

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, July 14, 1952. The Board met in the Board Room in executive session at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
Mr. Mills

At the conclusion of the executive session Messrs. Carpenter, Secretary; Vest, General Counsel; and Leonard, Director, Division of Bank Operations, were called into the meeting.

At the request of the Board, Mr. Leonard outlined the history of the so-called Trowbridge formula which was adopted by the Board in 1924, for the purpose of determining the portion of the cost of Federal Reserve branch bank buildings which should be regarded as being for the "building proper" pursuant to paragraph 9 of section 10 of the Federal Reserve Act which establishes limits for the cost of branch buildings based on the cost of "building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures". In this connection, he distributed copies of a letter addressed to the Federal Reserve Banks under date of January 15, 1947, enclosing a copy of the Trowbridge formula.

Mr. Leonard also outlined changes in the proposed formula which were being considered in consultation with the Board's consulting architect and which were suggested by changes in building practices since the formula was adopted, particularly with regard to building air conditioning. In that connection, he referred to the changes in charges for "building proper"

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under the revised formula for the Portland, Seattle, Detroit, and Jacksonville branches, all of which had been or were being constructed or enlarged under the authority contained in an amendment to the ninth paragraph of section 10 of the Federal Reserve Act in 1947 which authorized the Board of Governors to approve the construction of branch buildings without regard to the basic limitation of \$250,000 for a branch provided that the cost for the "building proper" for all branch buildings constructed under the authority did not exceed \$10 million. It was his thought that the revised formula, if approved by the Board, should be applied to all four of these buildings and Mr. Vest concurred that the application of the formula to all construction under the amendment referred to above would be a logical step, particularly since the amendment placed responsibility in the Board for approving the construction.

Governor Vardaman raised a question whether the revised formula should be applied to the Portland and Seattle branches, since these had already been completed and allocations of cost for the "building proper" had been made under the Trowbridge formula.

In the discussion which ensued it appeared to be the consensus of the members of the Board present that the allocations with respect to the Portland and Seattle branches should be considered as finished business but that a revised basis along the general lines discussed should be used for allocation of costs of the Jacksonville branch and the Detroit addition, which had

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not yet been completed, and for future projects. It was felt that there was ample reason for the Board to consider revision of the formula on the basis of changes in building construction and equipment since 1924 and in the light of advice of its consulting architect.

At the conclusion of the discussion, it was understood that Mr. Leonard would complete his study and revision of the Trowbridge formula and submit the revision to the Board in such detail as would enable it to consider the matter in the light of the discussion at this meeting.

Thereupon Mr. Leonard withdrew from the meeting.

There was a brief discussion of the personnel situation in the Legal Division and the possible need for additional attorneys in the Division to fill existing vacancies, but no action was taken.

The Board also took action on the following matters:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 11, 1952, were approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective July 20, 1952:

<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	<u>Memorandum from Mr. Young, Director, Division of Research and Statistics</u>		
6/23/52	C. Lavon Watson, Clerk	\$2,950	\$3,030

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<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
	<u>Memorandum from Mr. Leonard, Director, Division of Bank Operations</u>		
6/17/52	R. E. Sherfy, Analyst	\$5,120	\$5,245
	Margaret K. Ball, Statistical Assistant	4,420	4,545
	Evelyn Bryan, Supervisor, Member Bank Statement Unit	4,420	4,545
	<u>Memorandum from Mr. Bethea, Director, Division of Administrative Services</u>		
6/25/52	Bruce L. Moffett, Offset Press Operator	4,205	4,330
	Carrie S. Turner Secretary to Mr. Johnson	3,535	3,660
	Leita A. Cook, Clerk-Typist	2,950	3,030
	Mary F. Murphy, Clerk	2,750	2,830
	Nancy C. Jacobson, Clerk-Stenographer	3,175	3,255
	Geraldine M. Venable, Cafeteria Helper	2,560	2,630

Approved unanimously.

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

"In view of the circumstances described in your letter of July 8, 1952, the Board of Governors approves the continuation of the payment of salary to Mr. Charles Slater while occupying the position of Survey Clerk, Check Routing Symbol and Treasury Currency Reports Section, Cash Department, at the rate of \$4,455 per annum which is \$655

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"in excess of the maximum established for the grade in which his position is classified.

"It is noted from your letter that if at any time prior to Mr. Slater's retirement a position becomes available, the duties of which are more nearly related to his present salary range and which he is capable of filling, he will be assigned to such position."

Approved unanimously.

Letter to Mr. Williams, President, Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors approves the payment of salary to Murdoch K. Goodwin as an officer of the Federal Reserve Bank of Philadelphia with title of Assistant Counsel for the period July 14, 1952, through April 30, 1953, at the rate of \$9,000 per annum which is the rate fixed by the Board of Directors as indicated in your letter of July 7, 1952."

Approved unanimously.

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

"In accordance with the request contained in your letter of July 8, 1952, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Philadelphia:

Gerald E. Bachman
Charles G. Hankins
Fred R. Davis"

Approved unanimously.

Letter to Mr. Parten, Federal Reserve Agent, Federal Reserve Bank of Dallas, reading as follows:

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"In accordance with the request contained in Mr. Gilbert's letter of June 27, 1952, the Board of Governors approves the payment of salaries to the following named members of the Federal Reserve Agent's staff at the rates indicated, effective May 1, 1952:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
J. M. Ashley	Alternate Assistant Federal Reserve Agent	\$5,006.89
E. G. Hudel	Assistant Federal Reserve Agent	7,337.35
Edward Price	Alternate Assistant Federal Reserve Agent	4,731.78
<u>El Paso Branch</u>		
James L. Cauthen	Federal Reserve Agent's Representative	6,183.89
Travis J. Johnson	Federal Reserve Agent's Representative	5,965.61
<u>Houston Branch</u>		
R. E. Maley	Federal Reserve Agent's Representative	6,430.70
C. E. Purifoy	Federal Reserve Agent's Representative	6,430.70
<u>San Antonio Branch</u>		
Fred J. Schmid	Federal Reserve Agent's Representative	6,085.84
W.R. Stockwell	Federal Reserve Agent's Representative	5,864.00"

Approved unanimously.

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

"Reference is made to your letter of June 30, 1952, submitting the request of The Union Banking Company of Columbiana, Columbiana, Ohio, for approval of an increase in the bank's investment in bank premises to an amount approximating \$71,328, in connection with plans for the remodeling of its present banking quarters.

"In view of your recommendation, the Board of Governors approves the proposed increase in the bank's investment in

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"banking premises to an amount not exceeding \$71,328 for the purpose above indicated."

Approved unanimously.

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

"Enclosed is a copy of revised Page 33 of the Accounting Manual, the effect of which is to discontinue the requirement for separate head office and branch reports of earnings on Form F. R. 95.

"It is felt that the reporting of earnings on Form F. R. 95 on a district basis will be sufficient for the Board's purpose. This feeling is based on the fact that some branches have not been submitting reports since they do not carry earnings on their own books, and that little use has been made in recent years of the individual reports received from each head office and branch.

"In the interest of uniformity, please submit individual reports for the month of June, and thereafter submit combined reports only."

Approved unanimously.

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

"The Board has recently been asked to consider whether a bank operating a common trust fund under the provisions of section 17 of Regulation F may accept, as collateral security for a loan made by the bank's commercial department, an assignment of the income from a participation in its common trust fund.

"It is provided in section 17(a) of Regulation F that if a bank, because of a creditor relationship or any other reason, acquires any interest in a participation in a common trust fund under its administration, the participation shall be withdrawn on the first date on which such withdrawal can be effected. The purpose of this provision is to preclude or minimize the development of conflicts of interest in the administration of common trust funds.

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"The answer to the question presented depends upon whether the bank, through the assignment to its commercial department of the income from a participation in its common trust fund, would acquire an 'interest' in the fund of a kind which, within the intent and purposes of the aforementioned provision, should be prohibited.

"The Board has considered a case involving loans to the trustors of revocable living trusts secured by assignments of their interests in the trusts, and in a ruling published in the 1947 Federal Reserve Bulletin at page 980, took the position that, inasmuch as it was apparent that the bank could resort to the principal of the participating trusts to collect the loans, the bank acquired an interest in participations in the common trust fund within the meaning of the regulation unless such loans were adequately secured by assets other than such participations.

"Before answering this specific inquiry, the Board would appreciate advice as to whether similar questions have arisen in your District and to what extent, if any, loans of the kind here involved are being made. The Board would also appreciate your views as to whether, as a matter of policy, the subject provision of the regulation should be interpreted in such manner as would permit or prohibit loans secured by the assignment of income from a participation in a common trust fund."

Approved unanimously.

Letter to Colonel James W. McNeer, Executive Secretary, Joint Welfare Board, Departments of the Army and the Air Force, Washington, D. C., reading as follows:

"This refers to your letter of June 18, 1952, and its enclosure, to Mr. E. F. Bartelt, Fiscal Assistant Secretary of the Treasury, which, as you were informed, were referred to us under date of July 1 for reply. The aforementioned correspondence presented a question concerning the applicability of this Board's Regulation Q within the European Command. Regulation Q relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System.

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"As the enclosure with your letter of June 18 indicates, Regulation Q does contain provisions regarding the forfeiture of accrued and unpaid interest where time deposits are withdrawn prior to maturity. However, both Regulation Q and section 19 of the Federal Reserve Act, as amended, under which the regulation is issued, are inapplicable specifically 'to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia'. Accordingly, if the time deposit of the U. S. Army Europe Welfare Fund to which you referred is payable only at the office of The Chase National Bank, Frankfurt, Germany, Regulation Q, including the provisions thereof concerning the forfeiture of accrued and unpaid interest, would not be applicable. A more specific answer to your inquiry would depend necessarily upon the facts of the particular case."

Approved unanimously.

Letter to Mr. Millard, Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge your letter of June 12, 1952, and attached correspondence with the Federal Homes Development Company, Inc., Beverly Hills, California. Previously we considered the problems under Regulation X of this corporation in our letter of March 21, 1952, to you. Briefly, their problem at that time was the disposal of 28 houses in their Boulder City, Nevada, operation for which they wished to accept down payments of \$1,000 to \$1,500. This proposed selling program did not comply with Regulation X since the down payment on their lowest-priced house, depending upon the value of the lot, would probably have been approximately \$2,200. The facts disclosed from the correspondence at that time did not reveal the value of the lots, which were stated to rent on long-term leases at \$60 yearly. If the lot is assumed to have a value of \$1,000, the down payment under the terms in effect before June 11, 1952, would have been \$2,180, whereas under the present terms of the regulation it would be \$1,855. Neither of these down payments is within the low range suggested by the Federal Homes Development Company, Inc.

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"In his letter of June 11, 1952, Mr. Nicholas, General Manager of Federal Homes Development Company, Inc., again requests relief from Regulation X in respect to down payments on the unsold Boulder City houses. It is probable that he was unaware of the relaxation of the residential terms of the regulation issued on June 11, the date of his letter. On the basis of the example given above, they have received the advantage of a \$325 relaxation at the value of \$10,900, including land. The regulation, of course, provides no other basis for the granting of an individual exemption in this case unless there are other undisclosed facts which would make available exemptions within the framework of the regulation, such as sections 5(k) or 6(b).

"It would be desirable to inform Mr. Nicholas of the June 11 relaxation and also the fact that Congress recently gave the real estate credit controls most careful consideration but did not require an immediate modification, although the amendments of June 30, 1952, to the Defense Production Act of 1950, as amended, provide for a 'period of residential credit control relaxation' to be announced not later than the first day of the second month following three consecutive months in which the annual rate of housing starts, adjusted for seasonal variations, has been below 1,200,000.

"In answering requests of this type, we normally use such phraseology as the following which may be of some help to you:

'The Board is most desirous that the impact of Regulation X be as equitable as possible and has consistently stated that the terms of the regulation would be modified when it is demonstrated that they are too restrictive. Regulation X does not provide a means for making individual exceptions since such determinations might tend to favor unjustly one borrower over another, and, in view of the present economic developments, the Board does not consider that the public interest would be served by further relaxation of the regulation at this time.'

Approved unanimously.

Telegram to the Presidents of all Federal Reserve Banks and Managing Directors of all Branches, reading as follows:

"Following is the text of a joint press release to be issued by the Board and the Housing Administrator after the

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"President has signed the Executive Order delegating authority for the new functions provided in the Defense Production Act Amendments of 1952. It is now anticipated that the order will be signed July 15.

'JOINT' RELEASE
OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
AND
HOUSING AND HOME FINANCE AGENCY

The Board of Governors of the Federal Reserve System and the Administrator of the Housing and Home Finance Agency announced today the procedures that will be followed in carrying out the new housing credit provisions of the Defense Production Act Amendments of 1952 and of the new Executive Order implementing those provisions.

Under the amendments to the Defense Production Act, if housing starts for any consecutive three months fall below an annual rate of 1,200,000, residential credit controls shall be relaxed so as not to require a down payment of more than 5% of the transaction price. The amendments further provide that such relaxation shall begin not later than one month after the expiration of the consecutive three months during which housing starts were at an annual rate of under 1,200,000.

The amendments to the Defense Production Act authorize the President to estimate the rate of housing starts and to announce the beginning or termination of a period of relaxed credit controls. This authority has been delegated by the President, in amendments to Executive Order 10161, to the Department of Labor with respect to estimates of starts and to the Federal Reserve Board and the HHFA with respect to required announcements.

Acting under that delegation, the following procedures have been determined upon:

Housing starts will be estimated, for purposes of possible credit relaxation under the amendments, beginning with starts for the month of June 1952. These estimates will be made by the Labor Department's Bureau of Labor Statistics, which will also make estimates of the annual rate of starts each month adjusted for seasonal variations in the rate of construction. The housing to be counted in the estimate

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"shall consist of permanent, nonfarm, family dwelling units. BIS will transmit its estimates to the Federal Reserve Board.

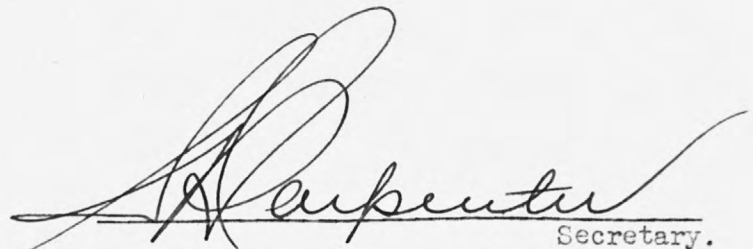
If the estimates show that for three consecutive months, starts are below a seasonally adjusted annual rate of 1,200,000, then the Federal Reserve Board, with the concurrence of the HHFA Administrator, will announce a period of residential credit control relaxation to begin not more than a month after the termination of the three-month period. For example, if housing starts during June, July and August are below a seasonally adjusted annual rate of 1,200,000 for each of those months, the period of credit control relaxation would begin not later than October 1.

Such a period of relaxation could be terminated by the Board, with the concurrence of the Administrator, any time after construction starts during three consecutive months exceeded an annual rate of 1,200,000.

The authority of the Federal Reserve Board and the Administrator of the Housing and Home Finance Agency to administer credit controls remains unchanged until a period of credit control relaxation has been announced, the two agencies pointed out. Both agencies made it clear, however, that no change in the downpayment requirements on residential properties is contemplated at this time, particularly in view of the fact that these requirements were modified as recently as June 11."

Approved unanimously.

Secretary's Note: The joint press statement was issued on July 15, 1952, for immediate release.



Secretary.