

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, June 4, 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

The Secretary later was informed by the Chairman that during the executive session the following actions were taken:

Unanimous approval was given to an authorization covering travel by Chairman Martin to St. Louis, Missouri, during the period June 11-15, 1952, to attend a joint meeting of the boards of directors of the Federal Reserve Bank of St. Louis and its branches.

Unanimous approval was also given to a memorandum dated June 4, 1952, from Mr. Sloan, Director, Division of Examinations, outlining a proposed program incident to the visit of the Division's field examining staff to the Board's offices on June 10 and 11, 1952, and requesting that the Board authorize a reception, with light refreshments, in the cafeteria or the staff dining room on the afternoon of one of the two days.

The meeting then recessed and reconvened at 2:35 p.m. with the same members of the Board present and the following members of the staff also in attendance:

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board

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Mr. Vest, General Counsel
Mr. Noyes, Director, Division of
Selective Credit Regulation
Mr. Garfield, Adviser on Economic Research,
Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Benner, Assistant Director, Division of
Research and Statistics

Mr. Raymond M. Foley, Housing and Home Finance Administrator, and
Mr. Neal J. Hardy, Assistant Administrator, Housing and Home Finance Agency,
were also present.

Chairman Martin stated that this meeting had been called so that
the members of the Board could have an opportunity to hear Mr. Foley's
views concerning the desirability of relaxing Regulation X, Real Estate
Credit.

Mr. Foley made a statement in which he said that his Agency had
the job of carrying out the housing objectives set forth by Congress but
that in thinking of the regulation of real estate credit he related the
matter, not to the housing ideology contemplated by these objectives, but
to what was wise and feasible in housing production this year. If the
economy were in a position to produce freely and without considering the
need for making materials available for defense, his Agency probably would
be thinking in terms of the maximum production that the housing industry
had demonstrated that it could build, which would be in the neighborhood
of 1,400,000 units annually. Under the defense program, however, it had
been necessary to limit production and a goal of 800,000 units had been

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developed for this year on the basis of what then appeared to be the supply of materials that would be available for housing. That number, Mr. Foley said, was the "bare bones" of meeting increasing housing need and did not allow for accumulated need. He stated that his Agency also recognized that that number of units would have to be distributed very carefully as to locality and price range. He added that since the beginning of the year when the 800,000 figure was arrived at, the materials situation had changed to where it now was considered entirely feasible to build 1,000,000 units during 1952. Because available materials would fully support such a program (unless the steel strike turned out to be of long duration, which Mr. Foley did not anticipate) approximately 1,000,000 housing units should be the aim for production this year.

Mr. Foley went on to say that reports from Federal Housing Administration field offices and from builders over the country indicated there was a weakening in the building situation which, if continued, would result in less than 1,000,000 starts this year, even with the proposed relaxation in Regulation X. Facts in the weakening of the situation included some overhang of completed but unsold houses which, however, was not serious enough to necessitate action to amend Regulation X for the purpose of relieving hardship cases. Aside from that element, Mr. Foley noticed that mortgages insured or guaranteed by the Federal Housing Administration and the Veterans Administration accounted for between 50 and 60 per cent of total housing starts, and that the commitments of these two agencies for insuring or

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guaranteeing loans provided a significant figure in judging the current and prospective activities of builders. These commitments, he said, had declined sharply in the case of the Federal Housing Administration between the end of January and first of May of this year, the backlog falling from approximately 290,000 to 130,000 units in that three-month period. He said that such information as was available to the Veterans Administration indicated a similar decline in the backlog of commitments of that agency during the past three months compared with the same period last year and that the same situation appeared to exist in the conventional mortgage field. Mr. Foley then referred to the long lag between commitments and the actual construction of houses, commenting that the decline in commitments of the two agencies during the past 90 days was significant as indicating the probability of a rapid falling off in housing starts during the next several months, and that in his judgment, this decline would begin to appear soon after the end of June.

Mr. Foley then stated that Regulation X was only one factor affecting the building outlook and that there were three others which he considered of substantial importance, one of these being the tightness in the supply of mortgage funds. The second was the rates permitted on FHA and VA mortgages and he stated that the Housing authorities proposed to hold these rates. The third factor was that as long as the Federal National Mortgage Association remained out of the market there would be a progressive freezing out

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of the market of veterans housing financing at the 4 per cent rate. He also referred to current proposed legislation with respect to funds to be made available to the Federal National Mortgage Association for the purchase of mortgages, stating that not only was it anticipated that such funds would be limited to defense and disaster-area housing, but in addition, the proposed legislation would cut back the portion of loans that the Association might purchase from any lender by providing that such lender could not sell to the Association more than 50 per cent of Veterans Administration-guaranteed loans made by it after a recent base date. (At the present time, the Association is permitted to purchase up to 100 per cent of Veterans Administration mortgages made by a lender.) He added that the Housing and Home Finance Agency had considered all factors, and that since the action of Congress in the summer of 1951 relaxing the terms in the real estate credit regulations on houses valued at \$12,000 or less, he had felt that an adjustment was needed in order to restore more equitable terms on houses in the upper price-brackets. In view of the improvement in the materials situation and the indications of a falling off in housing starts after June of this year, he had come to the conclusion that this was the appropriate time to bring about this needed adjustment of terms. Without giving any consideration to political factors, Mr. Foley felt that changes in the regulation along the lines proposed would be justified by developments during recent months and would bring about housing production of around a million units this year. It would also result, he said,

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in a much better distribution by types of houses than would be produced if the change were not made.

As to the political situation, Mr. Foley expressed the view that if this was the right time to make adjustments in the schedule on account of the materials situation and the building outlook, he felt it also appropriate to take into account whether Congress would react favorably or unfavorably to a change at the time it was considering an extension of the Defense Production Act. It was his opinion that action to relax at this time would indicate to Congress that the regulations were being administered flexibly and that it might safely continue the authority on the grounds that the agencies administering them were prepared to adapt the regulations to changing conditions. He emphasized that it was very desirable to continue the regulations as a means of placing some restraint on pressure for no-down-payment housing credits under Government sponsorship and also as a means of restraining builders from going out on a greatly expanded program of building in which they would obtain a large number of commitments for houses which would have to be exempted from the regulations if they later had to be reinstated.

Mr. Foley then commented briefly on the proposed schedule of down payments, stating that minor adjustments could be worked out if it were decided to relax Regulation X. He also referred to discussions he had had with representatives of other interested Government agencies, stating that he was to have a further talk with Mr. Steelman, Acting Director of Defense

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Mobilization, and Mr. Putnam, Economic Stabilization Administrator, and that he hoped the Board would find it possible to defer taking final action until the final views of these individuals were known, particularly on the question of timing of action.

In the discussion that ensued, Messrs. Foley and Hardy commented with respect to the proposed relaxation in requirements for houses under \$7,000, Mr. Foley stating that he would not feel too strongly on this point but that he was satisfied it would have little effect on the total volume of credit. He also said that he considered it desirable as a means of enabling builders to meet a need for housing for certain of the lowest income groups in the south and southwest. As to houses selling for more than \$25,000, Mr. Foley expressed the view that it would make little difference in terms of actual construction whether the down payment requirement was 33-1/3 per cent or 40 per cent, but that there might be a psychological advantage in using the higher percentage, this having been suggested by Mr. Putnam in one of his conversations. A more important consideration, he said, was that if the regulation were retained it would continue the prohibition against secondary borrowing and this would deter excessive building activity in the higher price level. As to the commercial building provisions, Mr. Foley stated that his Agency was not directly concerned with them but that he felt it might be better to relax rather than to suspend that portion of the regulation, especially in view of current

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uncertainties regarding the steel strike.

At 3:45 p.m. Mr. Foley and Mr. Hardy withdrew from the meeting. Chairman Martin then called upon the members of the Board for comment, particularly whether Mr. Foley's statement had modified the views previously expressed by members of the Board. There was a discussion of the probable outlook for housing starts, of the materials situation, and of possible variations that might be made in the schedule of down payments at the conclusion of which it was the consensus that some relaxation of Regulation X should be approved and, accordingly, that there was no need to indicate to Mr. Foley that the Board would not be willing to proceed at the proper time with a relaxation of the regulation along lines discussed at this meeting. It was agreed, therefore, that after hearing from Mr. Foley tomorrow, another meeting of the Board would be held in order to consider what steps would then seem desirable in connection with modification of the regulation.

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 June 3, 1952, were approved unanimously.

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

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<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
	<u>Memorandum from Mr. Young, Director, Division of Research and Statistics</u>	
6/2/52	Mary R. Carroll, Clerk	6/6/52
	<u>Memorandum from Mr. Allen, Director, Division of Personnel Administration</u>	
6/3/52	M. Jane Coughlin, Clerk-Typist	6/4/52

Approved unanimously.

Letter for the signature of the Chairman to Mr. Edwin H. Barker,
Office of Naval Material, Department of the Navy, Washington, D. C., reading
as follows:

"Receipt is acknowledged of your letter of May 14, regarding the Federal Reserve Banks making available to the Chief of Naval Material, the Contracting Bureaus and the Chief of the Office of Naval Research, confidential financial reports respecting certain contractors doing business with the Department of the Navy.

"During World War II, the Federal Reserve System made confidential financial reports available to the War and Navy Departments at the request of Under Secretary of the Navy Forrestal and Under Secretary of War Patterson in connection with requests for advance payments and for the purpose of determining whether the Departments would be justified in awarding contracts to certain concerns for material, supplies and equipment. This information was made available to the Departments through the Offices of the two Under Secretaries and we see no reason that similar information cannot be provided at the present time.

"In view of the fact that this matter is one which will be of interest to the Departments of the Army, and Air Force as well as the Department of the Navy in connection with the placement of current procurement, I believe that the most satisfactory method of working out a procedure would be through the Department of Defense. Therefore I would suggest that the matter be taken up with Honorable W. J. McNeil, Assistant Secretary of Defense.

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"As you know, we are presently making available to the Office of Naval Material through the Office of the Assistant Controller credit information furnished by the Reserve Banks in connection with applications for V-loans. Similar information is available in Washington on many other concerns which have V-loans guaranteed by the Departments of the Army and Air Force. In order that there may be no duplication of effort or conflict with the present V-loan operations, it appears to me that all requests for credit information should be funneled through the Defense Department.

"Unless the volume of requests for credit information is considerable, it will not be necessary for us to ask for any reimbursement for this service. I suggest, therefore, that we initiate the arrangements on a nonreimbursable basis with the understanding that we will notify the Defense Department in advance if the volume appears to be reaching proportions which require us to make a charge."

Approved unanimously, together
with the following letter to the Honorable
W. J. McNeil, Assistant Secretary
of Defense, Washington, D. C.:

"For your information there are enclosed a copy of a letter dated May 14, 1952, with attachment, addressed to me by Edwin H. Barker, of the Office of Naval Material, and my reply thereto which are self-explanatory.

"As I have advised Mr. Barker, I see no reason that similar information cannot be provided at the present time to the Departments of the Army, Navy and Air Force. I believe that in order for the plan to operate successfully, requests for credit information should be made to the Board of Governors through either the Contract Finance Committee of the Department of Defense or through the Offices of the Controllers of the three Armed Services. If you feel it is desirable to re-establish a plan similar to that which apparently operated very successfully during World War II, we will be glad to so advise the Federal Reserve Banks.

"As I advised Mr. Barker, we can initiate the arrangements on a nonreimbursable basis with the understanding

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"that we will notify you in advance if the volume of requests appears to be reaching proportions which will require the Federal Reserve Banks to make a charge."

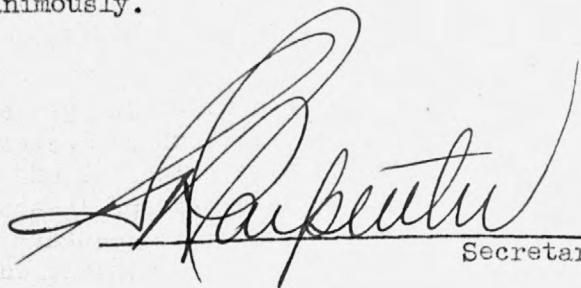
Letter to the Presidents of all Federal Reserve Banks, prepared pursuant to action taken by the Board on May 21, 1952, reading as follows:

"After careful consideration and in the light of the views expressed by the Federal Reserve Banks, the Board has adopted an amendment to its Regulation Q, in the form enclosed, effective July 1, 1952, with respect to the allowance of days of grace in the computation by member banks of interest on savings deposits.

"Under this amendment, a member bank will be permitted to allow a grace period of 10 business days at the beginning of any calendar month commencing a regular quarterly or semi-annual interest period, a grace period of 5 business days at the beginning of any other calendar month, and a grace period of 3 business days at the end of any calendar month ending a quarterly or semiannual interest period. The Federal Deposit Insurance Corporation has adopted an identical amendment, also effective July 1, 1952, to its regulations relating to payment of interest on deposits by insured nonmember banks.

"It will be appreciated if you will make arrangements for printing the necessary copies of this amendment and for such distribution to member banks in your district as you consider advisable."

Approved unanimously.


Secretary.