

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Honorable James E. Webb, Director,
Bureau of the Budget,
Washington, D. C.

NOV 30 1948

Dear Mr. Webb:

In response to the portion of the President's letter of November 6, 1948, in regard to the legislative program of the Federal Reserve System, there are set forth below the principal subjects with respect to which the Board of Governors expects to propose legislation.

Reserve Requirements of Banks. - In Public Law No. 905, approved August 16, 1948, Congress authorized the Board of Governors, in order to prevent injurious credit expansion, to increase the reserve requirements of member banks of the Federal Reserve System within certain prescribed limits. This authority was coupled with a provision that no change in reserve requirements thus authorized should continue in effect after June 30, 1949. The Board had not only recommended authority of longer duration but also of broader scope. Therefore the Board expects to propose a more appropriate measure for dealing with bank reserves in order to enable the System to cope more effectively with the problem that otherwise would be presented by the expiration of the authority referred to above. The subject is being given very thorough consideration with a view to the formulation of a recommendation at a later date when the present economic trends may be evaluated more accurately.

Consumer Instalment Credit. - In Public Law No. 905, approved August 16, 1948, the Congress also authorized the Board to exercise certain controls with respect to consumer instalment credit in accordance with Executive Order 8843, up to and including June 30, 1949. The Board had recommended an authority of longer duration. The Board expects to propose that the authority over consumer instalment credit be extended or made permanent by appropriate legislation formulated in the light of experience under the existing regulation. The manner in which this might be done most appropriately is receiving consideration with a view to the introduction of a bill embodying the Board's conclusions during the early part of the next session.

Bank Holding Company Legislation. - A bill for the purpose of providing for the further control and regulation of bank holding companies, S. 829, was reported favorably by the Senate Banking and Currency Committee in the 80th Congress (Report No. 300, June 19, 1947). A companion bill, H.R. 3351, was introduced in the House and referred to the House Banking and Currency Committee. Since then, the details of the bill have

been undergoing an intensive review and a similar bill, not varying substantially from the provisions of S. 829, is in course of preparation for presentation at the next session of the Congress. Such legislation is favored not only by the Board of Governors but also by the Federal Advisory Council, the Association of Reserve City Bankers and the two independent bankers' associations, as well as by the majority of the larger bank holding companies. The American Bankers Association has recently adopted a resolution urging the prompt enactment of legislation on this subject. The subject matter of this bill has been discussed from time to time with the Treasury Department and the Federal Deposit Insurance Corporation.

Loans to Business Enterprises. - A bill, S. 408, proposed by the Board of Governors, providing for guarantees by Federal Reserve Banks of loans by banking institutions to business enterprises, was reported favorably by the Senate Banking and Currency Committee in the 80th Congress (Report No. 145, April 28, 1947) and a companion bill, H.R. 3268, was introduced in the House and referred to the House Banking and Currency Committee. The subject matter is under review by the Board for the purpose of determining what proposal will be appropriate for submission to the Congress at the next session. The Treasury Department is interested in certain aspects of this bill, which involves section 13b of the Federal Reserve Act.

Capital Requirements of State Member Banks of the Federal Reserve System. - The Board of Governors in its Annual Reports to the Congress has called attention to the very substantial and unnecessary impediment to membership in the Federal Reserve System involved in certain statutory capital requirements for admission to membership and for the establishment of out-of-town branches of State member banks. It has proposed that these requirements be eliminated or very substantially modified and a bill with this purpose in view is in the course of preparation. The Comptroller of the Currency and the Federal Deposit Insurance Corporation have an interest in the subject matter of this legislation.

While there may be other matters with respect to which the Board would later find it desirable to recommend some action by the Congress during the forthcoming session, the foregoing subjects embrace the principal matters in the field of possible legislative action to which the Board is now giving attention from the standpoint of its responsibilities in the banking field.

Very truly yours,

Signed) Thomas B. McCabe

Thomas B. McCabe,
Chairman.