such as that proposed. Of course, national and State member banks could not acquire stock of such corporations, or could acquire it only by complying with the present requirements of section 25 of the Federal Reserve Act. Therefore, the chief purpose of the amendments would seem to be to authorize national and State member banks to act through the proposed corporations as subsidiaries, and thus to engage generally, and without regard to the special status of banks, in the broadened activities contemplated by the amendments.

"The draft amendments would not confine these broadened activities of member banks to operations related to under-developed areas. Such activities could be conducted in any foreign country, and could involve the banks in highly speculative operations having little or no relation to the Point 4 Program. Moreover, it is by no means clear that the proposed changes would bring about substantially increased operations under the law in under-developed areas.

"The Board wishes to offer every practicable assistance to the successful carrying out of the Point 4 Program. Therefore, in considering any applications under the present law, the Board naturally would regard it as an important favorable factor if a project would help to further the purposes of Point 4. The Board believes that such a reasonably individualized approach is likely to prove more helpful to the Point

5/22/52

-9-

"4 Program than the broad provisions of the draft amendments. If, however, notwithstanding the considerations mentioned above, you or Mr. Johnston should feel that changes in section 25 or 25(a) of the Federal Reserve Act should be further considered at this time, we would, of course, be glad to discuss any aspect of the matter at any time."

Unanimous approval was also given to a letter to Mr. Walter F. Ryan, Clearance Officer, Division of Statistical Standards, Bureau of the Budget, Washington, D. C., reading as follows:

"The Board has approved, in connection with the forthcoming mid-year call for reports of condition and biennially thereafter, the collection of reports of deposits by counties from State member banks that have out-of-county branches and reports of deposits for individual branches from a few State member banks in the New England States which have branches outside of their metropolitan areas, provided that similar reports are obtained by the Comptroller of the Currency from national banks and by the Federal Deposit Insurance Corporation from insured nonmember banks.

"This request is part of a continuing program for collecting branch statistics, as previously outlined in our letter of April 5, 1949. Similar data were last collected as of December 30, 1950. This information will again be used to tabulate data to be published in the pamphlet, Distribution of Bank Deposits by Counties and Standard Metropolitan Areas.

"It is anticipated that reports will be collected only from banks with branches located outside of the head office county (about 110 member banks and 200 nonmember banks) and that special listings will be collected from a few banks in the New England States which have branches located outside of the metropolitan areas. These listings are necessary for about 13 member banks and 8 nonmember banks in order to prepare tabulations that conform with the metropolitan area definitions in New England. Information will be requested for three deposit items: (1) demand deposits of individuals, partnerships, and corporations, (2) time deposits of individuals, partnerships, and corporations, and (3) other deposits. Since only three

5/22/52

-10-

"deposit items are being requested from a relatively small number of banks, no special form for reporting the data seems necessary.

"In response to a similar letter dated December 5, 1950, your office assigned Budget Bureau No. 55-R182, with the notation that the number need not appear on the form."

Unanimous approval was given to a letter to the Presidents of all Federal Reserve Banks reading as follows, with the understanding that Mr. Leach, Chairman of the Conference of Reserve Bank Presidents, would be requested to place the matter of payment of State and local taxes by the Reserve Banks on the agenda for the next Presidents' Conference:

"Attached are two copies of the material sent to the Patman Subcommittee regarding payment by the Federal Reserve Banks of State and local taxes, automobile license plates, etc. The memoranda were based on replies to our telegrams of March 20 and April 2, 1952.

"The replies showed marked variance as to the practices of the Reserve Banks regarding payment of taxes. It is recognized that to some extent the variances are due to the fact that State and local taxes vary widely both in their nature and in their incidence. It appears, however, that there may be significant differences among the Reserve Banks in their approach to the tax exemption provision of Section 7 of the Federal Reserve Act.

"Accordingly, it will be appreciated if you will review the entire State and local tax situation as it affects your Bank and branches, if any, and, without taking the matter up with the tax authorities at this time, advise the Board as follows:

1. In event the Reserve Bank (not including employee groups or concessionaire) is paying or collecting any State or local tax other than on real estate, the reason why the Bank is considered subject to the tax, notwithstanding the provision of Section 7 of the Federal Reserve Act.

5/22/52

-11-

- "2. In event the Reserve Bank (excepting employee groups or concessionaire) is not paying or collecting any State or local tax, other than on real estate, on items purchased or sold by the Reserve Bank the position, if known, of the State and local tax authorities with respect to the applicability of the tax to the Federal Reserve Bank.

"It is not intended that your reply should cover payments which are clearly for permits or license fees, such as for operation of elevators, cafeteria, etc., and for engineers, electricians and guards, etc.

"The reply should, however, cover fully the subject of automobile license plates. In this connection, information is specifically desired as to whether any personal property taxes are paid on the automobiles, and, in the case of any tags furnished gratuitously, the basis on which this is done.

"We would appreciate it if your reply included any general comments you believe would be helpful and appropriate in the consideration of the over-all tax question.

"The Board is requesting that the payment of State and local taxes by the Federal Reserve Banks be placed on the agenda for the next meeting of the Conference of Presidents."

At this point Messrs. Craft, Technical Consultant to the Board, Thomas, Economic Adviser to the Board, Young, Director, Division of Research and Statistics, and Leach, Economist, Division of Research and Statistics, entered the room.

At the request of Chairman Martin, Mr. Craft commented on a draft of questionnaire being prepared for submission to dealers, brokers, bankers, and others in connection with the study of the Government securities market authorized by the Federal Open Market Committee. There ensued a discussion of the content of the questionnaire and of the list

5/22/52

-12-

to which it might be sent.

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 May 21, 1952, were approved unanimously.

Memoranda recommending that the resignations of the following employees be accepted, effective the dates indicated:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
	<u>Memorandum from Mr. Dembitz, Assistant Director, Division of International Finance</u>	
5/14/52	Paul Gekker, Economist	6/6/52
	<u>Memorandum from Mr. Bethea, Director Division of Administrative Services</u>	
5/19/52	Frances T. Kurtz, Operator (Key Punch)	5/19/52

Approved unanimously.

Memorandum dated May 20, 1952, from Mr. Leonard, Director, Division of Bank Operations, recommending the appointment of Geraldine Ann Cunningham as Clerk-Typist in that Division, on a temporary basis for a period of three months, with basic salary at the rate of \$2,950 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical

5/22/52

-13-

examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to the Board of Directors, The Summit Trust Company, Summit, New Jersey, reading as follows:

"Fursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment and operation of a branch in the Borough of New Providence, New Jersey, by The Summit Trust Company, upon condition that formal approval is obtained from the appropriate State authorities and the branch is established within six months after the date of this letter."

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

Letter to Mr. Campbell, Acting Head, Department of Selective Credit Regulation, Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letter of April 18, 1952, to Mr. Benner enclosing a copy of a letter dated April 16, 1952, from Mr. William H. Loesche, Jr., Assistant Counsel, The Penn Mutual Life Insurance Company, relative to major additions or improvements which are to be constructed for the exclusive use and occupancy by a public utility, Government agency, or some other usage which excludes structures from the nonresidential structure category as defined in section 2(r) of Regulation X. In this respect, credit extended for the purpose of financing additions and improvements to buildings excluded from the definition of nonresidential structure by subsections 2(r)(3), (4), and (5) is not subject to Regulation X because it is not 'real estate construction credit.'

5/22/52

-14-

"To remove further from the coverage of the regulation major additions and major improvements to nonresidential structures where the addition or improvement is to be used by a telephone company, Government agency, medical clinic, manufacturing process, etc., would be too broad a relaxation and would seriously impair the effectiveness of the regulation as a credit-restricting and materials-conserving device. The number of buildings in which space is presently rented to this class of lessee and the amount of space taken up by them add up to a substantial total when all the cities and towns throughout the country are taken into consideration. An additional administrative difficulty this exclusion suggested by Mr. Loesche presents, concerns the appropriate allocation of cost to the particular major addition or improvement of the building's electrical wiring, plumbing facilities, elevator equipment, air conditioning installations, etc., that service all the tenants.

"We do not believe it is the general practice to acquire land and build the size building that would accommodate individual lessees in this group--comparable in size to the major additions and major improvements proposed--as alluded to in Mr. Loesche's letter, and it is unlikely that many structures exempt from Regulation X will be erected as a means of avoiding the making of a major addition subject to the regulation."

Approved unanimously.

Letter to Mr. Lewis, Vice President, Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of April 4, 1952 referring to a situation involving the sale of property on terms which do not conform with the requirements of Regulation X with respect to which a certificate of exemption was issued to the seller in June of last year pursuant to section 5(g) of Regulation X. You enclosed with your letter copies of the following all related to the same matter: (1) Your letter to Mr. Cook of the Federal Reserve Bank of Dallas dated March 17, 1952, (2) Mr. Schlaikjer's letter to you dated March 19, 1952, and (3) Mr. J. A. Lindner's letter to Mr. Clark dated March 31, 1952.

5/22/52

-15-

"We understand your position to be notwithstanding the statements made in Mr. Lindner's letter, that at the time the certificate of exemption was issued, the applicant understood that the certificate would not permit him or any Registrant to finance a resale of the property on nonconforming terms. This being the case, the last sentence of the Board's telegram S-1192 (X-15), which states 'Section 5(g) relates only to the credit to finance new construction which is extended to the builder or other person who made substantial commitments or undertakings before August 3 and the provision does not apply to credit involved in a subsequent sale of the property by such builder or other person', is applicable.

"The Board did have correspondence with Mr. Schlaikjer at the Boston Bank concerning similar questions involving sections 4(a)(6), 6(b), and 5(g) of the regulation, and X-42 was issued in answer to Mr. Schlaikjer's inquiry. As you will recall, X-42 referred to credit extended in the form of a combination construction-permanent mortgage loan and the Board did advise Mr. Schlaikjer that if any such cases should arise under section 5(g), the same principles would apply. It was not expected, however, that any such cases would arise because of the interpretations previously made by the Board with respect to that provision of the regulation."

Approved unanimously, with
copies to Mr. Schlaikjer, Vice
President and General Counsel, Fed-
eral Reserve Bank of Boston, and Mr.
Cook, Vice President and Cashier,
Federal Reserve Bank of Dallas.

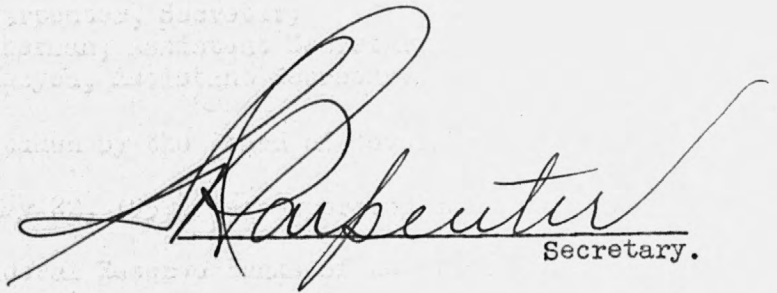
Telegram to Mr. Cook, Vice President and Cashier, Federal Reserve
Bank of Dallas, reading as follows:

"Reurtel May 15 regarding credit for installation of
elevator for use of invalid. The purpose of section 5(d)
of Regulation X was to permit loans on new construction in
excess of the regulatory terms in order to pay medical bills,
etc., and not to exempt from the terms of the regulation
loans for special new construction, even though it might

5/22/52

"be claimed that such construction is required for the use of an invalid. Further, it seems unlikely that any lender would finance an installation of the sort described with less down payment or longer maturity than the regulation permits. However, if you feel that it is desirable, you may suggest that the parties concerned submit the full facts to the Board for an interpretation."

Approved unanimously.


Secretary.