Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, April 2, 1953. The Board met in the Board Room at 10:00 a.m.

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

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

Governor Evans referred to the Board's letter of October 30, 1952, to the Federal Reserve Bank of Chicago stating that the Board would interpose no objection to the Reserve Bank's securing firm bids for the construction of four additional stories to the head office building and for certain alterations to the building, with the understanding that the bids would be submitted to the Board before a contract for the work was awarded. He said that at the time the Reserve Bank estimated the cost of the work at approximately $4.2 million, including architects' and engineers' fees, but that the low bid received, which included certain items not originally contemplated, was in excess of $6.3 million. Governor Evans felt that this bid raised a question as to the soundness of the decision to go ahead with the addition rather than to follow some alternative course for meeting the Bank's space requirements. In the circumstances, he recommended

that Mr. Leonard and Mr. Persina, Consulting Architect to the Board, be authorized to go to Chicago at an early date to review the possible alternatives with the Reserve Bank and its architects and make a report on which the Board might base a sound judgment.

Following a discussion, Governor Evans' recommendation was approved unanimously, together with the following letter to Mr. Young, President of the Chicago Reserve Bank:

"Reference is made to your letter of March 24 requesting authorization to accept the low bid of the A. L. Jackson Company for alterations to the Chicago Bank building and that this work with other alterations, at a total cost of $6,310,283, be authorized.

"The estimated costs are so much greater than the estimate of $4,200,858 submitted last fall as to justify reconsideration of the problem and of possible alternatives for meeting your space requirements.

"Governor Szymczak will discuss this matter with you during his visit to Chicago during the next two or three weeks. In preparation for such discussion and for further consideration by the Board, Mr. Leonard, Director of the Board's Division of Bank Operations, and Mr. Persina, the Board's Consulting Architect, will go to Chicago a day or two in advance of Governor Szymczak for preliminary discussions with you and your architects."

Mr. Leonard then withdrew from the meeting and the following members of the staff entered the room:

Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Youngdahl, Assistant Director, Division of Research and Statistics

Reference was made to a memorandum from Mr. Young, dated April 1, 1953, copies of which had been sent to the members of the Board prior to this meeting, suggesting that the Board direct its staff to make a comprehensive study of the System's discount and discount rate mechanism, with authority to call upon the Federal Reserve Banks for such cooperative help in developing information and reports as might prove to be desirable. The memorandum outlined the objectives of the study, which would be in part analytical and educational and in part operational, and set forth a list of the specific questions to which study might be directed under the suggested program.

During a discussion of the matter, Governor Vardaman, after stating that he had not had an opportunity to review the memorandum fully, said that it occurred to him that a study of this nature might be assigned to one of the Federal Reserve Banks. He said that theoretically the Board's staff was fully occupied, that the function under consideration was primarily a Reserve Bank function, that in his opinion too much work of this kind was being concentrated in the Board, and that more might be accomplished by requesting one of the Reserve Banks to do the analytical work and prepare a report for the Board's consideration.

In response to Governor Vardaman's remarks, Mr. Young stated that, as brought out in the memorandum, an ad hoc working group consisting of selected Board and Reserve Bank research personnel had been engaged for two months in assembling information on System discount and discount rate experience, that in the course of its study this group had been drawing on the Reserve Banks to a large extent, that the Chicago Reserve Bank, for example, had been making a study of patterns of member bank borrowing, and that the proposed program would contemplate the making of similar studies at other Reserve Banks. The Federal Reserve Bank of New York and some of the other Banks, he said, had already expressed interest in making such studies in their respective districts.

In response to another question, Mr. Young said that a target date of early June had been set for completion of the study, which date would be just prior to the next Conference of Reserve Bank Presidents, and that although it was doubtful whether all of the parts of the study could be completed by that date, a number of them could be available as a basis for general discussion and for determining what the next steps in the program should be.

Thereupon, unanimous approval was given to the recommendation contained in Mr. Young's memorandum, with the understanding that Governor Mills, who had been supervising the work of the ad hoc committee for the past two

months, would keep in touch with the progress of the study, that at a later stage it might be desirable to have a committee comprised of Board members and representatives of the Presidents' Conference review the reports and formulate such recommendations for joint consideration of the Board and the Presidents' Conference as might seem appropriate, and that the Chairmen of the Federal Reserve Banks would be advised at the next meeting of the Chairmen's Conference that such an activity was under way.

At this point Mr. Noyes, Assistant Director, Division of Research and Statistics, entered the room.

At the request of Chairman Martin, Mr. Riefler summarized several matters which Mr. Hardy, Assistant Housing and Home Finance Administrator, discussed with him and Messrs. Young and Noyes yesterday pursuant to a suggestion made by Chairman Martin to Mr. Cole, Housing and Home Finance Administrator.

Mr. Riefler stated that the purpose of Mr. Hardy's visit was not to get statements of the Board's position on the matters discussed; rather it was intended to constitute a first step in a program designed to provide for close consultation on matters of common interest to his agency and the Board, and in view of the closeness

of the Board and the Treasury to the money market, to keep those agencies abreast of developments in the housing field which would have a bearing on the market. All of the views expressed by members of the Board's staff during the discussion with Mr. Hardy, Mr. Riefler said, were given on the basis that they were personal views and did not necessarily reflect the position of the Board.

The first matter mentioned by Mr. Hardy, Mr. Riefler said, was a proposal by Mr. Cole to remove remaining limitations on the Government-aided housing programs, Mr. Cole having discussed this proposal with representatives of the Treasury Department and apparently having secured their approval. This change would permit Veterans Administration loans with no down payment and terms of 30 years, and would permit lengthening out of the terms on Federal Housing Administration loans to 25 years in most cases and as much as 40 years in others. Mr. Hardy indicated that this matter had been approached as part of the general program of dropping controls. It was pointed out to him, Mr. Riefler said, that the Board's staff did not think the terms on Government-aided housing programs should be considered in quite the same light as direct controls imposed on private business and that it might be very desirable to wait and see how much of a stimulus might come as the result of an adjustment in the maximum interest rates

for VA-guaranteed and FHA-insured loans before lowering down payments and lengthening terms.

Mr. Riefler said Mr. Hardy then reported discussions with the House Appropriations Committee and the Bureau of the Budget with regard to the liquidation of the Federal National Mortgage Association, indicating that Mr. Taber, Chairman of the House Committee, Mr. Burgess, Special Deputy to the Secretary of the Treasury, and Mr. Cole apparently had agreed at a meeting yesterday that it would be desirable to proceed with the liquidation of the FNMA portfolio in an orderly fashion, even though it would be necessary to sell at substantial discounts. Mr. Hardy indicated that he, personally, favored disposal of the portfolio in blocks which could be offered for bids and said that it was proposed that there be a meeting at the Treasury tomorrow to discuss the matter further. Mr. Riefler said that the total FNMA mortgage portfolio is now slightly in excess of $2 billion, and that it was estimated that $400 million might be realized by the Government from the sale of FNMA assets during the coming fiscal year.

Mr. Riefler said there was also a discussion of the question of an upward adjustment in the prescribed maximum interest rates for VA-guaranteed and FHA-insured loans, the Housing and Home Finance Agency apparently realizing that a decision must be reached on this controversial point since the current interest rates are out of line

with the market. Mr. Hardy stated that the alternatives were probably to bring both maximum rates to 4-1/4 or 4-1/2 per cent, eliminating the 1/4 of 1 per cent differential which now exists in either case. Mr. Hardy's personal view was that it would be better to go to 4-1/2 per cent since an increase to 4-1/4 per cent would not eliminate certain unsound discount practices presently being followed with respect to the Veterans Administration loans. Mr. Riefler said the Board's staff did not comment on this point and that this matter would also come up for consideration at the meeting at the Treasury tomorrow.

Finally, Mr. Riefler said, Mr. Hardy gave him a memorandum from Mr. Cole spelling out some of the problems involved in marketing public housing securities. These problems related not to the volume of public housing which should be carried forward but rather to how the securities arising from commitments already undertaken should be marketed. The fundamental question, he said, was whether the present method of dealing through two competing syndicates should be continued or whether another plan should be adopted which would probably involve the merging of the two syndicates, thus permitting less frequent offerings of larger blocks of securities. Mr. Riefler said this was a matter on which Mr. Cole wanted technical advice, and that he (Mr. Riefler) proposed to discuss it with Mr. Rouse, Manager of the System Open Market Account.

There was a general discussion of the matters mentioned by Mr. Riefler during which apprehension was expressed over the results that might follow from removing the present down payment and maturity requirements on Government-aided housing credit.

Chairman Martin said that his purpose in having the discussion at this meeting was merely to keep the Board abreast of developments, and that in these matters the role of the Board was purely that of an adviser and that it was not called upon to take a position with respect to them.

Governor Vardaman thought that the Board might consider saying for the record that undue stimulation of the housing market through Government-aided programs might result in the reimposition of controls over consumer and real estate credit, to which Chairman Martin responded that he had commented along those lines at every meeting of the Defense Mobilization Board which he had attended.

The members of the staff then withdrew and the Board went into executive session.

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

> Unanimous approval was given to the request contained in a memorandum dated March 31, 1953, from Mr. Thomas, Economic Adviser to the Board, that he be authorized to accept an invitation from Daniel W. Bell, President of the

American Security and Trust Company, of Washington, D. C., to participate in an off-the-record discussion at the bank's general officers' meeting on April 22, 1953.

Unanimous approval also was given to a request that J. Herbert Furth, Chief of the Western European and British Commonwealth Section in the Division of International Finance, be authorized to travel to Baltimore, Maryland, on April 15, 1953, to accept an invitation to lead a discussion on the problems of currency convertibility at a graduate economics seminar at Johns Hopkins University.

Consideration was given to the action taken by the Board on December 22, 1952, which provided (1) that for a temporary period, effective as of that date, all requests for authorization of travel by all members of the staff (except members of the field examining staff of the Division of Examinations engaged in examinations of the Federal Reserve Banks) should be submitted to the Board for prior approval, and (2) that no authorization would be given (except to members of the field examining staff) covering regular or intermittent travel by members of the staff on stated assignments over the course of a calendar year or other period. It was agreed unanimously that the Board should return, effective immediately, to the procedure which was followed prior to the action taken on December 22, 1952, as set forth in the travel regulations, with the understanding that

the Division of Administrative Services would submit an analysis of travel by the staff during the year ended April 1, 1953, and that every three months thereafter the Division would submit a report of travel authorized by the heads of divisions pursuant to the authority given to them by the travel regulations.

Thereupon the meeting adjourned. During the day the following additional actions were taken by the Board with all of the members except Governor Mills present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 1, 1953, were approved unanimously.

Letter to Mr. Armistead, Vice President, Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of March 30, 1953, the Board approves the designation of E. Milton Smith and Fenton L. Marsh as special assistant examiners for the Federal Reserve Bank of Richmond."

Approved unanimously.

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

"Reference is made to your letter of March 23, 1953, addressed to Governor Szymczak, with regard to plans which have been approved by the directors of your Bank for a foreign travel program for the remainder of 1953 as follows:

"(1) A trip to Europe by Mr. Treiber, First Vice President, for about two months, commencing during April. During at least part of his trip (to England, France, and West Germany), Mr. Treiber would be accompanied by a member of the staff of the Foreign Research Division.

(2) A trip to England, France, and Switzerland by Mr. Rouse, Vice President, probably during September and October. Mr. Rouse would be accompanied to England, France, and possibly Switzerland by Mr. Robert V. Roosa, who would also make a brief trip to the Scandinavian countries.

(3) Continuation of the exchange visits with the Bank of Canada that were initiated in 1950 with the expectation that groups of two men each would be sent from the New York Reserve Bank, one group to go during the first half of the year (May-June) and the other to go during the second half of the year (September-October).

"The above program has been brought to the attention of the Board of Governors and noted without objection.

"In your letter you also refer to certain other matters which have been approved by your Bank's directors as follows:

(1) Leaves of absence with pay for Mr. Moore, Manager of the Research Department, and Mr. Clarke, Secretary and Assistant Counsel, to enable them to respond to invitations to lecture at the Center for Latin American Monetary Studies in Mexico City this summer. The leave for Mr. Moore would be for a period of about 4 weeks, and that for Mr. Clarke for a period of about 3 weeks. It is noted in this connection that Mr. Sanford, Assistant Vice President, also may be asked to participate in the program of the Center and that, if so, you would wish to grant him an appropriate leave on the same terms.

"(2) A leave of absence without pay for Mr. Moore of from three to six weeks to enable him to complete certain work in Haiti at the request of the Technical Assistance Administration of the United Nations. Under this arrangement, Mr. Moore's salary and his expenses would be paid by the Technical Assistance Administration.

"The above matters also have been brought to the attention of the Board of Governors and noted without objection."

Approved unanimously.

Telegram to Mr. Treiber, First Vice President, Federal Reserve Bank of New York, reading as follows:

"Re your letters March 27 transmitting applications of Bank of America New York for permission to purchase stock of Financiera to be organized in Mexico and of Ibero-Amerika Bank Aktiengesellschaft. For Board's assistance in considering this matter, it will be appreciated if you will request the Bank of America to furnish the following additional information:

(1) Whether Ibero-Amerika Bank operates branches or other offices at any locations other than Bremen.

(2) Where is proposed head office of Financiera to be located in Mexico, if known at this time, and whether any branches or other additional offices are contemplated.

(3) Whether Ibero-Amerika Bank is subject to governmental inspection.

(4) Provisional figures of assets and liabilities of Ibero-Amerika Bank have been furnished, but if available would like to have audited balance sheet for December 31, 1952, together with income statement for 1952, if available.

(5) Nature of financial relations, such as loans, deposits or otherwise, between shareholding banks and Ibero-Amerika Bank to extent known at this time.

(6) Proposed financial relations between Bank of America New York and Ibero-Amerika Bank and proposed Financiera.

(7) We understand from information submitted that Ibero-Amerika Bank may finance import and export transactions between

"Germany and the United States and that Financiera may finance such transactions between Mexico and United States. However, it is assumed that otherwise these corporations are not expected to transact any business in the United States, but we would appreciate advice on this point.

"(8) Since copies of organization papers of these corporations have not been furnished, would like to be advised as to whether there are any significant functions of Ibero-Amerika Bank or proposed Financiera other than those specifically mentioned in the information already furnished.

"In transmitting the above information, when supplied by Bank of America, it will be appreciated if you will submit your recommendations on the subject, together with any further comments that you may have."

Approved unanimously.

The Board approved the use of a Board automobile and chauffeur to drive Messrs. Riefler, Assistant to the Chairman; Thomas, Economic Adviser to the Board; and Dembitz, Assistant Director, Division of International Finance, to Princeton, New Jersey, to attend the funeral of Dr. E. A. Goldenweiser.

S R Carpenter
Secretary