

MINUTES OF THE JOINT CONFERENCE OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL ADVISORY COUNCIL AND MEMBERS OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

September 13, 1950

At 10:39 A.M. a joint conference of the Executive Committee of the Federal Advisory Council and members of the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System.

Chairman Thomas B. McCabe; Governors M. S. Szymczak, R. M. Evans, James K. Vardaman, Jr., Edward L. Norton, Oliver S. Powell, and S. R. Carpenter, Secretary.

Present: Members of the Executive Committee of the Federal Advisory Council:

Mr. Edward E. Brown, President; Messrs. Robert V. Fleming, N. Baxter Jackson, Frederic A. Potts, Sidney B. Congdon and Herbert V. Prochnow, Secretary.

Chairman McCabe stated that the Board would appreciate having the viewpoint of the Executive Committee of the Council on a number of matters, including particularly the following: open market policy; control of consumer credit; control of real estate credit; the plan to reduce to two days the maximum deferment for cash items; and the Defense Production Act of 1950.

Almost all the discussion was off-the-record, and most of the meeting was devoted to the subject of open market policy. The announcement of the Treasury in August, relative to its financing program, and the announcement of the Federal Reserve System at the same time, regarding the raise in the rediscount rate by the Federal Reserve Bank of New York, were reviewed at length.

In connection with the controls on consumer credit, the general opinion was that these controls might have to be strengthened considerably to be effective.

Mr. George B. Vest, General Counsel of the Board of Governors, entered the meeting at this point to answer questions on the proposed regulation to control real estate credit. The Defense Production Act of 1950 places the authority over real estate credit in the President. Part V of the Executive Order delegates authority to the Board of Governors, after having obtained the concurrence of the Housing Administrator, to regulate conventional residential real estate credit. The regulation by the Board of conventional non-residential real estate credit does not require concurrence of the Housing Administrator.

The authority of the President to reduce or suspend phases of the Government housing program is delegated to the Housing Administrator so far as that authority relates to loans on real estate involving residential property. The Administrator is required to issue such regulations and take such other action as may be necessary to insure that the restrictions imposed on construction credit by the regulation issued by the Board shall be applicable to the fullest extent practicable to real estate loans under the Government housing program.

President Brown emphasized the necessity of considering with great care the real estate credit controls as they relate to commercial loans extended to large borrowers who

are constantly engaged in some type of construction. At least a portion of the commercial loans to such customers as packers, steel companies, and railroads might be considered as going into construction. President Brown raised the question of whether a bank would be responsible for seeing that none of the money borrowed by a commercial customer of this type went into real estate construction. He pointed out the difficulty of regulating this credit, and that unwise regulation might result in restricting commercial loans essential to the functioning of the economy. Any regulation covering non-residential construction needs to be very carefully checked by competent commercial and investment bankers and others familiar with such construction. President Brown urged very strongly that the first regulation to be issued be restricted to residential construction only so that ample time could be given to the consideration of the necessity of regulations to govern industrial construction and commercial construction, as well as the form of such regulations, if it was deemed necessary to issue them. He also urged that all industrial construction and many types of commercial construction should be fully exempt.

Chairman McCabe said that a number of meetings were being called to consider all aspects of the proposed regulation of real estate credit and that special consideration would be given to President Brown's suggestion.

Following the morning meeting the members of the Executive Committee had luncheon with Chairman McCabe and continued the discussion informally.

The meeting adjourned at 2:15 P.M.

HERBERT V. PROCHNOW
Secretary.

FEDERAL ADVISORY COUNCIL

Confidential summary of a meeting of the Executive Committee of the Federal Advisory Council and members of the Board of Governors at 10:39 A.M. in the Federal Reserve Building, Washington, D. C., on September 13, 1950. Those present for the Executive Committee were: President Brown; Messrs. Fleming, Jackson, Potts, Congdon; and Prochnow, Secretary. Those present for the Board of Governors were: Chairman McCabe; Governors Szymczak, Evans, Vardaman, Norton, Powell; and Carpenter, Secretary.

Chairman McCabe stated that the Board would appreciate having the viewpoint of the Executive Committee of the Council on a number of matters, including particularly the following: open market policy; control of consumer credit; control of real estate credit; the plan to reduce to two days the maximum deferment for cash items; and the Defense Production Act of 1950.

Almost all the discussion was off the record, and most of the meeting was devoted to the subject of open market policy. The announcement of the Treasury in August, relative to its financing program, and the announcement of the Federal Reserve System at the same time, regarding the raise in the rediscount rate by the Federal Reserve Bank of New York, were reviewed at length. President Brown and the members of the Executive Committee will be pleased to give a summary of this discussion at the meeting of the Council on October 1, 2 and 3, 1950.

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President Brown emphasized the necessity of considering with great care the real estate credit controls as they relate to commercial loans extended to large borrowers who are constantly engaged in some type of construction. At least a portion of the commercial loans to such customers as packers, steel companies, and railroads might be considered as going

into construction. President Brown raised the question of whether a bank would be responsible for seeing that none of the money borrowed by a commercial customer of this type went into real estate construction. He pointed out the difficulty of regulating this credit, and that unwise regulation might result in restricting commercial loans essential to the functioning of the economy. Any regulation covering non-residential construction needs to be very carefully checked by competent commercial and investment bankers and others familiar with such construction. President Brown urged very strongly that the first regulation to be issued be restricted to residential construction only so that ample time could be given to the consideration of the necessity of regulations to govern industrial construction and commercial construction, as well as the form of such regulations, if it was deemed necessary to issue them. He also urged that all industrial construction and many types of commercial construction should be fully exempt.

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