Minutes of actions taken by the Board of Governors of
the Federal Reserve System on Friday, August 22, 1952. The Board
met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel

Before this meeting there had been placed in circulation
among the members of the Board a draft of letter to President Gidney,
of the Federal Reserve Bank of Cleveland, prepared in response to
Mr. Gidney's letter of August 12, 1952 requesting reconsideration
of a proposal under which the United States District Court at
Cleveland, Ohio, would issue an order or orders instructing the
Reserve Bank to accept for safekeeping and investment in Treasury
bills or certificates, as directed by an officer of the Union National
Bank of Youngstown, Ohio, funds amounting to approximately $3,760,000
now held in the registry of the District Court pending the outcome
of certain litigation involving the national bank and the United
States Government as contesting claimants. Governor Vardaman had
suggested that the language of the draft of reply was not strong
enough.
Governor Mills stated that the draft of reply represented a reaffirmation of the position taken by the Board at the meeting of July 31, 1952 when Mr. Vest was requested to advise Mr. Gidney and attorneys from the Department of Justice who called upon him the previous day that, for reasons stated at that meeting, it was the view of the Board that the service was not one which should be undertaken by a Reserve Bank. Governor Mills said that thereafter Mr. Gidney called him on the telephone to discuss the matter, following which Mr. Gidney and his staff conferred with an attorney representing the Union National Bank of Youngstown and Mr. Gidney then submitted the letter of August 12 and its attachments, consisting of a letter dated August 9 from the bank attorney and drafts of court orders, also submitted by the attorney. He said that the Board's position appeared to have been strengthened, rather than weakened, by the further developments in the matter since it now seemed more definite that a fiduciary arrangement was involved.

There followed an extensive discussion of the facts of the case as disclosed by Mr. Gidney's letter and the conversations referred to above, and it was the consensus of the Board that no evidence had been presented to demonstrate that the function could
not be performed satisfactorily by a commercial bank. Reference also was made to the exposure to liability which might be involved should the Reserve Bank perform this service and to the distinctions between such an arrangement and the usual function of holding securities in custody for member banks.

It was the view of the Board that the matter should be considered in the light of the general policy that should be followed by all of the Reserve Banks in the performance of this type of service, and that if the Reserve Banks entered this field there might be a justifiable basis for complaint on the part of commercial banks.

The discussion also touched upon the past practices of the Reserve Banks in holding items in safekeeping for member banks, the legal basis for the performance of that function, and the authority of the Board to establish policies in this connection for the guidance of the Reserve Banks. Reference also was made to the provisions pursuant to which the Reserve Banks carry out certain activities as fiscal agents of the Treasury and other Government agencies.

Question was raised whether the Board should request that the matter under consideration be placed on the agenda for discussion.
at the next meetings with the Federal Advisory Council and the Conference of Reserve Bank Presidents, and it was understood that that would not be done but that the Board would be glad to discuss the matter if the Presidents so desired.

Thereupon it was agreed unanimously that the draft of reply to President Gidney should be revised along the lines suggested at this meeting and that the reply should be sent in a form satisfactory to Messrs. Mills and Robertson.

Secretary's Note: In accordance with the above action, the following letter was sent to President Gidney under date of August 25, 1952:

"This refers to your letter of August 12, 1952, requesting further consideration by the Board of the proposal that the Federal Reserve Bank of Cleveland handle certain funds now held in the registry of the United States District Court at Cleveland, Ohio. The proposed orders of the court provide for the 'deposit' of some $3,760,000 in the Federal Reserve Bank 'for safekeeping and investment and reinvestment thereof' in Treasury bills or certificates of indebtedness, as directed by an officer of the Union National Bank of Youngstown, Ohio; with the provision that investment of the funds shall be under the direction of the court and any disputes between the parties are to be submitted to the court.

Although we have given careful consideration to your views and the opinion of your former legal counsel with respect to the character and legality of this specific proposal, and can appreciate the point of view
expressed, the Board regards this matter as one that must be considered not alone with respect to the particular transaction proposed but more importantly with respect to the question of general policy of the advisability of the performance of functions of this kind by Federal Reserve Banks. In all the circumstances, and particularly because this is a type of business which can very properly be handled by commercial banks, the Board feels that it would be inadvisable for the Reserve Banks to follow a policy of providing such services. Accordingly, it is the Board's view that the proposed services should not be undertaken by the Federal Reserve Bank of Cleveland.

"In expressing this opinion, the Board does not wish to preclude the possibility of the Federal Reserve Bank of Cleveland handling this matter if the Department of Justice feels strongly that the interests of the Government so require. However, in such case, the Attorney General should advise the Board of the reasons why it is believed essential to have a Federal Reserve Bank rather than a commercial bank handle the transaction."

At this point Messrs. Thurston and Vest withdrew and the following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 21, 1952, were approved unanimously.

Telegrams to the Federal Reserve Banks of Boston, New York, Philadelphia, and St. Louis stating that the Board approves the establishment without change by the Federal Reserve Bank of Boston on August 18, by the Federal Reserve Bank of St. Louis on August 19, and by the Federal Reserve Banks of New York and Philadelphia on
August 21, 1952, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memoranda recommending that the basic annual salaries of the following employees be increased in the amounts indicated, effective August 31, 1952:

<table>
<thead>
<tr>
<th>Date of Memorandum</th>
<th>Name and Title</th>
<th>Salary Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/14/52</td>
<td>Robert R. Moss, Economist</td>
<td>$5,685 to $5,940</td>
</tr>
<tr>
<td>8/15/52</td>
<td>Helen M. Capozio, Utility Clerk</td>
<td>3,335 to 3,535</td>
</tr>
</tbody>
</table>

Approved unanimously.

Memorandum dated August 19, 1952, from Mr. Carpenter, Secretary of the Board, recommending that Marion H. Derr, Records Clerk in the Office of the Secretary, be granted leave of absence without pay for the period September 1 through December 31, 1952.

Approved unanimously.

Memorandum dated August 14, 1952, from Mr. Dembitz, Assistant Director, Division of International Finance, recommending that Elinor
R. Harris, Economist in the Division of Research and Statistics, be transferred to the Division of International Finance, as Economist, and that her basic salary be increased from $5,560 to $5,940 per annum, effective as of the date she enters upon the performance of her new duties. The memorandum also stated that the Division of Research and Statistics was agreeable to this transfer.

Approved unanimously.

Memorandum dated August 19, 1952, from Mr. Sloan, Director, Division of Examinations, recommending that the official headquarters of Paul D. Ring, Assistant Federal Reserve Examiner, be changed from Washington, D. C., to Jacksonville, Florida.

Approved unanimously.

Memorandum dated August 14, 1952, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Mary L. McIntosh as File Clerk in the Office of the Secretary, on a temporary indefinite basis, with basic salary at the rate of $3,270 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.
Memorandum dated August 14, 1952, from Mr. Carpenter, Secretary of the Board, recommending the appointment of Gladys Ingram Trimble as File Clerk in the Office of the Secretary, on a temporary basis for a period of six months, with basic salary at the rate of $3,030 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Memorandum dated August 4, 1952, from Mr. Young, Director, Division of Research and Statistics, recommending the appointment of Charlotte T. Breckenridge as Clerk in that Division, on a temporary indefinite basis, with basic salary at the rate of $3,175 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination and subject to the completion of a satisfactory employment investigation.

Approved unanimously.

Letter to Mr. Latham, Vice President, Federal Reserve Bank of Boston, reading as follows:

"In accordance with the request contained in your letter of August 13, 1952, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Boston for the specific

"Accounting
Ahern, Joseph M.
Finnegan, Francis L.
Harris, George H.
Hunt, Thomas F.
McLeod, George
McCarthy, Daniel P.
O'Brien, Joseph E.
O'Brien, Thomas L.
Schultz, H. Albert
Belyea, William F.

Discount
Maloney, T. Frank
McCarthy, Edward J.

Expense
Boyajian, Karnig
Hoyle, Percy E.

Fiscal Agency
Blunt, Erving N.
Bullock, Lewis F.
Burns, Richard T.
Capobianco, Alexander C.
Chalmers, James H.
Daley, H. Lloyd
Dinsmore, Leo A.
Farrell, Arthur C.
Hatch, F. Meldon
Hillberg, Edwin T.
Howard, John H.
Kelley, Bernard F.
Kenney, Eugene W.
Kupelian, Ellis S.

Auditing
Baker, Fred L.
Bullen, Richard C.
Clapp, Robert V.
Colgate, Arthur E.
Cummings, Foster K.
Dewar, Walter R.
Gibson, Kenneth G.
Gray, Harold
Holland, Kenneth
Kennedy, Harold J.
Lacks, Stanley B.
Murphy, Robert J.
Strong, David L.
Temple, Donald M.
Whiteman, Ray C.
Wilson, Ralph W.

Money
Burns, Helen G.
Butler, Edward A.
Connell, Marion E.
Coveney, James D.
DiNapoli, Ralph J.
Farnam, Ernest P.
Hanify, Paul J.
Holway, Edward F.
Kennedy, Alice T.
Kent, James R.
Lynch, Robert T.
McFadden, Francis L.
McTeague, John F.
Merritueh, Edgar L.
Montgomery, Thomas S.
Norris, Harry H.

Collateral
Deans, Robert
Mulder, Gilles C.
Quirk, Edward J.

Collection
Rupert, Stanley

Credit
Albertson, Francis C.
MacDonald, William I.
Nye, Loring C.
Sahagian, Fred D.
Shea, Alfred E.
Wells, George E.

Real Estate Mortgage
Brady, Charles H.
Sullivan, Robert L.

Research
Bragg, John H.
Graw, George K.

Security Files
Thomas, Wendell E.

Transit
Barrows, John O.
Batho, Carleton J.
Buchanan, Charles L.
Hamm, Plemen C.
McDermott, Joseph
Muse, Roger C.
Newcomb, Augustus L.
The Board also approves the designation of John A. Hayes, Stanley J. Hrydziusko, and George L. Thompson as special assistant examiners for the Federal Reserve Bank of Boston for the specific purpose of rendering assistance in the examinations of State member banks only.

"We have eliminated from our list the names of officers and employees heretofore approved as special assistant examiners for general purposes."

Approved unanimously.

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

In accordance with the request contained in your letter of August 12, 1952, the Board approves the appointment of Harvey Fleetwood as an Assistant Examiner for the Federal Reserve Bank of New York. Please advise us the date upon which the appointment becomes effective.
"The Board approves also the designation of Kenneth M. Conover as a Special Assistant Examiner for the Federal Reserve Bank of New York."

Approved unanimously.

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

"Reference is made to your letter of August 18, 1952, advising that the California Bank, Los Angeles, California, contemplates the removal of its office in Bell, California, from the Southwest corner of Gage Avenue and Atlantic Boulevard to a new location on the east side of Atlantic Boulevard about 400 feet south of Gage Avenue. On the basis of the facts submitted it appears that the proposed change of location constitutes a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or the customers it serves. The Board concurs in your opinion that the proposal does not constitute the establishment of a branch within the meaning of section 9 of the Federal Reserve Act, and therefore the Board's approval is not required."

Approved unanimously.

Letter for the signature of Governor Szymczak to The Honorable John A. McGuire, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of August 11, 1952, in which you request information concerning a possible relaxation of the terms of Regulation X—Real Estate Credit. At the present time, it is the Board's view that current activity in residential building, as well as the continued expansion of mortgage credit outstanding, and the situation concerning the availability of critical materials for commercial construction, are facts that do not warrant a relaxation of Regulation X beyond the terms which became effective on June 11, 1952."

"The Board approves also the designation of Kenneth M. Conover as a Special Assistant Examiner for the Federal Reserve Bank of New York."

Approved unanimously.

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

"Reference is made to your letter of August 18, 1952, advising that the California Bank, Los Angeles, California, contemplates the removal of its office in Bell, California, from the Southwest corner of Gage Avenue and Atlantic Boulevard to a new location on the east side of Atlantic Boulevard about 400 feet south of Gage Avenue. On the basis of the facts submitted it appears that the proposed change of location constitutes a mere relocation of an existing branch in the immediate neighborhood without affecting the nature of its business or the customers it serves. The Board concurs in your opinion that the proposal does not constitute the establishment of a branch within the meaning of section 9 of the Federal Reserve Act, and therefore the Board's approval is not required."

Approved unanimously.

Letter for the signature of Governor Szymczak to The Honorable John A. McGuire, House of Representatives, Washington, D. C., reading as follows:

"This refers to your letter of August 11, 1952, in which you request information concerning a possible relaxation of the terms of Regulation X—Real Estate Credit. At the present time, it is the Board's view that current activity in residential building, as well as the continued expansion of mortgage credit outstanding, and the situation concerning the availability of critical materials for commercial construction, are facts that do not warrant a relaxation of Regulation X beyond the terms which became effective on June 11, 1952."
Residential construction activity has continued near the high levels attained in 1951. During the first seven months of this year, 669,000 new units were started, while mortgage credit outstanding continued to exceed all previous levels. To stimulate further such a high level of activity under present economic conditions would not appear to be in the public interest.

"The Defense Production Act Amendments of 1952 provide for a 'period of residential control relaxation' to be announced not later than the first day of the second month following three consecutive months in each of which the annual rate of housing starts, seasonally adjusted, has been below 1,200,000 units. Under this procedure, if housing starts for the months of June, July, and August are reported by the Bureau of Labor Statistics to be less than an annual rate of 1,200,000 units, it would be necessary to relax Regulation X for residential structures not later than October 1. The Bureau of Labor Statistics has already estimated that housing starts for the months of June and July were below the specified annual rate. August data will not be available until about the middle of September.

"We hope that this information will help to clarify the present status of the real estate credit regulation and the Board's views concerning its terms. You may be assured that the Board will continue to study developments in residential and nonresidential construction as they affect the general economy and will relax or suspend the regulation as soon as conditions indicate that such action is prudent or as soon as the procedures established in the Defense Production Act Amendments of 1952 might require."

Approved unanimously.

Letter to Mr. Raisty, Vice President, Federal Reserve Bank of Atlanta, reading as follows:

"Confirming our telephone conversation with you on August 20, we received a telephone call from Mr. Campbell of Senator Lister Hill’s office regarding a problem presented to them in respect to the application of Regulation X to major additions and major improvements required by a
"city fire marshal. The problem relates to a structure located in Birmingham, Alabama, owned by the Knights of Pythias, which is used for lodge meetings and for meetings by fraternal and labor organizations, with stores rented for commercial purposes on the ground floor. According to the facts given us, the fire marshal of Birmingham has noted many unsafe conditions in an order requiring the immediate correction of the hazards. Mr. Campbell stated that the total cost of the required changes will be approximately $50,000 and the owner desires to borrow a percentage in excess of a 50 per cent loan."

"After discussing the case with Mr. Campbell, we referred him to section 5(e) of Regulation X which, as you know, deals with condemnation proceedings, suggesting that if the facts indicated that the borrower would be deprived of its property through a threatened action in condemnation these facts should be disclosed to the Registrant. We also suggested that the owner should obtain documentary evidence which would support such facts to the satisfaction of the Registrant and, if necessary, of the Federal Reserve Bank, by obtaining a letter from the city solicitor or other city official responsible for such actions stating that unless the unsafe conditions were corrected a condemnation proceeding would be started.

"If proof is presented showing that the property has been or will be condemned because of unsafe conditions, we would not object to your advising the Registrant that credit for reconstruction or repair of the property would be exempt under section 5(e) of Regulation X, if you are satisfied that the facts clearly support such a course of action."

Approved unanimously.

Letter to Mr. Boysen, Assistant Vice President, Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of August 13, 1952, in which you request information concerning the applicability of Regulation X to certain elements of a program"
of major additions and improvements to an existing club house.

There would seem to be no question about the item for repairs and replacements in the amount of $61,079, set forth in the list of items you sent covering the club house renovations, being subject to Regulation X. Likewise, the item for painting of $3,350 would be a major improvement. Some of the other items in the list you supplied, however, would appear to be items of equipment and furnishing not subject to the regulation. In this connection, your attention is called to the Board's letter of January 4, 1952, (X-68) covering special and general use of equipment.

The various new construction items included in the list, such as the entrance roadway, walls, tennis courts, and swimming pool, would not ordinarily be subject to Regulation X. For a discussion of the general principles involved in such cases, reference is made to the Board's letter of July 18, 1951, (X-59). It should be noted, however, that the cabanas, if permanent structures having walls and roofs, would be subject to Regulation X. Further, the swimming pool, if enclosed in a structure with walls and a roof, would be subject to the regulation as would the enclosing structure. Moreover, a separate building housing showers and lockers would be subject to Regulation X.

Your attention is also directed to the Board's letter of October 23, 1950, (X-6) which states that it is the Board's view that painting, reroofing, and repairs constitute a major improvement if their cost exceeds $2,500. Any maintenance of this nature made in conjunction with the major improvement described, such as the painting referred to above, would be subject to the provisions of Regulation X.

While, as indicated, it appears that some items not included in the subtotal of $61,079 for repairs and replacements will be subject to the regulation (i.e., cabanas, lockers, showers, painting, and, if
"enclosed, the swimming pool and its enclosing structure) a more detailed description by the borrower would be necessary before a final determination could be made."

Approved unanimously.

[Signature]

Secretary.